



memorandum

Regional Inspector General
Pretoria

DATE: June 19, 2000

TO: Director, USAID/ Malawi, Kiertisak Toh

FROM: Regional Inspector General/ Pretoria, Joseph Farinella

SUBJECT: Audit of the Accuracy of USAID/ Malawi's Recipient Audit
Universe, Report Number 4- 612- 00- 009- P

This is the final report on the subject audit. We received your comments to our draft report and included those comments as Appendix II to this report.

This report contains four recommendations. Please advise this office within 30 days of your planned actions to address the audit recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

Financial audits of contracts and grants are a primary basis for effective management and control of USAID's program expenditures. These audits are designed to provide Agency management reasonable assurance that transactions are properly recorded and accounted for; laws and regulations, and provisions of contract or grant agreements are complied with; and USAID financed funds, property and other assets are safeguarded against unauthorized use or disposition.

In response to Congressional concerns, USAID has taken an active role in recent years using audits as a management tool to improve financial accountability of its programs. During 1991 and 1992, the Agency revised its standard provisions for its contracts and grants, requiring annual audits of non- U.S. organizations disbursing USAID funds of \$25,000 or more. The threshold was increased to \$100,000 in May 1994 and to \$300,000 in July 1998.

Furthermore, in April 1992, USAID issued a General Notice, defining the role of USAID missions in obtaining audits of their contracts, grants and cooperative agreements with non- U.S. organizations.

In May 1996, these requirements were incorporated into chapter 591 of USAID's Automated Directives System (ADS) which, among other things, requires USAID missions to (i) establish an audit management program; (ii) maintain an audit inventory database; and (iii) have audits done for non- U.S. grants, contracts and cooperative agreements that meet the audit threshold.

These initiatives are of far reaching consequence in preventing misuse of USAID development funds and facilitating timely corrective actions by the Agency. Lack of adequate audit coverage constitutes an unacceptable risk because, without such a control mechanism, financial accountability of program expenditures cannot be reasonably assured.

In March 1995, the Office of Inspector General (OIG) issued Audit Report No. 03- 95- 009 on USAID's implementation of the Agency's 1992 initiative to improve the financial management of its programs.

The report concluded that most missions had implemented the general requirements of the financial audit management program and established audit inventory databases. However, complete coverage was impaired as a result of obstacles arising from host government restrictions and local audit firm capabilities.

In March 1998, the OIG issued Audit Report No. 3- 000- 98- 002- F on USAID missions' roles in obtaining audits of their contracts, grants, and cooperative agreements. The report concluded that 11 of the 14 USAID missions selected Agency- wide generally obtained audits of their contracts, grants, and cooperative agreements as required by ADS chapter 591. However, a significant number of required audits were not completed at 10 of the audited 14 USAID missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit universe worldwide over a period of three years because lack of audit coverage was perceived as a high-risk area. Accordingly, RIG/ Pretoria included this audit in its fiscal year 2000 audit plan.

Audit Objective

RIG Pretoria performed this audit to verify the accuracy of the recipient contracted audit universe at selected USAID Africa Bureau Missions. The audit objective follows:

Is USAID/ Malawi's audit universe accurate and were required audits conducted in a timely manner?

The audit scope and methodology are described in Appendix I.

Audit Findings

The audit showed that USAID/ Malawi developed an accurate audit universe. However, required audits were not always conducted in a timely manner.

As of February 29, 2000, USAID Malawi disbursed approximately \$92.5 million to 57 U.S. organizations, 10 non- U.S. organizations and 2 International private voluntary organizations. The table below provides a breakdown of these disbursements by type of agreement and by number and type of recipients:

Type of Agreement	U.S.		Non- U.S.		International PVO		Total	
	Disbursements and No. Of Recipients		Disbursements and No. Of Recipients		Disbursements and No. Of Recipients		Disbursements and No. Of Recipients	
Contract	\$42,955,489	28	-	-	-	-	\$42,955,489	28
Grant	27,104,878	14	\$2,402,106	8	\$7,371,581	2	36,878,565	24
Cooperative Agreement	12,709,325	15	0	2	-	-	12,709,325	17
TOTAL	\$82,769,692	57	\$2,402,106	10	\$7,371,581	2	\$92,543,379	69

From the above table, we determined (as of February 29, 2000) that of the 10 non- U.S. grant and agreement recipients listed only 4 with total disbursements of \$2,287,722 were subject to audit coverage for the years 1997, 1998 and 1999. The other 6 non- U.S. recipients consisted of newly awarded grants or agreements which were not yet subject to an audit or awards that fell below the audit threshold of \$100,000.

We ascertained that all 10 recipients were included in the Mission's audit database inventory, and that the Mission took several actions to implement an audit management program in accordance with the requirements of ADS Chapter 591 which included:

- establishing a Management Control Review Committee to monitor the status of the Mission's audit program and to assure that its audit responsibilities were carried out;
- designating an audit management officer to coordinate and monitor the Mission's financial audit program and follow up on implementation of recipient- contracted audit recommendations;
- including required audit clauses in its grants and contracts and budgeting funds for audits; and
- maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits and to track such audits.

**Audit Coverage
Needs Improvement**

Chapter 591 of USAID's Automated Directives System requires overseas missions to establish an audit management system and obtain audits of its non- U.S. grantees and contractors. Among other things, Missions should establish operational guidance, assign audit management responsibilities, develop an annual audit plan, and maintain appropriate audit inventory and tracking systems to facilitate audits of awards to non- U.S. recipients in accordance with U.S. government auditing standards. In addition, USAID's 'Guidelines for Financial Audits Contracted by Foreign Recipients' states that reports resulting from these audits are to be submitted to the cognizant OIG audit office within 9 months (previously within 13 months) after the recipient's fiscal year- end for review and release.

While the Mission maintained an automated audit inventory system, monitoring and report handling were not adequate to ensure that required audits were completed in a timely manner. The Mission's financial records showed that 4 non- U.S. recipients received a total of \$2,287,722 in cumulative disbursements from October 1, 1996 through February 29, 2000 that triggered thresholds requiring audits for the years 1997, 1998 and 1999. For these four recipients, we found that:

- Under one grant (No. 612- G 00- 95- 00346), the Mission had two current audit reports on file for the periods ending September 30, 1997 and 1998, neither of which had been forwarded to the Regional Inspector General in Pretoria (RIG/ Pretoria) for review. These audit reports were subsequently forwarded to RIG/ Pretoria at the conclusion of this audit's fieldwork.
- Under another grant (No. 612- O 00- 99- 00173), the first audit for the period May 29, 1992 through June 30, 1997 was being completed at the time of this audit's fieldwork.
- Under two limited scope grant agreements with the Government of Malawi (Nos. LSGA- 95- G612- 0243.01 and LSGA 97- G 612- 0243.03), the Mission had an alternative procedure in place in lieu of the audit to ensure proper accountability of USAID funds. (The Mission chose to review all payment vouchers until such time that the Auditor General of Malawi is capable of auditing USAID- funded programs with government entities).

The above conditions occurred primarily because the Mission's audit inventory data base system did not include two important data elements which would be useful to identify and expedite audits: (1) dates when audits are to be scheduled; and (2) dates when audit reports are due from each recipient. Also, although there was a Mission Order in place dealing with audit policy and procedures, it was not explicit as to the requirements for audit monitoring and report handling and disposition procedures. For example, the Mission Order was silent on the requirement that all recipient- contracted audit reports are to be submitted to the cognizant OIG office within a prescribed time period for review.

Without complete recipient- contracted audit coverage, USAID Malawi did not have adequate assurance that audits for two of its four non- U.S. recipients were conducted in accordance with USAID requirements, or that USAID disbursements of \$1.6 million were supported and eligible under the terms of the agreements. Therefore, the Mission needs to take more aggressive action to facilitate timely and complete audit coverage of its non- U.S. recipients.

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

- 1.1 include in its audit inventory database a schedule of when required audits are to commence, and dates when the audit reports are due from the recipients;**
- 1.2 revise its Mission Order on Audit Policy and Procedures to include explicit recipient-contracted audit monitoring and report handling and disposition procedures;**
- 1.3 implement a plan of action to obtain a current audit of its non-U.S. recipient under Grant Number 612-O-00-99-00173 that was required to be audited; and**
- 1.4 submit the audit reports for Grant Number 612-G-00-95-00346 for the periods ending September 30, 1997 and 1998 to the Regional Inspector General in Pretoria for review.**

Management Comments and Our Evaluation

In its response to our draft audit report, the Mission agreed with the finding and recommendations contained in the report. In addition, the Mission stated that it had already either initiated or completed action on the recommendations. Based on this action, a management decision was reached on Recommendation Nos. 1.1, 1.2, 1.3 & 1.4 upon issuance of this report. USAID's Office of Management Planning and Innovation [MMPI] should be advised for final action on the recommendations.

The Mission's comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The audit was performed in accordance with generally accepted government auditing standards and assessed whether (1) USAID Malawi's audit universe was complete and accurate, and (2) required audits were done in a timely manner.

The OIG conducted a 'Worldwide Audit of Selected Missions' Role in Obtaining Audits of Their Contracts, Grants and Cooperative Agreements (Report No. 9- 000- 98- 002- F, March 20,1998). That report considered recipient financial audits which had been completed as of October 31, 1996. For the purposes of this audit, we obtained information on audits completed from October 1, 1996 through February 29, 2000.

Fieldwork was performed at USAID Malawi in Lilongwe, Malawi from March 6 through March 9, 2000 and covered approximately \$2.4 million of USAID disbursements to non- U.S. based organizations. The audit scope included:

- (1) reviewing the Mission's audit management program and related documents,
- (2) interviewing cognizant Mission officials, and
- (3) reviewing the Mission's automated database universe of contracts, grants, and cooperative agreements and identifying those that require audits

In addition, we obtained information on (1) total disbursements for all grants, contracts and cooperative agreements (U. S. and non- U.S.) as of February 29, 2000 and, (2) the number and amount of grants, contracts and cooperative agreements falling below the audit threshold of \$300,000 to obtain a complete picture of the Mission's portfolio.

The audit criteria was principally comprised of Chapter 591 of USAID's Automated Directives System (ADS) and the OIG's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines), revised in July 1998.

Methodology

The methodology included (1) reviewing the Mission's audit inventory database system to determine if it contains the information needed to monitor and track required audits, and (2) examining documentation and (3) conducting interviews with cognizant officials to determine whether the Mission has met its responsibilities established by ADS Chapter 591 and the Guidelines.

To answer our audit objective, we obtained the universe of USAID Malawi's grants, contracts and cooperative agreements and determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit coverage at February 29, 2000. The above information was obtained from the Mission's contract files and the Mission Accounting and Control System (MACS) database. We then ascertained whether: (1) such agreements were included in the Mission's audit database inventory, (2) required audits were completed on a timely basis, (3) audit reports were prepared in accordance with USAID's guidelines and sent to RIG/ Pretoria for desk review, and the (4) agreements contained the required audit clauses.

We did not audit the Mission's MACS database system because of time constraints and because it was not directly relevant to our audit objective. Also, because of the small size of the audit universe, we did not use a materiality threshold and considered even one exception as significant for reporting purposes.



United States Agency for International Development

MEMORANDUM

To: Joseph Farinella, Regional Inspector General, Pretoria
From: Kiertisak Toh, Mission Director, USAID/Malawi *KST*
Date: May 30, 2000
Subject: Audit of USAID/Malawi Recipient Audit Universe
Report Number 4-612-00-0xx-P

We have received the subject draft report and agree with the recommendations. In order to close the recommendations, the mission has taken the following actions:

RECOMMENDATION 1.1

We recommend that USAID/Malawi include in its audit inventory database a schedule of when required audits are to commence, and dates when the audit reports are due from recipients.

MISSION ACTION

Mission audit inventory database was modified on March 09, 2000 to reflect dates when the audits are required and due from recipients.

RECOMMENDATION 1.2

We recommend that USAID/Malawi revise its Mission Order on Audit Policy and Procedures to include explicit recipient-contracted audit monitoring and report handling and disposition procedures.

MISSION ACTION

The current Mission Order on Audit Management Resolution Program has been updated and includes explicit procedures on monitoring, report handling and disposition for recipient-contracted audits.

RECOMMENDATION 1.3

We recommend that USAID/Malawi implement a plan of action to obtain a current audit of its non-U.S. recipient under Grant Number 612-O-00-99-00173 that was required to be audited.

Office of the Mission Director

MISSION ACTION

The audit report covering the period April 1994 through March 1997 for subject grant was finalized and submitted to mission. Mission will forward the report to RIG/Pretoria for review by June 01, 2000. Audit work covering the period April 1997 through September 30, 1998 is currently in progress (entrance conference was held on May 26, 2000).

RECOMMENDATION 1.4

We recommend that USAID/Malawi submit the audit reports for Grant Number 612-G-00-95-00346 for the periods ending September 30, 1997 and 1998 to the Regional Inspector General in Pretoria for review.

MISSION ACTION

Audit reports for the subject grant number for the years ending September 30, 1997 and 1998 were submitted to the Regional Inspector General in Pretoria in early 1998 and on March 08, 2000 respectively. The audit report for September 30, 1998 was resubmitted on May 18, 2000 with mission comments after Pretoria had advised of their observations.

Based on the above Mission Actions, RIG/Pretoria is requested to make a determination at the time of issuing the final audit report that the management decision has been reached on the audit recommendations.