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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/TANZANIA'S COMPLIANCE WITH FINANCIAL AUDIT REQUIREMENTS REGARDING FOREIGN RECIPIENTS

AUDIT REPORT NO. 4-621-06-010-P

July 31, 2006

PRETORIA, SOUTH AFRICA

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

July 31, 2006

MEMORANDUM

TO: USAID/Tanzania, Mission Director, Pamela White

FROM: Acting Regional Inspector General/Pretoria, Matthew Rathgeber /s/

SUBJECT: Audit of USAID/Tanzania's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-621-06-010-P)

This memorandum transmits our report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments, in their entirety, as Appendix II.

The report has two recommendations to help USAID/Tanzania improve its financial audit program with regard to foreign recipients. In response to the draft report, the Mission agreed with both recommendations. However, management decision was not reached for either of the recommendations. Please advise my office within 30 days of the actions you have planned or taken to implement the recommendations in this report.

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

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SUMMARY OF RESULTS

The Regional Inspector General/Pretoria performed this audit to determine whether USAID/Tanzania effectively managed its financial audit program in accordance with USAID policies and procedures for fiscal years 2003, 2004, and 2005. (See page 3.)

USAID/Tanzania did not effectively manage its financial audit program during the period covered by the audit. Specifically, USAID/Tanzania did not ensure that planned audits of foreign recipients were performed in a timely manner or that delinquent audits were followed up on and completed. To help correct and strengthen these problem areas, we recommended that USAID/Tanzania 1) develop and implement an audit tracking system to better monitor and ensure timely submission of planned audits, and 2) complete all identified delinquent audits. (See pages 4 – 6.)

USAID/Tanzania did ensure that foreign recipients requiring financial audits were included in its annual audit plans. The Mission prepared and submitted its annual audit plans for fiscal years 2003-2005 as required. Most of the Mission's recipients were U.S.-based organizations and were audited under the requirements of the Office of Management and Budget's Circular A-133. (See page 6.)

The Mission agreed with the recommendations. For Recommendation No. 1 the Mission provided a copy of its audit tracking system. However, the audit tracking system does not include the four controls described in Recommendation No. 1. For Recommendation No. 2, the Mission did not provide a sufficient action plan and target completion date. Therefore, a management decision was not reached for either recommendation. (See page 7.)

BACKGROUND

USAID administers most of its foreign assistance programs by awarding contracts, grants and cooperative agreements to U.S.-based and foreign organizations. In order to help ensure accountability over funds given to such organizations, USAID and the Office of Inspector General (OIG) have jointly developed a financial audit program as outlined in Automated Directives System (ADS) 591. This section of the ADS requires that USAID missions, in consultation with the cognizant Regional Inspector General (RIG), ensure that required financial audits are conducted for foreign for-profit and nonprofit organizations and host government entities (including any Mission-funded activities in nonpresence countries), and local currency special accounts.

All foreign nonprofit organizations expending more than $300,000 of USAID funds during their fiscal year are required to have an annual financial audit performed. A closeout audit is required for recipients expending more than $500,000 throughout the life of an award. Incurred cost audits must be performed annually of all foreign for-profit organizations performing under direct awards or cost reimbursable host country contracts and subcontracts.[1] To ensure that such audits are performed in a timely and acceptable manner, Missions are required to develop annual audit plans which are populated from inventories maintained by the Missions of all contracts, grants and cooperative agreements, including cash transfer and nonproject assistance grants, awards financed with host country owned local currency and activities in nonpresence countries for use in determining audit requirements.

The audits are normally performed by independent auditors acceptable to the cognizant RIG office. The audit agreements between recipients and independent auditors contain a standard statement of work. On occasion, USAID missions may contract directly with an audit firm to conduct financial audits of foreign recipients or locally-incurred costs of U.S.-based recipients. Audits of USAID recipients are required to be performed in accordance with U.S. Government Auditing Standards as well as the OIG's *Guidelines for Financial Audits Contracted by Foreign Recipients*. Missions must ensure that such audit reports are submitted to the cognizant RIG for review and issuance no later than nine months following the end of the audited period.

USAID/Tanzania had 11 non-U.S.-based recipients in fiscal year 2005. During fiscal years 2003-2005, the Mission reported budget authorizations totaling $112.4 million for programs in:

- Family Health and HIV Prevention.
- Democracy and Governance.
- Economic Growth.
- Health Status.
- Incomes Increased.
- Environment and Natural Resources.

[1] In terms of a 2005 revision to ADS 591, there is no automatic requirement for annual incurred cost audits for foreign for-profit organizations. Instead, Missions are required to annually assess risks to determine whether financial audits are warranted and the results of these risk assessments must be shared with the cognizant RIG office.

- Public Accountability.
- Program Support.

AUDIT OBJECTIVES

An audit of the Mission's compliance with financial audit requirements regarding foreign recipients was performed because Regional Inspector General/Pretoria's (RIG/Pretoria) experience was that USAID missions in eastern and southern Africa have generally not been complying with Automated Directives System (ADS) 591 in terms of ensuring that required financial audits of foreign recipients are conducted in a timely and acceptable manner. To determine USAID/Tanzania's compliance with USAID rules and regulations regarding financial audits of its foreign recipients, the audit was performed to answer the following questions:

Objective No. 1: Did USAID/Tanzania ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

Objective No. 2: Did USAID/Tanzania ensure that annual audit plans included all recipients from their award inventory that required a financial audit?

AUDIT FINDINGS

Did USAID/Tanzania ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

USAID/Tanzania did not ensure that all planned financial audits of foreign recipients[2] were performed and submitted in accordance with USAID rules and regulations.

USAID/Tanzania prepared annual audit inventories and plans as required for fiscal years 2003-2005. Since May 30, 2003, RIG/Pretoria has issued six financial audit reports of USAID/Tanzania recipients covering $6.3 million in expenditures of USAID funds. Those audit reports included recommendations that addressed $1.08 million in questioned costs, 16 internal control weaknesses, and 5 instances of material noncompliance with applicable laws and regulations.

While the above financial audit work has undoubtedly had a positive effect on USAID/Tanzania's accountability over USAID funds expended by foreign recipients, there were several areas in which USAID/Tanzania could improve its recipient financial audit program including timeliness and follow-up on delinquent audits.

Audit Reports Not Submitted Within Required Timeframe

Summary: According to Agency regulations, USAID missions must submit audit reports of foreign recipients to the cognizant Regional Inspector General (RIG) no later than nine months after the end of the audited period. Only one of the nine audits planned for fiscal years 2003-2005 was submitted to RIG/Pretoria for review on or before the required deadline. This occurred because USAID/Tanzania had not developed a system to track and follow up on planned audits. Audits that are not completed in a timely manner reduce USAID's accountability over funds awarded to recipients.

Automated Directive System (ADS) 591.3.2.1 requires that foreign nonprofit organizations and host governments that expend $300,000 or more of USAID funds during their fiscal year must have an annual audit conducted in accordance with the Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients* (Guidelines). Paragraphs 1.16 and 2.3 of the Guidelines spell out the timeframe within which recipients must submit final audit reports to the cognizant USAID mission, which, in turn, will forward them to the RIG for review and issuance. According to the Guidelines, the cognizant RIG must receive the audit report no later than nine months after the end of the audited period.

[2] For the purpose of this audit, foreign recipients include non-U.S.-based grantees and contractors who were awarded grants, contracts, cooperative agreements and implementation letters.

USAID/Tanzania's annual audit plans prepared for fiscal years 2003, 2004, and 2005 included nine distinct planned financial audits of seven different recipients. The breakdown of the nine audits is presented in Table 1 below.

Table 1
Recipient Audits in Annual Plans for Fiscal Years 2003-2005

Number of recipients	Number of annual audits in plans	Totals
2	2	4
5	1	5
7		9

Of the nine planned audits, only one (11%) was initially submitted to RIG/Pretoria for review on or before the required deadline. On average, audit reports were submitted 174 days (approximately six months) after they were due. As of December 31, 2005, six of USAID/Tanzania's planned audits for fiscal years 2003-2005 were still outstanding. A list of the awards with delinquent audits is included as Appendix III in this report.

The lack of timeliness occurred because the Mission had not developed or implemented an effective tracking system to ensure that planned audits were performed and submitted within the required timeframe. As a result, eight of nine planned audits were not submitted in a timely manner.

Delayed performance and submission of audit reports reduces USAID's accountability over funds awarded to recipients. This also increases the risk that recipients' financial records are no longer available for audit, or that their offices may have ceased operations, making the determination and recovery of potential questioned costs difficult or impossible. Even when records do exist, or the recipient is still in operation, untimely audit reports lose their usefulness because management (USAID or recipient) cannot, based on the reports, implement corrective actions in a timely manner to help prevent potential fraud, waste and abuse. Total estimated expenditures not audited on a timely basis amounted to over $5.7 million. Of these estimated expenditures, RIG/Pretoria received late audit reports for $2.4 million, and has not received audit reports for the remaining $3.3 million as shown in Appendix III.

For the mission to be able to submit timely audit reports to RIG/Pretoria, it must have a system to monitor the status of planned audits, and to provide interventions when targeted milestones are not being met. Therefore, we are making the following recommendations:

Recommendation No. 1: We recommend that USAID/Tanzania develop and implement an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports to RIG/Pretoria. This system should, at a minimum, include controls to ensure that:

- *Appropriate timing targets and milestones are set for each audit in the Mission's current audit plan.*
- *Audit instructions are sent to recipients prior to the recipient's fiscal year end requesting them to initiate the procurement for the audit.*

- *Periodic follow-up is performed to determine the implementation status of all planned audits.*
- *Corrective actions are taken and documented for audits that are not progressing as planned.*

Recommendation No. 2: We recommend that USAID/Tanzania obtain and submit audit reports for all recipients with delinquent audits.

Did USAID/Tanzania ensure that annual audit plans included all recipients from its award inventory that required a financial audit?

USAID/Tanzania did ensure that annual audit plans included all recipients from its award inventories that required a financial audit.

As required by ADS 591.3.4.2, USAID/Tanzania developed award inventories for fiscal years 2003, 2004, and 2005 which included the required information for each award, such as contractor/grantee name, type of organization, award number, amount in U.S. dollars, start/completion dates, prior audits and period covered, receipt date for required audits, dates for planned audits, and reason(s) for not including an award in the annual audit plan. The Mission also developed an annual plan for each of those fiscal years which included nine distinct audits of foreign recipients receiving awards listed in those inventories.

USAID/Tanzania prepared the award inventories and related audit plans as required and all awards that required audits were included in the audit plans. Mission Order No. 9-15 was comprehensive in its scope of audit policies and procedures except that it did not include policies and procedures regarding closeout audits.

Closeout audits are important tools in the control and accountability of USAID funds. Such audits may be used, among other things, to finalize indirect cost rates and to determine whether the disposition of USAID-funded assets was properly performed at the end of a project or activity. A closeout audit of expenditures of USAID funds would be especially important when a recipient may have expended less than $300,000 in any single year, but the total award was over $500,000. Such recipients may never have been subjected to a USAID audit as required. Further, according to ADS 591.3.3.2, Contract/Grant Officers cannot proceed with the closeout process until final action has been taken on all audit recommendations.

To help ensure that all awards requiring financial and/or closeout audits are considered in the Mission's audit plans, we suggest USAID/Tanzania amend Mission Order No. 9-15 to include procedures for closeout audits.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Tanzania concurred with both recommendations.

In concurring with Recommendation No. 1, the Mission presented an audit tracking system that is already in use. However, the audit tracking system does not include the four controls described in Recommendation No.1. As a result, management decision has not been reached.

In concurring with Recommendation No. 2, the Mission indicated that there are two delinquent audit reports in draft form and that the Mission will ensure the audit reports are finalized and submitted to RIG/Pretoria. The Mission needs to reconcile these delinquent audits with the six delinquent audits listed in Appendix III of this report. Management decision will be reached when the Mission provides an action plan and target completion dates for submitting the six listed delinquent audit reports to RIG/Pretoria.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria performed this audit in accordance with generally accepted government auditing standards. The audit was performed at the Regional Inspector General in Pretoria, South Africa. The audit notification was sent on December 20, 2005 and the audit was performed from March 24 to May 2, 2006.

The audit covered financial audit requirements for USAID/Tanzania's awards to non-U.S.-based recipients during fiscal years 2003, 2004, and 2005.

The type of evidence examined during the audit included, but was not limited to, award inventories for fiscal years 2004-2005 and audit plans submitted by the Mission for fiscal years 2003-2005, RIG/Pretoria's Audit Management Database and archives, and correspondence from the Mission.

For the most part, we relied on the accuracy and completeness of the award inventories that were submitted by the Mission to RIG/Pretoria because we believe that the responsibility for preparing award inventories rests with the Mission's Audit Management Officer, who should have the technical capacity to prepare reliable award inventories. The primary focus of our audit was the development and execution of the annual audit plans from those award inventories. Thus, with few exceptions, we limited our procedures to determine whether data in the award inventories were properly used to develop the audit plans and whether those audit plans were executed in an acceptable and timely manner. We recognize the limitations of our reliance on the accuracy and completeness of the award inventories, and hereby disclose this in the audit report--the primary limitation being that all awards requiring a financial audit may not have been included in the Mission's award inventories. Further, expiration dates and total amounts of awards in inventories may not have been accurate.

With regard to internal control, we assessed:

- Award inventories.
- Audit plans.
- Mission orders regarding financial audits.

Methodology

To accomplish the audit objectives, we reviewed and analyzed the annual audit plans and award inventories submitted to RIG/Pretoria for fiscal years 2003, 2004 and 2005 for USAID/Tanzania. We compared audit reports actually submitted to RIG/Pretoria to planned audits listed in the Mission's audit plans in order to determine the timeliness of the submission. We compared the audit plans to the award inventories to determine the accuracy of the audit plans. To determine recipients requiring closeout audits, we reviewed the Mission's award inventories and selected awards above $500,000 that were not subject to an annual audit in the eleven-month period prior to the program

completion date. The audit also included a review of correspondence between RIG/Pretoria and the Mission regarding award inventories and annual audit plans. We also requested additional information from the Mission when required.

For materiality thresholds, we considered the following to be material:

- Timeliness of submission of audit reports - if the number of acceptable audit reports submitted after the nine-month due date was greater than 10 percent of the number of planned audits, we considered the lack of timeliness to be material..

- Delinquent audit reports – any number of delinquent planned audit reports was considered to be material.

- Completeness and accuracy of audit plans – any number of required audits not included in the audit plans was considered to be material.

This was one of a total of nine similar audits that we are performing of USAID missions within the eastern and southern Africa region. As RIG/Pretoria already possesses most of the information needed to conduct the audits, we did not consider travel to the locations of the respective missions to be necessary. Any questions regarding audit procedures or preliminary results were handled via email or telephone.

MANAGEMENT COMMENTS

U.S. Agency For International Development

memorandum

DATE:	June 1, 2006
REPLY TO ATTN OF:	Pamela White, Mission Director
SUBJECT:	Audit of USAID/Tanzania's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-621-06-xxx-P)
TO:	Jay Rollins, Regional Inspector General/Pretoria
REF:	RIG's memorandum dated May 15, 2006

Please find herewith USAID/Tanzania's comments on recommendations No. 1 and 2 of the subject audit report.

Recommendation No. 1 states "We recommend that USAID/Tanzania develop and implement an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports to RIG/Pretoria. This system should, at a minimum, include controls to ensure that:

- appropriate timing targets and milestones are set for each audit in the Mission's current audit plan;
- audit instructions are sent to recipients prior to the recipient's fiscal year end requesting them to initiate the procurement for the audit;
- periodic follow-up is performed to determine the implementation status of all planned audits; and
- corrective actions are taken and documented for audits that are not progressing as planned".

Mission comments: The Mission concurs with this recommendation. The Mission is already using an audit tracking report (see attached) that incorporates the above mentioned features. It is one of the primary reasons that the number of days overdue on audit reports has significantly decreased during the past several years. However, even

with this tool and significant management effort, not all audit reports will be submitted within the prescribed time frame. For example, auditees that no longer receive funding can be uncooperative in preparing required Fund Accountability Statements, thus delaying the audit report. Or the audit review process between the auditor and RIG can, for whatever reason, take in an inordinate amount of time. Both of these cases are out of the Mission's control and currently account for all of our past due audits.

Recommendation No. 2 states "We recommend that USAID/Tanzania obtain and submit all delinquent audit reports to RIG/Pretoria".

Mission comments: The Mission concurs with this recommendation. Currently the Mission has two delinquent audit reports i.e. HealthScope Tanzania and Deloitte &Touche. The draft review process is still between RIG/Pretoria and the recipients. The Mission is following up to ensure that the audit reports are finalized and submitted to RIG/Pretoria once the review process is completed.

LIST OF DELINQUENT AUDITS AS OF DECEMBER 31, 2005

	Award Number[3]	Recipient's Fiscal Year End	Total Amount of Award (in US $)	Estimated Annual Expenditures (in US $)[4]	No. of Days Between Audit Report Due Date and 12/31/05
1	623-C-00-03-00004-00	12/31/2004	1,625,190	825,842	91
2	623-C-00-03-000430-00	12/31/2004	1,400,013	400,000	91
3	PIL6210173.00-51	12/31/2002	437,064	219,842	822
4	PROAG6210166	1/31/2003	974,125	974,125	791
5	PROAG621-G-88-02	6/30/2003	41,366,677	149,493	639
6	PIL6210173.00-47	12/31/2002	750,000	709,050	822
	Totals		46,553,069	3,278,352	

[3] ADS 591.3.2.1 requires a foreign recipient to have a single audit performed when it has expended over $300,000 of USAID funds. This audit should include all awards from which those funds were disbursed during the period audited. USAID/Tanzania had recipients with several awards.

[4] The Mission's audit plans for fiscal years 2003-2005 provided the estimated annual expenditures.

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