

Report of Audit

**Audit of USAID/Romania's
Recipient Audit Universe**

**Audit Report No. B-186-01-005-P
March 20, 2001**



Budapest, Hungary

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**




U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/BUDAPEST

March 20, 2001

MEMORANDUM

FOR: USAID/Romania Director, Denny F. Robertson 
FROM: Acting Director of Audit Operations, RIG/Budapest, Dev P. Sen
SUBJECT: Audit of USAID/Romania's Recipient Audit Universe, Report
Number B-186-01-005-P

This memorandum is the report on the subject audit.

This report contains one recommendation for your action. Based on your response to our draft report (see Appendix II), we have determined that an acceptable management decision has been reached on the above recommendation. Please notify the Office of Management Planning and Innovation (M/MPI) in Washington when final action is completed and request closure of the recommendation.

I appreciate the cooperation and courtesy extended by your staff during the audit.

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Summary of Results

The audit found that USAID/Romania developed an accurate and complete audit universe. For the period audited, none of the non-U.S. awards in the Mission's audit inventory database met the required audit threshold of \$300,000 in annual disbursements and therefore, did not require an audit. However, the Mission needed to develop an annual audit plan as required by USAID directives to facilitate carrying out its audit management responsibilities. Accordingly, we have made one recommendation to address this finding.

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 Agency 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, the Agency 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 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 Audit Report No. 3-000-95-009 on USAID's implementation of its 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 USAID-wide 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 above 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, the Office of the Regional Inspector General, Budapest (RIG/Budapest) included this audit in its fiscal year 2001 Audit Plan.

Audit Objective

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

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

Audit Findings

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

USAID/Romania's audit universe was complete and accurate. For the period covered, no audits were required to be done because none of the non-U. S. awards met the required audit threshold of \$300,000 in annual disbursements.

During the year ended September 30, 2000, USAID/Romania disbursed about \$5.1 million in awards to 31 U.S. and 4 non-U.S. recipients. The table below provides a breakdown of these amounts by type of agreement and the number of such awards:

Type of Agreement	U.S.		Non-U.S.		Total	
	Disbursements and No. Of Awards		Disbursements and No. Of Awards		Disbursements and No. Of Awards	
Contracts	\$1,938,744	11	\$58,079	1	\$1,996,823	12
Grants	1,960,838	12	378,386	2	2,339,224	14
Cooperative Agreements	738,599	8	63,076	1	801,675	9
TOTALS	\$4,638,181	31	\$499,541	4	\$5,137,722	35

Our audit showed that USAID/Romania included the above awards in its database inventory system and periodically reviewed the non-U.S. awards to determine if any met the audit threshold and, therefore, were subject to audit coverage.

In addition, we found that the Mission took several actions to establish an audit management system in accordance with the requirements of ADS Chapter 591. For example:

- USAID/Romania established a Management Control Review Committee (MCRC) comprised of key Mission officials whose responsibilities include: (1) overseeing the Mission's audit management program; (2) conducting meetings periodically to review progress towards implementation of this program; (3) evaluating and assessing the Mission's management controls in order to identify significant weaknesses; and (4) coordinating preparation of the Mission's statutory annual reports required under the Federal Managers' Financial Integrity Act (FMFIA). A Mission Order was signed in February 2000, defining duties and responsibilities of the MCRC.
- In December 1999, the Mission designated an Audit Management Officer (AMO) to coordinate and monitor the financial audit program and follow-up on implementation of audit recommendations.
- Between March 6 and December 12, 2000, USAID/Romania issued three comprehensive Mission Orders on audit management and resolution to facilitate: (1) planning, scheduling, and following up audits, (2) establishing an audit tracking system, and (3) providing guidance to cognizant Mission officials on implementing the Mission's audit management program.
- As part of its reporting responsibilities under the FMFIA, USAID/Romania identified areas of improvement in its audit management system and specified actions to be taken to address the deficiencies reported.

The above actions have established a sound foundation for an efficient and effective audit management system. However, we believe that controls could be further strengthened if USAID/Romania were to develop an annual audit plan to facilitate identifying, scheduling, tracking and monitoring its financial audits. This finding is described below in detail.

USAID/Romania Should Develop an Annual Audit Plan

ADS Chapter 591.5.17 requires USAID missions to develop an audit plan to ensure complete audit coverage of all non-U.S. organizations including cash transfers, non-project assistance grants and host country-owned local currency accounts. The AMO is required to coordinate with the appropriate activity officers

in developing the Mission's annual audit plan and provide a copy thereof to the cognizant USAID Regional Inspector General's office.

USAID/Romania has issued Mission Orders that provide comprehensive guidance on audit management and resolution as well as the functioning of its Management Control Review Committee. However, it has not yet developed an Audit Plan. Moreover, the Mission's FMFIA report for fiscal year 2000 recognized the need for a plan and stated that corrective action would be taken during fiscal year 2001.

According to the Audit Management Officer, an Audit Plan has not yet been developed primarily because none of the non-U.S. awards in the Mission's inventory met the audit threshold of \$300,000 in annual disbursements.

Nevertheless, an audit plan, if updated annually and implemented timely, would be a useful management tool and provide considerably greater assurance that USAID/Romania is carrying out its audit management responsibilities in accordance with USAID requirements. Accordingly, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID/Romania develop an Audit Plan for fiscal year 2001 and update the plan annually thereafter.

**Management
Comments and
Our Evaluation**

In their response to our draft audit report, USAID/Romania management stated that they found the report to be an accurate reflection of the Mission's performance. They clarified one statement in the report with which we concur and have revised the final report accordingly. Mission comments are included in their entirety in Appendix II to this report.

In response to our recommendation, USAID/Romania agreed to develop an Audit Management Plan. We believe that an acceptable management decision has been reached on the above recommendation. Upon completion of final action, the Mission should advise the Office of Management Planning and Innovation in Washington and request closure of the recommendation.

Scope and Methodology**Scope**

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

Fieldwork was performed at the Mission's office in Bucharest, Romania and at its accounting station at the USAID Regional Financial Management Center in Budapest, Hungary from January 22 through February 28, 2001. The audit universe covered approximately \$5.1 million of USAID-funded disbursements to 35 U.S. and non-U.S. recipients during the fiscal year 2000 and included:

- (1) reviewing USAID/Romania's audit management program and related documents,
- (2) interviewing cognizant Mission officials,
- (3) reviewing the Mission's database universe of contracts, grants, and cooperative agreements, and
- (4) identifying awards that require audits.

In addition, we obtained information on (1) total disbursements for all grants, contracts and cooperative agreements (U.S. and non-U.S.) for USAID's most recent fiscal year ended September 30, 2000 and, (2) the number and amount of grants, contracts and cooperative agreements falling below the audit threshold of \$300,000 to obtain a complete picture of the Mission's portfolio.

The audit criteria 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 to determine if it contains the information needed to identify, monitor and track awards that need to have audits, (2) examining documents concerning the audit management program, 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/Romania'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, 2000. The above information was obtained from the Mission's contract and project files as well as from the Mission Accounting and Control System (MACS) database maintained at its accounting station in Budapest, Hungary.

We then ascertained whether: (1) such awards were included in the Mission's audit database inventory, (2) required audits were completed on a timely basis, (3) audit reports were prepared in accordance with OIG's Guidelines and sent to RIG/Budapest for desk review, and the (4) agreements contained the required audit clauses.

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

**Management
Comments**



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March 12, 2001

Lee Jewell
Acting Director of Audit Operations
Office of the Regional Inspector General
U.S. Agency for International Development
Budapest, Hungary

Subject: Draft audit report on USAID/Romania's Recipient
Audit Universe

Dear Mr. Jewell,

We have reviewed the 02/28/01 draft audit report on USAID/
Romania's Recipient Audit Universe.

We found the statements in the report to be accurate
reflections of the Mission's performance in the audited area.
Based on the comments and recommendation of the audit report,
the Mission will continue to work on developing and improving
its audit management procedures to ensure proper coverage of
its audit responsibilities.

We would like to clarify one statement in the report on page
three:

".... for the period audited, only one out of the four non-U.S. awards in the Mission's audit
inventory database met the required audit threshold of \$300,000 in annual disbursements and,
therefore, required an audit. The audit is due by June 2001 and the Mission's Audit
Management Officer is planning a recipient-contracted audit to commence by the due date in
accordance with the requirements in USAID's guidelines on financial audits of foreign
recipients."

At the time Mr. Dev Sen performed the audit and drafted the
above paragraph, the Mission did not have the final financial
report for fiscal year 2000 for the referenced organization.

Appendix II

Subsequent to Mr. Sen's departure, the organization submitted to USAID its financial report for FY 2000. This report indicates that the disbursements made during FY 2000 did not reach \$300,000 (actual disbursements for FY00 were \$ 264,971). Thus, a recipient audit is not mandatory.

As recommended by the audit report, the Mission will develop an Audit Management Plan (AMP). However, we would like to defer the decision on whether to include in the AMP the organization referred to in the audit report. The Mission will review the findings of the audit of this organization performed last year by the local KPMG office and then assess the need of a separate USAID-funded audit.

We look forward to receiving the final audit report.

Sincerely,



Denny F. Robertson
Mission Director