



Office of Inspector General

December 28, 2011

MEMORANDUM

TO: Steve Tashjian, Director
Contract Audit and Support Division, Office of Acquisition & Assistance

FROM: Joy Kadnar, Director /s/
Inspections & Evaluations Division, Office of Audit

SUBJECT: Review of Audits of Foreign Organizations Expending Centrally Funded Assistance (Report No. 2-000-12-002-S)

This memorandum transmits our final report on the subject review. Although not an audit report, the report contains four recommendations to improve oversight of USAID/Washington-issued awards. In finalizing the report, we carefully considered your comments on the draft report, and we have included them in Appendix II.

Based on an evaluation of management comments, management decisions have been reached on all four recommendations. The Audit Performance and Compliance Division will make determinations of final action on these recommendations upon completion of the planned corrective actions.

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

SUMMARY

USAID policy requires that foreign nonprofit organizations, governments, and subrecipients that expend \$300,000 or more under USAID agreements and awards during their fiscal year must have an annual audit of those funds. It also requires that these audits be conducted in accordance with the “Guidelines for Financial Audits Contracted by Foreign Recipients” (Guidelines). The Contract Audit and Support Division of the Office of Acquisition and Assistance in USAID’s Management Bureau is responsible for determining the financial audit requirements applicable to foreign recipients of centrally funded awards and ensuring that required audits of them are performed. To assist in this effort, the Contract Audit and Support Division is required to develop, maintain, and publish an inventory of foreign organizations receiving centrally funded awards.

Concerned about whether required audits have been performed, in April 2011 the USAID Office of Inspector General (OIG) surveyed USAID to determine whether required audits of foreign recipients were being performed and to quantify the amount of money being audited. Few USAID headquarters organizations responded to the survey. Accordingly, OIG conducted this review to determine whether required audits of foreign recipients of centrally funded awards were performed in fiscal year 2009.

Making this determination was difficult because information on the amount of USAID funds spent by each foreign recipient during their fiscal year was not readily available. Therefore, we agreed with Office of Acquisition and Assistance (OAA) to use an estimation procedure to determine which recipients should have been audited. We assumed that awards were spent on a “straight line” basis (e.g. for a 4-year award, we assumed that one fourth of the award amount was spent each year), and we assumed that recipients with \$500,000 or more in estimated expenditures during fiscal year 2009 should have had an audit performed. We believe that this estimation procedure, with which OAA agreed, underestimates the number of recipients requiring audit because we used a \$500,000 threshold instead of the \$300,000 threshold in the Guidelines.

Only 32 of 84 foreign recipients (38 percent) with estimated expenditures of \$500,000 or more had an audit performed, and 13 of the audits were incomplete because they did not cover all USAID awards to the recipient. As a result, about a half a billion dollars in USAID-provided funding was not audited.¹

Specifically, the review found:

- Audits were not performed (page 4).
- Some audits did not cover all USAID funding (page 5).

To address these matters, this report recommends that the Contract Audit and Support Division:

1. Require that unaudited recipients be audited for fiscal year 2009 (page 4).
2. Require that incompletely audited recipients be reaudited for fiscal year 2009 (page 6).

¹ Based on 2009 disbursement information provided by the Contract Audit and Support Division.

3. Develop and publish fiscal year 2009, 2010, and 2011 inventories of recipients (page 6).
4. Notify recipients that should have had fiscal year 2009 audits of potential sanctions (page 6).

Our evaluation of management comments is on page 7. Appendix I contains a discussion of the review's scope and methodology. Management comments are presented in their entirety in Appendix II. Appendix III lists unaudited recipients. Details on review results follow.

REVIEW RESULTS

Audits Were Not Performed

USAID's Automated Directives System's Chapter 591.3.2 requires that foreign nonprofit organizations, host governments, and subrecipients (i.e., organizations that receive USAID funds either directly or through a prime contractor or recipient) that expend \$300,000 or more under USAID awards during their fiscal year must have an annual audit of those funds conducted. This audit must be conducted according to the "Guidelines for Financial Audits Contracted by Foreign Recipients." Paragraph 1.5 of the Guidelines reiterates this requirement:

USAID agreements with foreign governments and foreign nonprofit organizations require that a recipient-contracted audit be performed annually in accordance with these Guidelines when the recipient expends \$300,000 or more in USAID awards in its fiscal year.

OIG must receive audits of foreign prime recipients conducted in accordance with the Guidelines for desk review within 9 months of the end of the fiscal year in which the expenditures were incurred.

As of August 2011, fiscal year 2009 audit reports were not provided to OIG for 52 of 84 foreign recipients required to have audits performed according to the estimation procedure used in this review.² These 52 foreign recipients are listed in Appendix III.

These audits were not performed because the Contract Audit and Support Division has not maintained a key supporting system to produce an inventory of all organizations receiving USAID awards. Moreover, the Contract Audit and Support Division is responsible for both identifying the financial audit requirements for foreign organizations with centrally funded awards and ensuring that required audits of them are performed. The system is being upgraded and has a target date of May 2012 to become operational.

Over \$400 million of USAID funding was disbursed in 2009 to these 52 foreign implementers³ and was not subject to audit scrutiny. This sort of lapse could diminish public confidence that federal funding has been properly accounted for.

The following recommendation is intended to provide for that oversight.

Recommendation 1. *We recommend that the Contract Audit and Support Division require that, among the 52 foreign recipients identified in Appendix III, those with active awards be audited for fiscal year 2009 in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients.*

² For more information, see Scope and Methodology on page 8.

³ Calculated by Contract Audit and Support Division staff.

Some Audits Did Not Cover All USAID Funding

Paragraph 1.22 in the Guidelines notes that foreign recipients must have one annual recipient-contracted audit performed that would cover all USAID funding to the recipient from all sources. These comprehensive audits must be performed in accordance with the Guidelines and their reports presented to OIG for quality assurance and issuance.

The Guidelines also specify sanctions that may be imposed on recipients in the event of continued inability or unwillingness to have required audits performed. These sanctions could include the suspension of disbursements.

For fiscal year 2009, incomplete audit reports were provided to OIG for 13 of 84 foreign nonprofit or foreign government recipients of centrally funded awards. These recipients are listed in the table below. These audit reports omitted one or more centrally funded awards that were active in fiscal year 2009. In one instance, ten centrally funded awards were not included in the recipient's audit.

Centrally Funded Recipients With Incomplete Audits

No.	Recipient Name
1	Humedica International
2	National Society for Earthquake Technology
3	Norwegian Refugee Council
4	MENTOR
5	Asian Disaster Preparedness Center
6	Medair
7	Action contre la Faim/France
8	Asociacion Share de Guatemala
9	German Agro Action
10	Oxfam GB
11	Tearfund
12	GOAL
13	Agency for Technical Cooperation and Development

Audits of these 13 recipients were not sufficiently comprehensive because the recipients and the Contract Audit and Support Division did not fulfill their responsibilities. The recipients did not make compliance with the Guidelines a high priority. Since audits were performed, it is reasonable to assume that the recipients were aware that audit requirements applied to them and that they should have complied with those requirements. For its part, the Contract Audit and Support Division did not produce information about the awards to be audited to create awareness about all the sources of funding that should have been audited. As mentioned in the previous finding, the Division has not kept current a key system to produce periodic inventories of recipients and their awards. This prevented the Division from meeting its responsibilities to both identify the financial audit requirements for foreign organizations with centrally funded awards and ensure that required audits of them are performed. The system is being upgraded, with a target date of May 2012 to become operational.

More than \$85 million in USAID funding was disbursed in 2009 to these 13 foreign implementers⁴ and was not subject to proper audit scrutiny. The incomplete nature of the audit work performed raises questions about the recipients' stewardship of these funds in fiscal year 2009 and in subsequent years.

The following recommendations are intended to address these deficiencies.

Recommendation 2. We recommend that the Contract Audit and Support Division require that, among the 13 foreign recipients identified in the table above, those with active awards be reaudited for fiscal year 2009 in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients.

Recommendation 3. We recommend that the Contract Audit and Support Division develop and publish inventories for fiscal years 2009, 2010, and 2011 of foreign organizations receiving centrally funded awards to make clear which recipients must undergo audits and what awards should be audited.

Recommendation 4. We recommend that the Contract Audit and Support Division notify in writing the foreign recipients of centrally funded awards required to have a fiscal year 2009 audit that sanctions could be imposed on recipients unable or unwilling to have an audit performed in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients and that noncompliant audits may not be paid for with USAID-provided funds.

⁴ Calculated by Contract Audit and Support Division staff.

EVALUATION OF MANAGEMENT COMMENTS

USAID's Contract Audit and Support Division agreed with the report's four recommendations. Management presented plans to implement all of the recommendations by May 1, 2012. Based on an evaluation of management's response to the draft report, management decisions have been reached on all four recommendations. The Audit Performance and Compliance Division will make determinations of final action on these recommendations upon completion of the planned corrective actions.

Recommendation 1. Management agreed with the recommendation and plans to take action to obtain any already procured fiscal year 2009 audits for the identified foreign recipients and to prompt the remaining recipients with active awards to have audits as required. The target date for completion of these actions is January 31, 2012.

Recommendation 2. Management agreed with the recommendation and plans to verify whether the fiscal year 2009 audits of the 13 foreign recipients were indeed insufficient in scope to meet the requirements of the "Guidelines for Financial Audits Contracted by Foreign Recipients." Those recipients identified as having had insufficient audits will be prompted to procure an audit that meets the requirements of the Guidelines. The target date for completion of these actions is January 31, 2012.

Management also expressed concerns about funding, capabilities, and authorities to procure some of these audits. In particular, management expects that some foreign recipients will challenge USAID's authority to request additional audit effort after awards for fiscal year 2009 have been administratively closed.

Consistent with ADS 591.2(g), OIG will provide technical advice related to the audits and can assist in providing for or arranging audit coverage as requested by USAID. OIG notes that ADS 591.2(d) identifies the Management Control Review Committee as responsible for serving as a decision-making body in situations involving audit issues.

OIG expects that USAID will routinely ensure that financial audits required by ADS 591 of foreign nonprofit and foreign government recipients are procured. However, in some rare circumstances, it may be impractical to procure such audits. Producing and maintaining inventories of organizations receiving centrally funded awards to make clear which recipients must undergo audits and what awards should be audited would help prevent such circumstances. If it is not practical to reaudit some of the 13 identified recipients, Agency policies provide alternatives, such as heightened scrutiny of the recipient in subsequent periods.

Recommendation 3. Management agreed with the recommendation and plans to publish the three inventories. The target date for completion of these actions is May 1, 2012.

Recommendation 4. Management agreed with the recommendation and will notify the recipients of possible sanctions by January 31, 2012.

SCOPE AND METHODOLOGY

Scope

OIG's Inspections and Evaluations Division conducted this review to determine whether required audits of foreign recipients of centrally funded awards were performed. This review was conducted in accordance with the July 2007 revision of "the Government Auditing Standards"⁵—specifically, with the general standards in Chapter 3, the documentation standards in Sections 7.72–7.79, the evidence standard in Section 7.55, and the standards for developing elements of a finding in Sections 7.72–7.76. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with the review objective. We believe that the evidence obtained provides that reasonable basis.

We conducted fieldwork in Washington, D.C., from July 7 to October 12, 2011. We used electronic records from headquarters offices about awards they had made and from OIG offices about recipient-contracted and Agency-contracted audit reports received. The review did not consider audits required of public international organizations, which are subject to different and sometimes unique audit requirements. USAID/Washington operating units with award-making authority, regional inspectors general, and OIG divisions in Washington supported the review team with information on audits and confirmation of award information.

Methodology

The review's approach for answering the review objective was to compare information about foreign nonprofit and foreign government recipients of centrally funded awards with information about audits performed in order to show disparities. Such disparities would reveal where required audits had not been performed.

USAID/Washington organizations provided data about the recipients. We analyzed the data and consulted with program officials to improve its suitability for the comparison. For example, data about recipients outside the scope of the review, such as U.S.-based organizations, mission-managed awards, and public international organizations, were identified, confirmed, and removed. Similarly, we collaborated with program officials to reduce variations in the presentation of recipient names and duplications.

Paragraph 1.5 of the Guidelines requires a financial audit "when the recipient expends \$300,000 or more in USAID awards in its fiscal year." The Guidelines also require that those audits be shared with OIG for review and issuance. Because information about expenditures during each recipient's respective fiscal year could not readily be obtained, we used an estimation procedure to determine which recipients should have been audited. We assumed that awards were spent on a "straight line" basis (e.g. for a 4-year award, we assumed that one fourth of the award amount was spent each year). Accordingly, we estimated the annual funding for each centrally funded award and summed these amounts by recipient to estimate how much each recipient expended in fiscal year 2009. We also assumed that recipients with \$500,000 or more in estimated expenditures for fiscal year 2009 were required to have had an audit performed that

⁵ Government Auditing Standards, GAO 07-731G (July 2007 revision).

year. We believe that our estimation procedure underestimated the number of recipients requiring audit because we used a \$500,000 threshold instead of the \$300,000 threshold in the Guidelines. Officials in OAA agreed to this approach and the threshold used. Information about recipients with funding exceeding the \$500,000 threshold was compared with audits submitted to OIG to identify where likely required audits were not performed or were incompletely performed. These disparities prompted the recommendations.

MANAGEMENT COMMENTS



November 14, 2011

MEMORANDUM

TO: IG/A/IE, Joy Kadnar

FROM: M/OAA/CAS, Steve Tashjian /s/

SUBJECT: Review of Audits of Foreign Organizations Expending Centrally Funded Assistance (Report No. 2-000-11-00X-S)

The Office of Acquisition and Assistance has reviewed the subject audit report and appreciates the time and effort that the Office of the Inspector General (OIG) put forth on this review. We are presenting the following comments for recommendations 1 through 4 under the subject audit report.

Recommendation 1: We recommend that the Contract Audit and Support Division require that, among the 52 foreign recipients identified in Appendix III, those with active awards be audited for fiscal year 2009 in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients.

Management Position: OAA management concurs with recommendation 1.

Management Decision: The Contract Audit Management (CAM) Branch will contact each foreign recipient to ascertain if a recipient contracted audit (RCA) was procured and if so obtain it. If it is determined that no RCA has yet been procured, each foreign recipient will be advised of the requirement and the sanctions that can be imposed for failure to comply with this requirement. All 52 foreign recipients with active awards will be contacted by January 31, 2012.

Recommendation 2: We recommend that the Contract Audit and Support Division require that, among the 13 foreign recipients identified in the table above, those with active awards be re-audited for fiscal year 2009 in accordance with the Guidelines for Financial Audits Contracted by Foreign Recipients.

Management Position: OAA management concurs with recommendation 2.

Management Decision: The CAM Branch will contact each of the 13 identified foreign recipients with active awards to determine if the RCAs were indeed insufficient under the terms and conditions of the governing awards. Each recipient deemed to have an insufficient RCA will be requested to procure a new audit that fully meets the requirements of the Guidelines for Financial Audits Contracted by Foreign Recipients as well as be advised of the sanctions that can be imposed for failure to comply with this requirement. All 13 foreign recipients with active awards will be contacted by January 31, 2012.

There is some concern however of the ability of these firms to procure RCAs where no funds remain under its grants and where USAID makes it clear that we will not provide additional funds. It is also expected that some of these foreign recipients will challenge the authority of USAID to request additional audit effort, especially where all applicable awards for fiscal year 2009 have already been administratively closed. Since the apparent authority for requesting additional audit effort comes from the OIG issued Guidelines for Financial Audits Contracted by Foreign Recipients and hence ultimately by the IG Act itself, we will look to the OIG for clarity and guidance regarding questions about legality, our ability to enforce our request and subsequent claims that may arise. We want to be unequivocal however in our support for the IG's efforts and that if the IG decides to prosecute this issue directly we will do our utmost to support this prosecution.

Recommendation 3: We recommend that the Contract Audit and Support Division develop and publish inventories for fiscal years 2009, 2010, and 2011 of foreign organizations receiving centrally funded awards to make clear which recipients must undergo audits and what awards should be audited.

Management Position: OAA management concurs with recommendation 3.

Management Decision: The CAM Branch will develop and publish audit inventories for fiscal years 2009 through 2011 of foreign recipient receiving centrally funded awards by April 31, 2012.

Recommendation 4: We recommend that the Contract Audit and Support Division notify in writing the foreign recipients of centrally funded awards required to have a fiscal year 2009 audit that sanctions could be imposed on recipients unable or unwilling to have an audit performed in accordance with the Guidelines for Audits Contracted by Foreign Recipients and that noncompliant audits may not be paid for with USAID-provided funds.

Management Position: OAA management concurs with recommendation 4.

Management Decision: The CAM Branch will advise that portion of the 65 foreign recipients that have current awards with USAID which had either an incomplete RCA or no RCA, of the sanctions that can be imposed for failure to comply the Guidelines for Audits Contracted by Foreign Recipients by January 31, 2012.

UNAUDITED RECIPIENTS

No fiscal year 2009 audit was presented to OIG for the following 52 centrally funded foreign recipients. See page 4 for additional information.

No.	Recipient Name
1	Strategic Development Cooperation-Asia
2	International Alert
3	Aga Khan Foundation (Mozambique)
4	AccountAbility
5	Retrak
6	Partnership for Road Safety Foundation
7	Concern Universal
8	ONG Le Soutien
9	Overseas Development Institute (ODI)
10	African Economic Research Consortium
11	Caritas Senegal
12	Bayer Schering Pharma AG
13	Water Sanitation for the Urban Poor (WSUP)
14	Global Organization of Parliamentarians Against Corruption
15	ZOA Refugee Care
16	Fauna and Flora International
17	Horn Relief
18	Tshwane Leadership Foundation
19	Terre des Hommes
20	Kindernothilfe e.V.
21	Emergency Nutrition Network
22	People in Need
23	Genesis Trust (Ugu AIDS Alliance)
24	Motivation Charitable Trust
25	Comitato Internazionale per lo Sviluppo dei Popoli
26	International Centre for Migration Policy Development
27	Light and Courage Centre Trust
28	Woord en Daad
29	University of Aberdeen
30	ADPP
31	Caritas del Peru
32	Rights Consortium
33	Justice Studies Center of the Americas
34	Church Alliance for Orphans
35	International Society for Prosthetics and Orthotics
36	PRISMA
37	European Cooperative for Rural Development (EUCORD)
38	Youth Health Organization
39	Ajuda de Desenvolvimento de Povo para Povo (ADPP)

No.	Recipient Name
40	Schering Oy
41	Unidus Corporation
42	African Agricultural Technology Foundation
43	Global Alliance for Improved Nutrition (GAIN)
44	Kara Counselling and Training Trust
45	Medical Emergency Relief International
46	International Fund for Ireland
47	HOPE worldwide
48	Norwegian People's Aid
49	International Union Against Tuberculosis and Lung Disease
50	Relief Society of Tigray
51	Medicines for Malaria Venture
52	Instituto Libertad y Democracia