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### What is a Non-Federal Audit?

Non-Federal audits (NFAs) are financial audits conducted by independent public accountants and other external audit entities known collectively as non-Federal auditors. NFAs help USAID ensure that contracts, grants, and other agreements with host-country governments and foreign and domestic awardees comply with Federal regulations and maintain proper stewardship of government funds. USAID award recipients that expend more than \$1,000,000 in Federal funds annually are required to have an NFA.

NFAs are performed in accordance with Federal auditing standards. USAID Office of Inspector General (USAID OIG) provides independent oversight in coordination with the agencies we oversee. In addition, several laws inform the NFA program including the Inspector General (IG) Act of 1978, as amended; Single Audit Act of 1984; and Title 2 of the Code of Federal Regulations Part 200 and Part 700. USAID's Automated Directives System (ADS), Chapter 591, "Financial Audits of USAID Contractors, Recipients, and Host Government Entities" provides Agency-specific operational policy.

NFAs typically include examining the award recipient's schedule of expenditures of federal awards (SEFA) to determine if it is fairly presented, evaluating the award recipient's internal controls, and determining whether the award recipient complied with award terms and applicable laws and regulations.

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### Who performs NFAs?

Non-Federal auditors are independent public accountants (IPAs) or Supreme Audit Institutions (SAIs) that perform NFAs through contractual arrangements with USAID or USAID's award recipients. These are known as Agency-Contracted Audits (ACAs) or Recipient Contracted Audits (RCAs), respectively. IPAs and SAIs comply with generally accepted government auditing standards (GAGAS) in conjunction with other auditing standards, such as those promulgated by the International Organization of Supreme Audit Institutions or the International Federation of Accountants. USAID sometimes uses the Defense Contract Audit Agency (DCAA) to perform required ACAs of U.S.-based contractors.

In addition to meeting auditing standards, all non-Federal auditors are responsible for reporting fraud identified over the course of an NFA to USAID and USAID OIG.

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### What are USAID's responsibilities for NFAs?

Federal award-making agencies, such as USAID, and the recipients of those awards are subject to U.S. legal and regulatory requirements. While these laws and regulations apply to U.S.-based award recipients, USAID has expanded the definition to include foreign recipients.

Among other duties, USAID management is responsible for completing the following steps for both U.S. and foreign recipients:

- Assessing the risks associated with its awardees and developing annual audit plans based on those risk assessments and other audit requirements;
- Maintaining an audit inventory of all agency-awarded contracts, grants, and other agreements;

- Ensuring that audits of awardees are conducted in accordance with GAGAS and the Agency's internal policies; and
- Providing annual plans and final NFA reports to USAID OIG.

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## What are USAID OIG's responsibilities for NFAs?

Offices of Inspector General (OIGs) are required to ensure that NFAs comply with GAGAS in conjunction with other acceptable auditing standards. The IG Act, as amended, lays out the responsibilities of Federal OIGs, including USAID OIG.

USAID audits account for the vast majority of NFAs that USAID OIG reviews. To a lesser extent, USAID OIG also reviews NFAs managed by the Millennium Challenge Corporation (MCC). Foreign recipients of MCC awards are required to arrange for annual audits by non-Federal auditors in accordance with GAGAS and MCC guidelines. NFA regulations also apply to the Inter-American Foundation (IAF) and the U.S. African Development Foundation (USADF) if those agencies perform certain activities and expenditures reach the \$1,000,000 audit threshold.

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## Who at USAID OIG and USAID are involved with the NFA program?

USAID OIG's External Financial Audit Division in Washington, DC maintains oversight responsibilities for NFAs of awards funded out of USAID headquarters. Within their respective regions, USAID OIG's overseas audit offices are responsible for providing oversight of audits of mission-funded awards:

- *Africa Regional Office*: Based in Pretoria, South Africa with a satellite audit suboffice in Dakar, Senegal; oversees USAID programming across 50 countries in Africa, as well as regional programming for West, Southern, Central, and East Africa and the Power Africa portfolio.
- *Asia Regional Office*: Based in Bangkok, Thailand with satellite audit suboffices in Islamabad, Pakistan and Manila, Philippines; oversees USAID programming across 35 countries in Asia as well as regional programming.
- *Latin America and the Caribbean Regional Office*: Based in San Salvador, El Salvador with oversight of USAID programming across 27 countries as well as regional programming for Central America and Mexico, and Eastern and Southern Caribbean.
- *Middle East and Eastern Europe Regional Office*: Based in Frankfurt, Germany with audit suboffices in Cairo, Egypt and Kyiv, Ukraine; oversees USAID programming across 21 countries, including Libya and Egypt on the African continent, as well as the regional platform.

USAID OIG works closely with agency officials on the NFA program. USAID's NFA program management involves numerous actors from headquarters and overseas missions:

- Independent office directors and mission directors ensure proper follow-up of audit recommendations in their area of responsibility and designate Audit Management Officers (AMOs).
- AMOs for missions (typically mission controllers) (a) maintain audit inventories, prepare and monitor annual audit plan implementation to ensure required annual NFAs are conducted and timely submitted to the Agency and OIG, (b) establish an audit recommendation follow-up system for their offices and ensure that audit recommendations receive timely management decisions and final action, and (c) ensure that their missions have a list of pre-qualified IPAs and that NFAs are conducted by qualified IPAs.

- At headquarters, USAID's Cost Audit and Support Division in the Bureau for Management, Office of Acquisition and Assistance (M/OAA/CAS) serves as the AMO and maintains an inventory of all U.S. contractors and grantees, and non-U.S.-based organizations that received awards out of USAID/Washington and ensure that required audits are conducted.
- The USAID Assistant Administrator for Management (AA/M) is the Agency's Audit Follow-Up Official.
- Audit Action Officers (AAOs) make management decisions on audit recommendations, including whether to sustain questioned costs. AAOs for missions are typically agreement officers or contracting officers and, for Washington-based awards, are specialists in M/OAA/CAS Contract Audit Management Branch and Overhead, Special Cost and Contract Close-Out Branch.
- Audit Performance and Compliance Division (APC) in the Office of the Chief Financial Officer makes determinations on final actions and closing recommendations at AAO request.

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### How does USAID OIG oversee the NFA program?

USAID OIG's oversight includes performing desk reviews and targeted quality control reviews of NFA working papers. USAID OIG also plays a role in the recommendation follow up process.

**Desk Reviews:** USAID OIG follows a detailed checklist to confirm that final NFA reports received from the agency conform to applicable reporting standards. As part of this process, USAID OIG also reviews any related management letters the non-Federal auditor may have prepared to communicate other observations not included in the final NFA report. USAID OIG updates the checklist periodically to reflect current standards.

Based on the results of the desk review, USAID OIG determines whether the final NFA report sufficiently meets applicable reporting standards and takes the appropriate course of action:

- **Compliant → Transmitted.** After determining that an NFA report is compliant, USAID OIG issues a transmittal memo to the agency that communicates the results of the audit, including any reportable internal control and compliance issues and related questioned costs. The memo may also include recommendations to the agency to ensure corrective action such as by determining the allowability of questioned costs, recovering any unallowable costs, and verifying that recipients correct weaknesses in internal controls or instances of noncompliance. Non-Federal auditors typically are not paid in full until USAID OIG reviews and transmits the final NFA report. USAID OIG posts the transmittal memos on the external website and coordinates with the agency to track recommendations through closure.
- **Noncompliant → Rejected.** If USAID OIG determines that the NFA report is noncompliant, it issues a rejection memo to USAID. The rejection memo identifies issues that should be corrected before the final NFA report is accepted and non-Federal auditor that prepared the report is paid in full. Examples of noncompliance warranting rejection include presenting the statement of expenditures in a foreign currency or omitting a required section of the report.

USAID OIG may also issue a supplementary Memo of Review Comment (MRC) to the non-Federal auditors. MRCs describe errors identified during the desk review process that did not reach the level of rejection, but that the non-Federal auditors should nevertheless correct in future NFA reports. Examples of items described in MRCs include not clearly disclosing

departures from government auditing standards for continuing professional education and not meeting external peer review requirements.

**Quality Control Reviews:** Following a risk-based approach, USAID OIG also periodically performs quality control reviews of the workpapers that support final NFA reports. These reviews involve virtual or in-person visits to the non-Federal auditors' offices, reviews of documentation, and interviews with staff. Following the review, USAID OIG prepares a memo to USAID summarizing key observations and, when warranted, items that should be corrected.

**Recommendation Follow Up:** In coordination with the Agency, USAID OIG monitors the Agency's progress on addressing recommendations stemming from NFA reports. USAID OIG acknowledges when management decisions have been reached and tracks when management decisions are outstanding. The status of management decision and final action on NFA recommendations is included in USAID OIG's semi-annual reports to Congress.

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## Glossary of Key NFA Terms

The following definitions are adapted from USAID ADS 591, USAID ADS Glossary, internal OIG guidance, and public sources.

**Agency Contracted Audit (ACA):** An audit of specific USAID-funded grants or contracts where the OIG manages non-Federal auditors and issues the resulting audit report. Non-Federal auditors are contracted by either USAID or the OIG.

**Audit Finding:** An answer to an audit objective that is supported by relevant, sufficient, and competent evidence. NFA report findings can relate to material weaknesses and significant deficiencies in internal control or material instances of noncompliance with laws, regulations, and award terms.

**Audit Action Official:** The USAID employee in the lead mission, bureau or independent office assigned specific responsibility for responding to recommendations from audits and ensuring that corrective action is completed.

**Award:** A form of implementing mechanism through which USAID transfers funds to an implementing partner, generally selected through a competitive process resulting in a contract, grant, or cooperative agreement.

**Cognizant Mission:** The USAID mission (regional or bilateral) with primary responsibility for ensuring that a required NFA audit is completed and recommendations are addressed.

**Defense Contract Audit Agency (DCAA):** Provides audit and financial advisory services to the Department of Defense and other federal entities responsible for acquisition and contract administration.

**Desk Review:** A standardized process by which USAID OIG confirms final NFA reports conform to applicable reporting standards.

**Final Action:** The completion of all actions that USAID management has concluded are necessary with respect to the findings and recommendations of an audit report.

**Financial Audit:** An audit to assess whether a contractor, recipient, or host government has accounted for and used USAID funds as intended, and in compliance with applicable laws and regulations.

**Independent Public Accountant (IPA):** A person qualified to practice as a certified public accountant under governing laws of the state or country of residence and who is in fact independent.

**Internal Control:** A process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

**Management Decision:** Evaluation of a recommendation by management and the issuance of a written decision to the auditee as to what corrective action is necessary. Includes agreement or disagreement with the recommendation, a plan for corrective action, and a date for completion.

**Management Letter:** A letter prepared by the auditor which communicates to auditee management additional matters for improvement that were not required to be included in the audit report due to immateriality or scope.

**Material Weakness:** A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

**Memo of Review Comment (MRC):** A memo prepared by USAID OIG during a desk review of an NFA report that communicates immaterial issues for correction in future NFA reports.

**Non-Federal Audit (NFA):** Financial audits of U.S.-funded awards contracted by USAID or the awardee and performed by non-Federal auditors, such as independent public accounting firms or supreme audit institutions.

**Recommendation:** Steps needed to prevent future occurrences of the deficiency identified in the audit finding.

**Recovered Questioned Cost:** Award expenditures recovered by the Federal Government as a result of contract negotiations related to questioned costs.

**Recipient Contracted Audit (RCA):** A periodic audit of a foreign nonprofit organization receiving USAID funding where the organization hires non-Federal auditors.

**Schedule of Expenditures of Federal Awards (SEFA):** Used to determine the amounts expended for each of an organization's federal programs and whether an NFA is required. Also provides the basis for audit testing.

**Significant Deficiency:** A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected.

**Supreme Audit Institution (SAI):** A foreign country's principal government audit agency.

**Sustained Questioned Cost:** Questioned costs raised by an audit that the Federal Government determined should be recovered from the award recipient via bill of collection or other means.

**Quality Control Review (QCR):** A deep dive by USAID OIG into the working papers supporting a final NFA report.

**Questioned Costs:** Costs determined to be potentially unallowable. It includes ineligible costs (violation of a law, regulation, contract, grant, cooperative agreement, etc., or an unnecessary or unreasonable expenditure of funds) and unsupported costs (those not supported by adequate documentation at the time of an audit).