OFFICE OF INSPECTOR GENERAL

# AUDIT OF USAID/GUINEA'S SYSTEMS FOR ENSURING APPROPRIATE AUDIT OVERSIGHT OF FUNDED PROGRAMS

AUDIT REPORT NO. 7-675-15-003-P
November 6, 2014

Dakar, Senegal

*Office of Inspector General*

November 6, 2014

**MEMORANDUM**

**TO:** USAID/Guinea Mission Director, Michelle Godette

**FROM:** Acting Regional Inspector General/Dakar, Louis Duncan Jr. /s/

**SUBJECT:** Audit of USAID/Guinea's Systems for Ensuring Appropriate Oversight of Funded Programs (Report No. 7-675-15-003-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and included them in Appendix II.

The final report includes four recommendations to improve the management of USAID/Guinea's systems for ensuring appropriate oversight of funded programs. In its comments on the draft report, USAID/Guinea agreed with all four recommendations. Based on our evaluation of management comments, we acknowledge that the mission made management decisions on all of them.

Please coordinate final action for all recommendations with the Audit Performance and Compliance Division in the Office of the Chief Financial Officer.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

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**Abbreviations**

The following abbreviations appear in this report:

| | |
|---|---|
| ADS | Automated Directives System |
| FY | fiscal year |
| NGO | nonprofit organizations |
| OIC | Opportunities Industrialization Centers Guinea |
| OIG | Office of Inspector General |
| RIG | Regional Inspector General |

# SUMMARY OF RESULTS

Contracts, grants, and cooperative agreements are the main tools USAID uses to provide its foreign assistance programs to host-country governments, and U.S.-based and foreign organizations. To conduct financial audits of those tools, the Office of the Inspector General (OIG) relies on the policy directives and required procedures in Automated Directives System (ADS) 591, "Financial Audits of USAID Contractors, Recipients, and Host Government Entities." This requires USAID missions to coordinate with the cognizant regional inspector general's (RIG's) office to ensure that required financial audits are conducted for foreign for-profit and nonprofit organizations (NGOs), host governments, and local currency special accounts such as local currency trust fund accounts.[1]

Agency rules and regulations also state that foreign NGOs spending more than $300,000 of USAID funds during their fiscal year (FY) are required to have an annual financial audit, and recipients that spend more than $500,000 throughout the award must have a close-out audit.[2]

To make sure the financial audits are monitored properly, missions must maintain a list of all awards in their portfolios. This list serves as the basis for the annual audit plan, which tracks all awards that meet ADS 591 requirements for audit.

Independent auditors approved by the cognizant RIG normally perform the required audits according to OIG's *Guidelines for Financial Audits Contracted by Foreign Recipients*. Missions must be sure that audit reports are submitted to the cognizant RIG for review and issuance no later than 9 months after the end of the audited period.

USAID/Guinea's FY 2013 award list had 48 awards worth about $135 million. Ten of them, worth $6 million, were made to foreign organizations or the Guinean Government.

RIG/Dakar conducted this audit as part of its FY 2014 audit plan. The objective was to determine whether USAID/Guinea's FY 2013 planned annual financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations, and whether annual audit plans included all recipients that were supposed to be audited.

We determined that USAID/Guinea did not manage its audit program effectively during the period covered by the audit. We found the following problems.

- The mission did not verify that some audits were performed and submitted on time (page 3).

- The mission did not maintain a complete audit plan (page 4).

- The mission did not close out expired awards on time (page 5).

To address these issues, we recommend that USAID/Guinea:

[1] Local currency trust funds are set up in host-country currency to cover administrative expenses, and they are managed by USAID missions.
[2] A close-out audit is conducted for an award that expired during the period audited. In addition to following regular audit procedures, auditors conducting close-outs review unliquidated balances and verify that all assets are disposed of according to the agreement, contract, or grant.

1. In coordination with USAID/Senegal's Regional Financial Management Office, implement procedures that track its annual audit plan and verify that required audits are performed in compliance with regulations. These should include a checklist of all tasks required by the regulations, the name of the employee who is in charge of the tasks, and a timeline for each task so that all audits are submitted to RIG/Dakar on time (page 4).

2. In coordination with USAID/Senegal's Regional Financial Management Office, revise its current audit plan to incorporate the close-out audit of the Baptist Convention and hire an audit firm to perform the audit (page 5).

3. In coordination with USAID/Senegal's Regional Financial Management Office, implement procedures to verify that it performs close-out audits in accordance with Agency policies (page 5).

4. In coordination with USAID/Senegal's Regional Office of Assistance and Acquisition and USAID/Washington, implement a plan to close expired awards and deobligate any remaining balances as required by applicable USAID policy (page 6).

Detailed findings appear in the following section, and the scope and methodology appear in Appendix I. Management comments are in Appendix II, and our evaluation of them is on page 7.

# AUDIT FINDINGS

## Mission Did Not Verify Whether Some Audits Were Performed and Submitted on Time

According to ADS 591.3.2.1, "Foreign Organizations," foreign NGOs and host governments that spend $300,000 or more of USAID funds during their fiscal years must have an annual audit conducted that adheres to OIG's *Guidelines*. Once the reports are final, they should be forwarded to the cognizant mission, which then must send them to the cognizant RIG within 9 months after the audit period has ended.[3]

In addition, Section 1.14 of *Guidelines* states, "Missions must confirm that audit agreements between USAID recipients and independent auditors include a standard statement of work containing all of the requirements of these *Guidelines*."

USAID/Guinea did not verify whether some audits were performed in accordance with Agency policies and submitted on time, as discussed in the examples below.

- **Audit not performed annually.** Opportunities Industrialization Centers Guinea (OIC), a foreign NGO, spent $318,875 and $358,795 in fiscal years 2012 and 2013, respectively. Although OIC exceeded the $300,000 threshold, no financial audit was conducted for FY 2012. USAID/Guinea officials said they plan to have an audit conducted in 2014 that will cover expenses for both years.

- **Audit not submitted within the required timeframe.** CENAFOD is a local subrecipient of Research Triangle Institute. The annual audit of CENAFOD for the period ended December 2012 was due in September 2013, but USAID/Guinea officials submitted it to the RIG in June 2014, 9 months late.

- **Statement of work not approved.** USAID/Guinea officials did not approve the statement of work for the audit of CENAFOD, as required by *Guidelines*.

These issues occurred because USAID/Guinea did not have internal procedures in place to ensure that audits in the audit plan were performed and submitted properly.

The mission's former regional controller said he did not verify whether OIC was audited because mission officials were helping RIG/Dakar with an investigation of OIC. Moreover, mission officials said that when the audit plan was submitted to RIG/Dakar in October 2012, OIC did not meet the disbursement threshold. By the time the officials realized that OIC received more than $300,000 in 2012 and needed an annual audit, it was past the due date. So they decided to combine the 2012 and 2013 audits to be more cost effective.

In the case of CENAFOD, the officials said they believed the prime recipient was responsible for verifying that audits of subrecipients were conducted. They also said they did not know they

[3] Section 1.16 of *Guidelines*.

needed to review the statement of work for a subrecipient that spent more than $300,000 of USAID funds within its fiscal year.

As stated in the ADS, financial audits of USAID's grants and contracts assess whether recipients of USAID funds have accounted for and used them as intended and in compliance with applicable laws and regulations.

Furthermore, audits can give mission managers insight into how well a program is operating, and they are good tools to help prevent and detect potential fraud, waste, or abuse. Audits also can provide recommendations on how to address problems. Consequently, not submitting audit reports on time makes it difficult to implement recommendations and reduces the possibility of recovering any questioned costs or mitigating identified risks.

Finally, audits performed by independent audit firms without a mission-approved statement of work provide little assurance that they include all of USAID's requirements. Therefore, we make the following recommendation.

> ***Recommendation 1.*** *We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office, implement procedures that track its annual audit plan and verify that required audits are performed in compliance with regulations. These procedures should include a checklist of all the required tasks, the name of the employee in charge of each task, and a timeline for each one so all audits are submitted to Regional Inspector General/Dakar on time.*

## Mission Did Not Maintain Complete Audit Plan

Section 1.5 of *Guidelines* requires that "a close-out audit must be performed for all awards in excess of $500,000."

USAID/Guinea awarded the Baptist Convention, an NGO based in Sierra Leone, $692,927 from June 25, 2009, to June 30, 2013, which meant it needed a close-out audit. However, this recipient was not included in the mission's FY 2014 audit plan.

According to mission officials, they did not include the Baptist Convention because it did not spend more than $300,000 annually, and mission procedures were focused on annual audit requirements for those that did. Furthermore, the officials said, they did not know about the requirement to include recipients that receive more than $500,000. After reviewing the ADS, they said the requirements for performing close-out audits are not clear.

The Baptist Convention has not had any annual audits because it had not spent more than $300,000 in a single year. Thus, a close-out audit would have been the only remaining opportunity for USAID to identify and recover any potential questioned costs. The fact that this recipient is not included in the mission's annual audit plan means that $697,927 of USAID funds will not be audited to determine whether it accounted for and used them as intended and in compliance with applicable laws and regulations. Therefore, we make the following recommendations.

***Recommendation 2**. We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office, revise its current audit plan to incorporate the close-out audit of the Baptist Convention and hire an audit firm to perform it.*

***Recommendation 3**. We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office, implement procedures to verify that it performs close-out audits in accordance with Agency policies.*

## Mission Did Not Close Out Expired Awards on Time

"The Guidance on Close Out Procedures for [Acquisition and Assistance] Awards," an additional document for ADS 302, "USAID Direct Contracting," and 303, "Grants and Cooperative Agreements to Non-Governmental Organizations," states that the contracting and agreement officers must start closing out an award no later than 3 months after it is finished. It also lists what contracting and agreement officers need to do to close out an award. These procedures include, but are not limited to, the following:

- Obtaining clearance from the technical office.
- Asking the recipient to submit a final expenditure report and written confirmation that it has met all the award's requirements.
- Ensuring that applicable audit requirements are complied with.
- Performing a final reconciliation to confirm that the total obligation specified in the award matches the total obligation reported by the paying office.
- Deobligating any residual funds, if applicable.
- Signing the award completion statement.

A review of the mission's award list showed that 22 expired awards dating back to 1999 still appeared in the financial systems with an open status.

Mission officials attributed this in part to high turnover. Years of civil unrest have left Guinea a poor country, and they have had trouble attracting and keeping employees. In addition, they explained, certain close-out procedures, like negotiated indirect cost rate agreement[4] audits, are the responsibility of USAID in Washington, and employees there did not complete them on time.

One of the close-out procedures is identifying excess funds that need to be deobligated and made available for other purposes. According to the schedule provided by USAID/Guinea's

[4] USAID's "Best Practices Guide for Indirect Costing" states: "Indirect costs cannot be identified with a single contract or grant. They are applied equitably across all of the business activities of an organization according to the benefits gained from the costs. Examples of indirect costs are office rentals, utilities, and managerial staff wages. Indirect costs rates must be finalized before final billing, and residual funds under such awards should not be deobligated until the indirect rates are finalized."

Office of Acquisition and Assistance, the total amount of funds pending for deobligation is $177,191. Awards that are still pending for close-out prevent the mission from reallocating the remaining balances to existing activities. Consequently, we make the following recommendation.

> ***Recommendation 4****. We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Office of Assistance and Acquisition and USAID/Washington, implement a plan to close expired awards and deobligate any remaining balances as required by applicable USAID policy.*

# EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Guinea officials agreed with all four recommendations. After evaluating the comments, we acknowledge that the mission made management decisions on all of them. A detailed evaluation of the comments follows.

**Recommendation 1.** Mission officials said they plan to implement a mission order to verify that they identify all required audits in the annual audit plan and that the audits are conducted in compliance with regulations. They will use tracking sheets that record identified tasks, responsible personnel, and timeline. The target date for implementation is November 30, 2014. As a result, we acknowledge that the mission made a management decision.

**Recommendation 2.** USAID/Guinea officials agreed to revise the current audit plan to incorporate the close-out audit of the Baptist Convention and hire an audit firm to conduct the audit by April 15, 2014. As a result, we acknowledge that the mission made a management decision.

**Recommendation 3.** Mission officials said they would implement procedures to verify that close-out audits are included as part of the annual audit plan. Moreover, these procedures will verify that audits identified in the annual audit plan are performed in compliance with regulations. The target date for implementation is November 30, 2014. Accordingly, we acknowledge that the mission made a management decision.

**Recommendation 4.** Mission officials agreed to implement a plan to close expired awards and deobligate any remaining balances as required. As part of this plan, they will collaborate with USAID/Senegal’s regional financial management and acquisition and assistance offices to review agency deobligation reports to identify funds for deobligation. In addition, mission officials plan to provide training on proper close-out processes. The target date for implementation of these procedures is January 16, 2015. As a result, we acknowledge that the mission made a management decision.

# SCOPE AND METHODOLOGY

## Scope

We conducted this performance 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 in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The audit objective was to determine whether USAID/Guinea's FY 2013 planned annual financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations, and whether annual audit plans included all recipients from its award list that required a financial audit.

The audit covered FY 2013. The type of evidence examined during the audit included, but was not limited to, the award list and plan that USAID/Guinea's submitted. USAID/Guinea's FY 2013 list had 48 awards worth $135 million. Of these, ten worth about $6 million were made to foreign organizations or the Guinean Government. We tested these awards for compliance with ADS 591 and *Guidelines*.

In planning and performing this audit, we interviewed mission officials to understand the processes and controls in place to ensure awards are included in the award list and plan. However, to answer the audit objective, we did not rely on the controls described by mission officials, but performed substantive tests of details to verify compliance with ADS and *Guidelines*. We conducted audit fieldwork from June 23 to 26, 2014, at USAID/Guinea in Conakry.

## Methodology

To answer the audit objective, we interviewed personnel from USAID/Guinea and USAID/Senegal. We also reviewed and analyzed the FY 2013 audit plan submitted to RIG/Dakar. We compared the plan to the list to determine the plan's accuracy. In addition, we verified the completeness of the list by comparing it to Phoenix active awards data. We then performed substantive tests of details, which included, but were not limited to, verifying that awards with disbursements greater than $300,000 had audits that were completed and submitted to RIG/Dakar on time.

To ensure that a financial audit was conducted for all subrecipients that met the threshold of $300,000, we sent a request for confirmation to the award's agreement officer's representative. To determine which recipients needed close-out audits, we reviewed the mission's award list, selected those that were worth more than $500,000, and verified whether the standard's requirement was fulfilled.

During the testing, we considered the following to be exceptions:

- Any number of required audits not included in the audit list.

- Any number of planned audit reports not performed on time.

- Any number of performed audit reports not submitted for RIG/Dakar’s approval.

- If the number of audit reports submitted after the 9-month due date is greater than 10 percent of the number of planned audits, then the lack of timeliness will be considered as an exception.

# MANAGEMENT COMMENTS

USAID | GUINEA & SIERRA LEONE
FROM THE AMERICAN PEOPLE

**MEMORANDUM**

**DATE:** October 29th, 2014

**TO:** Regional Inspector General/Dakar, Abdoulaye Gueye

**FROM:** Michelle Godette /s/, Mission Director, USAID Guinea and Sierra Leone

**REF:** RIG/Dakar Draft Audit Report No. 7-675-14-00X-P

This memorandum transmits USAID/Guinea's management comments to the subject RIG/Dakar Draft Audit Report. Thank you for sharing the draft report and providing us the opportunity to offer clarifications and our response. We view the RIG audit as an opportunity to improve USAID/Guinea's, USAID/Senegal's Regional Financial Management Office's (RFMO), and USAID/Senegal's Regional Acquisition and Assistance Office's (RAAO) management procedures for ensuring appropriate audit oversight of funded programs is in place.

**USAID/GUINEA RESPONSE TO THE AUDIT FINDING AND RECOMMENDATIONS**

1. **Finding: Mission did not verify whether some audits were performed and submitted on time.**

   **Recommendation 1.** *We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office, implement procedures that track its annual audit plan and verify that required audits are performed in compliance with regulations. These procedures should include a checklist of all the required tasks, the name of the employee in charge of each task, and a timeline for each one so all audits are submitted to Regional Inspector General/Dakar on time.*

   **USAID/Guinea's position on the finding and Recommendations 1:**

   USAID/Guinea concurs with the finding that the Mission did not verify whether some audits were performed and submitted on time as well as the proposed recommendation. USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office (RFMO), will take the actions detailed below to track its annual audit plan and verify that required audits are performed in compliance with regulations.

2. **Finding: Mission did not maintain complete audit plan**

   **Recommendation 2.** *We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office, revise its current audit plan to incorporate the close-out audit of the Baptist Convention and hire an audit firm to perform it.*

   **Recommendation 3.** *We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office, implement procedures to verify that it performs close-out audits in accordance with Agency policies.*

   **USAID/Guinea's position on the finding and Recommendations 2 & 3:**

   USAID/Guinea concurs with the finding that the mission did not maintain a complete audit plan as well as the two proposed recommendations. USAID/Guinea, in coordination with USAID/Senegal's Regional Financial Management Office (RFMO) has begun and will continue to undertake the actions detailed below to comply with USAID policy and the Office of Inspector General's Guidelines for Financial Audits Contracted by Foreign Recipients auditing requirements.

3. **Finding: Mission did not close out expired awards on time.**

   **Recommendation 4.** *We recommend that USAID/Guinea, in coordination with USAID/Senegal's Regional Office of Assistance and Acquisition and USAID/Washington, implement a plan to close expired awards and de-obligate any remaining balances as required by applicable USAID policy.*

   **USAID/Guinea's position on the finding and Recommendations 4:**

   USAID/Guinea concurs with the finding that the Mission did not close out expired awards on time as well as the proposed recommendation. USAID/Guinea, in coordination with USAID/Senegal's Regional Acquisition & Assistance Office (RAAO), has begun and will continue to undertake the actions detailed below to comply with the Federal Acquisition Regulation (FAR) 4.804 and 22 Code of Federal Regulation (CFR) 226.71 to 226.73.

**GUINEA ACTIONS TAKEN/PLANNED**

1. **Actions Taken/Planned for Recommendation 2:**

USAID/Guinea, in coordination with USAID/Senegal's RFMO, has commenced corrective actions for this recommendation. USAID/Guinea revised its current audit plan to incorporate the close-out audit of the Baptist Convention. In addition, the mission has drafted a SOW for the Baptist Convention closeout and submitted it to Dakar RIG for approval (as required for ACA). Once the Statement of Work is approved by the RIG, an audit firm will be procured to conduct the close-out audit. Close-out audit will be completed by April 30th, 2015.

**2. Actions Taken/Planned for Recommendation 1, 3**

The Mission intends to create a new Mission Order to document our internal control procedures necessary for compliance with the Agency's Audit Oversight regulations. Accordingly, the new Mission Order will be comprehensive and detail the steps necessary to address the RIG recommendations 1 and 3. More specifically, the Mission Order/procedures will document:

- The use of Tracking Audit Consolidation System (TRACS) and other available tools (e.g. Phoenix reports) to ensure that all required audits are identified in the annual audit plan;
- Procedures to ensure audits identified on the annual audit plan are performed in compliance with regulations, including the use of an audit tracking sheet to manage the audit process. The tracking sheet will include such information as identified tasks, responsible personnel, and a timeline;
- Procedures for USAID/Guinea audit documentation approvals (e.g. SOW, Audit Contracts) , to include the use of TRACS to maintain approval documentation;
- Procedures to ensure close-out audits are captured as part of the audit universe and incorporated into the audit plan.

USAID will develop and implement this Mission Order by November 30th 2014.

**3. Actions Taken/Planned for Recommendation 4**

- USAID/Senegal's RAAO worked diligently to administratively closeout all outstanding physically completed acquisition and assistance awards by FY14 end.
- In collaboration with the RFMO, the RAAO will review the 1311 Phoenix Review Report on a quarterly basis to identify Unliquidated Obligations.
- Quarterly review of the 1311 Analysis will allow RAAO revise its already established tracking tool for expiring awards to reflect unliquidated obligations on expired awards, assuming no pending vouchers.
- RAAO will compile closeout standard operating procedures (SOPs) and conduct corresponding trainings upon the return of two Senior A&A Specialists from the upcoming Award Closeout Workshop in Bangkok, Thailand by November 28th, 2014.
- Based on the aforementioned SOPs and closeout trainings, RAAO will formulate and facilitate Global Acquisition & Assistance System (GLAAS) Requestor trainings covering the step-by-step procedures for proper closeout in GLAAS to ensure the proper de-commitment of funds following award de-obligation. Trainings will be completed by January 16th 2015.
- RAAO will advertise and recruit for a newly created Closeout Specialist position for an Eligible Family Member (EFM) by Spring 2015.

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