



Memorandum

*Regional Inspector General
Pretoria*

DATE: January 8, 2001

TO: Regional Director, USAID/Mozambique, Cynthia Rozell

FROM: Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Audit of the Accuracy of USAID/Mozambique's Recipient Audit Universe, Report Number 4-656-01-002-P

This is the final report on the subject audit. We received your comments to our draft report and included those comments as Appendix II to this report.

This report has no recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

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. During 1991 and 1992, USAID revised its standard provisions for its contracts and grants, requiring annual audits of non-U.S. organizations disbursing USAID funds of \$25,000 or more. The threshold was increased to \$100,000 in May 1994, and to \$300,000 in July 1998.

Furthermore, in April 1992, USAID issued a General Notice, defining the role of USAID missions in obtaining audits of their contracts, grants and cooperative agreements with

non-U.S. organizations. In May 1996, these requirements were incorporated into Chapter 591 of USAID's Automated Directives System (ADS), which, among other things, requires USAID missions to (i) establish an audit management program; (ii) maintain an audit inventory database; and (iii) have audits done for non-U.S. grants, contracts and cooperative agreements that meet the audit threshold.

These initiatives are far reaching in preventing misuse of USAID development funds and facilitating timely corrective actions. 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 1995, the Office of Inspector General (OIG) issued Audit Report No. 3-000-95-009 on USAID's implementation of a 1992 initiative to improve the financial management of its programs. The report concluded that most missions had implemented the general requirements of the financial audit management program and established audit inventory databases. However, complete coverage was impaired as a result of obstacles arising from host government restrictions and local audit firm capabilities.

In March 1998, the OIG issued Audit Report No. 9-000-98-002-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 worldwide 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 aforementioned 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 lack of audit coverage was perceived as a high-risk area. Accordingly, RIG/Pretoria included this audit in our fiscal year 2000 audit plan.

Audit Objective

RIG/Pretoria performed this audit to answer the following question:

Is USAID/Mozambique's audit universe complete and accurate, and are required audits done in a timely manner?

The audit scope and methodology are described in Appendix I.

Audit Findings

The audit showed that USAID/Mozambique (Mission) developed a complete and accurate audit universe. It also monitored the required audits of the non-U.S. organizations for which it is the cognizant mission, thereby resulting in the performance of the required audits in a timely manner.

As of June 30, 2000, the Mission disbursed approximately \$80.5 million to 44 U.S. and 7 non-U.S. organizations. The table below provides a breakdown of these disbursements by type of instrument and by number and type of recipient:

	U.S. RECIPIENTS ¹		NON-U.S. RECIPIENTS		TOTAL	
TYPE OF AGREEMENT	DISBURSEMENTS & NUMBER OF RECIPIENTS					
Contract	\$19,500,107	7	\$1,293,673	1	\$20,793,780	8
Grant	26,736,004	22	1,555,490	3	28,291,494	25
Cooperative Agreement	29,268,016	15	2,139,155	3	31,407,171	18
TOTAL	\$75,504,127	44	\$4,988,318	7	\$80,492,445	51

From the above table, we determined that the seven non-U.S. recipients with total disbursements of \$4,988,318 were subject to audit coverage as of June 30, 2000. We then ascertained that the (1) seven non-U.S. recipients were included in the Mission's audit database inventory; (2) required audits were completed on a timely basis; and (3) audit reports were prepared in accordance with USAID's guidelines on financial audits.

In addition, the audit results showed that the Mission took several actions to implement an audit management program in accordance with the requirements of ADS Chapter 591, which included:

¹ USAID/Washington is responsible for the audit coverage of the 44 U.S. recipients.

- establishing an ad hoc group, in lieu of a management control review committee, to handle audit and financial management issues;
 - designating an audit management officer to coordinate and monitor the Mission's financial audit program, and follow up on the implementation of recipient-contracted audit recommendations;
 - maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits, and monitoring such audits.
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Management Comments and Our Evaluation

USAID/Mozambique's management has no comments on the draft audit, and looks forward to receiving a copy of the final audit report.

SCOPE AND METHODOLOGY

Scope

The audit was performed in accordance with generally accepted government auditing standards, and ascertained whether (1) USAID/Mozambique's audit universe was complete and accurate, and (2) required audits were done in a timely manner.

The OIG conducted a "Worldwide Audit of Selected Missions' Role in Obtaining Audits of Their Contracts, Grants and Cooperative Agreements" (Report No. 9-000-98-002-F, March 20, 1998). That report considered recipient financial audits which had been completed as of October 31, 1996. For the purposes of this audit, we obtained information on audits completed from October 1, 1997 through June 30, 2000.

Fieldwork was performed at USAID/Mozambique in Maputo, Mozambique, from October 25 through November 3, 2000, and covered approximately \$5 million of USAID disbursements for non-U.S. recipients subject to audit. The audit scope included:

- (1) reviewing the Mission's audit management program 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.

In addition, we obtained information on (1) total disbursement for all grants, contracts, and cooperative agreements (U.S. and non-U.S.) for USAID as of the period ended June 30, 2000, and (2) the number and amount of grants, contracts, and cooperative agreements falling below the audit threshold of \$300,000 to form a complete picture of the Mission's portfolio. In regard to the total disbursement for all grants, contracts, and cooperative agreements, the Mission explained that the recipient inventory is reconciled semi-annually, in June and December of each year. Accordingly, we audited the latest available information, which was as of June 30, 2000, instead of September 30, 2000.

The relevant audit criteria included 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 contracts, grants, cooperative agreements, and amounts committed and disbursed, and (3) conducting interviews with cognizant officials to determine whether the Mission has met its responsibilities established by ADS Chapter 591 and the Guidelines.

To answer our audit objective, we obtained the universe of USAID/Mozambique'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 June 30, 2000. The above information was obtained from the Mission's contract files, recipient inventory database, and the Mission Accounting and Control System (MACS) database. We then ascertained whether: (1) such agreements were included in the Mission's audit database inventory; (2) required audits were completed in a timely manner; (3) audit reports were prepared in accordance with USAID's guidelines and sent to RIG/Pretoria for desk review; and (4) agreements contained the required audit clauses.

We did not audit the Mission's MACS database system because of time constraints and because it was not directly relevant to our audit objective. Further, because of the small size of the audit universe, we did not use a materiality threshold, but considered even one exception as significant for reporting purposes.



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MEMORANDUM

To : **Joseph Farinella,**
Regional Inspector General for Audit, USAID/Pretoria

From : **Cynthia Rozell,** *C Rozell*
Mission Director, USAID/Mozambique

Date : **December 7, 2000**

Reference : **USAID/746/00/mk**

Subject : **Audit of the Accuracy of USAID/Mozambique's
Recipient Audit Universe
Report Number 4-656-01-XXX-P**

Dear Mr. Farinella,

We refer to the above audit and to your e-mail dated November 29, 2000, requesting the Mission's written comments by no later than December 20, 2000.

We have no additional comments to add to the draft audit and look forward to receiving a copy of the final audit report.

Thank you and regards,