



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/SOUTHERN AFRICA'S AUDIT MANAGEMENT PROGRAM

AUDIT REPORT NO. 4-674-09-003-P
JANUARY 29, 2009

PRETORIA, SOUTH AFRICA



January 29, 2009

MEMORANDUM

TO: USAID/Southern Africa, Mission Director, Carleene Dei

FROM: Regional Inspector General/Pretoria, Nathan S. Lokos /s/

SUBJECT: Audit of USAID/Southern Africa's Audit Management Program
(Report No. 4-674-09-003-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 in appendix II.

The report includes seven recommendations to strengthen USAID/Southern Africa's audit management program. In response to the draft report, the mission agreed with all seven recommendations and included corrective action plans and target completion dates. Therefore, we consider that management decisions have been reached for recommendation numbers 1 through 6. A management decision has not been reached for recommendation no. 7 as discussed in the report.

Please provide my office written notice within 30 days of any additional information related to the actions planned or taken to implement recommendation no. 7. In addition, please provide USAID's Office of Audit, Performance and Compliance Division (M/CFO/APC) with the necessary documentation demonstrating that final action has been taken on recommendation numbers 1 through 6.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

CONTENTS

| | |
|--|----|
| Summary of Results | 1 |
| Background | 2 |
| Audit Objectives | 3 |
| Audit Findings | 4 |
| Is USAID/Southern Africa properly implementing its reviews of questioned costs identified in financial audits of its recipients? | 4 |
| Due Diligence Was Not Followed in Allowing \$461,969 in Questioned Costs | 4 |
| Documents Supporting Management Decisions Were Not Always Readily Available..... | 6 |
| Has USAID/Southern Africa implemented its audit management program to address the weaknesses identified in Audit Report No. 4-674-06-006-P?..... | 7 |
| Not all Required Audits Have Been Completed..... | 8 |
| Evaluation of Management Comments | 10 |
| Appendix I – Scope and Methodology | 12 |
| Appendix II – Management Comments | 14 |
| Appendix III – List of Delinquent Audits as of December 31, 2008 | 18 |

SUMMARY OF RESULTS

The Regional Inspector General/Pretoria (RIG/Pretoria) performed this audit to determine whether (1) USAID/Southern Africa properly implemented its reviews of questioned costs identified in financial audits of its recipients, and (2) whether the mission corrected the problems identified in the *Audit of USAID/South Africa's Compliance with Financial Audit Requirements Regarding Foreign Recipients*¹ (see page 3).

In general, USAID/Southern Africa contracting officers are properly implementing management reviews of questioned costs identified in financial audits of USAID recipients. However, the audit identified areas where such reviews could be strengthened, including an instance where due diligence was not performed in reaching a management decision and the fact that documents supporting management decisions were not always readily available. To address these problems and strengthen these areas, RIG/Pretoria recommended that USAID/Southern Africa (1) formulate policies and procedures to help ensure that due diligence is exercised in making management decisions, (2) develop and implement a plan to periodically assess a sample of management decisions to ensure that due diligence is exercised in making those decisions, (3) require that contract and agreement officers maintain timely and sufficient documentation in the official files, and (4) incorporate into the official agreement files all documentation relevant to management decisions reviewed in this audit (see pages 4 to 7).

The audit also found that the mission had taken action to address the problems identified in the previous audit report. However, several audits were still delinquent, including five which were delinquent since December 31, 2005. To help USAID/Southern Africa address the issue of delinquent audits, RIG/Pretoria recommended that the mission (1) educate its cognizant technical officers and its recipients concerning USAID's audit requirements and their roles in the audit process, techniques for expediting audits, and their need to monitor audits; (2) provide the mission director with a monthly report that reflects the implementation of the mission's audit plan; and (3) obtain and submit all delinquent audits (see pages 7 to 9).

The mission agreed with the audit report's recommendation and has reached a management decision on recommendation nos. 1 through 6. For recommendation no. 7, to obtain and submit all delinquent audit reports, a management decision can be reached when the mission provides a target date for submitting all delinquent audits to RIG/Pretoria (see pages 10 and 11).

¹ Audit Report No. 4-674-06-006-P, issued March 30, 2006.

BACKGROUND

USAID administers most of its foreign assistance programs by awarding contracts, grants, and cooperative agreements to U.S.-based and foreign organizations. 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. ADS 591 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 may be performed of foreign for-profit organizations performing under direct awards or cost-reimbursable host country contracts and subcontracts.² To ensure that such audits are performed in a timely and acceptable manner, missions are required to develop annual audit plans. These audit plans 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.

When financial audits of USAID recipients contain recommendations regarding questioned costs, the cognizant contract or grant officer is responsible for making a determination regarding the allowability of those costs. Questioned costs that are deemed unallowable either must be recovered from the recipient or a legal basis for nonrecovery must be established.

OIG had previously conducted an audit of the mission's audit management program.³ That audit identified areas where the mission's audit management program could be strengthened and contained recommendations for the mission to address.

For the period October 1, 2006, through February 28, 2008, the mission's financial audits included approximately \$17.3 million in questioned costs. Subsequent management decisions made by USAID/Southern Africa contracting officers sustained approximately \$2.5 million of the originally questioned costs.

² According to 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; the results of these risk assessments must be shared with the cognizant RIG office.

³ *Audit of USAID/South Africa's Compliance with Financial Audit Requirements Regarding Foreign Recipients*, Audit Report No. 4-674-06-006-P, dated March 30, 2006.

AUDIT OBJECTIVES

The Office of Inspector General conducted this audit as part of its fiscal year (FY) 2008 audit plan to answer the following questions:

- Is USAID/Southern Africa properly implementing its reviews of questioned costs identified in financial audits of its recipients?
- Has USAID/Southern Africa implemented its audit management program to address the weaknesses identified in Audit Report No. 4-674-06-006-P?

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

AUDIT FINDINGS

Is USAID/Southern Africa properly implementing its reviews of questioned costs identified in financial audits of its recipients?

In general, USAID/Southern Africa contracting officers are properly implementing management reviews of questioned costs identified in financial audits of USAID recipients. Overall, the mission's contracting officers have developed a thorough system for reviewing questioned costs. For example, the audit determined that, for the most part:

- Decisions to allow or disallow questioned costs were properly analyzed and supported by documentation of the work performed.
- Contract files supporting management decisions contained necessary documentation.
- Management decisions were detailed, well documented, and complete (for 7 of 10 audits reviewed).

While the Office of Acquisition and Assistance was generally effective in determining the allowability of questioned costs, the audit team noted some areas where the process of making management decisions could be strengthened. These issues are discussed in detail below.

Due Diligence Was Not Followed in Allowing \$461,969 in Questioned Costs

Summary: Federal contracting officers are responsible for ensuring compliance with contract terms and safeguarding the interest of the U.S. Government. Nevertheless, one contracting/agreement officer did not exercise due diligence in making a management decision allowing \$461,969 in questioned costs. This situation arose from a variety of factors, including a faulty assumption on the part of the agreement officer. As a result, the recipient's compliance with agreement terms was not ensured, and the interests of the U.S. Government were not safeguarded.

Contracting officers play a significant role in U.S. Government contracting. They have the authority to enter into, administer, or terminate contracts and make related determinations and findings.⁴ They also are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. At the same time, contracting officers must also ensure that contractors receive impartial, fair, and equitable treatment.⁵ Similarly, although it is not explicitly stated in the Automated Directives System (ADS), it would be a best practice for

⁴ Federal Acquisition Regulation (FAR) 1.602-1(a)

⁵ FAR 1.602-2

agreement officers⁶ who execute grants and cooperative agreements to have parallel responsibilities for ensuring compliance with the terms of the agreement, safeguarding the interests of the United States and ensuring that recipients receive impartial, fair, and equitable treatment.

While the audit determined that 9 of 10 sampled management decisions were well researched and supported, the support for the remaining management decision did not convincingly demonstrate that the recipient had complied with the terms of the agreement and that the interests of the United States had been safeguarded. In fact, there was no documentation regarding this management decision in the mission's files other than the decision memorandum itself. In allowing the entire \$461,969 in questioned costs, the agreement officer's memorandum simply noted that the recipient had completed all of the activities; that 4½ years had passed since the completion of the agreement; and that no fraud, mismanagement, or abuse had been reported. Discussions with the agreement officer, the supporting financial analyst, and a representative from the technical office revealed that no effort had been made to contact the recipient or to discuss the audit results with recipient management.

After these discussions with mission staff, the audit team called the recipient's director of finance, who indicated that no one from USAID had contacted the organization in relation to the financial audit since September 2006. The director was puzzled by the suggestion on the part of one mission official that it would be "fruitless" to contact the recipient because it was unlikely that relevant recipient records and personnel would be available. This would clearly not be the case, since—according to the director—the organization was not only as big as ever, but was expanding to accommodate all of its employees and programs. In addition, the director noted that the organization had continued to work as a subrecipient on USAID agreements with large U.S.-based recipients. Finally, the director indicated that he had supporting documentation available.

In fulfilling their responsibility to ensure compliance with agreement terms and safeguard the interests of the U.S. Government, it is important that contract and agreement officers exercise due diligence in pursuing the information necessary to make an informed decision. In fact, the FAR considers this so important that it stipulates that the contracting officer shall not resolve any questioned costs without obtaining adequate documentation on the costs and the contract auditor's opinion on the allowability of the costs.⁷

Although the agreement officer who allowed the \$461,969 in questioned costs had the authority to determine whether those costs would be allowed, he did not, in the audit team's opinion, exercise the due diligence necessary to (1) determine whether the recipient had complied with agreement terms and (2) safeguard the interests of the U.S. Government in this contractual relationship. This situation arose primarily because of the agreement officer's assumption that the recipient would no longer have relevant records and that the recipient personnel involved would no longer be available.

⁶ Contracting officers have the authority to enter into, administer, or terminate contracts and make related determinations and findings. Agreement officers have similar authority in relation to grants and cooperative agreements.

⁷ FAR 42.705-1(b)(4)(i)

However, as indicated by the comments made by the recipient's director of finance, this assumption was not necessarily correct.

Additional contributing factors included that the agreement officer did not have a full appreciation of the burden placed on him to safeguard the U.S. Government's interest and that there was a lack of oversight ensuring that due diligence was exercised.⁸ This audit makes the following recommendation to help ensure that due diligence is exercised in making future management decisions.

Recommendation No. 1: We recommend that USAID/Southern Africa formulate policies and procedures to help ensure that due diligence is exercised in making management decisions, that management decisions are well reasoned and that management decisions are well documented.

Recommendation No. 2: We recommend that USAID/Southern Africa develop and implement a plan to periodically assess a sample of management decisions to ensure that due diligence is exercised in making management decisions, that management decisions are well reasoned and that management decisions are well documented.

Documents Supporting Management Decisions Were Not Always Readily Available

Summary: The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires that all significant events be clearly documented and that the documentation be readily available for examination. Nevertheless, the audit found that some documents supporting the agreement officer's management decisions related to three recipients were stored as emails rather than being maintained in the official files. As a result, USAID/Southern Africa ran the risk of not having complete support for the decisions made on these agreements. This situation arose because the agreement officer had not yet found time to place copies of the relevant emails in the official files.

The GAO's *Standards for Internal Control in the Federal Government* notes that all transactions and other significant events need to be clearly documented, and that the documentation should be readily available for examination. It goes on to say that all documentation and records should be properly managed and maintained. It is especially important to maintain complete documentation in agreement files, because the documentation provides a complete background as a basis for informed decisions, supports actions taken by the contracting/agreement officer, provides information for reviews and investigations, and furnishes essential facts in the event of litigation or congressional inquiries.

⁸ The GAO recently reported that even though the USAID Office of Acquisition and Assistance's Evaluation Division is responsible for providing oversight, it has not provided adequate oversight in recent years and is currently understaffed (GAO Report No. GAO-08-1059). In addition, the audit team noted that the mission had not been conducting reviews of management decisions.

Notwithstanding the above, the audit determined that some documents supporting one agreement officer's management decisions related to three recipients were maintained in the form of emails rather than in the official files. According to the agreement officer, this occurred because she had not yet incorporated those e-mails, some of which date back to July and August 2007, into the official files.

It is important that e-mails and other communications that have bearing on management decisions and other significant events be incorporated into the official files in a timely manner. In the absence of complete official files, the mission may not be able to fully support decisions made on contracts, grants, and cooperative agreements. Moreover, in the event of transition, the absence of complete files may impede the ability of a new contract/agreement officer to properly administer the contract, grant, or cooperative agreement.

The audit makes the following recommendation to address this situation.

Recommendation No. 3: We recommend that USAID/Southern Africa remind its contract and agreement officers of the importance of maintaining timely and sufficient documentation in the official files to provide a complete background as a basis for informed decisions, support actions taken by the contracting/agreement officer, provide information for reviews and investigations, and furnish essential facts in the event of litigation or congressional inquiries.

Recommendation No. 4: We recommend that USAID/Southern Africa ensure that all documentation relevant to management decisions reviewed in this audit be incorporated into the official agreement files.

Has USAID/Southern Africa implemented its audit management program to address the weaknesses identified in Audit Report No. 4-674-06-006-P?

Except for the timely submission of required audit reports to OIG, USAID/Southern Africa has implemented its audit management program to address the weaknesses identified in Audit Report No. 4-674-06-006-P.

USAID/Southern Africa is responsible for developing and executing an audit plan to ensure that required financial audits of recipients are identified, completed and submitted to OIG in a timely manner. In a March 2006 audit report,⁹ OIG determined that the mission:

1. Was not submitting audit reports within the required timeframes.
2. Was not ensuring that a standard statement of work was used in every audit.
3. Was not including awards requiring closeout in its audit plans.

⁹ Audit of USAID/South Africa's Compliance with Financial Audit Requirement Regarding Foreign Recipients, audit report 4-674-06-006-P, dated March 30, 2006.

4. Was not including host country contracts in its inventory of awards and audit plans.

In response to that audit report, the mission took a variety of actions, including implementing and monitoring an audit tracking system, establishing controls to ensure that each audit agreement contains a standard statement of work, and amending the pertinent mission order to require that awards requiring closeout and host country contracts be included in award inventories and annual audit plans. Although the mission's actions addressed points 2 through 4 above, the audit determined that the mission was still not submitting audit reports within the required timeframes, as discussed below.

Not All Required Audits Have Been Completed

Summary: USAID ADS 591, states that USAID missions must submit audit reports of foreign recipients to the cognizant regional inspector general (RIG) no later than 9 months after the end of the recipient's fiscal year. However, USAID/Southern Africa did not submit all the required audits in a timely manner. As of December 31, 2008, a total of 12 required audits had not been submitted to RIG/Pretoria. A number of factors contributed to this situation, including a lack of understanding on the part of recipients, the failure of recipients to contract for an audit in a timely manner, and the relative priority placed on the audit process by USAID cognizant technical officers. As a result, required accountability over U.S. Government funds has not been achieved.

USAID ADS 591.3.2.1 requires that contacting/grant officers ensure that the responsible RIG receives required audits of foreign prime recipients within 9 months after the end of the fiscal year in which the expenditures were incurred. Nevertheless, the audit team found that despite the changes that the mission made in response to the previous audit, 12 audits were still delinquent, including 5 audits that were delinquent as far back as December 31, 2005.¹⁰ These 12 delinquent audits are detailed in appendix III.

According to USAID/Southern Africa's audit management officer, various factors contributed to the delinquency of these audits, including the following:

- A lack of understanding on the part of recipients as to when audits need to be done.
- The failure of the recipient to contract for the audit in a timely manner.
- The relative priority placed by cognizant technical officers on monitoring the recipient audit process.
- Resource limitations at audit firms performing USAID audits.

As a result of these and other factors, the mission was not obtaining all of the required audits in a timely manner and was not in compliance with the applicable ADS

¹⁰ Two of the five delinquent audits were included in OIG's March 2006 audit report (report no. 4-674-06-006-P). Although a recommendation in that report requiring that the mission obtain and submit all delinquent audit reports had received final action, audit fieldwork determined that two of the required delinquent audits had not been done. USAID/Southern Africa first assumed responsibility for the two remaining delinquent audits in October 2007.

requirements. As more time passes after the end of a recipient's fiscal year without conducting an audit, the risk increases that documents, records and personnel vital to the successful completion of such an audit might no longer be available. Finally, failure to complete audits in a timely manner reduces the accountability over funds awarded to recipients. The audit makes the following recommendations to address the issue of delinquent audit reports.

Recommendation No. 5: We recommend that USAID/Southern Africa establish procedures to ensure that all delinquent recipient contracted audits are completed in accordance with USAID policies and procedures, including periodically educating cognizant technical officers and recipients as to (1) USAID's audit requirements and their roles in the audit process, (2) techniques that can be used to expedite the completion of audits, and (3) their need to monitor the audit process.

Recommendation No. 6: We recommend that USAID/Southern Africa establish policies and procedures that provide the mission director with a monthly executive report that reflects the implementation of the mission's audit plan by team, identifies delinquent and potentially delinquent audits, and highlights actions that must be taken to address delinquent and potentially delinquent audits.

Recommendation No. 7: We recommend that USAID/Southern Africa obtain and submit final audit reports for all delinquent audits.

EVALUATION OF MANAGEMENT COMMENTS

In response to the draft report, USAID/Southern Africa agreed with all seven recommendations. An evaluation of the management comments for each recommendation is shown below.

In response to recommendation no. 1, the mission agreed to formulate policies and procedures by April 30, 2009, to help ensure that due diligence is exercised in making management decisions and that management decisions are well reasoned and well documented. These policies and procedures will also specify the roles and responsibilities in terms of arriving at a management decision. Therefore, a management decision has been reached for recommendation no. 1.

In response to recommendation no. 2, concerning developing and implementing a plan to periodically assess a sample of management decisions to ensure that due diligence is exercised in making decisions and that management decisions are well reasoned and well documented, the mission agreed and stated that it will include a review of management decisions as part of the Federal Managers Financial Integrity Act process. A sampling of management decisions will be reviewed and completed by July 30, 2009. Therefore, a management decision has been reached for recommendation no. 2.

In response to recommendation no. 3, the mission agreed to remind its contracting and agreement officers of the importance of maintaining timely and sufficient documentation in the official files. The mission stated that it will distribute, within a week of receipt, a copy of the final report for this audit to the agreement officers within the mission as a reminder. Therefore, a management decision has been reached for recommendation no. 3.

In response to recommendation no. 4, the mission agreed to ensure that all documentation relevant to management decisions reviewed in this audit is incorporated into the official agreement files. The mission plans to have cognizant agreement officers review their management decision files audited by RIG, include in those files documentation that may currently be stored in the form of emails, and acknowledge that they have completed the review in an additional memo to the contract file by April 1, 2009. Therefore a management decision has been reached for recommendation no. 4.

In response to recommendation no. 5, the mission agreed to develop policies and procedures by April 30, 2009 to improve the mission's compliance in obtaining timely audit reports. These policies and procedures will include periodically educating cognizant technical officers and recipients on audit requirements, roles in audit process, techniques to expedite completion of audits and the need to monitor the audit process. Therefore, a management decision has been reached for recommendation no. 5.

In response to recommendation no. 6, the mission agreed to develop policies and procedures that provide the mission director with a monthly executive report that reflects the implementation of the mission's audit plan by team, identifies delinquent and

potentially delinquent audits, and highlights actions taken to address delinquent and potentially delinquent audits. The mission plans to develop such policies and procedures by April 30, 2009. Therefore, a management decision has been reached for recommendation no. 6.

In response to recommendation no. 7, to obtain and submit final audit reports for all delinquent audits, the mission agreed with the recommendation. For 10 of the 15 delinquent audits identified in the draft audit report, the mission plans to press the recipients to have their delinquent audits completed by April 30, 2009. An additional three audit reports have been submitted to RIG subsequent to the issuance of the draft audit report. As a result, these audits will not be included in the final audit report's listing of delinquent audits, thereby reducing the number of outstanding audits from 15 to 12. For the remaining two audits (IUCN – The World Conservation Union and the Institute for Democracy in South Africa), the mission plans to determine by February 28, 2009, if the audits can be obtained. Once this is determined and a target date is set for submitting the audit reports to RIG, a management decision can be reached for this recommendation.

Appendix II contains management comments in their entirety.

SCOPE AND METHODOLOGY

Scope

We conducted this audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Fieldwork was conducted at USAID/Southern Africa from May 7 to October 10, 2008. The first objective of the audit was to determine whether USAID/Southern Africa properly implemented its reviews of questioned costs identified in financial audits of its recipients. The second objective was to determine whether USAID/Southern Africa took corrective actions on the eight recommendations identified in the *Audit of USAID/South Africa's Compliance with Financial Audit Requirements Regarding Foreign Recipients*, Audit Report No. 4-674-06-006-P, issued March 30, 2006.

In performing the audit, we identified 20 financial audits that were issued to USAID/Southern Africa or its client missions from October 1, 2006, to February 28, 2008. These audits had a total balance of \$17,282,282 in questioned costs (\$6,116,174 in ineligible costs and \$11,166,108 in unsupported costs).

Methodology

To accomplish our first objective, we compiled and analyzed the questioned costs and findings incurred from a judgmental sample of 10 financial audit reports issued between October 1, 2006, and February 28, 2008, for programs in countries supported by the contracting officers at USAID/Southern Africa.

In planning and performing the audit, we tested and assessed significant management controls related to USAID/Southern Africa's Office of Acquisition and Assistance process for reaching a management decision for questioned costs. The testing and assessment of management controls included a determination of whether management decisions were reached within 6 months of issuance of an audit recommendation as required by the Automated Directives System (ADS).

For the first audit objective, of the 20 financial audits issued to the mission, we selected a judgmental sample of 10 financial audits for review. We interviewed mission officials, including cognizant technical officers, financial management officers, and contracting and agreement officers. We reviewed management decisions for recommendations that have been closed and examined the type of evidence that was received by the contracting officers to reach a management decision and close the recommendations. We reviewed U.S. Government regulations, USAID's ADS, and other relevant criteria. We also obtained and reviewed contract files and the mission's audit plan tracking sheet.

Our work for the second objective covered financial audit requirements for USAID/Southern Africa's awards to foreign recipients. The audit work focused on determining whether (1) the mission took corrective actions on recommendations in the prior audit report, (2) there was a change in the number delinquent audits, (3) there was a change in the list of expired awards requiring closeouts, and (4) there were host country contracts that were not included in the award inventories.

We also obtained and reviewed the previous audit report, examined USAID/Southern Africa's supporting documentation for closing the eight recommendations in that report, and interviewed mission officials. We reviewed and analyzed USAID/Southern Africa annual audit plans and award inventories submitted to RIG/Pretoria.

The nature of this audit did not lend itself to materiality thresholds; therefore, none were developed.

MANAGEMENT COMMENTS



USAID | SOUTHERN AFRICA

FROM THE AMERICAN PEOPLE

**UNITED STATES GOVERNMENT
MEMORANDUM**

DATE : December 31, 2008

TO : Nathan Lokos – Regional Inspector General

FROM : Carleene Dei – Mission Director /s/

SUBJECT : Management Comments to Draft Audit Report No. 4-674-08-XXX-P – Audit of USAID/Southern Africa’s Audit Management Program

USAID/Southern Africa appreciates the opportunity to provide comments on the subject, draft audit report.

Recommendation No. 1: We recommend that USAID/Southern Africa formulate policies and procedures to help ensure that due diligence is exercised in making management decisions, that management decisions are well reasoned and that management decisions are well documented.

USAID/Southern Africa agrees with Recommendation No. 1. USAID/Southern Africa agrees to formulate guidance regarding the requirements for exercising due diligence and documenting management decisions, as well as specifying the roles and responsibilities in terms of arriving at a management decision. The Mission expects to complete final action on this recommendation by April 30, 2009. USAID/Southern Africa notes that the audit found that in 9 out of 10 management decisions sampled, the decisions were well researched and supported. The basis for this recommendation is one management decision where the auditors disagreed with the rationale for the decision.

Recommendation No. 2: We recommend that USAID/Southern Africa develop and implement a plan to periodically assess a sample of management decisions to ensure that due diligence is exercised in making management decisions, that management decisions are well reasoned and that management decisions are well documented.

USAID/Southern Africa agrees with Recommendation No. 2. USAID/Southern Africa agrees to include a review of management decisions as part of the FMFIA process (a sampling of management decisions will be reviewed and completed by 7/30/2009). However, USAID/Southern Africa wishes to reiterate that this audit concluded that 9 out of 10 sampled management decisions were well researched and supported.

In the case of the tenth management decision, the audit report found that allowing \$461,969 in costs under a four-year old audit of READ Education Trust was not well reasoned and well documented. USAID/Southern Africa does not agree that this management decision reflects a lack of due diligence or falls outside the range of reasonableness. The decision was based on the fact that the audit was too untimely for USAID to make a fair determination of the amount owed and too untimely to have any significant probability that any funds that might have been determined to be owed could have been recovered. The Agreement Officer exercised his discretion in determining that the costs of pursuing any recovery outweighed the benefit.

Recommendation No. 3: We recommend that USAID/Southern Africa remind its contracting and agreement officers of the importance of maintaining timely and sufficient documentation in the official files to provide a complete background as a basis for informed decisions, support actions taken by the contracting/agreement officers, provide information for reviews and investigations and furnish essential facts in the event of litigation or congressional inquiries.

USAID/Southern Africa agrees with Recommendation No. 3 and will distribute, within a week of receipt, a copy of the final audit report to the agreement officers within the Mission as a reminder.

Recommendation No. 4: We recommend that USAID/Southern Africa ensure that all documentation relevant to management decisions reviewed in this audit be incorporated into the official agreement files.

USAID/Southern Africa agrees with Recommendation No. 4. USAID/Southern Africa agrees that all critical documentation should be placed in the official agreement files. By April 1, 2009, the cognizant agreement officers will review their management decision files audited by the RIG, include documentation that may currently be stored in the form of emails, and acknowledge that they have completed the review in an additional memo to the contract file.

Recommendation No. 5: We recommend that USAID/Southern Africa establish procedures to ensure that all delinquent recipient contracted audits are completed in accordance with USAID policies and procedures, including periodically educating cognizant technical officers and recipients as to (1) USAID’s audit requirements and their roles in the audit process, (2) techniques that can be used to expedite the completion of audits, and (3) their need to monitor the audit process.

USAID/Southern Africa agrees with Recommendation No. 5. The Mission’s Regional Office of Acquisition and Assistance, Financial Management Office, and Program Office plan to collaborate on the development of policies and procedures to improve the mission’s compliance in obtaining timely audit reports. The procedures shall include steps to periodically educate cognizant technical officers and recipients on audit requirements, roles in the audit process, techniques to expedite the completion of audits, and the need to monitor the audit process. The Mission expects the procedures to be completed by April 30, 2009. However, USAID/Southern Africa notes that some delays in completing audits are the result of lack of performance by the local audit firms and it may not be possible to meet the audit completion guidelines without addressing this issue.

Recommendation No. 6: We recommend that USAID/Southern Africa establish policies and procedures that provide the mission director with a monthly executive report that reflects the implementation of the mission’s audit plan by team, identifies delinquent and potentially delinquent audits, and highlights actions that must be taken to address delinquent and potentially delinquent audits.

USAID/Southern Africa agrees with Recommendation No. 6. The Mission’s financial management office plans to develop policies and procedures to provide the Mission Director with a monthly executive report that reflects the implementation of the Mission’s audit plan by team, identifies delinquent and potentially delinquent audits, and highlights actions that must be taken to address delinquent and potentially delinquent audits. The Mission expects the policies and procedures to be completed by April 30, 2009.

Recommendation No. 7: We recommend that USAID/Southern Africa obtain and submit final audit reports for all delinquent audits.

USAID/Southern Africa agrees with Recommendation No. 7. The Mission plans to approach IUCN – The World Conservation Union and the Institute for Democracy in South Africa to determine the feasibility of obtaining audits that date back to 2003. The Mission will approach these former recipients by January 31, 2009 and determine whether audits can be obtained by February 28, 2009.

Since the draft audit report was issued, the mission received and submitted to the Regional Inspector General audit reports from Mobile Task Team on HIV/AIDS, Broad Reach Health Care, and Right to Care. The mission will continue to press

the other recipients, whose audits are at various stages of completion, to have their delinquent audits submitted by April 30, 2009.

The Mission would like to correct an entry to the list of delinquent audits presented in Appendix III. Under Right to Care, agreement number 674-A-00-08-00007-00 should not have been included as delinquent. That agreement started October 1, 2007. Additionally, Right to Care's fiscal year end is September 30. The December 31, 2007 date in Appendix III corresponds to the end date for agreement 674-CA-674-A-00-02-00018-35. Accordingly, the audit for number 674-A-00-08-00007-00 is due June 30, 2009 and is not delinquent as of this audit. The audit for agreement 674-CA-674-A-00-02-00018-35 was delinquent at the time of the audit. As noted in the prior paragraph, that audit has now been received.

LIST OF DELINQUENT AUDITS AS OF DECEMBER 31, 2008

| Recipient Name | Agreement No. Per Mission Audit Plan | Fiscal Year End | Report Due Date | Notes |
|--|--|-----------------|-----------------|-------|
| Audits Delinquent as of December 31, 2005 | | | | |
| IUCN – The World Conservation Union | 690-0283-A-00-5950 | 31-Mar-03 | 31-Dec-03 | 1 |
| Institute for Democracy in South Africa | 690-G-00-02-00254-00 | 31-Dec-03 | 30-Sep-04 | 1 |
| Education Opportunities Council | CA-674-0309-A-00-0038 | 31-Dec-03 | 30-Sep-04 | 2 |
| Education Opportunities Council | CA-674-0309-A-00-0038 | 31-Dec-04 | 30-Sep-05 | 2 |
| South African Institute of Race Relations | CA-674-0309-A-00-0039 | 31-Mar-04 | 31-Dec-04 | 2 |
| Audits Delinquent as of December 31, 2007 | | | | |
| Wits Health | 674-CA-674-A-00-05-00003-9 674-CA-674-A-00-05-00004-9 PIL 674-0320-G-5053-10 | 31-Dec-05 | 30-Sep-06 | 2 |
| Mindset Network | 674-A-00-04-00071-00 | 31-Dec-06 | 30-Sep-07 | |
| Wits Health | 674-CA-674-A-00-05-00003-9 674-CA-674-A-00-05-00004-9 | 31-Dec-06 | 30-Sep-07 | 2 |
| Audits Delinquent as of December 31, 2008 | | | | |
| Foundation for Professional Development | 674-A-00-08-00006-00 | 31-Dec-07 | 30-Sep-08 | |
| Khulisa Management Services | 674-G-00-07-00018-00 674-CO-674-C-00-06-00014 674-CA-674-A-00-08-00010 | 31-Dec-07 | 30-Sep-08 | |
| Mindset Network | 674-A-00-04-00071-00 | 31-Dec-07 | 30-Sep-08 | |
| Wits Health | 674-CA-674-A-00-05-00003-9 674-CA-674-A-00-05-00004-9 674-A-00-08-00009-00 674-A-00-08-00005-00 | 31-Dec-07 | 30-Sep-08 | 2 |

Notes: 1. USAID/Southern Africa first assumed responsibility for this audit in October 2007.
2. According to mission officials, this audit is in progress.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig