



Regional Inspector General
Pretoria

memorandum

DATE: August 11 , 2000

TO: Mission Director, USAID/Uganda, Dawn Liberi

FROM: Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Audit of the Accuracy of USAID/Uganda's Recipient Audit Universe, Report Number 4-617-00-010-P

This is the final report on the subject audit. We received your comments to our draft report and included them in their entirety in Appendix II of this report. The report contains one recommendation on which USAID Uganda has taken action. Therefore, a management decision and final action has been reached upon report issuance.

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.

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.

In addition, USAID issued a General Notice in April 1992 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 an audit report on USAID's implementation of the Agency's 1992 initiative to improve the financial management of its programs (Report No. 03-000-95-009). 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 a report on USAID missions' roles in obtaining audits of their contracts, grants and cooperative agreements (Report No. 9-000-98-002-F). The report concluded that 11 of the 14 selected USAID missions 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 those 14 Missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit universe over a three-year period because lack of audit coverage was perceived as a high-risk area.

Audit Objective

As part of our FY 2000-audit plan, RIG/Pretoria performed this audit to answer the following question:

Is USAID/Uganda's audit universe accurate and complete 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/Uganda developed and maintained an audit universe that was accurate and complete. However, required audits were not conducted in a timely manner. As of September 30, 1999, USAID/Uganda had disbursed \$11,741,620 to 21 U.S., 20 non-U.S. (Ugandan), and 7 international organizations. The table below provides a breakdown of these disbursements by recipient and type of agreement:

Type of Agreement	U.S. Organizations		Non-U.S. Organizations		International Organizations		Total	
	Disbursements	No. Of Recipients	Disbursements	No. Of Recipients	Disbursements	No. Of Recipients	Disbursements	No. Of Recipients
Contracts	\$5,440,687	7	0	0	0	0	\$5,440,687	7
Grants	572,223	7	942,954	10	235,316	6	1,750,493	23
Cooperative Agreements	1,618,651	7	2,402,499	6	0	1	4,021,150	14
Others	0	0	529,290	4	0	0	529,290	4
TOTALS	\$7,631,561	21	3,874,743	20	235,316	7	\$11,741,620	48

These findings are discussed below in detail.

Mission Has Established an Audit Management System and Developed an Accurate Audit Universe

USAID/Uganda took the following actions to implement an audit management system in accordance with the requirements of ADS Chapter 591 which included:

- issuing Mission Orders to provide mission-specific guidance for the audit management program, which included detailed guidance to evaluate the control environment and perform risk assessments of non-U.S. organizations;
- 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 and budgeting funds for audits; and
- maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits, tracking such audits, and following up on the resolution of audit recommendations resulting from such audits.

In addition, as part of its reporting requirements under the Federal Managers' Financial Integrity Act of 1982, USAID/Uganda directed an evaluation of its system of management controls in effect during the fiscal year ended September 30, 1999, which included a review of its audit management system.

The aforementioned actions enabled the Mission to develop an audit universe that was accurate and reliable. However, as discussed below, required audits were generally not completed in a timely manner.

Mission Needs to Ensure Timely Completion of Required Audits

ADS Chapter 591 requires audits to be completed and reports to be submitted to USAID within nine months from the end of the recipient's fiscal year. Audits must be done if disbursements made by USAID to the recipient equal or exceed \$300,000 during the recipient's fiscal year.

Based on the above criteria, we identified five non-U.S. recipients who needed to have audits. USAID disbursements to these organizations during their most recent fiscal years amounted to \$3,150,800. Although audits have been initiated for all five recipients, none have been completed to date. For three of those recipients, the nine-month reporting deadline will not be met when the final audit reports are submitted. In the case of one recipient, audits have not been completed for two fiscal years in a row and costs questioned by the auditors for the two fiscal years total approximately \$287,238. However, unless the reports are finalized, the Mission will not be in a position to assess the allowability of these questioned costs and collect amounts determined as unallowable.

According to Mission officials, the audits were not completed because: (1) recipient organizations are often late in initiating the audits, (2) lack of adequate accounting records which holds up or slows down audit completion and, (3) management problems within the recipient organization.

Consequently, without timely completion of audits, USAID/Uganda will not be able to take prompt corrective actions to address questioned costs and management control deficiencies of recipient organizations. Moreover, the Mission now lacks reasonable assurance if the disbursements made by USAID (in this case, approximately \$3.1 million) to five non-U.S.

organizations were used for their intended purposes.

Recommendation No. 1: We recommend that USAID/Uganda develop and implement an action plan to ensure that required non-federal audits are initiated in a timely manner and completed within the time frames established by USAID's guidelines on financial audits.

Management Comments and Our Evaluation

The Mission concurred with the audit finding and recommendation. The Mission developed and implemented an action plan as recommended. In its response to the draft report, the Mission described the action plan it has implemented to ensure timely audit action in the future and the status of its FY 00 audit plan. Based on the action taken, a management decision and final action has been reached on Recommendation No. 1.

The complete text of management comments is included as Appendix II.

SCOPE AND METHODOLOGY

Scope

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

In an earlier USAID-wide audit titled "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, the OIG provided coverage over recipient financial audits which had been completed as of October 31, 1996. Therefore, we obtained information on audits completed after that date.

Field work was performed at USAID/Uganda in Kampala, Uganda from March 22 through March 29, 2000 and covered approximately \$3.87 million in USAID disbursements during fiscal year ended September 30, 1999. 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 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.) for the recipients' latest fiscal year corresponding (as close as possible) to USAID's fiscal year ended September 30, 1999 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), July 1998 edition.

Methodology

The methodology included (1) reviewing the Mission's audit inventory database system to determine if it contains the information needed to identify and track required audits, (2) examining appropriate 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/Uganda'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 September 30, 1999. 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 (4) the agreements contained the required audit clauses.

We did not audit USAID/Uganda'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 our audit universe, we did not use a materiality threshold and considered even one exception as significant for reporting purposes.



memorandum

DATE: July 24, 2000

TO: Joseph Farinella, RIG/Pretoria

FROM: Dawn Liberi, Mission Director/USAID/Uganda 

SUBJECT: **Audit of the Accuracy of USAID/Uganda's Recipient Audit Universe, Report Number 4-617-00-0XX-P**

Mission is in receipt of RIG's subject draft report, electronically received by the Mission Director on June 20, 2000.

The audit showed that USAID/Uganda has in place an audit universe that is accurate and complete. However, required audits for Fiscal Year 2000 (FY00) were found not to be conducted in a timely manner. Consequently, the following recommendation is made:

Recommendation No. 1: We recommend that USAID/Uganda develop and implement an action plan to ensure that required non-federal audits are initiated in a timely manner and completed within the time frames established by USAID's guidelines on financial audits.

Mission concurs with the RIG's audit finding and recommendation. In this respect, Mission has already developed and implemented an action plan in order to ensure that required non-federal audits are contracted, initiated and completed by recipients in a timely manner, in accordance with USAID guidelines. Thus, we hereby request that recommendation No.1 be closed upon issuance of your report. Following is a description of the implemented action plan that will ensure timely audit action in the future and the status of the Fiscal Year 2000 (FY00) audit plan:

A. Action Plan:

- Early Audit Contracting Action Initiated by Recipient:** For those recipients found, or expected, to exceed the audit threshold during their fiscal year, USAID/Uganda will request recipients to initiate audit contracting action 3 months prior to the end of their fiscal year. For this purpose, a written reminder along with a sample scope of work and list of RIG approved audit firms will be sent by USAID/Uganda to the recipient.
- Contract Approval:** Recipients will be required to submit to USAID/Uganda the draft audit contract for approval no later than 30 days after the end of their fiscal year.
- Internal Reporting:** A quarterly status report of the audit plan will be produced by the Mission's Financial Management Office. The report will be submitted to the Mission's Management Control Review Committee (MCRC) for review and recommendation on actions required, if any.
- Training:** Mission will coordinate with RIG/Pretoria for the implementation of a training session on the Recipient Contracted Audit Guidelines for all affected recipients and

participating local audit firms.

5. **Audit Management Awareness:** Audit management support will be more closely integrated with activity management by having Controller Office staff become more active within the Mission's Strategic Objective Teams.

Mission believes that by including the additional measures noted above in its audit procedures, the required non-federal audits are more likely to be initiated in a timely manner and completed within the time frames established by USAID's guidelines on financial audits. USAID/Uganda appreciates RIG's constructive advice and comments during the course of the audit of the accuracy of its recipient audit universe.

B. Status of FY00 Audit Plan:

The FY00 audit plan identified five non-U.S. recipients who were required to have audits conducted. Final audit reports for three of the institutions are expected by the end of July 2000, a fourth one should be submitted by the end of August and the last one by the end of September 2000 (see detail below).

**STATUS OF FY00 AUDITS
AS AT 06/30/00**

<u>GRANTEE NAME</u>	<u>FY END DATE</u>	<u>AUDIT DUE DATE</u>	<u>FIELD WORK COMPLETED</u>	<u>FINAL REPORT EXPECTED DATE</u>
AIDS Information Centre	6/30/99	3/31/00	YES	8/31/00
FOCCAS	9/30/99	6/30/00	YES	7/31/00
Cooperative Bank	5/31/99	2/29/00	YES	7/31/00
The AIDS Support Org.	12/31/99	9/30/00	In process	9/30/00
UWEC *	6/30/99	3/31/00	YES	7/24/00

* Uganda Wildlife Education Centre