OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/ REDSO/ESA'S COMPLIANCE WITH FINANCIAL AUDIT REQUIREMENTS REGARDING FOREIGN RECIPIENTS

AUDIT REPORT NO. 4-623-06-008-P

May 22, 2006

PRETORIA, SOUTH AFRICA

Office of Inspector General

May 22, 2006

MEMORANDUM

TO: USAID/REDSO/ESA, Regional Director, Andrew Sisson

FROM: RIG/Pretoria, Jay R. Rollins /s/

SUBJECT: Audit of USAID/REDSO/ESA's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-623-06-008-P)

This memorandum transmits our report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments, in their entirety, as Appendix II.

The report has five recommendations to help USAID/REDSO/ESA improve its financial audit program with regard to foreign recipients. For Recommendation Nos. 1, 2, 3 and 5, the Mission provided evidence that corrective actions have been implemented. We therefore consider Recommendation Nos. 1, 2, 3 and 5 to have received final action upon issuance of this report. For Recommendation No. 4, the Mission provided agreement, a corrective action plan and a target completion date. Therefore, we consider that a management decision has been reached for Recommendation No. 4. Please provide the Audit, Performance and Compliance Division (M/CFO/APC) with evidence of final action in order to close this recommendation.

I appreciate the cooperation and courtesy extended to my staff throughout the audit.

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SUMMARY OF RESULTS

The Regional Inspector General/Pretoria (RIG/Pretoria) performed this audit to determine whether USAID's Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) effectively managed its financial audit program in accordance with USAID policies and procedures for fiscal years 2003, 2004, and 2005. (See page 2.)

Although USAID/REDSO/ESA has made a lot of progress recently, it did not effectively manage its financial audit program during the period covered by the audit. Specifically, USAID/REDSO/ESA did not ensure that planned audits of recipients were performed in a timely manner, delinquent audits were followed up on and completed, or standard statements of work were used. To help correct and strengthen these problem areas, we recommended that USAID/REDSO/ESA 1) develop and implement an audit tracking system to better monitor and ensure timely submission of planned audits, 2) complete all identified delinquent audits, and 3) develop a system to ensure that standard statements of work are included in future audit agreements. (See pages 4 - 6.)

In addition, although USAID/REDSO/ESA prepared and submitted audit plans, the plans were incomplete. We recommended that USAID/REDSO/ESA ensure that all awards requiring audits are included in their audit plans. (See pages 8 - 9.)

For Recommendation Nos. 1, 2, 3 and 5, the Mission provided evidence that corrective actions have been implemented. We consider Recommendation Nos. 1, 2, 3 and 5 to have received final action upon issuance of this report. For Recommendation No. 4, USAID/REDSO/ESA provided agreement, a corrective action plan and a target completion date. Therefore, we consider that a management decision has been reached for Recommendation No. 4. (See page 10.)

BACKGROUND

USAID administers most of its foreign assistance programs by awarding contracts, grants and cooperative agreements to U.S.-based and foreign organizations. In order to help ensure accountability over funds given to such organizations, USAID and the Office of Inspector General (OIG) have jointly developed a financial audit program as outlined in Automated Directive System (ADS) 591. This section of the ADS requires that USAID missions, in consultation with the cognizant Regional Inspector General (RIG), ensure that required financial audits are conducted for foreign for-profit and nonprofit organizations and host government entities (including any Mission-funded activities in nonpresence countries), and local currency special accounts.

All foreign nonprofit organizations expending more than $300,000 of USAID funds during their fiscal year are required to have an annual financial audit performed. A closeout audit is required for awards of more than $500,000. Incurred cost audits must be performed annually of all foreign for-profit organizations performing under direct awards or cost reimbursable host country contracts and subcontracts.[1] To ensure that such audits are performed in a timely and acceptable manner, Missions are required to develop annual audit plans which are populated from inventories maintained by the Missions of all contracts, grants and cooperative agreements, including cash transfer and nonproject assistance grants, awards financed with host country owned local currency and activities in nonpresence countries for use in determining audit requirements.

The audits are normally performed by independent auditors acceptable to the cognizant RIG office. The audit agreements between recipients and independent auditors contain a standard statement of work. On occasion, USAID missions may contract directly with an audit firm to conduct financial audits of foreign recipients or locally-incurred costs of U.S.-based recipients. Audits of USAID recipients are required to be performed in accordance with U.S. Government Auditing Standards as well as the OIG's Guidelines for Financial Audits Contracted by Foreign Recipients. Missions must ensure that such audit reports are submitted to the cognizant RIG office for review and issuance no later than nine months following the end of the audited period.

USAID/REDSO/ESA is one of the USAID missions in the Eastern and Southern Africa region with a large number of recipients. In fiscal year 2005, the Mission had 37 non-U.S.-based recipients. During fiscal years 2003-2005, USAID/REDSO/ESA reported budget authorizations totaling $109 million for programs in:

- Regional Food Security
- Regional Conflict Management and Governance
- Regional Health Systems Improvement
- HIV/AIDS Pandemic

[1] In terms of a 2005 revision to ADS 591, there is no automatic requirement for annual incurred cost audits for foreign for-profit organizations. Instead, Missions are required to annually assess risks to determine whether financial audits are warranted and the results of these risk assessments must be shared with the cognizant RIG office.

AUDIT OBJECTIVES

An audit of the Mission's compliance with financial audit requirements regarding foreign recipients was performed because Regional Inspector General/Pretoria's (RIG/Pretoria) experience is that USAID missions in eastern and southern Africa have generally not been complying with Automated Directives System (ADS) 591 in terms of ensuring that required financial audits of foreign recipients are conducted in a timely and acceptable manner. To determine USAID/REDSO/ESA's compliance with USAID rules and regulations regarding financial audits of its foreign recipients, the audit was performed to answer the following questions:

Objective No. 1: Did USAID/REDSO/ESA ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

Objective No. 2: Did USAID/REDSO/ESA ensure that annual audit plans included all recipients from their award inventory that required a financial audit?

Refer to Appendix I for details of the audit scope and methodology.

AUDIT FINDINGS

Did USAID/REDSO/ESA ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

USAID/REDSO/ESA did not ensure that all planned financial audits of foreign recipients[2] were performed and submitted in accordance with USAID rules and regulations.

During the last three years, USAID/REDSO/ESA has made a great deal of progress towards improving its recipient financial audit program. USAID/REDSO/ESA has planned for and submitted its audit inventories for fiscal year 2004 and 2005, and submitted audit plans to RIG/Pretoria for fiscal years 2003-2005. Since May 8, 2003, RIG/Pretoria has issued 16 financial audit reports of USAID/REDSO/ESA recipients covering $14 million in expenditures of USAID funds. Those audits included recommendations that addressed $3.4 million in questioned costs, 33 reportable internal control weaknesses, and 26 instances of material noncompliance with applicable laws and regulations.

While the above financial audit work has undoubtedly had a positive effect on USAID/REDSO/ESA's accountability over USAID funds expended by foreign recipients, there were several areas in which USAID/REDSO/ESA could improve its recipient financial audit program including timeliness, follow-up on delinquent audits, and use of a standard statement of work.

Audit Reports Not Submitted Within Required Timeframe

Summary: According to Agency regulations, USAID missions must submit audit reports of foreign recipients to the cognizant Regional Inspector General (RIG) no later than nine months after the end of the audited period. Only 5 out of the 26 audits in USAID/REDSO/ESA's audit plans for fiscal years 2003 – 2005 were submitted to RIG/Pretoria within the required time frame. This occurred because USAID/REDSO/ESA had not developed a system to track and follow up on planned audits. Audits that are not completed in a timely manner reduce USAID's accountability over funds awarded to recipients.

Automated Directive System (ADS) 591.3.2.1 requires that foreign nonprofit organizations and host governments that expend $300,000 or more of USAID funds during their fiscal year must have an annual audit conducted in accordance with the Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients* (Guidelines). Paragraphs 1.16 and 2.3 of the Guidelines spell out the

[2] For the purpose of this audit, foreign recipients include non-U.S.-based grantees and contractors who were awarded grants, contracts or cooperative agreements.

timeframe within which recipients must submit final audit reports to the cognizant USAID mission, which, in turn, will forward them to the RIG for review and issuance. According to the Guidelines, the cognizant RIG must receive the audit report no later than nine months after the end of the audited period.

USAID/REDSO/ESA's annual audit plans prepared for fiscal years 2003, 2004, and 2005 included 26 distinct planned financial audits of 8 different recipients. The breakdown of the 26 audits is presented in Table 1 below.

Table 1
Recipient Audits in Annual Plans for Fiscal Years 2003-2005

No. of recipients	No. of annual audits in plans	Totals
5	4	20
1	3	3
1	2	2
1	1	1
8		26

Of the 26 planned audits, only 5 (19%) were submitted to RIG/Pretoria for review and issuance on or before the required due date. On average, audit reports were submitted 220 days (approximately 7 months) after they were due.

The lack of timeliness was caused by several factors. One of the principal factors was that the Mission had not developed or implemented an effective tracking system to ensure that the planned audits were performed and submitted within the required timeframe. As a result, not only were the majority of planned audits not submitted in a timely manner, but some were not submitted at all. For example, 19 of the 26 audits included in the Mission's audit plans for fiscal years 2003, 2004 and 2005 had been submitted to RIG/Pretoria as of December 31, 2005. The remaining 7 audits (listed in Appendix III) had either not been performed, or, if performed, had not been submitted to RIG/Pretoria.

Delayed performance and submission of audit reports reduces USAID's accountability over funds awarded to recipients. This also increases the risk that recipients' financial records are no longer available for audit or their offices may have ceased operations making the determination and recovery of potential questioned costs difficult or impossible. Even when records do exist or the recipient is still in operation, untimely audit reports lose their usefulness because management (USAID or Recipient) cannot, based on the reports, implement corrective actions in a timely manner to prevent potential fraud, waste and abuse. The total estimated and actual expenditures not audited on a timely basis amounted to over $20.6 million, while the estimated expenditures of planned audits not submitted at all amounted to over $4.1 million.

For the mission to be able to submit timely audit reports to RIG/Pretoria, it must have a system to monitor the status of planned audits and dedicated personnel to provide interventions when targeted milestones are not being met. Therefore, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/REDSO/ESA develop and implement an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports to RIG/Pretoria. This system should, at a minimum, include controls to ensure that:

- *appropriate timing targets and milestones are set for each audit in the Mission's current audit plan;*
- *audit instructions are sent to recipients prior to the recipient's fiscal year end requesting them to initiate the procurement for the audit;*
- *periodic follow-up is performed to determine the implementation status of all planned audits; and*
- *corrective actions are taken and documented for audits that are not progressing as planned.*

Recommendation No. 2: We recommend that USAID/REDSO/ESA obtain and submit all delinquent audit reports to RIG/Pretoria.

Standard Statement of Work Not Used in Every Audit

Summary: Agency policy requires that audit agreements between recipients and independent auditors contain a standard statement of work (SOW) that incorporates all the requirements of the OIG Guidelines. Not all the financial audits of USAID/REDSO/ESA's recipients contained a standard SOW that was reviewed and approved by the Mission. This occurred because USAID/REDSO/ESA did not have a system to ensure that all audit agreements incorporated standard SOWs. The lack of a standard SOW has resulted in many audits being rejected by RIG/Pretoria due to lack of compliance with applicable auditing standards and guidelines.

According to the OIG's Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines), a mandatory reference in ADS 591, USAID missions must ensure that audit agreements between USAID recipients and independent auditors include a standard statement of work (SOW) containing all of the requirements of the Guidelines. To ensure that this requirement is complied with, recipients must send all prospective audit agreements to the cognizant USAID mission for approval prior to finalization, as stated in paragraph 1.14 of the Guidelines.

Experience has shown that independent audit firms conducting USAID recipient audits without a standard SOW typically perform "statutory" audit work in accordance with local standards. Such audits do not address the unique fieldwork and reporting requirements of USAID audits relating to such areas as testing expenditures for eligibility, allocability, and compliance with U.S. laws and regulations. Financial audit requirements for USAID recipients differ substantially from statutory audit requirements within the Eastern and Southern Africa region. Consequently, audits that are conducted without a Mission-approved agreement containing the standard SOW, which refers to the audit requirements in the OIG Guidelines, are less likely to be performed in accordance with U.S. Government Auditing Standards and/or the OIG Guidelines. This was reflected in the large percentage of recipient audit reports that RIG/Pretoria rejected due to a lack of conformity with those standards and guidelines. Of the 19 reports submitted to RIG/Pretoria, 10 (53 percent) were initially rejected due to lack of compliance with applicable standards and guidelines.

On January 17, 2006, the Mission provided the RIG/Pretoria with evidence of reviews or approvals of SOWs prior to commencement of the respective planned audits. Our evaluation of the information received from the Mission revealed the following:

- From the 19 audits actually performed, in 12 instances the Mission did not review and approve the SOW prior to the commencement of the audits. Thus, review and approval occurred for only 7 of the audits;
- In 15 instances, the Mission did not ensure that the audit contract between the recipient and the auditors contained a Mission-approved standard SOW. Thus, these audit contracts did not include a SOW; and
- In 8 instances, the Mission sent out detailed audit instructions to the recipient. However, of these 8, only 1 recipient actually complied with the audit instructions as far as inclusion of the standard SOW in the audit contract is concerned.

The review and approval of prospective audit agreements, and the inclusion of a standard SOW in those agreements which references specific USAID audit requirements, will help prevent audits from being performed that do not comply with U.S. Government Auditing Standards and/or the OIG Guidelines. Once incorporated into the audit agreement, the standard SOW becomes binding and should compel the audit firms to comply with necessary USAID audit requirements. Therefore, we are making the following recommendation:

Recommendation No. 3: We recommend that USAID/REDSO/ESA develop and implement a system to ensure that the Mission reviews, approves and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit.

Did USAID/REDSO/ESA ensure that annual audit plans included all recipients from their award inventory that required a financial audit?

USAID/REDSO/ESA did not ensure that annual audit plans included all recipients from their award inventories that required a financial audit.

As required by ADS 591.3.4.2, USAID/REDSO/ESA developed award inventories for fiscal years 2004 and 2005 which included the required information for each award, including contractor/grantee name, type of organization, award number, amount in U.S. dollars, start/completion dates, prior audits and period covered, receipt date for required audits, dates for planned audits, and reason(s) for not including an award in the annual audit plan. The Mission also developed an annual audit plan for each of those fiscal years which included 26 distinct audits of foreign recipients receiving awards listed in those inventories.

Although USAID/REDSO/ESA prepared the award inventories and related audit plans as required, not all awards that required audits were included in the audit plans.

Awards Requiring Closeout Audits Need To Be Included In Audit Plans

Summary: Agency policy requires that all awards in excess of $500,000 be subject to a final closeout audit. USAID/REDSO/ESA's annual audit plans omitted 3 expired direct awards that required closeout audits. This occurred because Mission officials were unaware that closeout audits were required. As a result, USAID-funded awards totaling $5.6 million that should have received closeout audits have not.

Automated Directives System (ADS) 591.3.3.2 states that Contract Information Bulletin (CIB) 90-12 requires "all awards in excess of $500,000 be subject to a final closeout audit." This section of the ADS also states that annual audits, performed in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" must be accepted as fulfilling the close-out audit requirements for foreign nonprofit organizations.

The intent of CIB 90-12 is to ensure that awards that do not exceed the $300,000 threshold for an annual audit, but amount to significant amounts of expenditures on a cumulative basis, are audited to ensure proper closeout of the award. The Mission's award inventories included columns such as "Prior Audits & Dates Covered" and "Reason not in Audit Plan." The data from these columns provided information as to the most recent annual audit prior to the recipient's award completion date. The information from the Mission's award inventories were used to determine whether a close-out audit was required for a given recipient.

USAID/REDSO/ESA's award inventories for fiscal years 2004, and 2005 included 3 expired direct awards over the $500,000 threshold which were not included in the Mission's respective annual audit plans. According to the Mission's award inventory for fiscal years 2004 – 2005, and audit plans for fiscal years 2003 – 2005, these expired awards had no recent annual audits prior to the recipient's award completion date. Consequently, required closeout audits were not conducted for those awards. A list of the 3 awards requiring closeout audits is included as Appendix V in this report. The following table presents the aging of the unaudited expired awards as of December 31, 2005. As shown in the table, these awards expired more than two years ago.

Table 2
Aging of Expired Awards Requiring Closeout Audits
(years since expiration of award)

0-1 yr	2-3 yrs	4-5 yrs	Total
	2	1	3

Mission officials did not include these expired awards in annual audit plans because they were unaware of the policy regarding closeout audits. The reason listed in the Mission's award inventories for not including such awards in the annual audit plans was that the expenditures were less than $300,000, although the inventories indicated that no prior annual audits had been performed for these awards. Also, USAID/REDSO/ESA's Mission Order dated May 1, 2002, which addresses recipient financial audits, did not include any procedures regarding the planning or performance of closeout audits of awards exceeding $500,000.

As a result, 3 expired direct awards that should have received closeout audits remain unaudited. The amount of USAID funding included in those awards totaled $5.6 million, although the estimated expenditures under the awards, according to the Mission's inventories, was $1.7 million.

Closeout audits are important tools in the control and accountability of USAID funds. Such audits may be used, among other things, to finalize indirect cost rates and to determine whether the disposition of USAID-funded assets was properly performed at the end of a project or activity. A closeout audit of expenditures of USAID funds would be especially important when a recipient may have expended less than $300,000 in any single year, but the total award was over $500,000. Such recipients may never have been subjected to a USAID audit as required. Further, according to ADS 591.3.3.2, Contract/Grant Officers cannot proceed with the closeout process until final action has been taken on all audit recommendations. Finally, because they were not included in the Mission's audit plans during the period they were due, such audits would not be performed within the required timeframe. We are, therefore, making the following recommendations:

Recommendation No. 4: We recommend that USAID/REDSO/ESA amend its Mission Order dated May 1, 2002 to ensure that closeout audits of expiring awards in excess of $500,000 are included in future audit plans and performed as required.

Recommendation No. 5: We recommend that USAID/REDSO/ESA obtain and submit audit reports for all expired awards requiring closeout audits.

EVALUATION OF MANAGEMENT COMMENTS

For Recommendation Nos. 1, 2, 3 and 5, the Mission has provided evidence that corrective actions have been implemented. Therefore, we consider these recommendations to have received final action upon issuance of this report.

For Recommendation No. 4, the Mission provided agreement, a corrective action plan and a target completion date. Therefore, we consider that a management decision has been reached for Recommendation No. 4.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria performed this audit in accordance with generally accepted government auditing standards. The audit was performed at the office of the Regional Inspector General in Pretoria, South Africa from December 14, 2005 through March 15, 2006.

The audit covered financial audit requirements for USAID/REDSO/ESA's awards to non-U.S.-based recipients during fiscal years 2003, 2004, and 2005.

The type of evidence examined during the audit included, but was not limited to, award inventories and audit plans submitted by the Mission for fiscal years 2003-2005, RIG/Pretoria's Audit Management Database and archives, and correspondence from the Mission.

For the most part, we relied on the accuracy and completeness of the award inventories that were submitted by the Mission to RIG/Pretoria because we believe that the responsibility for preparing award inventories rests with the Missions' Audit Management Officer, who should have the technical capacity to prepare reliable award inventories. The primary focus of our audit was the development and execution of the annual audit plans from those award inventories. Thus, with few exceptions, we limited our procedures to determine whether data in the award inventories were properly used to develop the audit plans and whether those audit plans were executed in an acceptable and timely manner. We recognize the limitations of our reliance on the accuracy and completeness of the award inventories, and hereby disclose this in the audit report--the primary limitation being that all awards requiring a financial audit may not have been included in the Mission's award inventories. Further, expiration dates and total amounts of awards in inventories may not have been accurate.

With regard to internal controls, we assessed:

- award inventories;
- audit plans; and
- mission orders regarding financial audits.

Methodology

To accomplish the audit objectives, we reviewed and analyzed the annual audit plans for fiscal years 2003, 2004 and 2005 and award inventories for fiscal years 2004 and 2005 submitted to RIG/Pretoria for USAID/REDSO/ESA. We compared audit reports actually submitted to RIG/Pretoria to planned audits listed in the Missions' audit plans in order to determine the timeliness of the submission. We compared the audit plans to the award inventories to determine the accuracy of the audit plans. To determine recipients requiring closeout audits, we reviewed the Mission's award inventories and selected awards that were not subject to an annual audit prior to the program completion date.

The audit also included a review of correspondence between RIG/Pretoria and the Missions regarding award inventories and annual audit plans. We also requested additional information from the Mission when required.

For materiality thresholds, we considered the following to be material:

- timeliness of submission of audit reports - if the number of acceptable audit reports submitted after the 9-month due date was > 10 percent of the number of planned audits, we considered the lack of timeliness to be material;

- delinquent audit reports – any number of delinquent planned audit reports was considered to be material; and

- completeness and accuracy of audit plans – any number of required audits not included in the audit plans was considered to be material.

This was one of a total of nine similar audits that we are performing of USAID missions within the eastern and southern Africa region. As RIG/Pretoria already possesses most of the information needed to conduct the audits, we did not consider travel to the locations of the respective missions to be necessary. Any questions regarding audit procedures or preliminary results could be handled via email or telephone.

USAID | EASTERN AND CENTRAL AFRICA
FROM THE AMERICAN PEOPLE

Memorandum

To: Jay Rollins, Regional Inspector General/Pretoria

From: Andrew Sisson, Regional Director USAID/REDSO /s/

Date: April 24, 2006

Subject: **Audit of USAID/REDSO/ESA's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-623-06-XXX-P)**

This memo provides USAID/REDSO/ESA's response to the subject's draft report dated March 31, 2006. Regional Inspector General/ Pretoria (RIG/P) conducted the audit from their offices between December 14, 2005 and March 15, 2006. The audit covered financial audit requirements for USAID/REDSO/ESA's awards to non U.S-based recipients during fiscal years 2003, 2004, and 2005. RIG/P performed the audit to determine whether USAID/REDSO/ESA effectively managed its financial audit program in accordance with USAID policies and procedures for the period indicated above.

We appreciate the review carried out by your office and the opportunity to comment on the draft report to provide clarification on the issues raised therein. We agree that USAID/REDSO/ESA needs to improve certain aspects of management of audits of foreign recipients. However, we do not concur with the general conclusion that USAID/REDSO/ESA did not effectively manage its financial audit program during the fiscal years 2003, 2004, and 2005 as explained in our response to each recommendation below.

Recommendation No. 1: We recommend that USAID/REDSO/ESA develop and implement an audit tracking system to monitor the recipient financial audit process to ensure timely submission of reports to RIG/Pretoria. This system should, at a minimum, include controls to ensure that:

- **appropriate timing targets and milestones are set for each audit in the Mission's current audit plan;**
- **audit instructions are sent to recipients prior to the recipient's fiscal year end requesting them to initiate the procurement for the audit;**

- **periodic follow-up is performed to determine the implementation status of all planned audits; and**
- **corrective actions are taken and documented for all audits that are not progressing as planned.**

USAID/REDSO/ESA management comments

We do not agree with this recommendation for the following reasons:

USAID/REDSO/ESA has an audit tracking system in place that is updated by the RFMC on a monthly basis and posted to the mission's intranet. The tracking system covers audits in progress, audits reports with RIG/P, open audit recommendations, closed audit recommendations, bills of collection and any other audit related matter. Every month, each Financial Analyst establishes the status of the audits with the Partners he/she is responsible for and provides the information to the Chief Financial Analyst who updates the audit tracking system. RFMC discusses the audits status with the Mission's Control Review Committee during MCRC's meetings. Enclosed is a copy of the latest audit tracking report, the mission's intranet page showing posting of the tracking reports and minutes of the MCRC's meetings for your review.

In the last three calendar years, USAID/REDSO/ESA has sent detailed audit planning letters to the Partners qualifying for Recipient Contracted Audits. The letter explains in detail the Recipient Contracted Audit process and refers the Partners to the RIG/P web site http://www.sn.apc.org/usaidsa/businessb.html for more details. The letter also indicates the date the report should be submitted to USAID/REDSO/ESA for forwarding to RIG/P. We have enclosed sample copies of the letters for your review.

Each month the Financial Analysts communicate to the Partners by telephone and e-mail to establish the status of the audit and up date the audit tracking system. Each Financial Analyst is assigned specific Partners to communicate with on a regular basis on the audit status. The Financial Analysts hold face to face discussions on audit status and remind the Partners of their audit obligations during visits to the partners to carry out financial reviews, attend audit entrance or exit conferences. When need arises, the Financial Analysts communicate with the auditors to establish the cause of delay and get their support in getting the audit finalized. Enclosed are samples of the communications (letters and e-mails) on follow up of audit status and reports with the Partners.

RFMC makes every effort to follow up on audit reports before they become overdue. The efforts have resulted in a reduction in the number of overdue reports to only one as of March 31, 2006 compared to an average of six to eight overdue reports in 2003 and 2004. This enormous progress was a direct result of RFMC audit tracking efforts. RFMC also enlists the support of the Strategic Objective teams to follow up audits reports before their due date and overdue reports with the Partners in their portfolios. Enclosed is a graph showing the timeliness of audit submission and average number of days reports are overdue which demonstrates the results of our audit tracking system.

Based on the clarifications above and the supporting documents enclosed, we request that this recommendation be dropped from the audit report.

Recommendation No. 2: We recommend that USAID/REDSO/ESA obtains and submit all delinquent audit reports to RIG/Pretoria.

USAID/REDSO/ESA management comments

We agree and have implemented the recommendation. We have submitted four of the audit reports indicated as delinquent as of December 31, 2005 per Appendix III of the subject report. Report number 3 was indicated as delinquent but was submitted before December 31, 2005. Report number 6 relates to a Public International Organization (PIO) and report number 7 did not meet the US$300,000 expenditure threshold to qualify for a Recipient Contracted Audit. We have provided details on status of audit reports indicated as delinquent as of December 31, 2005 in Appendix I.

Based on the above, we request that this recommendation be closed.

Recommendation No. 3: We recommend that USAID/REDSO/ESA develop and implement a system to ensure that the Mission reviews, approves and maintains a copy of an audit agreement containing a standard statement of work that incorporates USAID's audit requirements for every recipient audit.

USAID/REDSO/ESA management comments

We agree with the recommendation. We have put in place the recommended system and will ensure its continued implementation.

The annual audit planning letters we send to our Partners require them to submit the audit contract and standard scope of work to USAID/REDSO/ESA for approval before the audit starts. In the past we made efforts to enforce this requirement and the approvals were either by telephone or e-mails. Beginning January 1, 2006 we are using formal letters to approve the audit contracts and the standard statement of work and ask for signed copies for our files. We have sent a letter to all our partners reminding them of this requirement and stated the sanctions for not complying. We revised the annual audit planning letter to include the sanctions too. We also included a column in the audit tracking report to monitor approval of audit contract and standard statement of work.

We have enclosed documents demonstrating recent approvals of audit contracts and standard statements of work for your review. Based on improvements made in this area we request for closure of this recommendation.

Recommendation No. 4 We recommend that USAID/REDSO/ESA amend its Mission Order dated May, 2002 to ensure that closeout audits of expiring awards in excess of US$500,000 are included in future audit plans and performed as required.

USAID/REDSO/ESA management comments

We agree with the recommendation. USAID/REDSO/ESA will work with USAID Kenya mission to amend the Mission Order on Audit Management by May 19, 2006 since the two missions use the same Mission Orders. Enclosed is our proposed amendment to the mission order.

Recommendation No. 5: We recommend that USAID/REDSO/ESA obtain and submit reports for all expired awards requiring closeout audits.

USAID/REDSO/ESA management comments

We do not agree with the recommendation based on the following clarification. Two of the expired awards relate to US based organizations which are subject to A-133 audit. We erroneously listed the two as foreign recipients in the audit plan. The other award relates to a program under Uganda mission but the funds were allowed under REDSO. We have provided details in Appendix II.

Conclusion

We trust that the information provided will enable your office to revise the draft report accordingly. We will be glad to provide additional information and/or clarification if need arises. Thanks once again to your office for carrying out the audit and we look forward to receiving the final report.

Encl.: a/s

LIST OF DELINQUENT AUDITS AS OF DECEMBER 31, 2005

	Award Number*	Recipient's Fiscal Year End	Total Amount of Award ($)	Estimated Annual Expenditures ($)	No. of Days Between Audit Report Due Date and 12/31/05
1	GR623-0005-A-00-4143-00 & GR623-A-00-02-00107-00	12/31/2004	9,116,565 3,750,000	842,700	92
2	LSGA623100.01-3007	6/30/2004	2,135,822	408,600	275
3	6231007.01 – Various ILs	6/30/2001	2,690,000	353,322	1,371
4	LSGA6231007.01-30006	6/30/2003	2,690,000	605,895	640
5	LSGA6231007.01-30006	6/30/2004	2,690,000	714,143	275
6	GR623-A-00-00-00175-00	5/31/2002	2,171,000	891,866	1,037
7	GR623-A-00-00-00180-00	12/31/2002	530,000	340,883	823

*****The award numbers were from the Mission's audit plans for fiscal years 2003 - 2005.

LIST OF EXPIRED AWARDS REQUIRING CLOSEOUT AUDITS

	Award Number	Recipient's Fiscal Year End	Total Amount of Award ($)	No. of Days Between Audit Report Due Date and 12/31/05
1	GR617-G-00-99-00007	6/30/2002	1,477,155	1,010
2	GR623-A-00-01-00116-00	12/31/2004	1,491,000	92
3	695-0133-G-00-5002-00	12/31/2004	2,667,456	457
	Total		5,635,611	1,559

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