



**USAID**

FROM THE AMERICAN PEOPLE

**OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF USAID/UGANDA'S  
COMPLIANCE WITH  
FINANCIAL AUDIT  
REQUIREMENTS REGARDING  
FOREIGN RECIPIENTS**

AUDIT REPORT NO. 4-617-07-001-P

DECEMBER 05, 2006

PRETORIA, SOUTH AFRICA



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

December 05, 2006

**MEMORANDUM**

**TO:** USAID/Uganda, Mission Director, Margot Ellis

**FROM:** Regional Inspector General/Pretoria, Nathan S. Lokos /s/

**SUBJECT:** Audit of USAID/Uganda's Compliance with Financial Audit Requirements Regarding Foreign Recipients (Report No. 4-617-07-001-P)

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

The report has one recommendation to help USAID/Uganda improve its financial audit program with regard to foreign recipients. In response to the draft report, the Mission concurred with the recommendation and will implement corrective action to address this recommendation. Therefore, we consider that a management decision has been reached for this recommendation.

Please provide the Audit, Performance and Compliance Division (M/CFO/APC) with evidence of final action in order to close Recommendation No. 1.

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 performed this audit to determine whether USAID/Uganda effectively managed its financial audit program in accordance with USAID policies and procedures for fiscal years 2004 and 2005. (See page 3.)

USAID/Uganda did not effectively manage its financial audit program during the period covered by the audit. Specifically, USAID/Uganda did not ensure that planned audits of foreign recipients were performed in a timely manner or that delinquent audits were followed up on and completed. To help correct and strengthen its financial audit program, we recommended that USAID/Uganda develop and implement an audit tracking system to better monitor so as to ensure timely submission of planned audits. (See pages 4 – 6.)

Nevertheless, USAID/Uganda did ensure that foreign recipients requiring financial audits were included in the audit plan. The Mission prepared and submitted their annual audit plans for fiscal years 2004 and 2005 and those plans were complete. (See pages 6 – 7.)

The Mission concurred with the recommendation mentioned above and plans to develop and implement an “Audit Plan Implementation Tracking Work Sheet,” revise its notification letter to recipients, establish specific due dates and requirements for selection of audit firms and submission of required recipient-contracted audits. The Mission will also review the status of all audits on a timely basis and will take corrective action for audits that are not progressing as planned. (See pages 11 – 12.)

Finally, during the audit it was noted that USAID/Uganda’s relevant mission order did not include policies and procedures for close-out audit of awards in excess of \$500,000. No recommendation was made addressing this issue, because all funds under expired awards had previously been covered by audits received by the Mission. However, we did suggest that the Mission revise its relevant mission order to include policies and procedures for close-out audit of awards in excess of \$500,000. The Mission agreed with this suggestion. (See page 12.)

# 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 Directives 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 in excess of \$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.<sup>1</sup> 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 and contracted by recipients using 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 for review and issuance no later than nine months following the end of the audited period.

In fiscal year 2005, USAID/Uganda had 14 non-U.S.-based recipients. During fiscal years 2004-2005, the Mission reported budget authorizations totaling \$104.1 million for programs in:

- Economic Development.
- Human Capacity.
- Governance and Conflict.

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<sup>1</sup> 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/Uganda'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/Uganda ensure that planned financial audits of foreign recipients were performed and submitted in accordance with USAID rules and regulations?

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

# AUDIT FINDINGS

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

USAID/Uganda did not ensure that all planned financial audits of foreign recipients<sup>2</sup> were performed and submitted in accordance with USAID rules and regulations.

The majority of USAID/Uganda's planned financial audits of foreign recipients were not submitted to RIG/Pretoria within nine months after the end of the audited period, as required by the Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients* (Guidelines). For the 12 audit reports received by RIG/Pretoria, the average submission time was 129 days (approximately 4 months) after they were due. The subsequent sections of this report will more fully address this area in detail.

USAID/Uganda has planned for and submitted its audit inventories and audit plans to RIG/Pretoria for fiscal years 2004 - 2005. Since October 6, 2003, RIG/Pretoria has issued 15 financial audit reports of USAID/Uganda recipients covering \$14.1 million in expenditures of USAID funds. Those audit reports included recommendations that addressed \$514,921 in questioned costs, 26 internal control weaknesses, and 28 instances of material noncompliance with applicable laws and regulations.

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

### **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. USAID/Uganda submitted all 12 of the audits planned for fiscal years 2004 to 2005. Eight of the twelve were submitted to RIG/Pretoria after the required timeframe. This occurred because USAID/Uganda had not developed an effective 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 Directives 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

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<sup>2</sup> For the purpose of this audit, foreign recipients include non-U.S.-based grantees and contractors who were awarded grants, contracts, cooperative agreements and implementation letters.

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 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/Uganda's annual audit plans prepared for fiscal years 2004 and 2005 included 12 distinct planned financial audits of 7 different recipients. The breakdown of the 12 audits is presented in Table 1 below.

Table 1  
Recipient Audits in Annual Plans for Fiscal Years 2004-2005

Number of recipients	# of annual audits in plans	Totals
1	3	3
3	2	6
3	1	3
7		12

Seven (58%) of the twelve audit reports were initially rejected. On average, audit reports were submitted 129 days (approximately 4 months) after they were due. The Mission has since submitted the audit reports as stated in USAID/Uganda's memorandum dated October 27, 2006 (See Appendix II).

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, eight of the planned audits were not submitted in a timely manner. One of the contributing factors for lack of timeliness in submitting the audit reports was the need for these reports to be sent back to audit firms for correction or additional work. Although these audit reports were eventually corrected and resubmitted to RIG/Pretoria, the additional work required more time to complete. Further, the independent audit firms had high staff turnover leading to lack of institutional memory on conducting recipient-contracted audits in accordance with U.S. Government Auditing Standards and OIG Guidelines.

USAID/Uganda's implementation of its action plan in response to a previous audit "Audit of the Accuracy of USAID/Uganda's Recipient Audit Universe" (Report No. 4-617-00-010-P) has contributed to timely submission of four of the twelve audit reports in their annual audit plans. However, other required audits were not submitted within the required timeframe. 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 that 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 help prevent potential fraud, waste and abuse.



For the mission to be able to submit timely audit reports to RIG/Pretoria, it must have an updated 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 recommendations:

*Recommendation No. 1: We recommend that USAID/Uganda develop and implement an effective 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.*
- *Corrective actions are taken and documented for audits that are not progressing as planned.*

## **Did USAID/Uganda ensure that annual audit plans included all recipients from its award inventory that required a financial audit?**

USAID/Uganda did 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/Uganda developed award inventories for fiscal years 2004 and 2005 which included the required information for each award, such as 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 plan for each of those fiscal years which included 12 distinct audits of foreign recipients receiving awards listed in those inventories.

USAID/Uganda prepared the award inventories and related audit plans as required and all awards that required audits were included in the audit plans. The Mission Order Nos. 500-07A, dated December 7, 1999 and 500-30B, dated March 31, 2005 were comprehensive in their scope of audit policy and procedures; however, they did not include policy and procedures regarding closeout audits.

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 likely be performed within the required timeframe.

As stated in ADS 591.3.3.2, certain annual audits can be accepted as fulfilling the close-out audit requirements. The Mission's annual audit plans included all recipients from its award inventories that required a financial audit therefore auditors did not find any audits that required close-out audits. However, to help ensure that all awards requiring financial and/or closeout audits are considered in the Mission's audit plans, we suggest USAID/Uganda amend Mission Order No. 500-07A dated December 7, 1999 to include procedures for closeout audits.

# EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Uganda concurred with both of the recommendations. For Recommendation No. 1, the Mission will institute procedures to address the controls stated in the recommendation. In addition, USAID/Uganda will ensure that the status of all audits are reviewed on timely basis and corrective actions are taken and documented for audits that are not progressing as planned. The Mission provided a copy of its revised audit plan implementation tracking worksheet which identifies required due dates and milestones for ensuring timely receipt of audit reports. Therefore, we consider that a management decision has been reached for Recommendation No. 1.

As of the date of USAID/Uganda's management comments, the Mission had submitted all delinquent recipient contracted audit reports and currently, there are no delinquent audits. Therefore we have removed Recommendation No. 2 from the final report.

On other matters, the Mission plans to develop and amend Mission Order Nos. 500-07A and 500-30B to include policies and procedures for close-out audits of awards in excess of \$500,000 to help ensure that required close-out audits are performed.

# 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 Regional Inspector General/Pretoria. The audit notification was sent on December 20, 2005 and the audit was performed from March 24 to April 18, 2006. Additional clarification regarding the audit findings was received from the Mission on July 12, 2006.

The audit covered financial audit requirements for USAID/Uganda's awards to non-U.S.-based recipients during fiscal years 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 2004-2005, 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 Mission's 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.
- Mission orders regarding financial audits.

## Methodology

To accomplish the audit objectives, we reviewed and analyzed the annual audit plans and award inventories submitted to RIG/Pretoria for fiscal years 2004 and 2005 for USAID/Uganda. We compared audit reports actually submitted to RIG/Pretoria to planned audits listed in the Mission's 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 above \$500,000 that

were not subject to an annual audit in the eleven-month period prior to the program completion date. The audit also included a review of correspondence between RIG/Pretoria and the Mission 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 nine-month due date was greater than 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.
- 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 were handled via email or telephone.

# MANAGEMENT COMMENTS



## Memorandum

October 27, 2006

**TO:** Nathan Lokos, Regional Inspector General/Pretoria

**FROM:** Elzadia Washington, A/Mission Director /s/

**SUBJECT: Audit of USAID/Uganda's Compliance with Financial Audit Requirements Regarding Foreign Recipients – Report No. 4-617-06-XXX-P**

Regarding OIG/Pretoria's subject audit dated September, 2006 Mission would like to provide the following comments to improve the recipient financial audit program and the timeliness and follow-up on delinquent audits.

**RECOMMENDATION No. 1:** We recommend that USAID/Uganda develop and Implement an effective 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.
- Corrective actions are taken and documented for audits that are not progressing as planned.

**MISSION RESPONSE:** Currently the Mission sends out an audit request letter to the grantee forwarding the statement of work and a list of approved CPA firms in addition to the OIG's Guidelines for Financial Audits Contracted by Foreign Recipients noting audit requirements. To improve the timeliness of reports to RIG/Pretoria, Mission will institute the following procedures:

- Develop and implement an “Audit Plan Implementation Tracking Work Sheet” (Attachment I-to be revised when final FY ’07 audit plan is established) which identifies required due dates and milestones for ensuring the timely receipt of audit reports to include: 1) date when audit request letter is sent to recipient; 2) date of review of audit contract by USAID/Uganda FMO (30 days prior to recipients FY end); date of 1<sup>st</sup> required follow-up (3 months after delivery of audit request letter); 3) date of 2<sup>nd</sup> required follow-up (6 months after delivery of audit request letter), 3) date when a signed copy of the audit report is due to be delivered to RIG/Pretoria.
- Revise Mission’s notification letter to recipients, establishing specific due dates and requirements for selection of audit firm and submission of required Recipient Contracted Audit. Additionally, letter identifies follow-up reporting dates for USAID/Kampala FMO (Attachment II).
- Additionally, USAID/Kampala Mission will ensure that the status of all audits are reviewed on timely basis and corrective actions are taken and documented for audits that are not progressing as planned by incorporating a review of the “Audit Plan Implementation Tracking Worksheet” during our regularly scheduled meetings of the Mission’s Management Control and Review Committee; which also reviews audit findings, management decisions and closure status for all outstanding recommendations.

**RECOMMENDATION No. 2:** We recommend that USAID/Uganda obtain and submit audit reports for all recipients with delinquent audits.

**MISSION RESPONSE:** Mission has submitted all delinquent recipient contracted audit reports at the date of this Memorandum, and is pleased to note that currently there are no delinquent audits.

**OTHER MATTERS:** As identified in your review of Mission Order Nos. 500-07A and 500-30B regarding audit plans inventories lacking policies and procedures for Close-Out audits of awards in excess of \$500,000. USAID/Uganda Mission will develop and amend existing Mission orders to include close-out audit policies and procedures for awards in excess of \$500,000.

However, please note that the Mission’s office of Acquisition and Assistance, in coordination with CTO’s and FMO does currently ensure that required close-out audits are performed for all awards in excess of \$500,000.

USAID/Uganda Mission appreciates this opportunity to provide comments relative to subject audit report and if appropriate would appreciate inclusion of OIG comments regarding Recommendation 1, on the adequacy of planned improvements to Mission audit follow-up policies and procedures. Additionally, regarding Recommendation 2, a statement to the effect that “as the date of this report USAID/Uganda Mission has no delinquent audits” would also be appreciated. If you have any further questions or

concerns regarding the above identified procedures or related attachments, please do not hesitate to contact Mission Controller, Roger Lapp.



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