



**USAID**  
FROM THE AMERICAN PEOPLE

**OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF USAID/SOUTH  
AFRICA'S CONTROL OVER  
PRIME RECIPIENTS'  
MONITORING OF  
SUBRECIPIENTS**

AUDIT REPORT NO. 4-674-06-003-P  
DECEMBER 23, 2005

REGIONAL INSPECTOR GENERAL, PRETORIA



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

December 23, 2005

**MEMORANDUM**

**TO:** USAID/South Africa Acting Mission Director, Brent Schaeffer

**FROM:** Regional Inspector General/Pretoria, Jay R. Rollins /s/

**SUBJECT:** Audit of USAID/South Africa's Control over Prime Recipients'  
Monitoring of Subrecipients (Report No. 4-674-06-003-P)

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

This report does not contain any recommendations for your action.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

# CONTENTS

<b>Summary of Results</b> .....	1
<b>Background</b> .....	1
Audit Objective .....	2
Did USAID/South Africa ensure that the methods and frequency of monitoring the activities of foreign subrecipients by U.S. prime recipients were sufficient to ensure that program objectives were met and funds were used in accordance with applicable laws, regulations and agreement terms? .....	2
<b>Audit Findings</b> .....	3
<b>Evaluation of Management Comments</b> .....	5
<b>Appendix I – Scope and Methodology</b> .....	6
<b>Appendix II – Management Comments</b> .....	8

# SUMMARY OF RESULTS

This audit of USAID/South Africa's Control over Prime Recipients' Monitoring of Subrecipients was conducted to determine whether the Mission ensured that the methods and frequency of monitoring the activities of foreign subrecipients by U.S. prime recipients were sufficient to ensure that program objectives were met and funds were used in accordance with applicable laws, regulations, and agreement terms. (See page 2).

The audit showed that USAID/South Africa ensured that the methods and frequency of monitoring activities of foreign subrecipients by U.S. prime recipients were sufficient to ensure that program objectives were met and funds were used in accordance with applicable laws, regulations, and agreement terms. Listed below are some of the methods used by the Mission: (See pages 3-4).

- Ensured that the financial operations of prospective subrecipients were assessed to ensure their capacity to manage the funds they would receive.
- Conducted technical reviews by teams that included the Cognizant Technical Officer or Activity Manager to ensure that prime and subrecipients were selected on a competitive basis.
- Reviewed and approved the prime and subrecipients' performance monitoring plans.
- Coordinated site visits with prime recipients to ensure that progress was being made towards program objectives and that funds were being spent in accordance with agreement terms and applicable laws and regulations.
- Reviewed and analyzed vouchers and financial reports of prime and subrecipients to determine reasonableness in terms of spending rate and level of programmatic activities.

The report does not contain any recommendations.

## BACKGROUND

USAID, with its decreasing numbers of U.S. direct hires and limited Personal Services Contractors, is faced with additional demands on those employees because of increased funding to cover programs in such areas as HIV/AIDS, the Millennium Challenge Corporation, and Iraq and Afghanistan reconstruction. In response to these demands, missions are moving more and more to the use of umbrella agreements with U.S. organizations (pass-through entities) who then provide funding to foreign subrecipients to implement the missions' programs. The benefit of removing significant administrative responsibilities from the missions is clear; however, ensuring that the U.S. prime recipients are effectively monitoring their foreign subrecipients is much more

problematic. Even with this type of funding mechanism, USAID needs to ensure effective monitoring of its programs.

USAID uses OMB Circular A-133 (A-133) annual financial audits as a primary tool in ensuring a U.S. prime recipient's compliance with the requirement to monitor the funds passed through to their subrecipients. Although the audit requirement for subrecipients contained in A-133 is not applicable to foreign subrecipients, A-133 requires that U.S. prime recipients monitor their foreign subrecipients. Specifically, Section 230(b)(2) of A-133 states that factors such as the size of awards, percentage of the pass-through entity's total program funds awarded to subrecipients, complexity of the compliance requirements, and risk of subrecipient non-compliance as assessed by the pass-through entity may influence the nature and extent of monitoring procedures. Additionally, Federal laws or regulations may impose subrecipient monitoring requirements specific to a Federal program.

However, an A-133 audit of the prime to ensure that they are properly monitoring their subrecipients is only one of the many possible subrecipient monitoring tools available. Other monitoring tools include reviewing financial and performance reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, and, when warranted, arranging for financial reviews of subrecipient activities. Subrecipient monitoring should occur throughout the year rather than solely relying on an annual A-133 audit that might not review activities at overseas locations as part of its scope.

At the time of the audit, USAID/South Africa had active awards with 48 prime recipients with a total value of \$264.3 million. This audit covered the fiscal year 2004 activities of 6 judgmentally selected prime recipients, representative of each of the Mission's Strategic Objectives, with awards totaling \$126.2 million. Out of the 137 foreign subrecipient awards totaling \$56.6 million, 6 of the largest foreign subrecipient awards with a total dollar value of \$14 million were selected for review.

## **AUDIT OBJECTIVE**

As part of the Regional Inspector General/Pretoria's annual audit plan for fiscal year 2005, this audit was conducted to answer the following question:

Did USAID/South Africa ensure that the methods and frequency of monitoring the activities of foreign subrecipients by U.S. prime recipients were sufficient to ensure that program objectives were met and funds were used in accordance with applicable laws, regulations, and agreement terms?

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

# AUDIT FINDINGS

USAID/South Africa ensured that the methods and frequency of monitoring the activities of foreign subrecipients by U.S. prime recipients were sufficient to ensure that program objectives were met and funds were used in accordance with applicable laws, regulations, and agreement terms.

The Mission used several methods to ensure that U.S. prime recipients monitored the activities of their foreign subrecipients to ensure the successful implementation of programs. First, USAID/South Africa selected prime recipients which were primarily U.S.-based organizations with considerable experience working with USAID in South Africa and other countries. These prime recipients were generally knowledgeable of USAID requirements and, accordingly, used that knowledge and experience to implement Mission programs and monitor their subrecipients. Some of the officers and personnel of the Mission's prime recipients were former USAID employees or had previously worked with other Mission prime recipients.

After selecting a prime recipient, the Mission conducted a post-award evaluation which included representatives from the applicable Mission Strategic Objective (SO) Teams, the Financial Management Office (FMO), the Office of Acquisition and Assistance (OAA) and Monitoring, and Evaluation (M & E). In the post-award evaluation, the team of evaluators, when appropriate, provided recommendations to the prime recipient to ensure that issues regarding subrecipients were properly addressed. Additionally, the Mission's FMO, as appropriate, conducted risk assessments of the prime recipient's financial operations and procurement procedures, as well as a desk audit of their disbursements and time keeping procedures.

To assure proper selection of subrecipients, USAID/South Africa conducted pre-award evaluations for the selection of subrecipients. A technical review committee with 3 to 5 members that included the Cognizant Technical Officer and Activity Manager ensured that subrecipients were selected on a competitive basis. The Mission further ensured that the subrecipients were properly vetted to verify that they were not suspended or debarred from performing work for USAID. If a foreign subrecipient did not have prior working experience with implementing USAID programs, the Mission ensured that the prime recipients provided them with the necessary assistance to comply with all the requirements of USAID agreements.

To ensure successful implementation of USAID programs, the Mission reviewed the prime and subrecipients' performance and monitoring plans at least on an annual basis. Further, the prime and subrecipients we reviewed were aware that the Mission Cognizant Technical Officers (CTOs) and Activity Managers would periodically review their accomplishments compared to planned milestones. Consequently, the prime recipients reviewed their subrecipients' progress on a regular basis to ensure that their activities were progressing as planned. When plans or circumstances changed, the milestones were amended accordingly. For example, for activities related to the President's Emergency Plan for AIDS Relief, the reporting requirements changed intermittently. This made it necessary for the CTOs and the prime recipients involved in those activities to work closely and communicate often with the Mission's Monitoring and Evaluation Advisor.

With regard to site visits, the Mission ensured that the prime recipients coordinated their site visits with the appropriate CTOs and Activity Managers who would often accompany the prime recipients. One of the prime recipients performed monthly visits to inspect financial records and program activity performance of its subrecipients. Another prime recipient also conducted site visits of each subrecipient at least once a month to visit the projects, check the milestones, and, at the same time, perform a financial compliance review. Aside from the site visits, the prime recipients generally submitted timely reports to the Mission on programmatic and financial activities involving their subrecipients on a monthly, quarterly, and annual basis. These reports were based on monthly reports submitted by the subrecipients and reviewed by the prime recipients.

The audit also found evidence of regular communication between prime recipients and the respective CTOs and Activity Managers. Communication was done via e-mail, telephone, and meetings on a weekly, monthly, quarterly, or as needed basis. These communications included such items as discussions of the implementation and progress of the projects, resolution of technical and programmatic issues, and financial matters regarding budgets and expenditures of funds.

The positive results of the Mission's control over prime recipients' monitoring of subrecipients were evidenced in the Mission's Annual Report issued on December 17, 2004, which reported that 90 percent of all SO activities exceeded or met their programmatic targets.

In terms of establishing and maintaining proper financial accountability over subrecipients, USAID/South Africa routinely obtained the approval of CTOs prior to processing the payment of vouchers for prime recipients. This approval necessitated both a programmatic, as well as a financial review on the part of the CTOs that the prime recipients passed on to their subrecipients. The prime recipients we reviewed were systematically reviewing and analyzing financial reports submitted by their subrecipients to determine the reasonableness of their spending in comparison with reported activities. The prime recipients had internal auditors and accountants to monitor subrecipient vouchers and financial transactions. As a result, many of the prime recipients would disallow costs that had been submitted to them from their subrecipients before submitting those costs to the Mission because they did not comply with USAID cost principles.<sup>1</sup> One of the main reasons was the lack of supporting documents. Several of the subrecipients reviewed during the audit commented that their prime recipients were thoroughly reviewing their requests for payments. This indicates that the prime recipients were not only monitoring the progress of programs but also ensured that funds were used in accordance with agreement terms, applicable laws, and regulations.

During the audit other matters that were not germane to the audit objective or which were minor in nature came to our attention. Those matters will be reported separately to Mission management.

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<sup>1</sup> According to Chapter 4, *Cost Principles for Country Contracts*, costs, to be allowable, must meet all of the following criteria: allowable, allocable, reasonable and be accounted for in a manner that is consistent with the contractor's usual accounting practices.

# EVALUATION OF MANAGEMENT COMMENTS

USAID/South Africa concurred with the results of the audit. The Mission was grateful for the Regional Inspector General/Pretoria's efforts in reviewing their methods and frequency of monitoring prime recipients and their respective subrecipients.



# SCOPE AND METHODOLOGY

## Scope

The Regional Inspector General/Pretoria conducted this audit in accordance with generally accepted government auditing standards to determine whether USAID/South Africa ensured that the methods and frequency of monitoring the activities of foreign subrecipients by U.S. prime recipients were sufficient to ensure that program objectives were met and funds were used in accordance with applicable laws, regulations, and agreement terms. The audit was conducted at USAID/South Africa in Pretoria, South Africa, from May 25 to September 22, 2005.

The audit included a judgmental sample of USAID/South Africa prime recipients and their foreign subrecipients from each of the six Strategic Objective teams during fiscal year 2004. In planning and performing the audit, we tested and assessed internal controls for USAID/South Africa related to the monitoring of the non-U.S.-based subrecipients by their U.S. based prime recipients during the fiscal year. Specifically, we examined and assessed significant internal controls regarding: (1) the proper selection of subrecipients; (2) the development and implementation of a monitoring plan for subrecipients; (3) the conduct of site visits; and (4) establishing and maintaining the proper financial approval methodology to ensure funds were being spent in accordance with agreement terms and applicable laws and regulations. In addition, we interviewed the Mission's Controller, Voucher Examiner, Cognizant Technical Officers, and Activity Managers to determine the process and internal controls used. We obtained a copy of the Mission's prime recipient list as of May 25, 2005, which listed 48 prime recipients with a total of 137 foreign subrecipients. Out of the 48 prime recipients, we judgmentally selected 6 U.S. prime recipients and their largest respective subrecipients. The selected sample included at least one prime recipient from each of the Mission's Strategic Objectives. The total dollar value of prime recipient awards was \$264.3 million and the total dollar value of foreign subrecipient awards was \$56.6 million. The audit covered fiscal year 2004 activities of the 6 judgmentally selected prime recipients, with a total value of \$126.2 million. Out of the 137 foreign subrecipient awards totaling \$56.6 million, 6 foreign subrecipient awards with a total dollar value of \$14 million were selected for review.

## Methodology

In order to gain an understanding of the prime recipient's monitoring process over the subrecipients we held discussions with officials from the Mission and reviewed relevant project documentation. The types of evidence examined during the audit included—but were not limited to—the award inventory prepared by the Controller's Office and recipient files maintained by the Cognizant Technical Officers which included various documents related to their monitoring efforts.

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

- Reviewed applicable regulations, USAID policies, and guidance related to the audit objective.
- Gained an understanding of USAID/South Africa's control over the monitoring of the subrecipients by reviewing and analyzing applicable documentation such as, but not limited to, the award inventory and site visit trip reports.
- Tested data on the award inventory to determine its accuracy. Specifically, we verified the award numbers, start and completion dates, and the amount of the awards.
- Interviewed the Mission Controller, employees from the Financial Management Office, and Office of Acquisition and Assistance staff. In addition, we reviewed documents they prepared that were pertinent to the audit.
- Interviewed Cognizant Technical Officers from each of the six Strategic Objective (SO) teams and discussed with prime recipients and subrecipients to determine the extent of their monitoring.

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.

# MANAGEMENT COMMENTS



## UNITED STATES GOVERNMENT ACTION M E M O R A N D U M

**DATE** : December 2, 2005

**TO** : Jay Rollins, Regional Inspector General/Pretoria

**FROM** : Brent Schaeffer, Acting Deputy Mission Director /s/

**SUBJECT** : Management comments – Audit of USAID/South Africa’s control over prime recipient’s monitoring of sub-recipients (Report # 4-674-06-xxx-P).

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The mission has reviewed the subject audit report and concurs with the results of the audit.

We would like to thank the Regional Inspector General’s office for their efforts in reviewing our methods and frequency of monitoring our prime recipients and their sub-recipients. We are pleased with the outcome of their review of our efforts to ensure that our program objectives are met and that the funds are being used in accordance with applicable laws, regulations, and agreement terms.

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Ave, NW  
Washington, DC 20523  
Tel: (202) 712-1150  
Fax: (202) 216-3047  
[www.usaid.gov/oig](http://www.usaid.gov/oig)