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OFFICE OF INSPECTOR GENERAL

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

AUDIT REPORT NO. 4-612-06-012-P

July 31, 2006

PRETORIA, SOUTH AFRICA

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

July 31, 2006

MEMORANDUM

TO: USAID/Malawi, Mission Director, Curt Reintsma

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

SUBJECT: Audit of USAID/Malawi's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-612-06-012-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 three recommendations to help USAID/Malawi improve its financial audit program with regard to foreign recipients. In response to the draft report, the Mission agreed with all three recommendations, provided action plans and target completion dates. We consider that management decision have been reached for Recommendation No. 2. Please provide the Office of Audit, Performance, and Compliance Division with the necessary documentation to achieve final action on this recommendation. However, management decision was not reached for Recommendation Nos. 1 and 3. Please advise my office within 30 days of the actions you have planned or taken to implement Recommendation Nos. 1 and 3 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/Malawi effectively managed its financial audit program in accordance with USAID policies and procedures for fiscal years 2003, 2004, and 2005. (See page 3.)

USAID/Malawi did not effectively manage its financial audit program during the period covered by the audit. Specifically, USAID/Malawi did not ensure that a) planned audits of foreign recipients were performed in a timely manner; b) delinquent audits were followed up on and completed; or c) standard statements of work were used. To help correct and strengthen these problem areas, we recommended that USAID/Malawi 1) develop and implement an audit tracking system to better monitor and ensure timely submission of planned audits, 2) complete all identified delinquent audits, and 3) develop a system to ensure that standard statements of work are included in future audit agreements. (See pages 4 – 7.)

USAID/Malawi 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 pages 8 -9)

The Mission agreed with all three recommendations, provided action plans and target completion dates. However, for Recommendation No. 1, the Mission's audit tracking system provided does not assure that the audit instructions are sent to the recipient prior to the recipients fiscal year end, and does not record any corrective action taken and documented for audits that are not progressing as planned. For Recommendation No. 3, the Mission's response did not ensure that a standard statement of work is incorporated into the audit contract. Therefore, we consider that management decision has been reached for Recommendation No. 2 and that management decision has not been achieved for Recommendation Nos. 1 and 3. (See page 10.)

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. 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 office for review and issuance no later than nine months following the end of the audited period.

USAID/Malawi had eight non-U.S.-based recipients in fiscal year 2005. During 2003-2005, the Mission reported budget authorizations totaling $107.7 million for programs in:

- Rural Income Growth.
- Increased constitutionalism and Advocacy.
- AIDS and Family Health.
- Basic Education.

[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.

AUDIT OBJECTIVES

The Regional Inspector General/Pretoria's (RIG/Pretoria) conducted this audit of the Mission's compliance with financial audit requirements regarding foreign recipients because our experience is 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/Malawi'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/Malawi ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

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

AUDIT FINDINGS

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

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

USAID/Malawi prepared annual audit inventories and plans as required for fiscal years 2003 - 2005. Since November 12, 2004, RIG/Pretoria has issued three financial audit reports of USAID/Malawi recipients covering $2.6 million in expenditures of USAID funds. Those audit reports included recommendations that addressed $114,432 in questioned costs, nine internal control weaknesses, and nine instances of material noncompliance with applicable laws and regulations.

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

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 two of the nine audits planned for fiscal years 2003-2005 were submitted to RIG/Pretoria for review on or before the required deadline. This occurred because USAID/Malawi had not developed a system to track and follow up on planned audits. Also, many audit reports had to be corrected and resubmitted due to noncompliance with applicable standards and guidelines. Audits that are not completed in a timely manner reduce USAID's accountability over funds awarded to recipients.

Automated Directives 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

[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.

to the Guidelines, the cognizant RIG must receive the audit report no later than nine months after the end of the audited period.

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

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

Number of recipients	# of annual audits in plans	Totals
1	3	3
2	2	4
2	1	2
5		9

Of the nine planned audits, only two (22%) were initially submitted to RIG/Pretoria for review on or before the required deadline. On average, audit reports were submitted 149 days (approximately five months) after they were due. As of December 31, 2005, six of USAID/Malawi'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 was caused by several factors. One of the principal factors was that the Mission had not developed or implemented an effective tracking system to ensure that planned audits were performed and submitted within the required timeframe. Another contributing factor was that audit work did not comply with applicable standards and regulations. This resulted in audit reports received by RIG/Pretoria that often had to be sent back to the audit firms for correction or additional work. Although these reports may have eventually been corrected and resubmitted to RIG/Pretoria, the additional work required added to their lack of timeliness. (The cause of substandard audit work will be addressed in the following section of this report.)

As a result, in several cases "catch up" audits were performed to cover multiple years of expenditures by recipients. For example, USAID/Malawi's audit plan for fiscal year 2004 included an audit of a recipient of a multiple-year USAID grant. The initial audit report was rejected by RIG/Pretoria due to significant noncompliance with U.S. Government Auditing Standards and the *Office of Inspector General's Guidelines for Financial Audits Contracted by Foreign Recipients*. (*Guidelines*). The audit was subsequently included in the Mission's fiscal year 2005 plan with an expanded scope covering nearly three years of expenditures.

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 $6.3 million. Of these estimated expenditures, RIG/Pretoria

subsequently issued audit reports for $1.6 million, and rejected the audit reports received for the remaining $4.7 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/Malawi 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/Malawi obtain and submit audit reports for all recipients with delinquent audits.

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Standard Statement of Work Not Used in Every Audit

Summary: Agency policy requires that audit agreements between recipients and independent auditors contain a standard statement of work (SOW) that incorporates all the requirements of the OIG Guidelines. Not all of the agreements for financial audits of USAID/Malawi's recipients contained a standard SOW that was reviewed and approved by the Mission. This occurred because USAID/Malawi did not have a system to ensure that all audit agreements incorporated standard SOWs. The lack of a standard SOW has resulted in many audits being rejected by RIG/Pretoria due to lack of compliance with applicable auditing standards and guidelines.

According to the OIG's *Guidelines for Financial Audits Contracted by Foreign Recipients* (Guidelines), a mandatory reference in ADS 591, USAID missions must ensure that audit agreements between USAID recipients and independent auditors include a standard statement of work (SOW) containing all of the requirements of the Guidelines. To ensure that this requirement is complied with, recipients must send all prospective audit agreements to the cognizant USAID mission for approval prior to finalization, as stated in paragraph 1.14 of the Guidelines.

On January 10, 2006, RIG/Pretoria requested USAID/Malawi to provide evidence that, for the eight audit reports submitted, the Mission had reviewed and approved audit agreements between recipients and auditors, and that those agreements contained

USAID's standard SOW. The Mission was unable to provide such evidence for any of the eight audit reports.

Although the Mission reported ensuring that some of the recipients and audit firms received a copy of the OIG Guidelines and a standard SOW template, providing recipients and auditors with these documents did not constitute the required review and approval of the audit agreement. Nor did it ensure that the standard SOW had been included as part of the audit agreement. In addition, since some audits were performed for the same recipient in different fiscal years, it should not be assumed that the standard SOW would still be effective for the following year. A new SOW should have been approved for each fiscal year audit.

Not all of the recipient audits submitted to RIG/Pretoria were performed under agreements which included the standard SOW because USAID/Malawi did not have a system in place to ensure that all audit agreements were reviewed and approved by the Mission prior to the commencement of the audits. Therefore, the Mission could not ensure that the standard SOW was incorporated into those audit agreements.

Experience has shown that independent audit firms conducting USAID recipient audits without a standard SOW typically perform "statutory" audit work in accordance with local standards. Such audits do not address the unique fieldwork and reporting requirements of USAID audits relating to such areas as testing expenditures for eligibility, allocability, and compliance with U.S. laws and regulations. Financial audit requirements for USAID recipients differ substantially from statutory audit requirements within Malawi. Consequently, audits that are conducted without a Mission-approved agreement containing the standard SOW, which refers to the audit requirements in the OIG Guidelines, are less likely to be performed in accordance with U.S. Government Auditing Standards and/or the OIG Guidelines. This was reflected in the large percentage of recipient audit reports that RIG/Pretoria rejected due to lack of conformity with those standards and guidelines. Of the eight reports submitted to RIG/Pretoria, seven (88 percent) were initially rejected due to lack of compliance with applicable standards and guidelines.

The review and approval of prospective audit agreements, and the inclusion of a standard SOW in those agreements which references specific USAID audit requirements, will help prevent audits from being performed that do not comply with U.S. Government Auditing Standards and/or the OIG Guidelines. Once incorporated into the audit agreement, the standard SOW becomes binding and should compel the audit firms to comply with necessary USAID audit requirements. Therefore, we are making the following recommendation:

> *Recommendation No. 3: We recommend that USAID/Malawi develop and implement a system to ensure that the Mission reviews, approves and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit covering each individual fiscal year.*

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

USAID Malawi 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/Malawi 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/Malawi 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. 810, dated June 13, 2000, was comprehensive in its scope of audit policies and procedures except that it did not include policies and procedures regarding closeout audits and host country contracts.

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.

Regarding host country contracts,[3] Country Contracting Handbook section 3.8 states that an audit of non-U.S.-based firms shall be a cost-incurred, financial audit performed by the principal audit agency to the host country or an independent audit agency acceptable to the USAID Inspector General as set forth in the Strategic Objective Agreement (SOAG) or a SOAG Implementation Letter. It further adds that the *Guidelines for Financial Audits Contracted by Foreign Recipients* (*Guidelines*) should be followed in the selection of auditors and that the auditors should observe the Guidelines in planning, conducting, and reporting the results of the audit. Moreover, section 3.9 of the Country Contracting Handbook specifically states that "Final payment to the contractor is withheld until the contractor provides evidence that it has met all of its obligations under the contract and all required certifications (including acceptance of the work by the Contracting Agency) have been executed and the contract has been

[3] ADS Glossary defines Host Country Contracting as "A means of program implementation in which USAID finances, but is not a party to, contractual arrangements between the host country and supplier of goods and/or services." ADS 301.5.1a states that when USAID decides to use host country contracting procedures-it acts as financier and not a contracting party, reserving certain rights of approval and activity monitoring.

audited, as provided above. The USAID Activity Manager will be notified of contract closeout and contract files will be maintained in storage at least three years from the final disbursement under the SOAG." (emphasis added)

To help ensure that all awards requiring financial and/or closeout audits are considered in the Mission's audit plans, we suggest that USAID/Malawi amend Mission Order No. 810 to include policies and procedures for closeout audits and audits of host country contracts.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Malawi agreed with all three recommendations.

In agreeing with Recommendation No. 1, the Mission presented an improved audit tracking system. However, the improved audit tracking system still does not assure that the audit instructions are sent to the recipient prior to the recipients fiscal year end, and does not record any corrective action taken and documented for audits that are not progressing as planned. Further, the tracking system should identify audits by agreement/contract number to ensure all the recipient's agreements are included in the audit plan. As a result, a management decision has not been achieved for this recommendation.

In agreeing with Recommendation No. 2, the Mission indicated that, out of five delinquent audits listed in its audit tracking system, it has submitted one report and expects to submit the rest by September 30, 2006. There are six delinquent audits listed in Appendix III. The difference between the Mission's response relating to five delinquent audits and the six delinquent audits listed in Appendix III is caused by one recipient which has two audits for FY2003 and FY2004 listed as delinquent in the Appendix. The Mission's tracking system indicates that they intend to have one audit of this recipient performed to cover all fiscal years not audited. Therefore, a management decision has been achieved for this recommendation. We acknowledge that the audit report for Award No. 690-A-00-00-00012-00 has forwarded to RIG/Pretoria.

In agreeing with Recommendation No. 3, the Mission discusses how review and approval of a standard statement of work (SOW) is ensured through the newly revised audit tracking system and that the SOWs are maintained on file in the Controller's Office. The recommendation states that a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements should be kept for each recipient audit covering each individual fiscal year in accordance with paragraph 1.14 of the Guidelines. Maintaining a SOW in the Controller's office does not ensure that the SOW was incorporated into the audit contract. As a result, management decision has not been reached for this recommendation.

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 on March 24 to April 18, 2006.

The audit covered financial audit requirements for USAID/Malawi'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 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 controls, 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/Malawi. 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 > 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

MEMORANDUM

TO: Jay Rollins, RIG/Pretoria

FROM: Curt Reintsma, Mission Director, USAID/Malawi

DATE: June 7, 2006

SUBJECT: USAID/Malawi response to recommendations from Audit of USAID/Malawi's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-612-06-xxx-P)

USAID management offers the following responses to the three recommendations contained in the subject audit report:

Recommendation No. 1: We recommend that USAID/Malawi 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.

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Management Response: USAID/Malawi management agrees with RIG/P's findings and the resulting recommendation that USAID/Malawi should develop and implement an audit tracking system to ensure effective monitoring of the recipient financial audit process. In March, 2006 USAID/Malawi developed an audit tracking report which provides the USAID/Mission Management Control Review Committee (MCRC) with the status of audits under Mission's FY 2006 audit plan on a periodic basis. However, that tracking report contained some, but not all, of the elements recommended by RIG/P for an effective audit tracking system. USAID/Malawi has, therefore, taken the following measures:

- Audit tracking report was revised to include milestones and target dates for key steps in the recipient audit process for immediate implementation under the FY 2006 audit plan. (See attached revised tracking report). The audit tracking report will be updated with FY 2007 planned audits concurrent with preparation of the FY 2007 audit plan. The tracking report is to be updated and circulated to MCRC on a monthly basis effective immediately.

- Mr. Robert Katuya, Financial Analyst, is assigned the responsibility for monitoring the progress of these audits and ensuring adherence to the established schedules under the close supervision of the AMO.

- As the Mission recognizes the importance of CTO participation in the recipient audit process, in early March 2006, USAID/Malawi CTOs and Team Leaders received training by RIG/P auditors in USAID Audit Training for Mission Personnel.

Based on the above actions taken, USAID/Malawi requests that Recommendation No. 1 be considered resolved and that this recommendation be closed.

Recommendation No 2: We recommend that USAID/Malawi obtain and submit all delinquent audit reports to RIG/Pretoria.

Management Response: USAID/Malawi management agrees with RIG/P's findings and the resulting recommendation that USAID/Malawi obtain and submit all delinquent audit reports to RIG/Pretoria. The attached audit tracking report gives the current status of each delinquent audit/audit report. Of the five audits listed, one audit report for award # 690-A-00-00-00012-00 has been received at USAID/ Malawi and is being forwarded to RIG/P this week. It is expected that all audits listed on the FY 2006 audit tracking report should be submitted to RIG/P by September 30, 2006. Once all audit reports currently delinquent have been submitted to RIG/P and accepted, this recommendation should be considered resolved and closed.

Recommendation No. 3: We recommend that USAID/Malawi develop and implement a system to ensure that the Mission reviews, approves, and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit covering each individual fiscal year.

Management Response: USAID/Malawi management agrees with RIG/P's findings and the resulting recommendation that USAID/Malawi implement a system to ensure that an audit agreement containing a standard statement of work incorporating USAID's audit requirements be reviewed, approved, and maintained on file for every recipient audit. USAID/Malawi has already taken the following measures toward this end:

- The newly revised audit tracking report requires that deadlines be established for key steps in the recipient audit process, including approval of the standard statement of work and the audit contract.

- Referring to the audit tracking report, for the three agency contracted audits initiated in the current fiscal year (award #s: 690-A-00-02-00060-00; 690-A-00-04-00087-00; and 690-G-00-01-000141-0) all SOWs have been properly reviewed and approved and are maintained on file in the Controller's Office. Following the recent RIG/P Audit Training, FMO personnel responsible for USAID audits are well aware of this requirement and will continue this practice for every subsequent audit.

Based on the above actions taken, USAID/Malawi requests that Recommendation No. 3 be considered resolved and that this recommendation be closed.

In addition to the corrective measures described above, USAID/Malawi also plans to take action in the coming year on RIG/P's suggestion to update Mission Order 810 to include policies and procedures for closeout audits and audits of host country contracts. Finally, USAID/Malawi would like to thank the RIG/P for the audit exercise which highlighted areas that needed improvement in its audit management program.

Attachment: New Audit Tracking Report

LIST OF DELINQUENT AUDITS AS OF DECEMBER 31, 2005

	Award Number[4]	Recipient's Fiscal Year End	Total Amount of Award (in US $)	Estimated Annual Expenditures (in US $)[5]	# of Days Between Audit Report Due Date and 12/31/05
1	690-A-00-02-00060-00[6]	9/30/2003	894,200	331,818	548[7]
2	690-A-00-02-00060-00[6]	9/30/2004	1,100,369	313,575	183[7]
3	690-A-00-00-00012-00	4/30/2004	5,002,433	1,227,843	333
4	690-G-00-01-00141-00[6]	4/30/2003	744,900	411,388	699
5	690-A-00-01-00189-00	4/30/2003	918,000	494,479	699
6	690-A-00-04-00087-00[6]	9/30/2004	6,300,000	1,909,070	183
	Totals		14,959,902	4,688,173	

[4] 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/Malawi had recipients with several awards.
[5] The Mission's audit plans for fiscal years 2003-2005 provided the estimated annual expenditures.
[6] An Agency-Contracted Audit is in process for this recipient.
[7] An Agency-Contracted Audit is in process for this recipient to cover the audit period March 1, 2002 to Jan 31, 2005.

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