

**Audit of USAID/Honduras'
Recipient Audit Inventory**

Audit Report No. 1-522-02-003-P

November 13, 2001

Regional Inspector General / San Salvador



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

November 13, 2001

MEMORANDUM

FOR: USAID/Honduras Director, Timothy M. Mahoney

FROM: Regional Inspector General, Timothy E. Cox

SUBJECT: Audit of USAID/Honduras' Recipient Audit Inventory (Report No. 1-522-02-003-P)

This is our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft report, which are included in their entirety in Appendix II.

This report includes two recommendations for your action. Final action has been taken on Recommendation No. 1 and on parts 2.2 and 2.3 of Recommendation No. 2. A management decision has been made for parts 2.1 and 2.4 of Recommendation No. 2. A determination of final action will be made by the Office of Management Planning and Innovation when planned actions for parts 2.1 and 2.4 of Recommendation No. 2 have been completely implemented.

I appreciate the assistance and cooperation provided to the audit staff on this assignment.

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Summary of Results

The Regional Inspector General/San Salvador performed an audit to determine whether USAID/Honduras' audit inventory was complete and accurate and required audits were done in a timely manner (page 4).

USAID/Honduras developed a complete audit inventory for fiscal year 2001. However, the audit inventory included some inaccurate information: 26 of 42 line items tested, or 31 of 302 specific data elements tested, had incorrect information. Required audits were not done in a timely manner: of the 14 planned audits in the fiscal year 2000 audit inventory, due to be submitted no later than September 30, 2000, four audit reports were submitted late, and the other 10 audit reports had not been submitted as of September 7, 2001, the end of our audit fieldwork (pages 4 through 7).¹

USAID/Honduras was in agreement with the findings and recommendations in this audit report (page 7).

Background

Financial audits of contracts and grants are a primary basis for effective management and control of USAID's program expenditures. These audits are designed to provide USAID management reasonable assurance that transactions are properly recorded and accounted for; laws and regulations, and provisions of contract or grant agreements are complied with; and USAID-financed funds, property, and other assets are safeguarded against unauthorized use or disposition.

In response to Congressional concerns, USAID has taken an active role in recent years using audits as a management tool to improve financial accountability of its programs. In May 1996, USAID issued Automated Directives System (ADS), Chapter 591 which, among other things, requires USAID missions to (1) establish an audit management plan; (2) maintain an audit inventory database; and (3) have audits done for non-U.S. grants, contracts, and cooperative agreements that meet the audit threshold. These audit requirements help ensure that USAID funds are used for agreed-upon purposes. Lack of adequate audit coverage constitutes an unacceptable risk because, without such audit coverage, financial accountability for program expenditures cannot be reasonably assured.

In March 1998, the Office of Inspector General (OIG) issued Audit Report No. 3-000-98-002-F on USAID missions' roles in obtaining audits of their contracts, grants, and cooperative agreements. The report concluded that 11 of the 14

¹ In assessing whether the audit inventory was complete and accurate, we used the fiscal year 2001 audit inventory since it was the most recent one prepared by USAID/Honduras. In assessing whether the required audits were completed in a timely manner, we reviewed the audits listed in the fiscal year 2000 audit inventory since the audits listed in the fiscal year 2001 audit inventory were not yet due at the time of our audit.

USAID missions selected (on an USAID-wide basis) generally obtained audits of their contracts, grants, and cooperative agreements as required by ADS Chapter 591. However, a significant number of required audits were not completed at 10 of the audited 14 USAID missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit inventories worldwide over a period of three years because the lack of audit coverage was perceived as a high-risk area.

Our audit covered \$44 million in USAID/Honduras disbursements.

Audit Objective

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed an audit to answer the following question:

- Is USAID/Honduras' audit inventory complete and accurate, and were the required audits done in a timely manner?

The audit scope and methodology is presented in Appendix I.

Audit Findings

Is USAID/Honduras' audit inventory complete and accurate, and were the required audits done in a timely manner?

USAID/Honduras developed a complete audit inventory for fiscal year 2001. However, the audit inventory included some inaccurate information: 26 of 42 line items tested, or 31 of 302 specific data elements tested, had incorrect information. Required audits were not done in a timely manner: of the 14 planned audits in the fiscal year 2000 audit plan, required to be submitted no later than September 30, 2000, four audit reports were submitted late and the other 10 audit reports had not been submitted as of September 7, 2001, the end of our audit fieldwork.

The Mission took several actions to implement an audit management plan in accordance with the requirements of ADS Chapter 591, which included:

- establishing a Management Control Review Committee to monitor the status of the Mission's audit management plan and help ensure that its audit responsibilities were met;
- designating an Audit Management Officer and Audit Liaison (assistant to the Audit Management Officer) to coordinate and monitor the Mission's audit management plan and follow up on implementation of recipient-contracted audit recommendations;

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- including the required audit clauses in its grants and contracts and budgeting funds for audits; and
 - maintaining an inventory of contracts, grants, and cooperative agreements requiring audits, and maintaining an audit plan to track such audits.

Information in the Audit Inventory Could Be Improved

A review of the accuracy of the information in the audit inventory disclosed errors in 26 of 42 line items tested, or 31 errors out of 302 specific data elements tested. The errors generally pertained to an incorrect amount of the grant or cooperative agreement, an incorrect organization type, or an incorrect expiration date. These errors were due to data entry errors or use of a Mission Accounting and Control System (MACS) report that was not suitable for determining award amounts. In addition, Mission activity managers were not verifying the data in the audit inventory as required. None of the errors we identified resulted in required audits not being performed; however, incorrect information in the audit inventory could potentially result in a required audit not being performed.

Recommendation No. 1: We recommend that USAID/Honduras:

- 1.1 prepare the audit inventory based on a Mission Accounting and Control System report that includes all award amounts and**
- 1.2 verify that data is entered correctly.**

Required Audits Were Not Submitted in a Timely Manner

Chapter 591 of USAID's Automated Directives System (ADS) requires overseas missions to establish an audit management plan to ensure complete audit coverage of its non-U.S. grantees and contractors. In addition, Chapter 591 of the ADS and USAID's *Guidelines for Financial Audits Contracted by Foreign Recipients* state that reports resulting from these audits are to be submitted to the cognizant Office of Inspector General (OIG) audit office within nine months after the end of the recipient's fiscal year for review and release by the OIG.

USAID/Honduras' fiscal year 2000 audit inventory identified 14 audits that should have been submitted to the Regional Inspector General/San Salvador during fiscal year 2000. None of the 14 audit reports were submitted to the Regional Inspector General/San Salvador within the required nine-month timeframe. Four audit reports were submitted late and 10 audit reports still had not been submitted by the end of our audit fieldwork on September 7, 2001.

There were several reasons why the audit reports were submitted late:

- Heavy audit workload associated with the \$293 million Hurricane Mitch emergency reconstruction program in Honduras made it harder for Mission staff to take timely actions to ensure adequate audit coverage of the Mission's ongoing (non-emergency) program.
- Similarly, workload associated with the emergency reconstruction program severely taxed the capabilities of the Controller General of the Republic of Honduras and some local public accounting firms. This meant that, in many cases, it took them much longer than expected to perform the required audits.
- Mission staff gave priority to following up on existing audit recommendations in preference to initiating new audits. Controller's Office staff stated that they frequently had to take the lead in following up on audit recommendations, even though the ADS assigns activity managers the lead responsibility for audit recommendation follow up.

Because required audits were not completed or submitted to the Regional Inspector General/San Salvador in a timely manner, USAID/Honduras did not have adequate assurance that audits of non-U.S. recipients were conducted in accordance with USAID requirements and audit recommendations were tracked in USAID's Consolidated Audit Tracking System.

Recommendation No. 2: We recommend that USAID/Honduras:

- 2.1 provide all past-due audit reports to the Regional Inspector General/San Salvador;**
- 2.2 assign sufficient staff to carry out the Mission's audit responsibilities;**
- 2.3 make use of alternate sources of audit services (such as public accounting firms in other Central American countries, the Defense Contract Audit Agency, or U.S. public accounting firms) when local public accounting firms or the Controller General of the Republic are unable to provide satisfactory and timely audit services;**
- 2.4 in the Mission's internal control assessment for fiscal year 2001, rate as unsatisfactory the control technique "An audit management plan is in place and annual audits are conducted, where required, of non-U.S. organizations awarded direct contracts and grants, and host-country owned local currency accounts" until all**

the past due audit reports are submitted to the Regional Inspector General/San Salvador.

**Management
Comments and
Our Evaluation**

USAID/Honduras was in agreement with the findings and recommendations in this report.

In response to Recommendation No. 1, USAID/Honduras prepared a new audit inventory and verified the information contained in the audit inventory.

In response to part 2.1 of Recommendation No. 2, USAID/Honduras has requested recipients to submit past due audit reports. In response to part 2.2 of Recommendation No. 2, USAID/Honduras an existing Financial Management Support Advisor has been assigned as the Controller's special assistant for coordinating and monitoring all audit matters. All other Financial Management Support Advisors within the Office of Financial Management have been instructed to work with program managers and Contract Technical Officers to carry out the audit management plan. Furthermore, through the Management Control Review Committee, USAID/Honduras is ensuring the active participation of Strategic Objective Team Leaders and Office Directors in the audit planning, review, and closure process. With respect to part 2.3 of Recommendation No. 2, USAID/Honduras is considering other sources of audit services. All fiscal year 2001 audits have already been contracted, but if any critical problems arise in completing these audits, USAID/Honduras will contract audit services from outside Honduras. In response to part 2.4 of Recommendation No. 2, USAID/Honduras has listed the audit management program in a listing of concerns for follow-up from the fiscal year 2001 management control assessment.

Based on the above, final action has been taken on Recommendation No. 1 and parts 2.2 and 2.3 of Recommendation No. 2, and these recommendations are closed upon issuance of this audit report. Management decisions have been made for parts 2.1 and 2.4 of Recommendation No. 2.

Scope and Methodology**Scope**

The audit was performed in accordance with generally accepted government auditing standards and assessed (1) whether USAID/Honduras' audit inventory for fiscal year 2001 was complete and accurate, and (2) whether required audits for fiscal year 2000 were done in a timely manner. In assessing whether the audit inventory was complete and accurate, we used the fiscal year 2001 audit inventory since it was the most recent one prepared by USAID/Honduras. In assessing whether the required audits were completed in a timely manner, we reviewed the audits listed in the fiscal year 2000 audit inventory since the audits listed in the fiscal year 2001 audit inventory were not yet due at the time of our audit.

Fieldwork was performed at USAID/Honduras from September 4, 2001 through September 7, 2001. The audit covered a total of \$44 million in USAID funds.

The scope of this audit was limited to audits contracted by recipients under USAID/Honduras' ongoing, non-emergency program. It excluded audits contracted by recipients under the Hurricane Mitch emergency reconstruction program because the OIG was closely involved in helping to arrange and monitor the performance of audits under the emergency reconstruction program.

We did not audit the accuracy of the information in the Mission's MACS database system because of time constraints and because it was not directly relevant to our audit objective.

We obtained an understanding of the management controls related to the audit objective and assessed risk and control effectiveness. The specific control techniques reviewed were: assignment of an Audit Management Officer and Audit Liaison, assignment of audit-related work objectives to the Audit Management Officer and Audit Liaison, preparation of an audit inventory and audit management plan which is updated quarterly, and Management Control and Review Committee (MCRC) review of the audit inventory.

The audit scope included reviewing the Mission's audit inventory and related documents; making comparisons between the information in the audit inventory, the Mission's accounting system (MACS), and the contracts and grants themselves; reviewing audit reports and related information on file in the Office of the Regional Inspector General/San Salvador; and interviewing cognizant Mission officials.

We also determined the status of prior audit recommendations from the audit report entitled *Audit of Arrangements for Audit Coverage of USAID/Honduras' Assistance Portfolio* (Audit Report No. 1-522-99-010-P, September 27, 1999) issued by the Regional Inspector General/San Salvador.

The audit criteria was principally comprised of Chapter 591 of the ADS and the OIG's "*Guidelines for Financial Audits Contracted by Foreign Recipients*," revised in July 1998.

Methodology

To assess whether the audit inventory was complete and accurate, we obtained the fiscal year 2001 audit inventory and tested a sample of data elements in the audit inventory by performing comparisons between the information in the audit inventory, the Mission's accounting system (MACS), and the contracts and grants themselves. We considered inaccuracies or omissions affecting 5 percent or more of the cases reviewed to be significant and reportable. (This threshold reflects our judgments about the level of performance that is reasonable and attainable for this part of the audit objective.) More specifically:

- To test the completeness of the audit inventory, we requested a query report listing all of the agreements in the MACS system, verified the criteria used to prepare the query report, and verified that all of the agreements in the MACS system were included in the audit inventory. We also obtained a listing of all awards processed by the Mission's contracts office and verified that all awards under the Mission's on-going, non-emergency program were included in the audit inventory.
- To test the accuracy of the information in the audit inventory, we randomly sampled 42 of 60 awards listed in the audit inventory. For these awards, we traced all data elements (302 data elements in total) for the 42 awards to supporting documents or information in the MACS system. The sampling method used provides a confidence level of 95 percent and precision of plus or minus 5 percent.

To determine whether required audits for fiscal year 2000 were done in a timely manner, we obtained the fiscal year 2000 audit inventory and reviewed audit reports and related records in the Office of the Regional Inspector General/San Salvador to see whether required audits listed in the audit inventory were submitted to the OIG and if so, when. We considered error rates of 10 percent or more to be significant and reportable. (This threshold reflects our judgments about the level of performance that is reasonable and attainable for this part of the audit objective.)

USAID/HONOURAS
MEMORANDUM

Management Comments

DATE: November 3, 2001

TO: Tim Cox. RIG/SS

FROM: Timothy Mahoney, Mission Director

SUBJECT: DRAFT AUDIT REPORTS No 1422-02-xxx-P Audit of USAID/Honduras' Recipient Audit Inventory

This memorandum represents IJSAID/Honduras (USAID/H) comments to the actions taken to implement the recommendations contained therein.

I. Recommendation No. 1: We recommend that USAID/Honduras:

1.1 Prepare the audit inventory based on a Mission Accounting and Control System report that includes all commitments amounts and

1.2 Verify that the data is entered correctly.

Comments and Actions Completed

The Mission has prepared a new audit inventory (annex A), based on Mission Accounting Control Systems (MACB) 10 reports developed by the accounting section. All commitment amounts, commitment numbers, Stan and ending dates as well as type of organization has been verified against original source documents in the Office of Financial and Contracts Management (OFM and OCM) within USAIO/H,

Based on the above~completed actions, Mission requests *RIB/SE* concurrence with its management decision and closure of this recommendation upon issuance of the audit report in final form,

II. Recommendation No. 2: We recommend that USAID/Honduras:

2.1 Provide all past-due audit reports to the Regional Inspector General San Salvador;

2.2 Assign sufficient staff to carry out the mission's audit responsibilities;

2.3 Make use of alternate sources of the audit services (such as public accounting firms with other Central American countries, the Defense Contract Audit Agency, or U.S. public accounting firms) when local public accounting firms or the Controller General of the Republic are unable to provide satisfactory and timely audit services;

2.4 In the mission's internal control assessment for fiscal year 2001, rate as unsatisfactory the control technique "An audit management plan is in place and annual audits are conducted, where required, of non-U.S. organizations awarded direct contacts and grants and host-county owned local currency accounts" until all past due reports are submitted to the Regional Inspector General/San Salvador.

Comments and Action taken and/or to be taken:

2.1 On September 13 and 14, 2001, the Mission requested in writing to the recipients with past due audits the submission to all final draft reports NLT September 30, 2001, and advise them that if such audits were not submitted by that date, costs incurred for such efforts could possibly not be recognized as allowable expenditures under the respective agreement (Annex B). As a result of this action, we received draft reports and approved the final issuance of 4 of them. Annex C shows status of all past-due audits.

2.2 Considering current Mission staff limitations, the CFMO has assigned an existing financial Management Support Advisor (FMSA) as his special assistant for coordinating and monitoring all audit matters. In addition, all other FMSAs within the Office of Financial Management (OFM) have been instructed to work closely with program managers and CTO's to ensure effective implementation of the Agency's Audit Management and Resolution Program (AMRP), e.g. ensuring the quality of the audit inventory and audit reports, reporting management decisions on time, and complete corrective actions to request closure of resulting recommendations. Furthermore through the Management Control Review Committee (MCRC), the Mission is ensuring the active participation of Strategic Objective Team (SOT) leaders and Office Directors in the audit planning, review and closure process.

2.3 Before issuance of subject audit report, Mission did not have the authority to make use of alternate sources of audit services from its regular program. However, due to the current limitation of the local audit firms capabilities, Mission was already looking for other sources for the implementation of its FY2002 audit plan, and scheduled a meeting with DCAA in October 2001. This meeting was postponed to November 2001 due to the recent terrorist attacks on the U.S. All FY2001 planned audits have been contracted for, but if any critical problems arise in their implementation, the Mission will contract audit services from outside Honduras.

2.4 Mission has placed the AMRP in the summary listing of concerns resulting from the Mission FY01 Management Control Assessment (MCA) for follow-up purposes until brought in line with the Agency's mandate (see Annex D). Actions described in section 2.1 above also apply to this section of the recommendation,

Based on the above the Mission requests RIG/SS concurrence with its management decision for recommendation No.2 and closure of sections 2.2 and 2.3 of the recommendation upon issuance of the final audit report. Closure for sections 2.1 and 2.4 will be requested upon transmittal to RIG/SS of pending audit reports,

in closing, USAID/Honduras would like to express its gratitude for the valuable information and useful guidelines provided by RIG's staff during the performance of subject audit.