



OFFICE OF INSPECTOR GENERAL

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

AUDIT REPORT NO. 7-685-15-001-P
OCTOBER 21, 2014

DAKAR, SENEGAL



Office of Inspector General

October 21, 2014

MEMORANDUM

TO: USAID/Senegal Acting Mission Director, Lisa Franchett

FROM: Deputy Assistant Inspector General, Melinda Dempsey /s/

SUBJECT: Audit of USAID/Senegal's Systems for Ensuring Appropriate Audit Oversight of Funded Programs (Report No. 7-685-15-001-P)

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

The final report contains three recommendations to help USAID/Senegal improve its internal processes for ensuring appropriate audit oversight of funded programs. The mission agreed with the three recommendations, and we acknowledge the mission's management decisions on all recommendations.

Please provide the necessary documentation to obtain final action on all recommendations to the Audit Performance and Compliance Division in the Office of the Chief Financial Officer.

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

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SUMMARY OF RESULTS

USAID administers its foreign assistance programs primarily through contracts, cooperative agreements, and grant awards. They are given to host-country governments, and U.S. and foreign for-profit and nonprofit organizations. To ensure that funds are used for their intended purposes, USAID developed policies and guidelines within Automated Directives System (ADS) Chapter 591 “Financial Audits of USAID Contractors, Recipients, and Host Government Entities.” According to that, a mission’s primary responsibility is to be sure that awards made to foreign organizations that meet certain criteria are audited. These audits must be conducted in accordance with procedures outlined in the Office of Inspector General (OIG) *Guidelines for Financial Audits Contracted by Foreign Recipients*.

The mission is required to develop an annual audit list of all awards. Within this list, the mission must identify and include in its audit plan all awards that meet ADS 591 criteria. They are awards with (1) disbursements greater than \$300,000 within the recipient’s fiscal year, and (2) awards that are worth more than \$500,000.

The mission is also responsible for reviewing and approving draft audit contracts before award recipients hire audit firms to be sure they include all procedures outlined in OIG’s *Guidelines*. Moreover, the mission must monitor the performance of these audits and ensure that they are submitted to the assigned regional inspector general’s office (RIG) for review. The report is due to the RIG 9 months after the end of the fiscal year in which the expenditures were incurred.

The RIG is responsible for providing the mission with a list of approved audit firms the recipient may use to conduct audits. In addition, the RIG performs a desk review of the drafted audit report to confirm that it was conducted in accordance with procedures outlined in OIG’s *Guidelines*.

In fiscal year (FY) 2013 USAID/Senegal had 18 awards totaling \$35 million that were awarded to foreign recipients. Four of them—worth a total of \$34 million—met the criteria for audits under USAID policy.

RIG/Dakar conducted this audit to determine whether the mission included in its annual audit plans all recipients from its award list that required a financial audit; and whether the financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations.

We determined that the mission did include all recipients that required financial audits in its annual plan, and that it performed and submitted financial audits to RIG/Dakar. However, not all complied fully with USAID policy; some were not performed annually, close-out procedures were not performed, audit contracts were not approved, and some audits were not submitted for review on time (page 3).

To help the mission ensure audits are done in accordance with USAID policy, we recommend that USAID/Senegal:

1. Develop and implement internal procedures to make sure that any deviations from ADS 591 and OIG’s *Guidelines for Financial Audits Contracted by Foreign Recipients* auditing requirements are documented, justified, and approved (page 5).

2. Develop and implement internal procedures that require the mission to review and approve all recipients' audit contracts for compliance with USAID's policies and applicable regulations, and that performance of these procedures be documented and maintained (page 5).
3. Develop and implement a formal timeline with its recipients to make sure the full audit process from hiring an audit firm to submitting the audit report to RIG/Dakar is done within the time frame established by USAID policy (page 5).

Detailed finding follows. The audit scope and methodology are described in Appendix I. Our evaluation of management comments is on page 6, and the full text of management comments is in Appendix II.

AUDIT FINDING

Some Audits Did Not Comply Fully With USAID Policy

ADS 591.3.2.1 states that foreign nonprofit organizations, host governments, and subrecipients that spend more than \$300,000 during their fiscal year must have an annual audit conducted. The responsible mission must ensure that the audit reports are submitted to the assigned RIG office for review 9 months after the end of the fiscal year in which the expenditures were incurred.

These audits must be conducted in accordance with OIG's *Guidelines*, which lists five tasks that an audit firm must perform before an audit can be closed out.

1. Review that advances are liquidated and any advances or excess cash be returned to USAID.
2. Review that all assets procured under the program are disposed in accordance with the terms of the agreement.
3. Identify the owners of the nonexpendable properties purchased under the program.
4. Include in the audit report the balances and details of final nonexpendable properties.
5. Review to ensure that cost-sharing or contribution requirements are met, if applicable.

In addition, missions must review and approve the draft audit contract between the audit firm and recipient to confirm that the contract has all procedures outlined in *Guidelines*.

Although USAID/Senegal had audits conducted for disbursements made to its recipients, some did not comply fully with USAID policy. Some audits were not performed annually, close-out procedures were not performed, not all audit contracts were approved, and some audits were not submitted on time to RIG/Dakar for review.

Some audits were not performed annually. The mission had two local recipients, the Agency for the Development of Social Marketing (ADEMAS) and Forum Civil, that spent more than \$300,000 within their fiscal years and were not audited annually.

Under its \$8 million award, ADEMAS spent \$2.8 million in 2006 and \$928,000 in 2007. However, the audit covering disbursements from 2005 to 2007 was not completed until November 2008.

Forum Civil received a \$1.2 million award in 2009, and it spent \$405,000 in 2011 and \$218,000 in 2012. The award ended in 2012, yet the audit was not completed until November 2013 for funds spent from January 1, 2011, through October 31, 2012.

When asked about the ADEMAs audit, mission officials said a German donor agency that also gave ADEMAs an award asked them to do a joint audit of its funds and USAID's funds. The process to approve the joint audit took longer than anticipated, so the mission decided to combine the audits to save on auditing fees. Subsequent audits for ADEMAs were conducted annually as required by the policy.

For Forum Civil, mission officials did not know why the 2011 audit was not done. They subsequently decided to combine the 2011 and 2012 audits because the award was ending in September 2012 and they believed this was the most cost-effective way to get them done.

Audit firms did not perform close-out procedures. These same two recipients had awards that ended; however, the audit firms did not follow the procedures for closing out the audits. ADEMAs's award of \$8 million ended in September 2011. Nevertheless, the audit firm did not perform close-out procedures because the mission did not verify that the audit contract included them. Mission officials said that when they reviewed the contract, they focused on making sure that the procedures for annual audits were included rather than those for the close-outs.

For Forum Civil, the award of \$1.2 million ended October 2012. Although the close-out procedures were included in the contract, the audit firm had not followed them. Therefore, RIG/Dakar did not accept the audit report the mission submitted. The audit firm has since conducted the close-out procedures and updated the report.

Mission did not approve all audit contracts. The mission did not review and approve ADEMAs's audit contracts from 2008 to 2012 for audits under the \$8 million award and another for \$22 million that it received in 2012. Mission officials said they approved all annual audit contracts after they approved ADEMAs's 2005 to 2007 audit contract. However, they said they lost the e-mails that supported these approvals when USAID switched from Microsoft Outlook to Gmail in 2012 and 2013.

Mission did not submit some audits for review on time. Forum Civil's audit report covering 2011 and 2012 was due to RIG/Dakar by July 2013 (9 months after October 2012), but it was not submitted until February 2014, 7 months after the deadline. Under ADEMAs's \$22 million award, the audit report for 2012 was due September 2013 but was not submitted to RIG/Dakar until March 2014, 6 months later.

USAID/Senegal officials said local recipients like ADEMAs have their own audit cycle and requirements, and they are often different from the Agency's requirement that audits be conducted within 9 months after the end of the recipient's fiscal year.

In the case of Forum Civil, mission officials said the audit was delayed because the organization's DUNS number¹ expired in October 2011, and the renewal process took a long time. They said they found out about the expired number when Forum Civil asked to have the award's end date (October 2012) extended so the audit could be completed.

USAID requires the Office of Acquisition and Assistance to verify with Dun & Bradstreet Inc. that a recipient's registration is active before entering any actions into its system. Mission officials said recipients are responsible for ensuring that their registration with Dun & Bradstreet is

¹ Any organization receiving funds under a contract or grant with the U.S. Government must get a registration number, referred to as the DUNS (Data Universal Numbering System) number from Dun & Bradstreet.

renewed. Forum Civil tried to renew the DUNS number, the officials explained, but had some problems because the employee who did the original registration left the organization and Forum needed that employee's personal information that was used during the initial registration with Dun & Bradstreet to renew the number. As a result, Forum Civil did not get a valid DUNS number until August 2013, 21 months after it expired and 10 months after the award ended.

Audits are performed to make sure that USAID funds are used as intended and in accordance with federal rules and regulations. Conducting these audits late limits the mission's ability to take prompt actions if any significant issues are identified. Close-out procedures are important also in ensuring that any excess USAID funds are returned to the mission, and that assets are returned to USAID, transferred to another USAID program, or disposed of in accordance with the agreement. Lastly, the audit reports should be submitted on time to ensure that problems like questioned costs are addressed and funds are collected from the recipient within a reasonable time frame. To help improve this process, we make the following recommendations.

Recommendation 1. We recommend that USAID/Senegal develop and implement internal procedures to ensure that any deviations from Automated Directive System 591 and the Office of Inspector General's Guidelines for Financial Audits Contracted by Foreign Recipients auditing requirements are documented, justified, and approved.

Recommendation 2. We recommend that USAID/Senegal develop and implement internal procedures that require the mission to review and approve recipients' audit contracts for compliance with USAID's policies and applicable regulations, and that performance of these procedures be documented and maintained.

Recommendation 3. We recommend that USAID/Senegal develop and implement a formal timeline with its recipients to ensure that the full audit process from hiring an audit firm to submitting the audit report to the Regional Inspector General's office in Dakar is done within the time frame established in USAID policy.

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft audit report, USAID/Senegal agreed with all three recommendations. We acknowledge management decisions on them, and evaluation of management comments is summarized below.

Recommendation 1. USAID/Senegal will create a new mission order to outline its procedures for deviations from ADS 591 and OIG's *Guidelines*. Moreover, the mission plans to use its Tracking Audit Consolidation System (referred to as TRACS)² to formally document any deviations from these policies. Accordingly, we acknowledge that the mission made a management decision on this recommendation.

Recommendation 2. Mission officials will include in its mission Order and TRACS its internal procedures for approving audit contracts. Therefore, we acknowledge the mission's management decision.

Recommendation 3. USAID/Senegal will include in its mission order a calendar to adhere to the audit report submission time frame as established in USAID policy, and it will notify its partners or recipients of this time line. We acknowledge the mission's management decision.

² USAID uses this system to track all audits, reviews, and engagements that are related to its award recipients.

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 purpose of this audit was to determine whether the mission included in its annual audit plans all recipients from its award inventory that required a financial audit, and whether those financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations.

The audit tested awards listed on the mission's FY 2013 audit listing and plan for compliance with applicable policies. However, we also reviewed the audit listing and audit plan for FY 2014 to perform certain audit procedures. In FY 2013 USAID/Senegal had 18 awards totaling \$35 million that were awarded to foreign recipients. Four of these awards totaling \$32 million met the criteria for audits under ADS 591; therefore, we tested these four for compliance with ADS 591 and OIG's *Guidelines for Financial Audits Contracted by Foreign Recipients*.

In planning and performing this audit, we interviewed mission officials to understand the processes and controls in place to ensure that awards are included in the audit list and plan. The mission's primary internal control is the controller's final approval of the list and audit plan submitted to RIG/Dakar. However, to answer the audit objective, we performed substantive tests of details to verify compliance with ADS 591 and *Guidelines*. We conducted our fieldwork at USAID/Senegal from June 30 to July 16, 2014.

Methodology

To answer the audit objective, we interviewed mission officials to understand the processes for developing the list and the audit plan. As part of this process, we observed how mission officials obtained the universe of awards for the list and verified the list's completeness with the Regional Office of Acquisition and Assistance. All awards meeting the criteria of disbursements greater than \$300,000 and awards with total disbursements of \$500,000 were tested for compliance with ADS 591 and OIG's *Guidelines*. We then performed substantive tests of details that included but were not limited to (1) verifying that awards with disbursements greater than \$300,000 and awards with total disbursements of \$500,000 were included on the audit plan, (2) audits were performed annually, (3) audit contracts were reviewed and approved by the mission, (4) close-out procedures were completed, and (5) audits were completed and submitted to RIG/Dakar on time.

MANAGEMENT COMMENTS



MEMORANDUM

DATE: September 29, 2014

TO: Regional Inspector General/Dakar, Abdoulaye Gueye

FROM: Susan Fine, Mission Director USAID/Senegal /s/

REF: RIG/Dakar Draft Audit Report NO. 7-685-14-00X-P

This memorandum transmits USAID/Senegal'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/Senegal's management procedures for ensuring appropriate audit oversight of funded programs is in place.

I. USAID/SENEGAL RESPONSE TO THE AUDIT FINDING AND RECOMMENDATIONS

Finding: Some Audits did not comply with USAID Policy

Recommendation 1: We recommend that USAID/Senegal develop and implement Internal procedures to ensure that any deviations from Automated Directive System 591 and the Office of Inspector General's Guidelines for Financial Audits Contracted by Foreign Recipients auditing requirements are documented, justified, and approved.

Recommendation 2: We recommend that USAID/Senegal develop and implement internal procedures that require the mission to review and approve recipients' audit contracts for compliance with USAID's policies and applicable regulations, and that performance of these procedures be documented and maintained

Recommendation 3: We recommend that USAID/Senegal develop and implement a formal timeline with its recipients to ensure that the full audit process from hiring an audit firm to submitting the audit report to the Regional Inspector General's office in Dakar is done within the time frame established in USAID policy.

USAID/Senegal's position on the finding and Recommendations 1, 2 and 3:

USAID/Senegal concurs with the finding that some audits did not comply with USAID Policy as well as the three recommendations proposed. USAID/Senegal will take the actions detailed below in addition to continue working closely with local organizations to improve their ability to comply with USAID policy and the Office of Inspector General's Guidelines for Financial Audits Contracted by Foreign Recipients auditing requirements.

II. ACTION TAKEN/PLANNED

Recommendation 1, 2 and 3:

The Office of Financial Management (OFM) incorporated the three RIG audit recommendations into the Mission's FMFIA corrective action plan due to the fact that the RIG audit was performed simultaneously with the Mission's annual FMFIA process. The corrective action plan has since been approved by the Mission's Management Control Review Committee.

The Mission intends to create a new Mission Order to document our procedures necessary for compliance with the Audit Control planning and management regulations. Accordingly, the new Mission Order will be very comprehensive and will detail the steps necessary to address the three RIG recommendations. More specifically, the Mission Order will document:

- The utilization of the Tracking Audit Consolidation System (TRACS) to formally notify and document any deviations from Automated Directive System 591 and the Office of Inspector General's Guidelines for Financial Audits Contracted by Foreign Recipients;
- Internal procedures approval of audit contracts which will also be documented in the TRACS system.
- An audit calendar that respects the timing of audit submissions to RIG as well as a partner notification system.

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

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