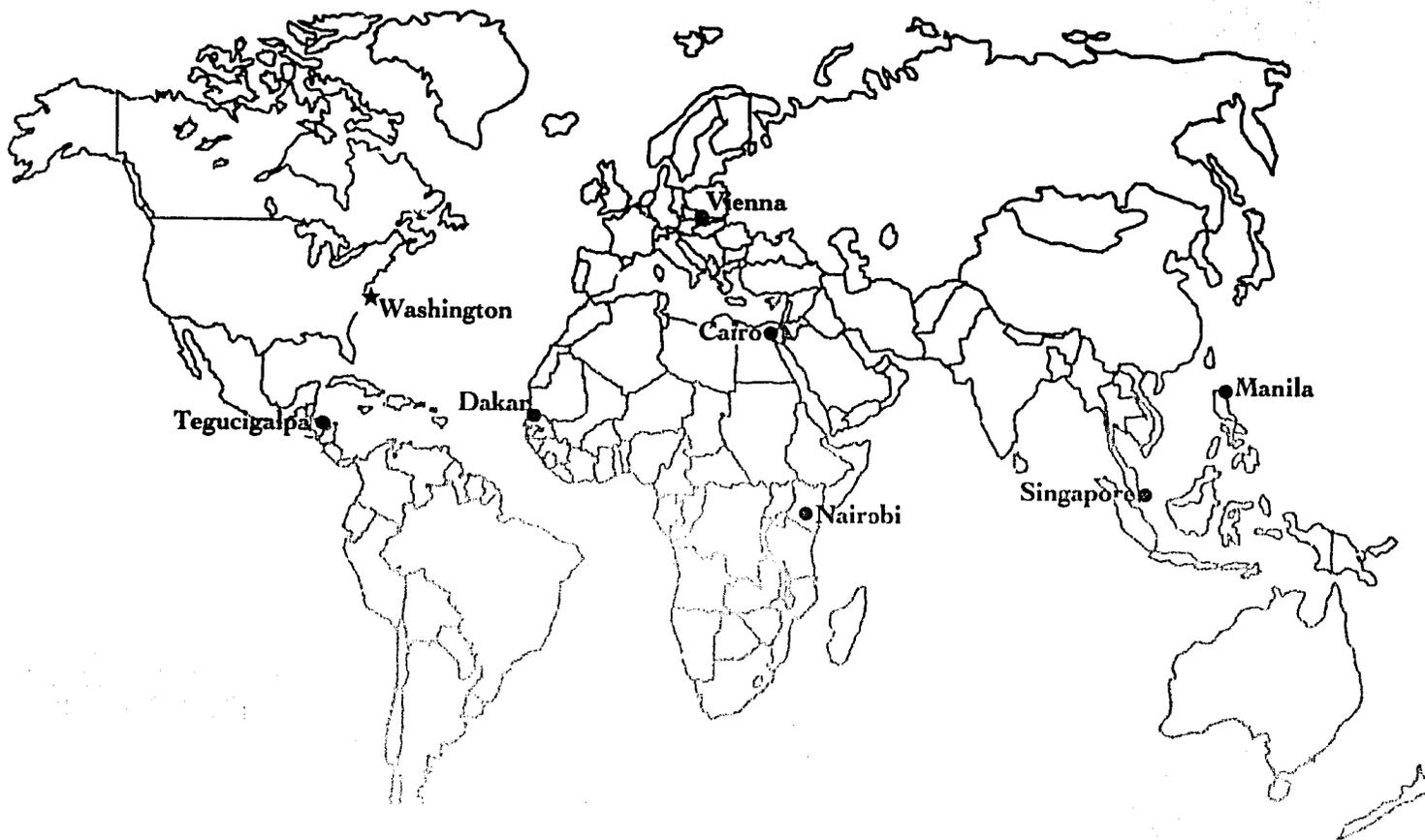


**Regional Inspector General for Audit
Dakar**

**Audit of Verification for A.I.D. Funds
Relating to OAR/Chad's Grants, Contracts and
Cooperative Agreements**

**Audit Report No. 7-677-92-03
November 15, 1991**



**AUDIT OF VERIFICATION FOR A.I.D. FUNDS
RELATING TO OAR/CHAD'S GRANTS, CONTRACTS AND
COOPERATIVE AGREEMENTS**

**Audit Report No. 7-677-92-03
November 15, 1991**

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**AGENCY FOR INTERNATIONAL DEVELOPMENT
Office of the Regional Inspector General for West Africa**

November 15, 1991

MEMORANDUM

TO: Bernard D. Wilder, A.I.D. Representative, Chad

FROM: Paul E. Armstrong, RIG/A/Dakar 

SUBJECT: Audit of Verification for A.I.D. Funds Relating to OAR/Chad's Grants, Contracts and Cooperative Agreements, Audit Report No. 7-677-92-03.

Enclosed are five copies of the subject report. We have reviewed your comments cabled on November 11, 1991 in response to our draft report and have taken them into consideration in preparing this report. Your comments are included in Appendix II herein.

In answering our four audit objectives (see page 3), we determined that OAR/Chad followed applicable A.I.D. policies, procedures and Federal Government requirements in assessing audit needs, including standard audit clauses and addressing audit recommendations. There is one area where Mission's compliance needs strengthening: audit coverage of OAR/Chad's monetized P.L. 480 programs. This report therefore makes one recommendation to correct the deficiency. Please advise within 30 days of actions taken or planned by OAR/Chad to implement the recommendation.

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

Background

Independent audits of A.I.D.-funded projects and programs are performed periodically to determine if U.S. Government resources are properly accounted for and used only for authorized purposes. The A.I.D. Office of the Inspector General (OIG) is the Agency's cognizant audit office under the Inspector General Act of 1978. Audits are conducted either by OIG staff or non-Federal auditors under OIG supervision. In addition to OIG controlled audits, organizations receiving A.I.D. assistance also contract for independent audits by other auditors.

Circular No. A-73, issued by the Office of Management and Budget (OMB), requires that Government Agencies provide adequate audit coverage of their

programs conducted in accordance with generally accepted government auditing standards. In addition, OMB Circular No. A-50 requires each agency to establish a follow-up system for prompt and proper resolution and implementation of audit recommendations.

Other audit guidance issued by A.I.D. and the OMB include the following:

- A.I.D. Payment Verification Policy Statement No. 6 requires project papers to include an assessment of audit needs, and budget project funds for audits unless adequate host government audit coverage is reasonably assured or audits are not warranted.
- A.I.D. Handbooks 3 and 13 require standard audit clauses in project and cooperative agreements and contracts. These guidelines also specify that: A.I.D.-funded host government grants are to be audited "regularly", non-U.S., non-governmental assistance agreements annually, and U.S. non-governmental grantees at least every two years. In addition, OMB Circular No. A-133 mandates audits of U.S. non-governmental grant recipients at least every two years.
- A.I.D. Handbook 13, Chapter 4, states that a preaward survey (or a financial review in lieu thereof) should be performed when A.I.D. is unable to determine whether the potential recipient's accounting, record keeping and financial management systems meet A.I.D. standards.
- A.I.D. Supplemental Guidance on Programming and Managing Local Currency requires periodic audits of special accounts established by host country organizations receiving local currencies generated from U.S. Government resources, such as P.L. 480 sales proceeds or Economic Support Funds, as well as the use of such local currency.

Projects requiring a budget for audits include (1) those implemented partially or entirely by host governments which do not arrange for audits of A.I.D. funds and (2) host country non-governmental organizations (NGO's) or contractors which do not provide for audits of A.I.D. funds received.

Projects not requiring a budget for audits include (1) projects implemented by U.S.-based NGOs which are audited by independent public accountants in the U.S. as mandated by OMB Circular No. A-133; (2) U.S.-based contractors who are subject to audit in the U.S.; and (3) host country NGOs or contractors which are audited annually by independent auditors in the host country.

As of March 31, 1991, the Office of A.I.D. Representative, Chad (OAR/Chad) had a portfolio of 16 active projects, with commitments and disbursements totalling \$62 million and \$46 million, respectively (Exhibit I). The audit universe comprised of commitments and disbursements totalling approximately \$54 million and \$39 million, respectively. The remaining \$8 million in commitments and \$7 million in disbursements were for various technical assistance contracts, travel, direct participant costs and minor expenditures that did not warrant audits.

In addition to the above projects, the Mission's monetized Public Law 480 programs and related local currency funds equivalent to \$8.4 million from February, 1984 through March, 1991 also required audits under A.I.D. guidelines and Federal regulations.

Other than the aforementioned mandatory audits, OAR/Chad may, at its discretion, initiate audits and budget funds accordingly if it has specific concerns relating to any project, program or activity in its portfolio.

Audit Objectives

The Office of the Regional Inspector General for Audit, Dakar (RIG/A/Dakar) performed the Audit of Verification for A.I.D. Funds Relating to OAR/Chad's Grants, Contracts and Cooperative Agreements to answer the following audit objectives:

Did OAR/Chad comply with:

1. A.I.D. policies that require an assessment of audit needs in project papers and allocation of funds for audits in project budgets?
2. A.I.D. procedures for including standard audit clauses in its project agreements, cooperative agreements, and contracts?
3. A.I.D. procedures and applicable Federal Government regulations to ensure that required audits and preaward surveys are performed in accordance with U.S. government auditing standards?
4. Federal Government requirements to address audit recommendations?

The above objectives were intended to enable us to determine if A.I.D. funds in Chad had adequate audit coverage and OAR/Chad had reasonable assurance that U.S. Government-provided resources were properly accounted for and used only for authorized purposes.

In answering the objectives, we tested whether OAR/Chad (1) followed applicable internal control procedures, and (2) complied with certain provisions

of Federal regulations and A.I.D. policies. Because of limited time and resources, we did not continue testing when we found that, for the items tested, OAR/Chad followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine whether OAR/Chad was following a procedure or complying with a legal requirement;
- identify the cause and effect of the problems; and
- make recommendations to correct the condition and cause of the problems.

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

Audit Findings

Did OAR/Chad comply with A.I.D. policies that require an assessment of audit needs in project papers and allocation of funds for audits in project budgets?

For the items tested, OAR/Chad complied with applicable A.I.D. policies to ensure that project papers assessed audit needs and funds were allocated in project agreements for audits.

Of ten project papers and program assistance approval documents prepared by the Mission between 1983 and 1990, five specifically addressed the need for audits as required. Three of these five projects/programs had entities in which funds should have been budgeted for audits and the other two project papers assessed the need and budgeted funds for audits although no budgeting of funds was required. In all five cases, the Mission adequately assessed audit needs and allocated funds for audits in project budgets.

The remaining five projects were not required to budget funds or address the need for audits at the Mission level because they were implemented by U.S.-based NGOs or contractors who are audited by independent public accountants in the U.S.

Did OAR/Chad comply with A.I.D. procedures for including standard audit clauses in its project agreements, cooperative agreements, and contracts?

For the items tested, OAR/Chad complied with A.I.D. procedures by incorporating standard audit clauses in its project agreements, cooperative agreements and contracts.

Appropriate audit provisions were incorporated in all 19 agreements and contracts processed by the Mission under the 16 active projects as of September 30, 1990. A.I.D. legal counsel assisted the Mission in determining the audit provisions to be included in each agreement which were then reviewed by the Regional Contracting Officer and the Mission Controller for compliance with A.I.D. requirements.

Did OAR/Chad comply with A.I.D. procedures and applicable Federal Government regulations to ensure that required audits and preaward surveys are performed in accordance with U.S. Government auditing standards?

For all projects included in the sample that required audits, the Mission took appropriate action to either initiate or plan for the audits in coordination with its cognizant audit office, the Regional Inspector General for Audit, Dakar (RIG/A/D). A review of RIG/A/D reports on completed audits and scopes of work for audits not yet begun showed that these were conducted or will be conducted in accordance with generally accepted U.S. Government auditing standards.

For the one entity in the audit sample that required preaward surveys (or financial reviews in lieu thereof), OAR/Chad complied with A.I.D. procedures and Federal Acquisition Regulation provisions by ensuring that the survey (or financial review) was performed.

Preaward surveys or financial reviews were not required for grants, cooperative agreements and contracts (including those with the host country) pertaining to 18 other organizations either because those entities had a prior record of receiving A.I.D. funds, or the agreements in question were fixed price contracts - reasons which exempted them from preaward surveys or financial reviews.

However, as discussed below, OAR/Chad did not ensure that audits of the Mission's monetized P.L. 480 program and some of the related local currency funds were conducted.

OAR/Chad's Monetized P.L. 480 Programs and Related Local Currency Funds Should be Systematically Identified and Audited

Federal Government regulations require agencies to provide audit coverage of their programs. In addition, current A.I.D. policy requires missions to ensure the generation and use of local currency funds under the P.L. 480 programs are audited periodically. However, OAR/Chad's monetized P.L. 480 programs and some of the disbursements of related local currency have never been audited. This occurred because the Mission believed that audits were not necessary due to internal controls established by OAR/Chad. Consequently, A.I.D. did not have reasonable assurance that the monetized P.L. 480 programs were properly implemented or that related local currency disbursements of \$2.4 million were used for intended purposes.

Recommendation No. 1: We recommend that the Representative, OAR/Chad:

- 1.1 request the Regional Inspector General for Audit, Dakar, to initiate a non-Federal audit of (1) the generation of local currency funds under OAR/Chad's monetized P.L. 480 program and (2) the use of such funds by the Chadian implementing entity - Office National des Cereales; and**
- 1.2 establish a tracking system to facilitate audits of all entities responsible for implementing OAR/Chad's Public Law 480 programs and disbursing local currency generated therefrom.**

OMB Circular No. A-73, issued in June 1983, requires Federal agencies to provide audit coverage of their programs to ensure that assets are safeguarded, funds are expended as intended, and resources are managed economically and efficiently. In addition, an A.I.D. Policy Guidance on local currency, issued in October 1987, requires missions to have "reasonable assurance" that audits of activities financed by A.I.D.-generated local currencies are conducted. Finally, A.I.D. issued Supplemental Guidance on Programming and Managing Host-Country-Owned Local Currency in June 1991, requiring missions to ensure that special accounts established for P.L. 480 generated local currency and use of such funds by host country organizations receiving the money are audited periodically.

In 1984, OAR/Chad contracted with "Office National des Cereales" (O.N.C.), a GOC parastatal, to implement the P.L. 480, Title II program in Chad. From February 1984 to March 1991, O.N.C. sold U.S.-donated foodgrains under this program, generating approximately \$8.4 million in local currency. However, the generation of these funds was never audited.

According to Mission's financial records, the local currencies were disbursed to the following entities:

<u>Entity</u>	<u>Local Currency Disbursements</u> <u>As of March 31, 1991*</u>
O.N.C.	\$1,149,654
"Pharmacie Nationale d'Approvisionnement" (Pharmacy)	1,238,871
Various U.S. Private Voluntary Organizations (PVOs), Contractors and International Organizations	5,632,038
Other Organizations	<u>398,806</u>
Total	<u>\$8,419,369</u>

**The dollar amounts were determined by using an exchange rate of 290 FCFA to \$1.*

Of the above, the local currency equivalent of \$5.6 million disbursed to U.S. PVOs, contractors and international organizations have been audited either through OMB-mandated or periodic organization-wide audits. However, funds amounting to \$2.4 million handled by the two GOC parastatals (O.N.C. and Pharmacy) have had no such audit coverage.

Audits of the generation and disbursements of local currency to O.N.C. and Pharmacy were not performed because OAR/Chad believed that audits were not necessary due to internal controls established by the Mission. While internal controls provide some assurance that the P.L. 480 program was properly implemented, they do not replace the need for audits. Independent audits are the most reliable mechanism to ensure that U.S. Government provided resources are properly accounted for and used only for authorized purposes.

By not performing periodic audits, OAR/Chad did not have reasonable assurance that the generation of P.L. 480 funds was proper or that the local currency funds provided to Pharmacy and O.N.C. were used for intended purposes.

An audit of the \$1.2 million in local currency provided to Pharmacy would be of limited benefit to A.I.D. now because the funds were disbursed between 1984 and 1987. Moreover, A.I.D.'s audit rights for the above program has already expired.

However, given the fact that O.N.C. has already received, stored and sold P.L. 480 commodities under the 1989 Transfer Authorization valued at \$2.4 million and will do the same under the PL. 480 Title III program, estimated to realize approximately \$5.1 million in fiscal year 1992, it is imperative that OAR/Chad request RIG/A/Dakar to initiate a non-Federal audit of O.N.C.

Moreover, in order to facilitate such audits, the Mission should establish a tracking system to promptly identify future audit needs.

Management Comments and Our Evaluation

OAR/Chad concurred with Recommendation No. 1.2, but not with Recommendation No. 1.1. Mission officials stated that an audit would not be cost effective given the level of oversight exercised by the Mission.

We do not concur with this rationale. While internal controls provide some assurance that the P.L. 480 program was properly implemented, they do not substitute for audits. Independent audits are the principal internal control technique to provide reasonable assurance that U.S. Government-provided resources are properly accounted for and used only as intended. In fact, such audits enable management to ascertain whether internal controls are operating as intended. We believe a financial audit at this time would be cost effective given that (1) the P.L. 480, Title II program, related to the 1989 Transfer Authorization has recently ended, generating \$2.4 million and (2) O.N.C. has

already begun receiving and storing commodities under the P.L. 480, Title III program in which inputs are expected to total approximately \$5.1 million in fiscal year 1992.

The benefits of this financial audit would include an independent opinion on whether: (1) the fund accountability statements for the special account relating to the 1989 Transfer Authorization are presented fairly with respect to tonnage received, sale proceeds, losses, deposits and withdrawals; (2) internal controls over the receipt, storage and sale of commodities under the P.L. 480, Title III program are adequate; (3) the program is in compliance with the applicable laws, regulations and agreements; and (4) service fees paid to O.N.C. by A.I.D. to implement the programs are reasonable.

Did OAR/Chad comply with Federal Government requirements to address audit recommendations?

For the items tested, OAR/Chad complied with Federal Government requirements to resolve and implement recommendations made in A.I.D. Inspector General audit reports. The Mission addressed each audit recommendation to ensure satisfactory resolution and implement corrective action.

Since 1987, OAR/Chad had scheduled five A.I.D. Inspector General audits: one performed by the Office of the Regional Inspector General for Audit, Dakar (RIG/A/D) and four by non-Federal auditors under the direction of RIG/A/D. A review of Mission and RIG/A/D files on the five audit reports showed that OAR/Chad took appropriate follow-up action on the reports. All recommendations were resolved and corrective actions duly implemented. Based on such actions, RIG/A/Dakar closed the recommendations. OAR/Chad has not had audits performed by any other U.S. Government audit agency and has not made grants to indigenous NGOs except for a minor grant of \$10,000.

Exhibit 1

OAR/Chad Active Projects
Summary of Financial Status
March 31, 1991

<u>Project Number</u>	<u>Project</u>	<u>Commitments</u>	<u>Disbursements</u>
677-0050	Strengthening Road Maintenance	\$26,106,824	\$15,924,213
677-0051	PVO Development Initiatives	14,264,773	10,012,561
677-0055	Strengthening Dev. Min. III	6,999,426	6,998,192
677-0056	Emergency Locust/Grass. Ctl.	1,427,080	1,288,931
677-0058	Small Project Assistance	5,368	5,368
677-0061	Strengthening Dev. Min. IV	8,000,000	8,000,000
677-0064	Child Survival Project	1,241,896	822,613
698-0421	Comb. Childhood Comm. Dis.	100,000	
698-0462	Family Health Initiatives	278,170	111,415
698-0463	Human Resources Dev. - Chad	813,498	642,773
698-0517	African Emerg. Locust Grass.	38,654	33,308
625-0969	SAHEL Population Initiatives	642,107	530,020
625-0970	SAHEL Policy Analysis & Ref.	1,099,489	1,021,372
625-0977	SAHEL Human Res. Dev.III	822,135	737,678
698-9801	Human Rights Fund	90,000	89,739
698-9901	Special Self-Help Dev.	<u>92,842</u>	<u>72,540</u>
	TOTAL	<u>\$62,022,262</u>	<u>\$46,290,723</u>

Source: OAR/Chad's accounting records.

**SCOPE AND
METHODOLOGY**

Scope

We performed the Audit of Verification for A.I.D. Funds Relating to OAR/Chad's Grants, Contracts and Cooperative Agreements in accordance with generally accepted government auditing standards. We conducted the audit from May 27 to June 19, 1991, and covered the systems and procedures relating to the verification for A.I.D. funds for active projects in OAR/Chad's portfolio as of September 30, 1990. We conducted our field work in the offices of OAR/Chad at N'Djamena, Chad.

Our audit included coverage of all 16 OAR/Chad active projects (excluding project development and support funds) as of September 30, 1990. These projects had commitments of \$62 million and disbursements of \$46.3 million as of March 31, 1991 (Exhibit 1), according to OAR/Chad's Status of Commitments report. OAR/Chad uses the LOTUS computer program to prepare its official accounting and financial reports. To determine the reliability of OAR/Chad's financial data, we judgementally selected a sample of three projects and reviewed supporting documentation for selected commitments and disbursements. All transactions were agreed to supporting documentation.

This audit also included determining whether adequate audit coverage was provided under the monetized Public Law 480 program in Chad. Mission's accounting records showed that local currency equivalent to \$8.4 million was disbursed under the P.L. 480 program in Chad from October 1983 to March 1991. We did not review the audit coverage of non-monetized food aid because this food aid was merely transferred to U.S.-based PVOs and international organizations for distribution in Chad.

In performing the audit, we obtained documentary and testimonial evidence from OAR/Chad; assessed internal controls related to each audit objective; reviewed prior audit reports of OAR/Chad's projects and activities at RIG/A/Dakar and OAR/Chad and verified evidence through examination of supporting documentation. Following is a discussion of our methodology for answering each audit objective.

Methodology

Audit Objective One

The first objective was to determine whether OAR/Chad complied with A.I.D. policies that require assessing audit needs in project papers and budgeting funds for audits.

We examined all 10 project papers and program assistance approval documents prepared by the mission between December 1983 and March 1991 for active OAR/Chad projects as of September 30, 1990 to determine whether assessments of the need for audits were included in the project papers. We did not review the project papers for the other six active projects as of September 30, 1990 because they originated in A.I.D./Washington, and therefore, OAR/Chad is not responsible for assessing audit needs in project papers.

We reviewed project, contract and cooperative agreements and status of commitments reports for each of the 16 projects to determine which non-governmental organizations or governmental entities were receiving project funds. With this information, we identified the organizations that had a requirement for audit and should have budgeted funds for audits in the project agreement.

We reviewed project agreements, individual agreements and contracts with recipient organizations for each of the 16 active OAR/Chad projects and determined whether those needing audit coverage had budgeted project funds for these audits.

We interviewed Mission officials who are responsible for ensuring that project papers include assessments of audit need and that project budgets provide funds for audits accordingly.

Audit Objective Two

The second objective was to determine whether OAR/Chad complied with A.I.D. Handbook guidance for including audit requirements in its project agreements, cooperative agreements, and contracts.

We reviewed all 19 agreements and contracts that received funds under the 16 active projects as of September 30, 1990 and determined whether they included standard provisions regarding audit requirements that were in effect at the time the document was executed. OAR/Chad has also entered into "buy-in" agreements or contracts, which were not included in our sample because audit responsibility for these are with A.I.D./Washington.

We also interviewed OAR/Chad personnel who are responsible for preparing these agreements and ensuring compliance with A.I.D. requirements.

Audit Objective Three

The third objective was to determine whether OAR/Chad complied with A.I.D. Handbook policies and applicable Federal regulations to ensure required audits are performed and meet U.S. Government auditing standards and that preaward surveys are conducted when required.

We interviewed the OAR/Chad Controller and cognizant project officials to determine whether an audit tracking system was in place, ensure that required audits were requested and performed in accordance with generally accepted Government audit standards; and whether preaward surveys were conducted when required. We reviewed audit reports issued by the Mission's cognizant audit office to determine the extent of audit coverage and compliance with U.S. Government audit standards.

In order to determine which projects needed audit coverage, we identified the projects that should have been audited and then verified whether the audits had been performed.

We determined which organizations implemented the P.L. 480 program in Chad and received the resulting local currency, then interviewed the OAR/Chad Controller and cognizant project officials to determine the extent of audit coverage of these entities.

Finally, we reviewed financial documentation, and interviewed personnel in OAR/Chad's Controller and Project Offices to determine whether preaward surveys or financial reviews were being performed when required.

Audit Objective Four

The fourth audit objective was to determine whether OAR/Chad complied with Federal Government requirements to resolve and implement audit recommendations.

We reviewed audit reports, mission cables and contractor correspondence maintained by the Mission Controller's Office, for the five audit reports performed on OAR/Chad's funds since 1987 to determine whether the recommendations were resolved and corrective actions implemented.

Appendix I

We interviewed personnel in the Mission Controller's Office to determine how recommendations are monitored to ensure that they are resolved and implemented.

ACTION: RIG INFO: EXEC

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 CN: 10538
 CHRG: RIG
 DIST: RIG

AIDAC

FOR RIG/A/D

E.O. 12356: N/A

TAGS:

SUBJECT: DRAFT AUDIT REPORT ON OAR/CHAD'S COMPLIANCE
 WITH AUDIT REQUIREMENTS

REF: A) 11/4/91 FAX MEMO TO RIG/A/D, PAUL E. ARMSTRONG
 FROM C. PALMA, ACTING AID/REP,

B) 11/6/91 TELCON D. ROMAN, RIG/A/D
 C. JOHNSON, CONT,

AS REQUESTED IN REF A) RETRANSMISSION OF REF B) FOLLOWS:

BEGIN QUOTE. REF A) NDJ 4540, B) OCT 16, 1991 TELEFAX.
 C) OCT 25, 1991 TELEFAX

FOLLOWING ARE THE MISSION'S OFFICIAL COMMENTS TO SUBJECT
 DRAFT AUDIT REPORT AS ANNOUNCED IN THE ABOVE REFERENCED
 COMMUNICATIONS.

Deleted - Relates to matter not included in Final Report.

Deleted - Relates to matter not included in Final Report.

WITH RESPECT TO YOUR FINDING AND RECOMMENDATION NO. 2:*

THE AUDIT REPORT IS MISLEADING IN THAT IT DRAWS CONCLUSIONS ON OAR/CHAD'S PL480 PROGRAM AS A WHOLE WHEN ONLY THE MONETIZED PL480 PROGRAMS (WHICH REPRESENT ONLY 29 PCT OF USAID/CHAD'S FOOD AID PROGRAM) WERE EXAMINED.

IT ALSO COMPLETELY IGNORES USAID/CHAD'S INTERNAL

UNCLASSIFIED

NDJAMENA 005308/01

*Now Recommendation No. 1.

CONTROLS OVER THE PROGRAM AND SUGGESTS A TOTAL ABSENCE OF ACCOUNTABILITY OVER PL480 PROGRAM RESOURCES BASED ON THE LACK OF AUDITS.

FURTHERMORE, THE LEGAL FRAMEWORK AND POLICY STANDARDS AGAINST WHICH OAR/CHAD COMPLIANCE WAS EVALUATED WERE DISPLACED IN TIME. POLICIES SET FORTH IN OMB CIRCULAR A-73 DATED JUNE 20, 1983 REQUIRE AGENCY AUDIT ORGANIZATIONS (AND NOT MISSIONS) TO MAINTAIN RECORDS OF ITS AUDIT UNIVERSE AND COORDINATE AUDIT WORK IN CARRYING OUT THEIR AUDIT PLANS. UNDER AID POLICY GUIDANCE ISSUED IN OCTOBER 1987 MISSIONS WERE ONLY REQUIRED TO "HAVE REASONABLE ASSURANCE THAT PERIODIC AUDITS OF ACTIVITIES FINANCED BY AID-GENERATED LOCAL CURRENCIES WILL BE CONDUCTED OR OTHERWISE TAKE ON A MORE ACTIVE ROLE IN THE IMPLEMENTATION OVERSIGHT IN ADDITION TO REVIEWING PROJECT DOCUMENTATION AND HOST GOVERNMENT PROCEDURES PRIOR TO APPROVAL OF FUNDING OF THE ACTIVITY". AID REGULATION 11 (REVISED IN JUNE 1990) WHICH GOVERNS PL480 TITLE II DOES NOT REQUIRE AUDITS, IT MERELY PROVIDES FOR AUDIT RIGHTS TO U.S. GOVERNMENT REPRESENTATIVES. MISSIONS WERE NOT REQUIRED TO ENSURE THAT RECIPIENT ORGANIZATIONS WERE IN FACT AUDITED PERIODICALLY UNTIL THE ISSUANCE OF SUPPLEMENTAL POLICY GUIDANCE WHICH BECAME EFFECTIVE JULY 1, 1991. OAR/CHAD COMPLIANCE HAS NOT BEEN PROPERLY EVALUATED IN RELATION TO REGULATORY AND POLICY REQUIREMENTS INCUMBENT UPON MISSIONS AND PROPERLY SET IN TIME. THEREFORE, USAID/CHAD REQUESTS THAT THE AUDIT REPORT BE REVISED AS DISCUSSED BELOW.

FOR THE PL480 TITLE II TRANSFER AUTHORIZATION SIGNED IN 1989, OAR/CHAD WAS CLEARLY "REQUIRED TO HAVE REASONABLE ASSURANCE THAT PERIODIC AUDITS OF ACTIVITIES FINANCED BY AID-GENERATED LOCAL CURRENCIES WOULD BE CONDUCTED" OR OTHERWISE TAKE ON A MORE ACTIVE ROLE IN THE IMPLEMENTATION OVERSIGHT IN ADDITION TO REVIEWING PROJECT DOCUMENTATION AND HOST GOVERNMENT PROCEDURES PRIOR TO APPROVAL OF FUNDING OF THE ACTIVITY" AS STATED IN THE AMPLIFIED GUIDANCE TO PD-5. OAR/CHAD COMPLIED FULLY WITH PD-5, BY SELECTING STRONG, HIGHLY RESPECTED PVO'S OR INTERNATIONAL ORGANIZATIONS FOR IMPLEMENTATION OF THE VAST MAJORITY OF THE PL480 MONETIZED PROGRAM AND IN THE FEW CASES OF GRANTS MADE TO PUBLIC ORGANIZATIONS USAID/CHAD HAD SUBSTANTIAL INVOLVEMENT IN THE PROCUREMENT AND COMMITMENT PROCESSES AND DISBURSED FUNDS DIRECTLY TO SUPPLIERS. FURTHERMORE, FOR ALL PL480 LOCAL CURRENCY-FUNDED ACTIVITIES, USAID MONITORED IMPLEMENTATION THROUGH PERIODIC SITE VISITS AND, AS CO-SIGNER ON THE PL480 SPECIAL ACCOUNT, REVIEWED ALL VOUCHERS AND SUPPORT DOCUMENTATION FOR EACH DISBURSEMENT. LIKEWISE USAID OVERSIGHT OF THE RECEIPT, STORAGE AND SALE OF PL480 COMMODITIES AS WELL AS THE DEPOSIT OF SALE PROCEEDS ENSURED ADEQUATE ACCOUNTABILITY FOR THE COMMODITIES AND FUNDS GENERATION.

THEREFORE, OAR/CHAD STRONGLY OBJECTS TO THE FOLLOWING STATEMENTS:

1. "THIS OCCURED BECAUSE OAR/CHAD HAD NOT ESTABLISHED
- A MONITORING SYSTEM TO ENSURE THAT ENTITIES (1)
- IMPLEMENTING THE PL480 PROGRAM IN CHAD AND (2)
- RECEIVING PL480 GENERATED LOCAL CURRENCY HAD THE
- REQUIRED AUDIT COVERAGE

AS STATED ABOVE, MISSIONS WERE NOT REQUIRED TO ENSURE THAT RECIPIENT ORGANIZATIONS WERE IN FACT AUDITED UNTIL JULY 1, 1991 (I.E. AFTER COMPLETION OF AUDIT FIELD WORK) AND NOT RETROACTIVELY. THUS USAID DID NOT ESTABLISH AN AUDIT TRACKING SYSTEM. HOWEVER, USAID/CHAD'S INTERNAL CONTROLS ENSURED THAT ONLY ENTITIES USAID WAS REASONABLY ASSURED HAD ADEQUATE ACCOUNTABILITY SYSTEMS RECEIVED PL480 LOCAL CURRENCY GENERATIONS FOR THE IMPLEMENTATION OF ACTIVITIES.

2. " THE MISSION HAD NO ASSURANCE WHATSOEVER THAT
- THE PL480 PROGRAM IN CHAD WAS PROPERLY IMPLEMENTED
- OR THAT DISBURSEMENTS IN THE AMOUNT OF DOLS 2.4
- MILLION WERE USED FOR THE INTENDED PURPOSES";
- THE MISSION HAD NO ASSURANCE THAT THE

GENERATION OF PL480 FUNDS WAS PROPER OR THAT FUNDS PROVIDED TO PHARMACY AND ONC WERE USED FOR INTENDED PURPOSES - A MAJOR CONTROL DEFICIENCY WHICH CONSIDERABLY DIMINISHES THE FINANCIAL INTEGRITY OF THE PL480 PROGRAMS IN CHAD";

THESE STATEMENTS ARE INCORRECT AND MISLEADING. THEY SUGGEST THAT AUDITS ARE THE ONLY CONTROL MECHANISM WHICH CAN ENSURE ACCOUNTABILITY. FURTHERMORE, REFERENCE TO THE PROGRAM AS A WHOLE IS INAPPROPRIATE, AND THE DOLLAR FIGURE ITSELF IS CONTESTED BELOW. THE CONCLUSION IS TOTALLY OUT OF PROPORTION AND UNJUSTIFIED. OF THE DOLS 2.4 MILLION HANDLED BY GOC PARASTATALS WHICH HAD NO AUDIT COVERAGE, ALL BUT THE EQUIVALENT OF CFA 15 MILLION (APPROX. DOLS 50,000) WERE DISBURSED PRIOR TO THE OCTOBER 1987 AID POLICY GUIDANCE REQUIRING MISSIONS TO HAVE REASONABLE ASSURANCE THAT AUDITS WOULD BE CONDUCTED. THE CFA 15 MILLION WERE DISBURSED TO ONC IN DECEMBER 1989 AS AN ADVANCE WHICH IS STILL OUTSTANDING PENDING JUSTIFICATION OF APPROPRIATE AND DOCUMENTED COSTS INCURRED IN CONNECTION WITH THE RECEIPT, STORAGE AND SALE OF THE COMMODITIES UNDER THE 1989 TRANSFER AUTHORIZATION. AN AID-FUNDED INDEPENDENT FINANCIAL REVIEW OF ONC TO ASCERTAIN THOSE COSTS HAS BEEN INITIATED.

3. "THE PL480 PROGRAMS IN CHAD AND THE DISBURSEMENTS OF RELATED LOCAL CURRENCY HAVE NEVER BEEN AUDITED AND; DISBURSEMENTS TO PVO'S, CONTRACTORS AND INTERNATIONAL ORGANIZATIONS HAVE ADEQUATE AUDIT COVERAGE"

THESE STATEMENTS ARE CONTRADICTORY.

WITH REGARDS TO YOUR AUDIT RECOMMENDATION NO.2:"

USAID/CHAD DOES NOT CONCUR WITH AUDIT RECOMMENDATION NO.2.1 SINCE THE MISSION DOES NOT BELIEVE IT WOULD BE COST-EFFECTIVE AT THIS TIME TO AUDIT THE GENERATION OF LOCAL CURRENCY FUNDS UNDER THE 1989 TRANSFER AUTHORIZATION NOR THE USE OF FUNDS BY ONC FOR COSTS RELATED TO THE SAME ACTIVITIES (RECEIPT, STORAGE AND SALE) GIVEN THE LEVEL OF OVERSIGHT PERFORMED BY MISSION DURING THAT ACTIVITY. THE MISSION IS AWARE OF THE LIMITED MANAGEMENT CAPABILITIES OF THE ONC AND BELIEVES AN AUDIT WOULD ONLY CONFIRM THAT CONTINUED OVERSIGHT BY THE MISSION AT EQUALLY INTENSIVE LEVELS IS WARRANTED FOR ACTIVITIES UNDER THE UPCOMING PL480 TITLE III PROGRAM.

IN COMPLIANCE WITH THE NEW, SUPPLEMENTAL AGENCY GUIDANCE EFFECTIVE JULY 1, 1991 AND AUDIT RECOMMENDATION NO.2.2*** THE CONTROLLER HAS EXPANDED MISSION INTERNAL FINANCIAL REPORTS TO INCLUDE ALL NECESSARY INFORMATION TO PROPERLY TRACK AUDITS. END QUOTE. REGARDS. BOGOSIAN

BT
#5308

*Now Recommendation No. 1
**Now Recommendation No. 1.1
***Now Recommendation No. 1.2

**REPORT ON
INTERNAL CONTROLS**

Scope

We conducted our audit in accordance with generally accepted government auditing standards, which require that we (1) assess the applicable internal controls to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment to those internal controls applicable to the four audit objectives and therefore do not provide assurance on OAR/Chad's overall internal control structure.

We classified significant internal control policies and procedures applicable to each audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures, determined whether they were in operation and then assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

Background

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget's implementing policies, A.I.D.'s management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls. The objectives of internal controls and procedures for U.S. Government foreign assistance are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

This objective concerns whether project papers include assessments of the need for audits and whether project agreements budget funds for audits when required. We considered the applicable internal control policies and procedures cited in A.I.D. Policy Verification Statement No. 6 and the General Accounting Office "Standards for Internal Controls in the Federal Government."

We have classified the relevant policies and procedures into one category: project planning and budgeting process. Our tests showed that internal controls were satisfactory.

Conclusions for Audit Objective Two

This audit objective relates to whether audit clauses are included in project agreements, cooperative agreements and contracts. We considered the applicable internal control policies and procedures cited in A.I.D. Handbook 3, Chapter 6; A.I.D. Handbook 13, Chapter 4; and the General Accounting Office "Standards for Internal Controls in the Federal Government."

We have classified the relevant policies and procedures into one category: contract and agreement preparation process. Our tests showed that controls were satisfactory

Conclusions for Audit Objective Three

This audit objective relates to whether required audits and preaward surveys (or financial reviews) are performed. We considered the applicable internal control policies and procedures cited in A.I.D. Handbooks 3 and 13; A.I.D. Supplemental Guidance on Programming and Managing Local Currency; and the General Accounting Office "Standards for Internal Controls in the Federal Government."

We have classified the relevant policies and procedures into two categories: program audit process and preaward survey (or financial review) process.

We reviewed OAR/Chad's internal controls relating to the project audit process and required audits and preaward survey/financial review process and our tests showed that the controls were satisfactory except that the Mission did not establish a tracking system to monitor compliance with audit requirements for its P.L. 480 programs. OAR/Chad has identified this weakness in its 1990 Internal Control Assessment, as required under the Financial Managers' Integrity Act.

Conclusions for Audit Objective Four

This audit objective relates to resolving and implementing audit report recommendations. We considered the applicable internal control policies and procedures cited in the A.I.D.'s Office of the Inspector General/Audit Handbook, Part I, Chapter 9 and Part II, Chapter 4 and the General Accounting Office "Standards for Internal Controls in the Federal Government."

We have classified the relevant policies and procedures into one category: follow-up on audit report recommendations process. Our tests showed that the controls were satisfactory.

**REPORT ON
COMPLIANCE**

Scope

We conducted our audit in accordance with generally accepted government auditing standards, which require that we (1) assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and (2) report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested OAR/Chad's compliance with Office of Management and Budget (OMB) Circular Nos. A-73, A-133 and A-50 to the extent that they relate to our audit objectives. However, our objective was not to provide an opinion on OAR/Chad's compliance with all provisions of these circulars.

Background

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of laws and regulations but nevertheless violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with OMB Circular Nos. A-73, A-133 and A-50 is the overall responsibility of OAR/Chad's management.

Conclusions on Compliance

Our tests showed that OAR/Chad complied with applicable sections of OMB Circular Nos. A-73, A-133 and A-50 except that it did not provide adequate audit coverage of the Public Law 480 program (see page 6).

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