

# USAID

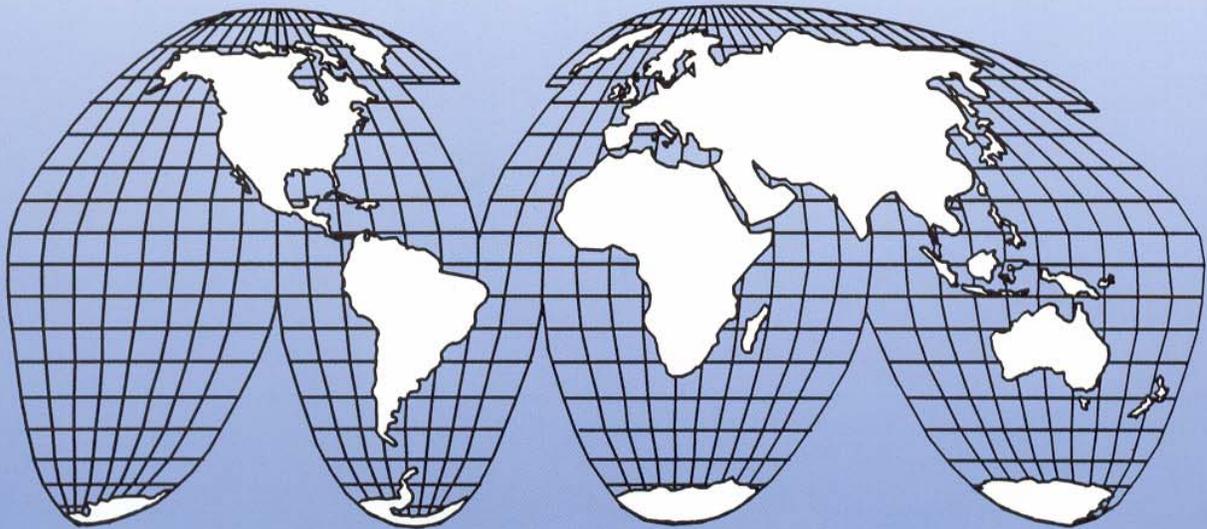
## OFFICE OF INSPECTOR GENERAL

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### **Audit of USAID's Bureau for Management, Office of Acquisition and Assistance's Administration of Audits Required Under Awards to Foreign and U.S. Recipients**

**Audit Report No. 1-598-05-002-P**

**December 3, 2004**



**San Salvador, El Salvador**





December 3, 2004

**MEMORANDUM**

**FOR:** M/OAA Director, Michael F. Walsh

**FROM:** Acting RIG/San Salvador, John Vernon “/s/“

**SUBJECT:** Audit of USAID’s Bureau for Management, Office of Acquisition and Assistance’s Administration of Audits Required Under Awards to Foreign and U.S. Recipients (Report No. 1-598-05-002-P)

This memorandum is our final report on the subject audit. In finalizing this report, we considered your comments on our draft report and have included your response in Appendix II.

This report contains six recommendations for your action. Based on your comments, management decisions have been reached for these recommendations. Determination of final action will be made by the Bureau for Management’s Office of Management Planning and Innovation (M/MPI/MIC).

Once again, thank you for the cooperation and courtesy extended to my staff throughout the audit.

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## **Summary of Results**

The Regional Inspector General/San Salvador conducted this audit to determine if USAID's Bureau for Management, Office of Acquisition and Assistance ensured that financial audits were performed for foreign and for U.S. recipients in accordance with USAID policies and the Office of Management and Budget Circular A-133 (page 6).

USAID's Bureau for Management, Office of Acquisition and Assistance did not ensure that financial audits were performed for foreign and U.S. recipients in accordance with USAID policies and the Office of Management and Budget Circular A-133. The Office of Acquisition and Assistance did not maintain an inventory of required audits for foreign recipients and as a result was unable to ensure that financial audits were conducted. The Office of Acquisition and Assistance maintained an inventory of required audits for U.S. recipients in the Audit Tracking System. However, there were four audit reports that should have been received but were not and the information in the system was not accurate and updated to ensure that financial audits were conducted (page 6).

We made six recommendations to address the items discussed in this report. We recommended that the Bureau for Management, Office of Acquisition and Assistance (1) review existing centrally-funded awards for fiscal years 2002 and 2003 to ensure that an audit provision has been included in the award; (2) establish a procedure to ensure that the Contract or Agreement Officer notifies the Contract Audit Management Branch when a new foreign recipient receives a centrally-funded award; (3) establish a procedure to ensure that all future centrally-funded awards to foreign recipients contain an audit provision that explicitly states where the audit reports should be submitted; (4) develop and submit an audit inventory of all foreign recipients with centrally-funded awards to the Office of Inspector General; (5) establish a process for ensuring that all audit information is accurately recorded in the Audit Tracking System on a timely basis; and (6) ensure that audit reports from Helen Keller International, Inc., International City County Management Associates, International Eye Foundation, and People to People Health Foundation Inc. are received and submitted to the Office of Inspector General for review (pages 8-10).

The Bureau for Management, Office of Acquisition and Assistance agreed with the findings and recommendations presented in this report (page 13).

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## **Background**

USAID utilizes various acquisition and assistance instruments to implement its activities. Contracts, grants, cooperative agreements and purchase orders are some of the instruments which are negotiated and signed worldwide by USAID. These instruments provide for a variety of commodities and technical assistance to support objectives of the U.S. foreign assistance program managed by USAID.

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Financial audits of USAID's grants and contracts should be conducted to assess whether the recipients (contractors, grantees, or host governments) of USAID's funds have accounted for and used USAID funds as intended and have complied with applicable laws and regulations. These financial audits are generally performed by auditors outside of the Office of Inspector General. However, the audit reports should be submitted to the Office of Inspector General for review to ensure that the audits were conducted in accordance with Generally Accepted Government Auditing Standards and the Guidelines for Financial Audits Contracted by Foreign Recipients (*Guidelines*) established by the Office of Inspector General.

This audit covered awards to foreign recipients with centrally-funded awards and to U.S. recipients for fiscal years 2002 and 2003 as of August 16, 2004. Centrally-funded awards are issued by the Bureau for Management, Office of Acquisition and Assistance.

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**Audit Objective**

As part of its fiscal year 2004 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Did USAID's Bureau for Management, Office of Acquisition and Assistance ensure that financial audits were performed for foreign and for U.S. recipients in accordance with USAID policies and the Office of Management and Budget Circular A-133?

Appendix I describes the audit's scope and methodology.

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**Audit Findings**

**Did USAID's Bureau for Management, Office of Acquisition and Assistance ensure that financial audits were performed for foreign and for U.S. recipients in accordance with USAID policies and the Office of Management and Budget Circular A-133?**

USAID's Bureau for Management, Office of Acquisition and Assistance did not ensure that financial audits were performed for foreign and for U.S. recipients in accordance with USAID policies and the Office of Management and Budget Circular A-133. The Office of Acquisition and Assistance did not maintain an inventory of required audits for foreign recipients. The Office of Acquisition and Assistance maintained an inventory of required audits for U.S. recipients in the Audit Tracking System. However, 4 out of a sample of 30 audit reports that should have been received were not. The information in the system was not accurate and was not updated to ensure that financial audits were conducted.

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## **Inventory of Required Audits for Foreign Recipients Was Not Maintained**

Summary: Automated Directive Systems (ADS) 591 required the Bureau for Management, Office of Acquisition and Assistance, Contract Audit Management Branch to maintain an inventory of foreign organizations with centrally-funded awards and to ensure that required audits were conducted. The Branch did not maintain such an inventory and therefore did not ensure that required audits were conducted. The inventory was not maintained because of uncertainty related to audit responsibilities. Without such an inventory, USAID would not be able to provide assurance that required audits were contracted, performed, and submitted to the OIG for review.

According to Automated Directive Systems (ADS) 591, “Financial Audits of USAID Contractors, Grantees, and Host Government Entities,” foreign, nonprofit organizations that expend \$300,000 or more in federal awards during their fiscal year must have annual audits conducted in accordance with the requirements detailed in the Guidelines for Financial Audits Contracted by Foreign Recipients (*Guidelines*) published by the Office of Inspector General (OIG).

ADS 591 also states that the Bureau for Management, Office of Acquisition and Assistance, Contract Audit Management Branch (Branch) must maintain an inventory of foreign organizations receiving centrally-funded awards issued by its office and must ensure that required audits were conducted.

The OIG requested an inventory of all required audits of foreign contractors and grantees with centrally-funded awards to ensure that all audits of foreign recipients with centrally-funded awards were conducted and submitted to the OIG in accordance with the *Guidelines*. The Branch maintained a file of various foreign organizations with USAID grants, but the file was not complete and did not contain information to indicate whether an audit was required for a given recipient. The Branch was not able to provide information on how to obtain an audit universe of centrally-funded awards. As a result, the Branch did not have a tracking mechanism for the foreign recipients with centrally-funded awards to ensure audits were conducted. An audit tracking system would allow the Branch to identify all those recipients required to conduct and submit audit reports.

According to Branch personnel, audit responsibilities over foreign recipients with centrally-funded awards in the past have not been clearly defined between the Office of Acquisition and Assistance, the missions, and the recipients. Although awards were issued in Washington, Branch officials thought that the cognizant mission would be responsible for ensuring that audits were conducted. As a result, the Branch was not aware of the need for maintaining an audit inventory for the centrally-funded awards to foreign recipients issued by its office. Without such an inventory, USAID would not be able to provide assurance that required audits were contracted, performed, and submitted to the OIG for review.

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Some recipients were also unclear of their audit responsibilities as some centrally-funded awards to foreign recipients did not have audit provisions in the grant, contract, or agreement which required the recipient to obtain an audit and submit the audit reports to the appropriate USAID offices.

According to ADS 303.5, "Grants and Cooperative Agreements to Non-Governmental Organizations," awards to non-U.S. organizations shall include provisions for which require audits to be conducted and reports to be submitted to the appropriate USAID offices. Without the audit provision requiring an audit to be performed and submitted to the proper USAID office, the recipients may have been unaware of the audit requirement and would have been under no obligation to obtain an audit or may have been unaware of where to submit the audit report.

**Recommendation No. 1: We recommend that USAID's Bureau for Management, Office of Acquisition and Assistance review existing centrally-funded awards for foreign recipients for fiscal years 2002 and 2003 to ensure that an audit provision has been included in the award. If no provision has been included, a modification to the award should be prepared and sent to the recipient to include the appropriate provision.**

**Recommendation No. 2: We recommend that USAID's Bureau for Management, Office of Acquisition and Assistance establish a procedure to ensure that the Contract or Agreement Officer notifies the Contract Audit Management Branch when a new foreign recipient receives a centrally-funded award.**

**Recommendation No. 3: We recommend that USAID's Bureau for Management, Office of Acquisition and Assistance establish a procedure to ensure that all future centrally-funded awards to foreign recipients contain an audit provision that explicitly states where the audit reports should be submitted.**

**Recommendation No. 4: We recommend that USAID's Bureau for Management, Office of Acquisition and Assistance develop and submit an audit inventory of all foreign recipients with centrally-funded awards to the Office of Inspector General.**

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## **Audit Reports Were Not Submitted**

Summary: Automated Directive Systems 591 requires that the Bureau for Management, Office of Acquisition and Assistance, Contract Audit Management Branch be responsible for identifying and maintaining the audit inventory for U.S. organizations and ensuring required audits were conducted. From our testing of 30 U.S. organizations maintained in the Audit Tracking System (ATS), four audit reports had not been received from the recipient organizations. The Branch was not aware that these four audit reports had not been received. Furthermore, the out-dated and inaccurate information maintained for recipient organizations in the audit tracking system has caused the Branch to not use the system as an audit tracking tool. Without an accurate and current audit tracking system, USAID could not provide assurance that required audit reports were received.

The Office of Management and Budget Circular A-133 states that non-federal entities that expend \$300,000 in federal awards (\$500,000 for fiscal years ending after December 31, 2003) or more in a year shall have a single or program-specific audit conducted for that year in accordance with the provisions of the circular. Also, in accordance with the Automated Directive Systems 591, the Bureau for Management, Office of Acquisition and Assistance, Contract Audit Management Branch (Branch) is responsible for identifying and maintaining the audit inventory for U.S. organizations and ensuring required audits were conducted.

USAID identified and maintained the audit inventory for U.S. organizations using the Audit Tracking System (ATS). We randomly<sup>1</sup> selected 30 organizations from the ATS to determine if the Branch was properly monitoring and tracking audit reports for fiscal years 2002 and 2003. Of the 30 organizations selected, four organizations had not submitted audit reports to the Branch for fiscal years 2002 and/or 2003. The Branch was not aware that these four audit reports had not been received. Furthermore, the out-dated and inaccurate information maintained for recipient organizations in the audit tracking system has caused the Branch to not use the system as an audit tracking tool. Inputting of audit information had not been a priority for the Branch. For example, nine of the 30 organizations selected for testing contained contract close-out dates that were not consistent with the New Management System, Assistance and Acquisition module. According to Branch personnel, the New Management System contained the most current contract information. The information in the ATS should be accurate and current to properly monitor and track audits to ensure that all required audit reports were received. Without an accurate and current audit tracking system, USAID could not provide assurance that required audits reports were received. Furthermore, the ATS could not be used as a reliable source for providing relevant information

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<sup>1</sup> The sample selected was non-statistical.

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to properly monitor and track audits to ensure that all required audit reports were received.

**Recommendation No. 5: We recommend that USAID’s Bureau for Management, Office of Acquisition and Assistance, Contract Audit Management Branch establish a process for ensuring that all audit information is accurately recorded in the Audit Tracking System on a timely basis.**

**Recommendation No. 6: We recommend that USAID’s Bureau for Management, Office of Acquisition and Assistance, Contract Audit Management Branch ensure that audit reports from Helen Keller International, Inc., International City County Management Associates, International Eye Foundation, and People to People Health Foundation Inc. are received and submitted to the Office of Inspector General for review.**

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## **Evaluation of Management Comments**

The Bureau for Management, Office of Acquisition and Assistance agreed with the findings and recommendations presented in this report. Accordingly, management decisions were made for the recommendations. The Bureau for Management, Office of Acquisition’s comments are included in their entirety in Appendix II.

The recommendations have been renumbered in the final report. Also, based on information that was available after the draft report was issued, the audit finding related to the Audit Tracking System has been rephrased and a sixth recommendation has been included in the final report. The Bureau for Management, Office of Acquisition and Assistance agreed with the new recommendation.

Determination of final action will be made by the Bureau for Management’s Office of Management Planning and Innovation (M/MPI/MIC).

**Scope and  
Methodology**

**Scope**

We audited the USAID's Bureau for Management, Office of Acquisition and Assistance's administration of audits required under awards to foreign and to U.S. recipients in accordance with generally accepted government auditing standards. The audit was conducted at USAID/Washington from March 22, 2004 to April 2, 2004 and from April 28, 2004 to April 30, 2004.

The audit focused on whether the Bureau for Management, Office of Acquisition and Assistance ensured that audits were conducted for foreign and for U.S. recipients in accordance with USAID policies and the Office of Management and Budget Circular A-133.

In conducting our audit, we assessed the effectiveness of the Bureau for Management, Office of Acquisition and Assistance's management controls designed to ensure that all required audits of U.S. recipients were conducted. Management controls included maintaining a list of all required audits and forwarding audit reports to the OIG. We did not assess the management controls designed to ensure that all required audits of foreign recipients with centrally-funded awards were conducted.

We randomly<sup>2</sup> selected 30 U.S. organizations from the Audit Tracking System to determine if audit reports had been received for fiscal years 2002 and 2003.

The audit covered all required audit reports for fiscal years 2002 and 2003 as of August 16, 2004.

Our audit did not include reviewing the quality of the audit reports.

**Methodology**

To answer the audit objective, we obtained information regarding the Bureau's organization, staffing, and responsibilities. We interviewed the Branch Chief and staff of the Contract Audit Management Branch. We reviewed the audit tracking system report of all U.S. organizations. Using the selected sample of 30 U.S. organizations, we reviewed the audit reports to determine that the reports were received by the Contract Audit Management Branch.

An unqualified opinion would be issued if all audits required were conducted and submitted to the Office of Inspector General of all fiscal year 2002 and fiscal year 2003 recipients selected.

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<sup>2</sup> The sample selected was non-statistical.

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A qualified opinion would be issued if 95 percent to 99 percent of the audits required were conducted and submitted to the Office of Inspector General of all fiscal year 2002 and fiscal year 2003 recipients selected.

An adverse opinion would be issued if less than 95 percent of the audits required were conducted and submitted to the Office of Inspector General of all fiscal year 2002 and fiscal year 2003 recipients selected.

**Management  
Comments**

October 29, 2004

**To:** RIG/San Salvador, Steven H. Bernstein

**From:** M/OAA/Director, Michael F. Walsh

**Subject:** Draft Audit of USAID's Bureau for Management, Office of Acquisition and Assistance's Administration of Audits Required Under Awards to Foreign and U.S. Recipients (Report No. 1-598-05-00X-P)

Thank you for the opportunity to comment on the referenced DRAFT report. The Office of Acquisition and Assistance (M/OAA) offers the following in response to your DRAFT recommendations.

**Recommendation No. 1: We recommend that the Bureau for Management, Office of Acquisition and Assistance perform the following:**

**1a. Review existing centrally-funded awards for foreign recipients for fiscal years 2002 and 2003 to ensure that an audit provision has been included in the award. If no provision has been included, a modification to the award should be prepared and sent to the recipient to include the appropriate provision.**

M/OAA concurs with Recommendation No. 1a. M/OAA proposes to undertake a systematic review of these awards until we have determined that the required provisions are included in all awards. A file review of all centrally-funded awards will be conducted by representatives of the OAA Evaluation Division for FYs 2002 and 2003. Should this audit uncover procurement instruments that lack the required provisions, OAA's Cognizant Contracting Officers will be required to modify their awards accordingly. In the future, policy guidance will be issued regularly to remind contracting staff of this requirement. We will also take the necessary steps to ensure that these requirements are reiterated in our CO training classes.

**1b. Establish a procedure to ensure that the Contract of Agreement Officer notifies the Contract Audit Management Branch when a new foreign recipient receives a centrally-funded award.**

M/OAA concurs with Recommendation No. 1b. M/OAA proposes to coordinate with the Bureau for Management, Office of Management, Planning and Innovation (MPI) to develop and audit management policy that will require all Contract/Agreement Officers to include OAA/CAS in their normal distribution list announcing new awards. This will ensure timely updates and accurate tracking of centrally-funded awards. Additionally, M/OAA will issue a policy statement in the form

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of an Acquisition and Assistance Policy Directive (AAPD) no later than March 31, 2005 to reinforce these requirements.

**1c. Establish a procedure to ensure that all future centrally-funded awards to foreign recipients contain an audit provision that explicitly states where the audit reports should**

M/OAA concurs with Recommendation No. 1c. M/OAA proposes that the policy directive established above (Recommendation No. 1b.) will include procedures for Contract/Agreement Officers to incorporate audit provisions in the award instrument and instructions to the recipient on where the audit reports should be submitted as detailed in the *Guidelines for Financial Audits Contracted by Foreign Recipients*.

**1d. Develop and submit and audit inventory of all foreign recipients with centrally-funded awards to the Office of Inspector General.**

M/OAA concurs with Recommendation No. 1d. M/OAA is currently reviewing its Audit Tracking System (ATS) to determine the modifications, if any, that can be made to better track the universe of foreign organizations receiving centrally-funded awards as required by ADS 591.3.2.1. Based on earlier recommendations, we will have an up-to-date audit trail that can be provided routinely to the OIG. In the interim, we will provide an inventory of those awards that are in the current database to the OIG in order for us to establish a baseline from which to begin. Over the next six months, we will review our procedures and beta-test the newly updated database to ensure improvements in our reporting. We will continue to collaborate with MPI and M/OAA's Policy Division to ensure that we are on track.

**Recommendation No. 2: We recommend that USAID's Bureau for Management, Office of Acquisition and Assistance, Contract Audit Management Branch establish a process for ensuring that all audit information is accurately recorded in the Audit Tracking System on a timely basis.**

M/OAA concurs with Recommendation No. 2. M/OAA/CAS acknowledges that a lack of adequate resources continues to be a major factor in this finding. M/OAA has begun to take steps to remedy its personnel shortage and recently awarded new Manpower contracts to supplement its staff within M/OAA. As a result, M/OAA/CAS will be provided with additional staff support. These steps should begin to relieve the data-entry backlog and improvement should be noticeable by March 31, 2005.