OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/ETHIOPIA'S MONITORING OF AWARDS WHICH DO NOT REQUIRE ANNUAL FINANCIAL AUDITS

AUDIT REPORT NO. 4-663-06-002-P
November 10, 2005

PRETORIA, SOUTH AFRICA

Office of Inspector General

November 10, 2005

MEMORANDUM

TO: USAID/Ethiopia Director, William Hammink

FROM: Regional Inspector General, Jay Rollins /s/

SUBJECT: Audit of USAID/Ethiopia's Monitoring of Awards Which Do Not Require Annual Financial Audits (Report No. 4-663-06-002-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.

This report has six recommendations to improve USAID/Ethiopia's efforts to monitor awards that do not require annual financial audits. As a result of actions taken by the Mission, we consider Recommendation Nos. 1 through 3 to have received final action upon the issuance of this report. In response to the draft report, USAID/Ethiopia concurred with Recommendation Nos. 4 through 6. In addition, USAID/Ethiopia provided corrective action plans and target completion dates. Therefore, we consider that a management decision has been reached for these recommendations. Please provide the Bureau for Management, Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendation Nos. 4 through 6.

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 conducted this audit to determine whether USAID/Ethiopia effectively monitored non-U.S.-based recipients expending less than $300,000 of USAID funds during their fiscal year to ensure proper accountability. (See page 2.)

USAID/Ethiopia did not effectively monitor non-U.S.-based recipients expending less than $300,000 of USAID funds during their fiscal year to ensure proper accountability. The Controller's Office did not proactively monitor non-U.S.-based recipients who are exempt from USAID's annual audit requirements. Specifically, the Controller's Office did not (1) assess the level of monitoring necessary for these recipients, (2) track the status of open recommendations from prior assessments, or (3) provide written guidance to financial analysts regarding the need for documenting their monitoring efforts. The Mission also did not maintain an award inventory that was complete and accurate. In addition, the Mission did not identify the Controller as its Audit Management Officer. Finally, many of the Mission's cognizant technical officers had not been documenting their site visits. (See pages 3-11.)

This report includes six recommendations to assist USAID/Ethiopia in improving its efforts to monitor awards that do not require annual financial audits. (See pages 6, 7, 9, and 11.) Because of subsequent actions taken by USAID/Ethiopia, we consider Recommendation Nos. 1 through 3 to have received final action upon the issuance of this report. In response to the draft report, USAID/Ethiopia concurred with Recommendation Nos. 4 through 6. In addition, USAID/Ethiopia also provided corrective action plans and target completion dates. (See page 15.) Therefore, we consider that a management decision has been reached for these recommendations.

BACKGROUND

The Automated Directives System (ADS) 591 states that nonprofit organizations expending less than $300,000 during their fiscal year under direct USAID cost reimbursement awards and host governments expending less than $300,000 during their fiscal year under USAID grants are exempt from the annual audit requirements described in that section of the ADS. Although an annual audit is not required, missions are still responsible for monitoring recipients expending less than the threshold amount.[1] To achieve this objective, the ADS strongly recommends that mission controllers use the Recipient Control Environment Assessment Checklist to determine the level of monitoring necessary for these organizations.

ADS 591 also requires USAID missions to "maintain an inventory of all contracts, grants, and cooperative agreements, including cash transfer, and non-project assistance grants, awards financed with host country-owned local currency, and activities in non-presence countries for use in determining audit requirements." In other words, each mission must keep an inventory of awards, irrespective of their dollar amount. According to ADS 591, this award inventory should contain the following:

1. grantee/contractor name;
2. type of organization (e.g., for-profit);
3. award number, amount in U.S. dollars, and start and completion dates;
4. prior audits and periods covered;
5. receipt date for required audits; and
6. reasons for not including the award in the annual plan.

The audit scope included recipients of USAID/Ethiopia that expended less than $300,000 during their fiscal year for the period October 1, 2003, through September 30, 2004. Fifty-one awards meeting those parameters included a total of $40 million in USAID funding.

AUDIT OBJECTIVE

This audit was conducted at USAID/Ethiopia as part of the Regional Inspector General/Pretoria's annual audit plan. The audit was conducted to answer the following question:

- Did USAID/Ethiopia effectively monitor non-U.S.-based recipients expending less than $300,000 of USAID funds during their fiscal year to ensure proper accountability?

Appendix I contains a discussion of the audit's scope and methodology.

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[1]As defined in ADS 591, a recipient is an organization receiving financial assistance directly from USAID to carry out a program under a grant or cooperative agreement. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public and private nonprofit organizations. The term may also apply to profit-making organizations that are performing work under a grant or cooperative agreement relationship with USAID.

AUDIT FINDINGS

Did USAID/Ethiopia effectively monitor non-U.S.-based recipients expending less than $300,000 of USAID funds during their fiscal year to ensure proper accountability?

USAID/Ethiopia did not effectively monitor non-U.S.-based recipients expending less than $300,000 of USAID funds during their fiscal year to ensure proper accountability.

To ensure proper accountability for these funds, the Mission needs to improve its monitoring of non-U.S.-based recipients. Although the Mission had mechanisms available to monitor recipients whose expenditures of USAID funds were exempt from annual audit requirements, the Controller's Office staff had not proactively utilized those mechanisms. Until recently, the Controller's Office had not (1) assessed the risk levels of recipients that required monitoring, (2) followed up on recommendations that addressed weaknesses from prior years' monitoring efforts, and (3) provided guidance to its staff on the need to document their monitoring efforts. The Mission's award inventory was also inaccurate and incomplete. In addition, the Mission did not identify the Controller as its Audit Management Officer. Although the Mission's cognizant technical officers (CTOs) were performing site visits, many of them had not prepared and maintained documentation of the visits, including any monitoring efforts to account for USAID funds. These issues will be addressed in the following subsections.

Controller's Office Needs To Improve Proactive Financial Monitoring

Summary: USAID/Ethiopia has not been proactively monitoring its recipients whose expenditures of USAID funds are exempt from the annual audit requirement as defined in the Automated Directives System (ADS) 591. ADS 591 strongly recommends the use of the Recipient Control Environment Assessment Checklist to determine the level of monitoring required. Although the Mission Controller's Office has mechanisms to monitor its recipients through the use of pre-award and post-award assessments, the Controller's Office financial analysts were not proactive in using these assessments for those recipients who expended less than $300,000 in their fiscal year. Furthermore, until recently (1) the Controller's Office had not assessed the risk levels of recipients to assist in determining the level of monitoring needed; (2) recommendations made in prior years' assessments were not being followed up to ensure that the recommendations had been addressed; and (3) Mission guidance had not been issued on the importance of the need to adequately document monitoring efforts. As a result, USAID could not be assured that these funds were expended in accordance with the agreement terms and applicable laws and regulations. Recent action taken by the Controller's Office will help to address these problems.

According to ADS 591, Appendix B:

> *Due to the increase of the audit requirement threshold to $300,000 Missions now have the sole oversight responsibility for recipients expending less than the threshold amount. With the limited amount of resources (personnel and dollars) available for such oversight, Missions are strongly encouraged to create and maintain a documented and supported plan for accountability of those funds*.

ADS 591 also indicates that oversight of USAID awards includes providing assurance that recipients:

1. have a proper system of internal controls in place,

2. are complying with all applicable agreement terms and laws and regulations, and

3. are ensuring that expenditures are allocable, reasonable, allowable, and supported.

To determine the level of monitoring needed for nonprofit organizations expending less than $300,000 in USAID funds during their fiscal year, ADS 591.3.2.1 states, "It is strongly recommended that Missions use the 'Recipient Control Environment Assessment Checklist'."[2] ADS 591.3.4.2.c, states that the Checklist can assist the Controller. This checklist assesses risk by considering several factors and their effect on the organization's internal controls. When used, the checklist should be completed for each recipient and updated periodically. The major components of the checklist are primarily related to accounting controls. ADS 591, Appendix B also states that the Recipient Control Environment Assessment Checklist would greatly assist the missions in demonstrating accountability.

The ADS also provides guidelines for using the results of the risk assessment, guidelines that include conducting pre-award assessments and site visits. In the case of pre-award assessments, the ADS describes this activity as an "evaluation of a prospective recipient's ability to perform under a Government sponsored agreement." It also notes that it is usually limited to assessing the "adequacy of the recipient's accounting system to accumulated cost information under an agreement and/or the financial capability to perform under a prospective award."

For site visits, ADS 591, Appendix B specifies that visits to local recipients by qualified Mission financial personnel to complete the checklist are an integral part of the program. However, it recognizes that site visits by activity managers or other Strategic Objective (SO) team members can also provide valuable information.

The Mission Controller's Office has mechanisms to monitor recipients through the use of pre-award and post-award assessments and quarterly pipeline reviews. [3] However, the Controller's Office financial analysts were not proactive in their use of the pre-award and post-award assessments for those recipients who expended less than $300,000 during

[2]This checklist is found in ADS 591, Appendix A.
[3]Post-award assessments are conducted on USAID recipients to ensure that controls are adequate and that financial transactions are executed in accordance with the USAID agreement.

their fiscal year. For example, during fiscal year 2004 the Mission conducted only one pre-award survey and two post-award assessments for the 30 recipients who expended less than $300,000 in their fiscal year. In prior years, recommendations had been made by the Mission in pre-award and post-award assessments to address weaknesses that had been identified. However, the Mission was not providing any follow-up to ensure that the recipients had addressed the earlier recommendations. Also the recipient files that were maintained by the financial analysts contained little documentation of financial monitoring through the use of emails and phone records. Although financial analysts participate in quarterly pipeline reviews with the Mission's Strategic Objective teams, their files contained little documentation of their participation in this activity.

There were several reasons why the Mission Controller's Office was not proactive in its use of pre- and post-award assessments:

- First, staffing shortages were caused by financial analysts being sent to assist USAID operations in Afghanistan and Iraq.

- Second, one of the financial analysts responsible for monitoring was not aware of the monitoring requirement.

- Third, the Control Environment Assessment Checklist was not being used. As stated previously, its use helps to determine the level of monitoring needed for nonprofit organizations expending less than $300,000 in USAID funds during their fiscal year. As of November 2004, guidance provided by the Mission has strongly recommended that the financial analysts use the Control Environment Assessment Checklist as part of their financial monitoring.

In the case of prior recommendations from pre- and post-award surveys not being followed up by the Mission, this was caused by the Mission's lack of a tracking system to assess the status of open recommendations. Subsequently, in August 2005 the Controller established a tracking system to monitor prior recommendations that resulted from pre-award and post-award assessments. Included in this tracking system were follow-up and verification activities.

The instances of the recipient files containing little documentation of financial monitoring occurred because the Mission did not require that documentation be kept. On August 18, 2005, an email directive was sent from the Controller to her employees reiterating the importance of documenting monitoring efforts in their files.

In the absence of annual financial audits, and without proactive monitoring by the Controller's Office, the Mission had little assurance that the $40 million of USAID funds received by these recipients was being expended in accordance with agreement terms and applicable laws and regulations. When the Mission does not monitor recipients who expend less than $300,000 during their fiscal year, these USAID funds are put at risk. Until recently, the Mission was not using the Recipient Control Environment Assessment Checklist nor any other means to systematically assess the risk level of its recipients.

This audit determined that the Controller's Office needed to improve its proactive financial monitoring. Subsequent actions taken by the Controller's Office have addressed many of the concerns raised in this section of the report. Most notably, the use of the Recipient Control Environment Assessment Checklist will provide a mechanism to help the Mission to determine the level of monitoring necessary for recipients who are not required to have annual audits. Ostensibly, this will allow the Controller's Office to direct its limited resources to recipients with the highest risk levels, and, therefore, most in need of monitoring. In addition, the newly established Mission tracking system will serve as a monitoring tool to assess the status of open recommendations made during previous pre- and post-award assessments. Finally, recent Mission guidance addressed the importance of the financial analysts documenting their monitoring activities in their files. As a result of these actions taken by the Mission, Recommendation Nos. 1 and 2 will be closed when the final version of this audit report is issued.

> *Recommendation No. 1: We recommend that USAID/Ethiopia develop and implement a tracking system which will serve as a monitoring tool for assessing the status of open recommendations made during the pre-award and post-award assessments.*

> *Recommendation No. 2: We recommend that USAID/Ethiopia provide written guidance for its financial analysts on the importance of providing documentation of their monitoring efforts in their files.*

Controller Needs To Be Designated As Audit Management Officer

Summary: USAID/Ethiopia's Controller was not designated as the Mission's Audit Management Officer (AMO). According to ADS 591, the Controller provides oversight for determining the feasibility of audits and ensuring proper accountability of awards. However, Mission Order 504 designates the AMO as the Supervisory Financial Analyst and assigned to that individual filing and reporting responsibilities related to audits. In other words, the Mission Order was written in a manner that conflicted with the Controller responsibilities identified in ADS 591 and, therefore, did not comply with ADS 591 and the AMO responsibilities may not have been carried out as effectively as possible. Recently, the Mission issued a new Mission Order which addressed this non-compliance issue.

ADS 591.2.c states that the Mission's Audit Management Officer (AMO) is responsible for developing and maintaining the Mission's audit inventory and for coordinating with the Regional Inspector General, Management Action Official, and other Mission officials to develop the Mission's Annual Audit Plan. Further, ADS 591.3.4.2 states that the Mission Controller is responsible for determining (1) the feasibility of conducting audits on a case-by-case basis and (2) the level of audit, if required, necessary to ensure appropriate accountability for these awards. In addition, USAID/Ethiopia had its own Mission Order 504, "*Audit and Management Control Review Committee*" (dated 8/16/01), which addressed current requirements and guidance related to audits.

Mission Order 504 designated the Supervisory Financial Analyst in the Office of Financial Management as the Mission's AMO. The Mission Order also assigns the AMO responsibility for filing and reporting responsibilities related to audits. The Mission Order did not assign any specific audit responsibilities to the Mission's Controller.

This occurred because the Mission Order was written in a manner that conflicted with the Controller responsibilities identified in ADS 591. Specifically, the Mission Order failed to address the responsibilities that the ADS gives the Controller in respect to determining the feasibility of audits and ensuring proper accountability of awards. This resulted in non-compliance with ADS 591 and the possibility that AMO responsibilities were not being carried out as effectively as possible.

The Mission's Controller agreed that the Mission Order should be changed to identify the Controller as the AMO. The Controller, who was relatively new to the Mission, said that she had wanted to assume the AMO responsibilities. As a result, on September 6, 2005, the Mission issued Mission Order 5-14, "Audit and Management Control Review Committee". This Mission Order superseded Mission Order 504 and re-designated the Controller or his/her designee as the AMO and also redefined the role of the AMO as it relates to audits.

USAID/Ethiopia's recent issuance of Mission Order 5-14 addressed the contradiction that existed between Mission Order 504 and ADS 591. As a result of this action taken, Recommendation No. 3 will be closed upon final report issuance.

Recommendation No. 3: We recommend that USAID/Ethiopia revise its Mission Order 504 to designate the Controller as the Audit Management Officer.

Award Inventory Needs To Be More Accurate and Complete

Summary: In part, ADS 591 requires that USAID/Ethiopia maintain an inventory of all contracts, grants, and cooperative agreements. The audit identified a number of errors in the Mission's award inventory. These errors occurred because the AMO did not coordinate with the appropriate staff in developing the Mission's inventory to ensure its accuracy and completeness. The cognizant technical officers (CTOs) and activity managers were not provided copies of the inventory, and no one was ensuring that the awards included in the inventory were accurate and complete prior to submitting it to the Regional Inspector General. Also, the Controller's Office employees responsible for data entry keyed inaccurate start and completion dates and award numbers into the Mission Accounting and Control System (MACS) because of the lack of standardized language in the implementation letters (the source documents). Further, the inventory was not always updated with the latest data contained in award modifications. Incomplete award inventory data occurred when fiscal year-end awards were not included in the inventory. An inaccurate and incomplete award inventory may result in awards with less than $300,000 not being properly monitored.

ADS 591.3.4.2 requires missions to "maintain an inventory of all contracts, grants, and cooperative agreements, including cash transfer and non-project assistance grants, awards financed with host country-owned local currency, and activities in nonpresence countries for use in determining audit requirements." The ADS also stipulates that each mission must develop an annual audit plan to ensure complete audit coverage of all direct awards to prime foreign organizations. The ADS further states that the AMO must coordinate with the appropriate activity managers in developing the Mission's inventory and annual audit plan.

The audit found that USAID/Ethiopia's award inventory was inaccurate and incomplete. Data testing conducted during the audit identified many inaccurate items. Many of these inaccuracies were related to incorrect dates and award numbers. The Mission's award inventory for September 30, 2004 included 139 recipients that received 337 awards with a total award amount of $367 million. There were 30 non-U.S.-based recipients that fell within the scope of our audit; they had received 51 awards which totaled $40 million. The inventory data—which contained grantee/contractor name, recipient agreement number, start and completion dates, and agreement amounts—as compared against data contained in the agreement files for all 51 awards. Thirty-one (61percent) of those awards had one or more errors. The most common errors related to incorrect start and completion dates and incorrect award numbers. There were also a number of miscellaneous errors, including an inaccurate recipient name and a foreign-based recipient being classified as a U.S.-based recipient.

Regarding the issue of incomplete data, the audit identified seven awards with commitments totaling $9.2 million that had not been included in the Mission's award inventory. There were two reasons why this occurred:

- First, these awards had been made at the end of fiscal year 2004 and had not been entered into MACS. The Mission had developed its award inventory by extracting this data from MACS just after the end of fiscal year 2004, with the result that these seven awards were not included in the award inventory.

- Second, the employees from the Mission's Office of Financial Management responsible for data entry did not receive these awards in time to include them into MACS. During that time, the Regional Inspector General/Pretoria required that it receive award inventories from missions no later than October 4, 2004.

These problems occurred because the AMO did not coordinate with the appropriate CTOs and activity managers in developing the Mission's inventory, and because no one at the Mission was reviewing the inventory for accuracy and completeness prior to submitting it to the Regional Inspector General/Pretoria. The AMO did provide the award inventory to the Strategic Objective (SO) office team leaders. However, a number of the CTOs and activity managers did not receive and review the award inventory when the inventory was being developed. In addition, the data entry personnel from the Controller's Office input inaccurate start and completion dates and award numbers into MACS because of the lack of standardized language in the implementation letters, which were source documents. Further, award completion dates in the inventory were not always updated with the latest award modifications. The Regional Inspector General/Pretoria has since extended the deadline for missions to submit their award inventory—this year the award inventory will be due no later than November 18, 2005. According to the Mission's Controller, this time extension will help the Mission in the future to ensure that its award inventory is complete.

If used properly, the award inventory can be an effective part of the monitoring process. However, the lack of an accurate and complete award inventory may result in awards with expenditures less than $300,000 not being properly monitored. In order for

USAID/Ethiopia to develop and maintain a meaningful inventory, we are providing the following recommendations.

> *Recommendation No. 4: We recommend that USAID/Ethiopia develop guidance that provides standard language to be used in the Mission's implementation letters. This guidance should identify what constitutes start dates and completion dates, as well as the proper use and identification of award numbers.*

> *Recommendation No. 5: We recommend that USAID/Ethiopia develop and implement a plan which will provide cognizant technical officers and activity managers with copies of the award inventory, requiring them to check the inventory for accuracy and completeness. As part of this plan, the cognizant technical officers and activity managers should annually certify that they have reviewed the awards for which they are responsible for both accuracy and completeness.*

Cognizant Technical Officers Need To Better Document Site Visits

Summary: USAID/Ethiopia's CTOs need to improve documentation of their site visits to the Mission's recipients. As required by ADS 303, 202, and the CTO Checklist, CTOs are responsible for documenting their significant actions with recipients and for evaluating the recipients' performance. Nevertheless, many of the Mission's CTOs have not been documenting their site visits to show their monitoring efforts in accounting for proper expenditure of USAID funds. This occurred because some CTOs incorrectly believed that: (1) visits to recipients who were located nearby did not need to be documented and (2) visits were only necessary for recipients that received large awards as opposed to recipients who received small awards needed to be documented. These misconceptions raise the possibility that the Mission's CTOs have not been adequately monitoring recipients during their visits.

According to USAID's ADS 303.3.4.c.1, CTOs are responsible for monitoring and evaluating a recipient and its performance during the award to facilitate the attainment of program objectives. Required CTO actions include contact through site visits and liaison with the recipient, and reviewing and analyzing performance and financial reports. The CTO responsibilities are further defined in the CTO Checklist found in USAID's *Guide Book for Managers and Cognizant Technical Officers on Acquisition and Assistance* (November 1998). Among the CTO responsibilities are:

- maintaining reasonable contact with the contractor to become aware of and gain an understanding of its problems and work schedules;

- documenting significant actions, conversations, etc., as they occur;

- establishing and maintaining a separate file for documents and correspondence pertaining to the contract; and

- monitoring funds closely on a regular basis.

According to ADS 202.3.4.6, Strategic Objectives (SO) teams “must ensure that they have adequate official documentation on agreements used to implement USAID-funded activities, resources expended, issues identified, and corrective actions taken.”

As part of their monitoring efforts, the Mission’s CTOs should stay in contact with recipients through phone calls, emails, and site visits. But a review of the CTOs’ files found deficiencies in this area. Many of the Mission’s CTOs were neither documenting nor maintaining files on the results of their site visits with recipients, including their monitoring of funds. Trip reports, when found, tended to identify programmatic aspects of the visits without mentioning financial issues. The audit identified a recently established practice among some CTOs who were using a proforma site visit report. Although the proforma report did not identify financial monitoring as one of the listed components, it could be easily modified to address such monitoring. The file review identified other types of financial monitoring documentation, which varied among the CTOs this including (1) quarterly pipeline reviews, (2) semi-annual reports containing financial data, and (3) reviews of recipients’ vouchers for payment.

When CTOs were questioned as to why they were not preparing and maintaining documents related to their site visits some of them replied that they believed that (1) if the recipient was located nearby, there was no need to document visits and (2) only recipients with large awards needed trip reports. Both of these beliefs conflict with existing USAID policies regarding the documentation of site visits. In addition, some CTOs were not able to make site visits due to security concerns that existed in some of the regions where their activities were being carried out.

Because many site visits with the Mission’s recipients had not been documented and maintained in files, it was difficult for the Mission to account for its monitoring of USAID funds and site visit results. Although some documentation was kept, it was generally incomplete. Without such documentation, it was difficult to evaluate the recipients’ performance during the award period. As a result, there exists the possibility that those USAID/Ethiopia non-U.S.-based recipients who expended less than $300,000 during their fiscal year may not have been adequately monitored by the CTOs.

The documentation and maintenance of site visit records are an important internal control for ensuring that all of the Mission’s recipients are adequately monitored and that USAID funds are accounted for. A practice of CTOs conducting site visits with recipients without documenting their monitoring activities from these visits is of limited value and does not meet the intent of the ADS. Rather, including proper information documentation of site visits in the CTOs’ files helps provide information that serves as a basis for evaluating the effectiveness of a recipient’s program. Having site visit documentation is also important for historical purposes, especially when another CTO is assigned responsibility for the recipient’s program. In order to strengthen this management control and to provide the Mission with the full benefit of the CTOs’ site visits, we are making the following recommendation.

Recommendation No 6: We recommend that USAID/Ethiopia develop Mission-specific procedures requiring that site visits of recipients be documented and maintained in cognizant technical officer files when financial monitoring has been performed, that should be included as part of the site visit report.

EVALUATION OF MANAGEMENT COMMENTS

At the time our draft audit report was submitted to USAID/Ethiopia, the Mission had already taken action to address Recommendation Nos. 1 through 3. As a result, we consider those recommendations to have received final action upon the issuance of this report. In responding to our draft report, USAID/Ethiopia management concurred with Recommendation Nos. 4, 5, and 6. For Recommendation No. 4, the Mission indicated that in coordination with the Regional Legal Advisor, it is preparing Mission guidance to standardize the information required in USAID/Ethiopia's implementation letters. It is anticipated that final action on Recommendation No. 4 will be completed by March 1, 2006. The Mission stated that for Recommendation No. 5, it will include the active participation of, and certification by, the Mission's cognizant technical officer's to ensure that the audit inventory is accurate and complete. The Mission estimates that final action for Recommendation No. 5 will be completed by December 31, 2005. For Recommendation No. 6, the Mission indicated that it is in the process of amending its Mission Order on site visits in order to incorporate financial issues that are impacting program implementation. Final action to address Recommendation No. 6 is expected by June 1, 2006. Based upon the above information, we consider that a management decision has been reached for Recommendation Nos. 4 through 6.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria conducted this audit in accordance with generally accepted government auditing standards. The audit was conducted at USAID/Ethiopia in Addis Ababa, Ethiopia from April 25 through May 6, 2005, and August 15 through 24, 2005.

The audit scope included recipients of USAID/Ethiopia that expended less than $300,000 during their fiscal year for the time period October 1, 2003, through September 30, 2004. In planning and performing the audit, we tested and assessed internal controls for USAID/Ethiopia related to monitoring non-U.S.-based recipients expending less than $300,000 in USAID funds in their fiscal year. Specifically, we examined and assessed the following significant internal controls: (1) developing an award inventory and plan; (2) developing and implementing a monitoring plan through the use of pre-award and post-award assessments for recipients expending less than $300,000; (3) conducting site visits to ensure funds were being spent in accordance with agreement terms and applicable laws and regulations; and (4) establishing and maintaining site visit documentation files. In addition, we interviewed the Controller, Deputy Controller, Audit Management Officer, and financial analysts, as well as cognizant technical officers and activity managers, to determine the processes and internal controls used. We obtained a copy of the Mission's award inventory as of September 30, 2004, which included 139 recipients that received 337 awards totaling $367 million. There were 30 non-U.S.-based recipients falling within the scope of this audit with 51 awards. The audit tested the accuracy and completeness of the award inventory prepared by USAID/Ethiopia. However, the Mission Accounting and Control System from which the award inventory was extracted was not audited.

The types of evidence examined during the audit included—but were not limited to—the award inventory prepared by the Controller's Office and recipients' files maintained by the financial analysts and cognizant technical officers, which included various documents relating to their monitoring efforts. There was a scope limitation because some of the documents contained in the Mission's files were written in Amharic. In these cases, the audit team had to rely upon the Mission's staff to interpret these documents.

Methodology

In order to gain an understanding of USAID/Ethiopia's monitoring process, we held discussions with officials from the Mission and reviewed relevant project documentation.

To accomplish the audit objective, we developed an audit program and performed the following tasks:

- Reviewed applicable regulations, USAID policy, and guidance related to the audit objective.

- Gained an understanding of USAID/Ethiopia's monitoring of recipients expending less than $300,000 by reviewing and analyzing applicable documentation such as, but not limited to, the award inventory, annual audit plan, and site visit reports.

- Tested data on the award inventory to determine its accuracy. Specifically, we verified the grantee/contractor name, agreement number, start and completion dates, and the award amount of the agreement for all awards within the scope of this audit.

- Compared the award inventory to the list of recipients with active awards received from the Mission's Regional Contracting Officer. However, we were unable to compare the award inventory list to a list of active Project Implementation Letters because the Mission's program development office did not have a complete listing of these Letters.

- Interviewed the Controller and employees from the Controller's Office and then reviewed their documents that were pertinent to the audit.

- Interviewed cognizant technical officers from all five of the Mission's Strategic Objective teams and reviewed recipient files to determine the extent of their monitoring.

The audit team relied upon the award inventory that was prepared by USAID/Ethiopia. In developing the award inventory the Mission staff classified awards above and below the audit threshold. In that regard, the audit team did not audit against the threshold amount. We did not set a materiality threshold for this audit as the nature of the audit did not lend itself to the establishment of such a threshold. However, we designed our audit to address potential concerns such as:

- inadequate monitoring of awards with expenditures under $300,000.
- inaccurate and incomplete audit inventory.
- lack of knowledge or understanding of the Automated Directives System requirements.
- absence of documentation in recipient files to determine monitoring efforts.

MEMORANDUM

Date: October 26, 2005

To: Jay Rollins, Regional Inspector General

From: William Hammink, USAID/Ethiopia Director /s/

Subject: Mission Comments on Report No. 4-663-05-XX-P (Audit of USAID/Ethiopia's Monitoring of Awards Which Do Not Require Annual Financial Audits)

This memorandum contains USAID/Ethiopia's comments on the subject audit report transmitted on September 29, 2005. We appreciate the auditors' assessment and assistance in strengthening the Mission's monitoring of awards which do not require annual financial audits. As noted in the draft audit report, **Recommendations 1 through 3 have been addressed by the Mission and will be closed upon issuance of the final audit report**. The following is USAID/Ethiopia's plan of action to address Recommendations 4 through 6.

Recommendation No. 4: We recommend that USAID/Ethiopia develop guidance that provides standard language to be used in the Mission's implementation letters. This guidance should identify what constitutes start dates and completion dates, as well as the proper use and identification of award numbers.

Action Taken: USAID/Ethiopia is in full agreement with this audit recommendation. The Mission's Program Office, in coordination with the Regional Legal Advisor, has initiated preparation of Mission guidance to standardize the information required in USAID/Ethiopia's implementation letters. This guidance will include the need for start and completion dates, as well as the proper use and identification of award numbers.

The necessary actions to close this recommendation have been initiated and the Mission anticipates that final action will be completed by March 1, 2006. USAID/Ethiopia will request closure of this recommendation once the Mission guidance on preparation of implementation letters has been finalized and issued.

Recommendation No. 5: We recommend that USAID/Ethiopia develop and implement a plan which will provide cognizant technical officers and activity managers with copies of the award inventory, requiring them to check the inventory for accuracy and completeness. As part of this plan, the cognizant technical officers and activity managers should annually certify that they have reviewed the awards for which they are responsible for both accuracy and completeness.

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Action Taken: We appreciate the auditors' assessment that additional participation by the CTOs will improve the quality of the Mission's audit inventory, and fully support this recommendation.

The preparation of the FY 2006 audit inventory will include the active participation of, and certification by, the Mission's CTOs to ensure the accuracy and completeness of the inventory. Documentation of the CTOs' certifications will be kept on file, and will be submitted to the Audit Performance and Compliance Division as part of the Mission's request to close this recommendation. The Mission anticipates that final action will be completed by December 31, 2005.

Recommendation No. 6: We recommend that USAID/Ethiopia develop Mission specific procedures requiring that site visits of recipients be documented and maintained in cognizant technical officer files, and when financial monitoring has been performed, that should be included as part of the site visit report.

Action Taken: USAID/Ethiopia fully supports this recommendation, and is in the process of amending the current Mission Order on site visits to incorporate the feedback provided by the auditors. A site visit report format that includes a question on financial issues that are impacting program implementation is included as part of the revised Mission Order.

We believe the necessary actions have been initiated, and anticipate that final action will be completed by June 1, 2006. The Mission will request closure of this recommendation once the revised Mission Order on Site Visits (and the site visit report format) are finalized and issued.

We appreciate the opportunity to respond to these recommendations and to share with you the actions we are taking to address the audit recommendations.

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