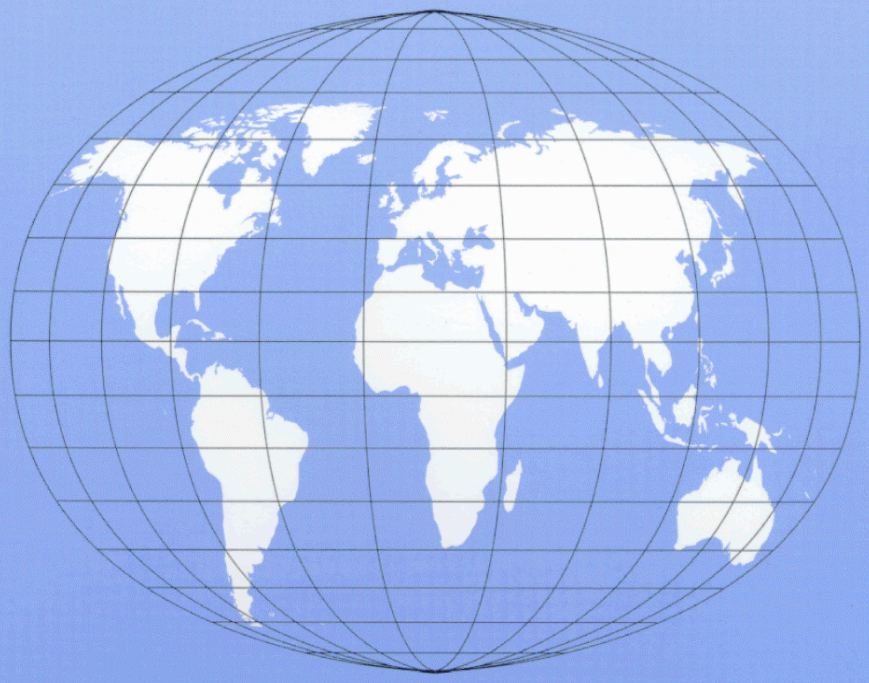
Report of Audit

Audit of the Accuracy of USAID/Zambia's Recipient Audit Universe

Report No. 4-611-01-003-P
February 14, 2001



PRETORIA, SOUTH AFRICA

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Memorandum

Regional Inspector General
Pretoria

DATE: **February 14, 2001**

TO: **Mission Director, USAID/Zambia, Allan E. Reed**

FROM: **Regional Inspector General/Pretoria, Joseph Farinella /s/**

SUBJECT: **Audit of the Accuracy of USAID/Zambia's Recipient Audit Universe, Report Number 4-611-01-003-P**

This is the final report on the subject audit. We received your comments to our draft report and included those comments as Appendix II to this report.

This report has no recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

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. During 1991 and 1992, USAID revised its standard provisions for its contracts and grants, requiring annual audits of non-U.S. organizations disbursing USAID funds of $25,000 or more. The threshold was increased to $100,000 in May 1994, and to $300,000 in July 1998.

Furthermore, in April 1992, USAID issued a General Notice, defining the role of USAID missions in obtaining audits of their contracts, grants and cooperative agreements with non-U.S. organizations. In May 1996, these requirements were incorporated into Chapter

591 of USAID's Automated Directives System (ADS), which, among other things, requires USAID missions to (i) establish an audit management program; (ii) maintain an audit inventory database; and (iii) have audits done for non-U.S. grants, contracts and cooperative agreements that meet the audit threshold.

These initiatives are far reaching in preventing misuse of USAID development funds and facilitating timely corrective actions. Lack of adequate audit coverage constitutes an unacceptable risk because, without such a control mechanism, financial accountability of program expenditures cannot be reasonably assured.

In March 1995, the Office of Inspector General (OIG) issued Audit Report No. 3-000-95-009 on USAID's implementation of a 1992 initiative to improve the financial management of its programs. The report concluded that most missions had implemented the general requirements of the financial audit management program and established audit inventory databases. However, complete coverage was impaired as a result of obstacles arising from host government restrictions and local audit firm capabilities.

In March 1998, the OIG issued Audit Report No. 9-000-98-002-F on USAID missions' roles in obtaining audits of their contracts, grants and cooperative agreements. The report concluded that 11 of the 14 USAID missions selected worldwide 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 aforementioned 14 USAID missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit universe worldwide over a period of three years because lack of audit coverage was perceived as a high-risk area. Accordingly, RIG/Pretoria included this audit in our fiscal year 2001 audit plan.

Audit Objective

RIG/Pretoria performed this audit to answer the following question:

Is USAID/Zambia's audit universe complete and accurate, and are required audits done in a timely manner?

The audit scope and methodology are described in Appendix I.

Audit Findings

The audit showed that USAID/Zambia (Mission) maintained a complete and accurate audit universe, and that required audits were generally done in a timely manner. For those awards active during the audit period (October 1, 1997 though September 30, 2000), USAID/Zambia disbursed approximately $43.9 million to 25 U.S. organizations and 8 non-U.S. organizations. Three of the 25 U.S. organizations had no disbursements at the time of the audit. The table below provides a breakdown of these disbursements by recipient and type of agreement:

	U.S. RECIPIENTS[1]		NON-U.S. RECIPIENTS		TOTAL	
TYPE OF AGREEMENT	**CUMULATIVE DISBURSEMENTS & NUMBER OF RECIPIENTS**					
Project Implementation Letter	$0	0	$339,541	2	$339,541	2
Contract	18,084,530	9	0	0	18,084,530	9
Grant	5,362,076	2	85,007	1	5,447,083	3
Cooperative Agreement	18,219,791	14	1,807,500	5	20,027,291	19
TOTAL	$41,666,397	25	$2,232,048	8	$43,898,445	33

We ascertained that: (1) the Mission's audit database inventory was complete and included all U.S. and non-U.S. recipients meeting the audit threshold, and (2) audit reports were prepared in accordance with USAID's guidelines for financial audits. We also determined that of the eight non-U.S. recipients identified in the above table, only one recipient was subject to audit coverage and had audits performed as required during the audit period. In addition, we also found that the Mission had audits done for recipients with disbursements below the threshold. For example, one recipient with disbursements of $294,798 had an audit completed on time.

With regard to timeliness, the one recipient that required audits was late with one of its audit reports. The audit report, for the 18-month period ending on September 30, 1999,

[1] USAID/Washington is responsible for the audit coverage of the 25 U.S. recipients.

was drafted in February 2000, which was within the prescribed time requirement. However, the final audit report was signed on September 19, 2000, 12 months after the close of the recipient's fiscal year. Chapter 591 of the ADS requires that audit reports must be submitted to USAID within *nine* months after the end of the recipient's fiscal year. According to the recipient, the delay in issuing the final audit report was due to the fact that the audit manager was temporarily reassigned to another audit office after the preparation of the draft report. Therefore, the final audit report was delayed until his return to Lusaka, Zambia. Based on this information and the fact that it is a solitary incident, we are not making any recommendations to the Mission.

In addition, we noted that the Mission took actions to implement an audit management program 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 program and to assure that its audit responsibilities were carried out;

- designating an audit management officer to coordinate and monitor the Mission's financial audit program, and follow up on the implementation of recipient-contracted audit recommendations;

- enclosing required audit clauses in its grants and contracts, and budgeting funds for audits; and

- maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits, and monitoring such audits.

Management Comments and Our Evaluation

USAID/Zambia is in agreement with the auditors' findings and comments that the Mission developed an accurate recipient audit universe and obtained coverage of its non-U.S. recipients as required under ADS 591. The Mission expressed appreciation for the support given by RIG/Pretoria during the performance of the audit.

SCOPE AND METHODOLOGY

Scope

The audit was performed in accordance with generally accepted government auditing standards, and ascertained whether (1) USAID/Zambia's audit universe was complete and accurate, and (2) required audits were done in a timely manner.

The OIG conducted a "Worldwide Audit of Selected Missions' Role in Obtaining Audits of Their Contracts, Grants and Cooperative Agreements" (Report No. 9-000-98-002-F, March 20, 1998). That report considered recipient financial audits which had been completed as of October 31, 1996. For the purposes of this audit, we obtained information on audits completed from October 1, 1997 through September 30, 2000.

Fieldwork was performed at USAID/Zambia in Lusaka, Zambia from December 12 - 21, 2000, and covered approximately $2.2 million of USAID disbursements for eight non-U.S. recipients subject to audit. The audit scope included:

(1) reviewing the Mission's audit management program and related documents,

(2) interviewing cognizant Mission officials, and

(3) reviewing the Mission's automated database universe of contracts, grants, and cooperative agreements, and identifying those that require audits.

In addition, we obtained information on (1) total disbursement for all grants, contracts, and cooperative agreements (U.S. and non-U.S.) for USAID for the three-year period ended September 30, 2000, and (2) the number and amount of grants, contracts, and cooperative agreements falling below the audit threshold of $300,000 to form a complete picture of the Mission's portfolio.

The relevant audit criteria included Chapter 591 of USAID's Automated Directives System (ADS) and the OIG's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines), revised in July 1998.

Methodology

The methodology included (1) reviewing the Mission's audit inventory database system to determine if it contains the information needed to monitor and track required audits, (2) examining contracts, grants, cooperative agreements, and amounts committed and disbursed, and (3) conducting interviews with cognizant officials to determine whether the Mission has met its responsibilities established by ADS Chapter 591 and the Guidelines.

To answer our audit objective, we obtained the universe of USAID/Zambia's grants, contracts, and cooperative agreements, and determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit coverage as of September 30, 2000. The above information was obtained from the Mission's contract files, recipient inventory database, and the Mission Accounting and Control System (MACS) database. We then ascertained whether: (1) such agreements were included in the Mission's audit database inventory; (2) required audits were completed in a timely manner; (3) audit reports were prepared in accordance with USAID's guidelines and sent to RIG/Pretoria for desk review; and (4) agreements contained the required audit clauses.

We did not audit the Mission's MACS database system because of time constraints and because it was not directly relevant to our audit objective. Further, because of the small size of the audit universe, we did not use a materiality threshold, but considered even one exception as significant for reporting purposes.

APPENDIX II

U.S.A.I.D / ZAMBIA

Memorandum

Date: February 5, 2001

To: Joseph Farinella, Regional Inspector General/Pretoria

From: Allan E. Reed, Mission Director, USAID/Zambia /s/

Subject: Audit of the Accuracy of USAID/Zambia's Recipient Audit Universe, Report Number 4-611-01-XXXP

The Mission has reviewed the draft audit report on USAID/Zambia's recipient audit universe and is in agreement with the auditor's findings and comments that the Mission developed an accurate recipient audit universe and obtained coverage of its non-US recipients as required under ADS 591.

As noted by the auditors, one audit report was not submitted in a timely manner due to reasons stated in the report. The Mission is constantly working with our recipients to facilitate the timely submission of audits.

The Mission appreciates the support given to us by the RIG during the performance of this audit.

Regards. /s/