

USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Russia's Recipient Audit Universe

Audit Report No. B-118-01-004-P

March 20, 2001



**U.S. Agency for
International Development**



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/Budapest

March 20, 2001

MEMORANDUM

FOR: USAID/Russia Director, Carol A. Peasley

FROM: Director of Audit Operations, RIG/Budapest, Nathan S. Lokos

SUBJECT: Audit of USAID/Russia's Recipient Audit Universe (Report No. B-118-01-004-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 no recommendations for your action. I appreciate the cooperation and courtesy extended to my staff during the audit.

Summary of Results

USAID/Russia has a highly organized and well-documented audit management system to identify Russian organizations that require an annual audit of USAID-funded expenditures and to track the organizations' progress in arranging for the timely completion of such audits. However, we identified one required audit that was overlooked and not included with the five audits listed in the Mission's audit universe. The oversight was attributed to clerical error and the organization in question will be required to have two years of disbursements audited in the upcoming cycle rather than one.

In addition to the above, two of the five audit reports required to have been submitted to USAID by September 30, 2000 had not been received as of late October 2000. We understand that both audits are in progress and that the Mission expects to receive the reports within another month.

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.

In response to congressional concerns, USAID has taken an active role in recent years in 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.

In addition, USAID issued a General Notice in April 1992 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 of far reaching consequence 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 an audit report on USAID's implementation of USAID's 1992 initiative to improve the financial management of its programs (Report No. 03-000-95-009). 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 a report on USAID missions' roles in obtaining audits of their contracts, grants and cooperative agreements (Report No. 9-000-98-002-F). The report concluded that 11 of the 14 selected USAID missions generally obtained audits of their contracts, grants and cooperative agreements as required by ADS Chapter 591 but that a significant number of required audits were not completed.

In May 2000, OIG management decided to verify the accuracy of USAID missions' recipient audit universe over a three-year period because lack of audit coverage was perceived as a high-risk area. USAID/Russia was selected for this review and included as part of RIG/Budapest's FY 2001 audit plan.

Audit Objective

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

Is USAID/Russia's audit universe accurate and complete and were required audits conducted in a timely manner?

Appendix I describes the audit's scope and methodology.

Audit Findings

Is USAID/Russia's audit universe accurate and complete and were required audits conducted in a timely manner?

The audit showed that the information presented in USAID/Russia's universe of required recipient-contracted audits was accurate. However, because one of the six required audits for 1999 had erroneously been omitted, the audit universe—while accurate—was not complete. Additionally, two of the required audit reports had not been received by the September 30, 2000 deadline, although both audits are in the process of being completed. Details of the audit findings are discussed below.

Identification of the Audit Universe

During fiscal year 1999, USAID/Russia disbursed approximately \$80,040,708¹ to 91 different organizations and companies including 79 U.S., 11 Russian, and 1 international organization. The table below provides a breakdown of these disbursements by the type of agreement and type of recipient.

FY 1999	U.S. Organizations	Russian Organizations	International Organizations
Type of Agreement	Disbursements	Disbursements	Disbursements
Contracts	\$23,725,694	\$104,700	\$0
Grants	\$13,969,536	\$1,133,801	\$5,000,000
Cooperative Agreements	\$32,385,613	\$3,157,170	\$0
Others	\$564,194	\$0	\$0
Totals	\$70,645,037	\$4,395,671	\$5,000,000
No. of Recipients	79	11	1

Similarly, during fiscal year 2000, USAID/Russia disbursed approximately \$68,345,926 to 72 different organizations and companies including 61 U.S., 10 Russian, and 1 international organization. The table below provides a breakdown of these disbursements by the type of agreement and type of recipient.

FY 2000	U.S. Organizations	Russian Organizations	International Organizations
Type of Agreement	Disbursements	Disbursements	Disbursements
Contracts	\$21,610,670	\$0	\$0
Grants	\$9,075,911	\$951,321	\$210,665
Cooperative Agreements	\$30,226,357	\$4,640,068	\$0
Others	\$1,630,934	\$0	\$0
Totals	\$62,543,872	\$5,591,389	\$210,665
No. of Recipients	61	10	1

¹ As further discussed in Appendix I (Scope and Methodology), the disbursements presented in this report have not been audited.

This audit focuses on the Mission's development and management of an audit universe of the Russian entities receiving USAID funding. The audit universe for U.S. and international organizations is managed by USAID/Washington. ADS Chapter 591 requires audits of non-U.S. recipient organizations if their USAID-funded expenditures exceed \$300,000 during the recipient's fiscal year.

USAID/Russia has a highly organized and well-documented audit management system that relies primarily on Mission Accounting and Control System (MACS) accounting records to identify Russian organizations that exceed the \$300,000 audit requirement threshold. Unfortunately, the basic disbursement data contained in MACS and presented above is available based on USAID's fiscal year (twelve months ending September 30) and is recorded when USAID makes a disbursement or reimbursement to the organization. In contrast, the ADS audit threshold is based on an organization's fiscal year (in Russia this is generally the calendar year) and when it expended—rather than when it received--the USAID funding. Accordingly, the summary MACS data must be closely scrutinized to identify the applicable organizations and often entails reviewing subsidiary accounting records to determine whether or not the \$300,000 threshold has been exceeded.

For calendar year 1999 expenditures, USAID/Russia began reviewing MACS reports very early (fall of 1999) to identify its audit universe. This was done so that organizations would have sufficient lead time to arrange for audits in order to meet the September 30, 2000 deadline for submission of their audit reports. The Mission first identified five organizations requiring audit. It then transmitted USAID's audit requirements to each of those organizations and offered any necessary assistance. In each case, the organization had not previously had an audit specifically performed to meet USAID requirements.

We reviewed the Mission's system for identifying its audit universe and found that the system was highly organized and well-documented. Also, the individual primarily responsible for creating and maintaining the system was knowledgeable of USAID audit requirements and when audits were--and were not--required. In addition to the five required audits it had identified, the Mission had also arranged with RIG/Budapest to have the Defense Contract Audit Agency conduct an audit of another Russian entity—the Sakharov Foundation—that had disbursements below the \$300,000 threshold, but where an audit was deemed beneficial. However, as discussed below, one required audit was incorrectly omitted from USAID/Russia's 1999 audit universe.

Audit Universe Was Not Complete

In our review of the Mission's MACS database of disbursements to Russian recipient organizations we identified a sixth recipient that was incorrectly excluded from the 1999 USAID/Russia audit universe. According to MACS records, the Center for Energy Efficiency had two USAID agreements with USAID-funded expenditures of \$330,835 in 1999, thereby exceeding the \$300,000 audit threshold. It is not entirely

clear why the entity was overlooked, but we suspect it was due to clerical oversight or perhaps the modest amount by which it exceeded the threshold. The calculation of 1999 expenditures did require review of several vendor vouchers for each of the two agreements. The organization has already been included in the audit universe for the year 2000 and Mission officials stated they would ensure this upcoming audit covered expenditures for both 1999 and 2000.

We also identified one organization (Institute for Urban Economics) with 1998 expenditures of \$474,457 where the audit need had not been properly identified. The requirement was missed because (1) the Mission's audit universe management system had not been fully established, (2) this was the only Russian organization with an audit requirement for that year and the first for USAID/Russia, and (3) the agreement in question was signed on September 17, 1998 and Mission officials probably did not realize the threshold had been reached so quickly in only three months. The 1998 USAID-funded expenditures have already been included in the organization's audit for 1999.

Mission Needs to Ensure Timely Completion of Required Audits

ADS Chapter 591 requires audits to be completed and reports to be submitted to USAID within nine months from the end of the recipient's fiscal year. Each of the five Russian organizations included in USAID/Russia's audit universe use the calendar year as their fiscal year and audit reports for 1999 were due by September 30, 2000.

Only three of the five audit reports has been received by USAID as of October 27, 2000. One of the missing audits (Academy of Management and the Market) has reportedly been completed by an American audit firm but the auditor has been ill and the audit report has not yet been received from the U.S. The remaining audit (Junior Achievement Russia) began in September 2000 and will probably not be completed until mid-November 2000. The main reason cited for this audit's delay is that the audit firm is performing the audit at no charge as a contribution to the organization and the audit was, therefore, not the firm's highest priority.

Mission officials provided documentary evidence that the organizations in question were alerted to the audit requirement and deadlines very early in the year and that the Mission had made numerous reminders and inquiries during the year concerning the audits' status including involvement of the applicable activity managers. Mission officials state they will redouble their efforts to get timely submission of reports for calendar year 2000 and believe that the second audit for many organizations should be easier to arrange and will expedite the audit process.

**Management
Comments and
Our Evaluation**

USAID/Russia concurred with the findings and reaffirmed its commitment to (1) obtain submission of recipient audits within established deadlines, and (2) assuring that expenditures made late in the recipients' fiscal year are considered when determining whether audits are required.

Scope and Methodology**Scope**

The Office of the Regional Inspector General/Budapest performed the audit in accordance with generally accepted government auditing standards and assessed whether (1) USAID/Russia's audit universe was complete and accurate, and (2) required audits were done in a timely manner. The audit was a part of RIG/Budapest's FY 2001 audit plan.

The audit focused on recipient-contracted audits that were supposed to have been completed and submitted to USAID/Russia by September 30, 2000. Russian organizations generally use the calendar year (CY) as their fiscal year and audits of their CY 1999 expenditures should have been submitted by September 30 of the following year (nine months later). We also identified any audits that should have been performed for CY 1998 expenditures. Field work was performed at USAID/Russia in Moscow, Russia from October 18 through October 27, 2000, and covered approximately \$80.0 million and \$68.3 million in USAID disbursements during the fiscal years ended September 30, 1999 and September 30, 2000, respectively.

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), July 1998 edition.

Methodology

The audit objective was to determine if USAID/Russia's audit universe was accurate and complete and whether audits were being conducted in a timely manner. In answering the audit objective, we

- (1) interviewed cognizant Mission officials,
- (2) verified the accuracy and completeness of the Mission's audit inventory database by tracing selected data to source documents, such as agreements and accounting records,
- (3) reviewed a judgmentally selected sample of contracts, grants and cooperative agreements to determine whether appropriate audit clauses and funding for audits were included in the agreements, and
- (4) reviewed audit reports and related correspondence to determine whether required audits were performed in accordance with standards, guidelines, timeliness and frequency requirements.

In addition, we obtained information on (1) total disbursements for all grants, contracts and cooperative agreements (U. S. and non-U.S.) for fiscal years 1999 and 2000, and (2) the total number of grants, contracts and cooperative agreements to obtain a complete picture of the Mission's portfolio and to put the recipient-contracted audit universe in proper perspective to the Mission's activities.

We did not audit the accuracy of USAID/Russia's MACS database system because it was not directly relevant to our audit objective. Also, because of the small size of our audit universe, we did not use a materiality threshold and considered even one exception as significant for reporting purposes.

**MANAGEMENT
COMMENTS**

United States Agency for International Development

Local: USAID/Moscow U.S. American Embassy / Moscow
Address: 19/23 Novinsky Bulvar Mailing: PSC 77 USAID
Moscow 121099, Russia Address: APO AE 09721

Telephone: 7 – 095 – 728 5000 Fax: 7 – 095 – 960 2141 / 42

February 1, 2001

MEMORANDUM

TO: Director of Audit Operations/Budapest, Nathan S. Lokos

FROM: USAID/Russia Mission Director, Carol A. Peasley /s/

SUBJECT: Response to Draft Audit Report on Audit of the Accuracy of USAID/Russia's Recipient Audit Universe

I would like to thank you and your auditors for the assistance provided to USAID/Russia during your review of USAID/Russia's Recipient Audit Universe. The discussions during the audit which highlighted specific areas where USAID/Russia needs to heighten its awareness and attention were particularly helpful to my staff. We also appreciate the extra efforts the auditors took to assure that facts presented in the report were accurate and that the report provided a balanced presentation.

Although there were no formal recommendations made in the draft audit report, USAID/Russia wishes to reaffirm its commitment to (1) redouble its efforts to obtain submission of recipient audits that meet the established deadlines, and (2) assure that expenditures made late in the recipients' fiscal year are adequately considered in determinations made concerning recipient audits.

Thank you again for your assistance.