

**Audit of USAID/Dominican Republic's
Recipient Audit Universe**

**Audit Report No. 1-517-01-002-P
March 2, 2001**

San Salvador, El Salvador



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

March 2, 2001

MEMORANDUM

FOR: USAID/Dominican Republic Director, Elena Brineman
FROM: Regional Inspector General/San Salvador, Timothy E. Cox
SUBJECT: Audit of USAID/Dominican Republic's Recipient Audit Universe
(Report No. 1-517-01-002-P)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

The report contains two recommendations for your action. Based on the information provided by the Mission, a management decision has been reached for Recommendation No. 1 and final action has been taken for Recommendation No. 2. A determination of final action for Recommendation No. 1 will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are complete.

I appreciate the cooperation extended to my staff during the audit.

Summary of Results

The Regional Inspector General/San Salvador performed an audit to determine whether USAID/Dominican Republic's audit universe is complete and accurate and were required audits done in a timely manner.

Our audit showed that USAID/Dominican Republic developed a complete and accurate audit universe. However, the reports were not done in a timely manner. (See pages 3 through 6)

Mission officials concurred with the findings and conclusions of our audit. They are in the process of implementing corrective actions for Recommendation No. 1 and have taken the necessary actions to implement Recommendation No. 2. (See Appendix II)

Background

Financial audits of contracts and grants are a primary basis for effective management and control of USAID's program expenditures. These audits are designed to provide USAID management reasonable assurance that transactions are properly recorded and accounted for; laws and regulations, and provisions of contract or grant agreements are complied with; and USAID-financed funds, property, and other assets are safeguarded against unauthorized use or disposition.

In response to Congressional concerns, USAID has taken an active role in recent years using audits as a management tool to improve financial accountability of its programs.

In May 1996, USAID issued Automated Directives System (ADS), Chapter 591 which, among other things, requires USAID missions to (1) establish an audit management plan; (2) maintain an audit inventory database; and (3) have audits done for non-U.S. grants, contracts, and cooperative agreements that meet the audit threshold.

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

In March 1998, the Office of Inspector General (OIG) issued Audit Report No. 3-000-98-002-F on USAID missions' roles in obtaining audits of their contracts, grants, and cooperative agreements. The report concluded that 11 of the 14 USAID missions selected (on an USAID-wide basis) generally obtained audits of their contracts, grants, and cooperative agreements as required by ADS Chapter 591. However, a significant number of required audits were not completed at 10 of the audited 14 USAID missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit universe worldwide over a period of three years because the lack of audit coverage was perceived as a high-risk area.

Audit Objectives As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed an audit to answer the following question:

- Is USAID/Dominican Republic's audit universe complete and accurate and were the required audits done in a timely manner?

The audit scope and methodology is presented in Appendix I.

Audit Findings **Is USAID/Dominican Republic's audit universe complete and accurate and were the required audits done in a timely manner?**

The audit showed that USAID/Dominican Republic developed a complete and accurate audit universe. However, the audit showed that even though the audit reports were done, they were not submitted in a timely manner to the Office of the Regional Inspector General/San Salvador, as required by ADS 591.

For fiscal year 1999, the Mission disbursed approximately \$14.3 million¹ to 19 U.S. organizations and 16 non-U.S. organizations. The table below provides a breakdown of these disbursements by type of agreement and by number and type of recipients:

Type of Agreement	U.S.		Non-U.S.		Total	
	Disbursements and No. of Recipients		Disbursements and No. of Recipients		Disbursements and No. of Recipients	
Contract	\$3,252,614	3	\$503,433	2	\$3,756,047	5
Grant	1,659,027	8	1,645,846	9	3,304,873	17
Cooperative Agreement	2,169,815	2	3,765,113	4	5,934,928	6
Other	1,235,576	6	111,294	1	1,346,870	7
	\$8,317,032	19	\$6,025,686	16	\$14,342,718	35

We determined (as of September 30, 1999) that, of the 16 non-U.S. grant and agreement recipients listed, six recipients, with total disbursements of \$4,873,652, were subject to audit coverage during fiscal year 2000. The remaining ten non-U.S. recipients were not required to be audited.

¹ USAID/Dominican Republic is the accounting station for USAID/Guyana. All figures include both USAID/Dominican Republic and USAID/Guyana disbursements.

We determined that all six recipients were included in the Mission's audit database inventory. The Mission took several actions to implement an audit management plan in accordance with the requirements of ADS Chapter 591, which included:

- establishing a Management Control Review Committee to monitor the status of the Mission's audit management plan and to assure its audit responsibilities were carried out;
- designating an Audit Management Officer to coordinate and monitor the Mission's audit management plan and follow up on implementation of recipient-contracted audit recommendations;
- including the required audit clauses in its grants and contracts and budgeting funds for audits; and
- maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits and to track such audits.

Required Audits Were Not Done in a Timely Manner

Chapter 591 of USAID's ADS requires overseas missions to establish an audit management plan and obtain audits of its non-U.S. grantees and contractors. In addition, USAID's *Guidelines for Financial Audits Contracted by Foreign Recipients* states that reports resulting from these audits are to be submitted to the cognizant OIG audit office within nine months after the recipient's fiscal year-end for review and release.

Based on the audit inventory, there were six audits that were due during fiscal year 2000. None of the six audit reports were submitted to the Regional Inspector General/San Salvador within the required nine-month timeframe.² For example, one report, due December 1999, was 13 months late and another report, due June 3, 2000, has not yet been submitted.

There were several reasons why the audit reports were submitted late. The Mission did not place a high priority on submitting audit reports on a timely basis to the Regional Inspector General/San Salvador. Also contributing to the problem was the fact that the Management Control and Review Committee was unaware that audit reports were not being submitted on a timely basis.

² In addition, from September 2000 through December 2000, the mission submitted to RIG/San Salvador 32 past-due audit reports that had been issued by the audit firms as long ago as 1995. However, these reports were outside the scope of the current review.

Starting in August 2000, the financial analysts began to review the past-due reports. The Mission also requested assistance from other USAID controllers. Moreover, to reduce the amount of time to review the audit reports, the Mission will no longer review the draft audit reports in Spanish. The audit firms now have to submit their audit reports only in English.

By not ensuring that the required audit reports were done in a timely manner, USAID/Dominican Republic did not have adequate assurance that: (1) the audits of non-U.S. recipients were conducted in accordance with USAID requirements, and (2) the recommendations were tracked in USAID's Consolidated Audit Tracking System. As a result of the above, we are making the following recommendation:

**Recommendation No. 1: We recommend that USAID/
Dominican Republic:**

- 1.1 establish a plan of action for submitting all past-due audit reports to the Regional Inspector General/San Salvador;**
- 1.2 revise the Mission Order on Procedures for Handling Audits to reflect the current due dates, contained in Automatic Directives System, Chapter 591, for submitting audit reports to the Regional Inspector General/San Salvador, and to establish timeframes for processing audit reports to meet those due dates;**
- 1.3 establish procedures requiring the Management Control and Review Committee to periodically review the status of the audit management plan in comparison with Automated Directives System Chapter 591 requirements; and**
- 1.4 change, in its Mission Internal Control Assessment Tracking Report, the rating from satisfactory to unsatisfactory the control technique: “An audit management plan is in place and annual audits are conducted, where required, of non-U.S. organizations awarded direct contracts and grants, and host-country owned local currency accounts” until all the past due audit reports are submitted to the Regional Inspector General/San Salvador.**

Information in the Audit Inventory of Non-U.S. Contractors and Grantees Database Could Be Improved

A review of the accuracy of the information in the audit inventory database of non-U.S. contractors and grantees database disclosed seven errors out of 182 data elements tested. The errors generally pertained to an incorrect expiration date or amount of the grant or cooperative agreement. This was due to the financial analysts not making the necessary changes to the database when there were changes made to the grant or cooperative agreement or the information was entered incorrectly. Although the required audits were performed, the wrong expiration date or amount in the grant or cooperative agreement could result in an audit not being performed.

Recommendation No. 2: We recommend that USAID/Dominican Republic reconcile the audit inventory database of non-U.S. contractors and grantees on a regular basis to ensure its accuracy.

**Management
Comments
and Our
Evaluation**

USAID/Dominican Republic concurred with the findings and conclusions of our audit. The Mission is in the process of implementing corrective actions for Recommendation No. 1 and have taken the corrective actions to implement Recommendation No 2. Mission comments are attached in their entirety as Appendix II.

**Scope and
Methodology****Scope**

The audit was performed in accordance with generally accepted government auditing standards and assessed whether USAID/Dominican Republic's audit universe was complete and accurate, and were required audits done in a timely manner.

For the purposes of this audit, we obtained information on audits due from October 1, 1999 through September 30, 2000. Fieldwork was performed at USAID/Dominican Republic from December 4 through December 8, 2000 and covered approximately \$6 million of USAID disbursements to non-U.S. based organizations. The audit scope included:

- (1) reviewing the Mission's audit management plan and related documents,
- (2) interviewing cognizant Mission officials, and
- (3) reviewing the Mission's automated database universe of contracts, grants, and cooperative agreements and identifying those that require audits.

We also obtained an understanding of the internal control system as it relates to the audit objective and assessed risk.

In addition, we obtained information on (1) total disbursements for all grants, contracts, and cooperative agreements (U. S. and non-U.S.) as of September 30, 1999 and, (2) the number of recipients, which receive USAID funds, below the audit threshold of \$300,000 to obtain a complete picture of the Mission's portfolio.

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

Methodology

The methodology included (1) reviewing the Mission's audit inventory database system to determine if it contains the information needed to monitor and track required audits, (2) examining documentation, and (3) conducting interviews with cognizant officials to determine whether the Mission had met its responsibilities as established by ADS Chapter 591 and the *Guidelines*.

To answer the audit objective, we obtained the universe of USAID/Dominican Republic's grants, contracts, and cooperative agreements and determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit coverage at September 30, 1999. The above information was obtained

from Mission Accounting and Control System (MACS) reports. We also reviewed Controllers office contract agreements as well as the Regional Contracting Officer's (RCO) contract files. Specifically, we performed tests of the audit inventory data elements to contract files and sampled RCO files for inclusion in audit inventory database. We then determined whether: (1) such agreements were properly included in the Mission's audit database inventory, and (2) required audits were submitted to the Regional Inspector General/San Salvador on a timely basis.

We did not audit the accuracy of the information in the Mission's MACS database system because of time constraints and because it was not directly relevant to our audit objective. We considered five exceptions as our materiality threshold.

**Management
Comments**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
Santo Domingo, Dominican Republic

UNITED STATES GOVERNMENT
MEMORANDUM

Date: Tuesday, February 06,2001

To: Timothy E. Cox, Regional Inspector General, San Salvador

From: Elena Brineman, Mission Director

Subject: Draft Report -Audit of USAID/DR's Recipient Audit Universe

Subject draft report contains two recommendations. The audit of USAID/DR's Recipient Audit Universe had the following objectives: to determine if USAID/DR's audit universe was complete and accurate and if the required audits were done. The recommendations made to USAID/DR follows:

1. We recommend that USAID/Dominican Republic:
 - 1.1 establish a plan of action for submitting all past-due audit reports to RIG/San Salvador;
 - 1.2 revise the Mission Order on Procedures for Handling Audits to include internal timeframes for making sure the audit reports are sent to RIG/San Salvador on time and to change from 13 months to 9 months the date when audit reports need to be submitted to RIG/San Salvador;
 - 1.3 have the Management Control and Review Committee periodically review the status of the audit program in comparison with ADS Chapter 591 requirements; and
 - 1.4 change, in its Mission Internal Control Assessment Tracking Report, the rating from satisfactory to unsatisfactory the control technique: "An audit management plan is in place and annual audits are conducted, where required, of non-U.S. organizations awarded direct contracts and grants, and host-country owned local currency accounts" until all the past due audit reports are submitted to RIG/San Salvador.
2. We recommend that USAID/Dominican Republic review the information in the

audit inventory of non-U.S. contractors and grantees database to ensure accuracy.

In connection with recommendation 1.1, the Mission is using a tracking matrix (attachment A) which follows the progress of audits included in the FY '00 audit plan. From the original audit plan we deleted audits scheduled to be sent to the RIG after 9/30/00. To the list we added audits for INTEC/CAMPE for the years ending 12/31/98 and 12/31/99. Of our final list of 11 reports for the FY '00 audit plan, 3 reports have been moved to our FY '01 audit plan (of which one has been completed), due to extensions of the grants and changes in the period audited. One report has been completed and 3 reports are in-transit to you for final review and approval. This leaves 4 reports that need to be sent to the RIG for final approval and subsequent closure of this recommendation.

The Mission Order on Procedures for Handling Audits has been amended to include, internal timeframes for handling audits (matrix) and the correct time of 9 months for receipt of audit reports by RIG/San Salvador (attachment B). This constitutes final action for recommendation 1.2.

For recommendation 1.3, on 1/31/01 the USAID/DR MCRC and Deputy Team/Office Chiefs attended the quarterly MCRC meeting which included a 1 hour training session on Mission and MCRC audit responsibilities (attachment C1 minutes, C2 training, C3 tracking reports). The MCRC meets on a quarterly basis and will continue to review the audit plan and recommendation tracking reports as has been done in the past. This constitutes final action for recommendation 1.3.

The control technique which states " An audit management plan is in place and annual audits are conducted, where required, of non-U.S. organizations awarded direct contracts and grants, and host country owned local currency accounts" has been changed to unsatisfactory in the Mission Internal Control Assessment Tracking Report (attachment D). This constitutes final action for recommendation 1.4.

In connection with recommendation No.2, RIG/San Salvador reviewed a draft audit inventory for FY '01. This draft was reviewed and corrections made before the final audit inventory and audit plan were sent to the RIG in December. USAID/DR updates the inventory and audit plan quarterly and will send any changes to the RIG in the future. This constitutes final action for recommendation 1.5.

USAID/Dominican Republic would like to thank the Regional Inspector General's Office in San Salvador for the advice and suggestions that were made to USAID staff during the performance of the audit. The Mission has made substantial progress (more than 40 reports sent to the RIG for final approval since August) in clearing up an audit backlog caused by competing work requirements, and continues to place our audit program as a Mission priority. We look forward to receiving the final report that indicates that all recommendations except for 1.1 have been closed.