



ADS Chapter 591

Financial Audits of USAID Contractors, Recipients, and Host Government Entities

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ADS 591 – Financial Audits of USAID Contractors, Recipients, and Host
Government Entities

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ADS 591 – Financial Audits of USAID Contractors, Recipients, and Host Government Entities

591.1 OVERVIEW

Effective Date: 12/04/1998

The purpose of this chapter is to provide the policy directives and required procedures for planning and conducting financial audits of USAID-funded contractors, recipients, and host government entities.

591.2 PRIMARY RESPONSIBILITIES

Effective Date: 01/01/2004

- a. The Administrator** is responsible for ensuring that management officials throughout USAID understand the value of the audit process and are responsive to audit recommendations.
- b. The USAID/Washington Audit Management Officer (AMO)** is responsible for ensuring that required audits are conducted on foreign organizations receiving centrally funded awards issued by the AMO's Bureau.
- *c. The Mission Audit Management Officer (AMO)** is responsible for developing and maintaining the Mission's audit inventory; assessing, in collaboration with the Contracting Officer, risks to decide when audits of foreign-based contractors should be conducted; and coordinating with the Regional Inspector General (RIG), Management Action Official, and other Mission officials to develop the Mission's Annual Audit Plan.
- d. The Management Control Review Committee (MCRC)** is responsible for serving as a decision-making body in situations involving audit issues, and monitoring the implementation and status of the Mission's Annual Audit Plan.
- e. The Mission Activity Manager** is responsible for
 - Ensuring that he or she includes all awards in their portfolio in the Mission's inventory;
 - Ensuring that USAID makes available adequate funding for the required audits; and
 - Participating in developing an Annual Audit Plan for the activities USAID manages.
- f. The Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC)** is responsible for participating in the development and maintenance of USAID's audit management policies and procedures and following up on audit recommendations to ensure they are acted on

swiftly and aggressively. See [MPI Audit Recommendation Final Action \(Closure\) Procedures](#).

g. As established in the [Inspector General Act of 1978, as amended](#) (also see [ADS 590](#) and [ADS 595](#)), the **Office of Inspector General (OIG)** is responsible for

- Ensuring that financial audits meet auditing standards that the Comptroller General of the United States has approved;
- Providing technical advice and support to foreign recipient organizations, independent auditors (including auditors of host country Supreme Audit Institutions), and others;
- Providing or arranging for additional audit coverage of foreign organizations as requested by USAID;
- Performing desk reviews of financial audit reports to ensure quality and compliance with approved standards;
- Working with recipients of USAID funds and independent auditors (including auditors of host country Supreme Audit Institutions) to effect appropriate corrective action for inadequate or substandard audit work;
- Conducting quality control reviews of selected audits for which USAID is cognizant;
- Conducting any audit of foreign or U.S.-based organizations as deemed necessary by the OIG; and
- Participating in the development and maintenance of USAID's audit management policies and procedures.

h. **The Bureau for Management, Office of Acquisition and Assistance, Contract Audit and Support Division (M/OAA/CAS)** is responsible for

- Identifying and maintaining the audit universe for U.S.-based organizations and ensuring that required audits are conducted;
- * Assessing risks to decide when U.S.-based contractors should be audited;
- Identifying financial audit requirements and ensuring that audits of foreign organizations with centrally funded awards issued by M/OAA are conducted;

- Serving as liaison with other Federal agencies cognizant for organizations doing business with USAID;
- Providing technical advice and liaison to U.S. recipients, independent auditors, and others;
- Maintaining the capability to perform requested pre-award reviews and other financial analysis as required; and
- Negotiating and finalizing indirect cost rates for all U.S.-based organizations, and performing the close-out of all awards administered by USAID/Washington.

591.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

Effective Date: 11/10/2005

591.3.1 Audits of U.S. Organizations

Effective Date: 12/04/1998

Title 22 of the US Code of Federal Regulations, Section 226 provides the uniform administrative requirements for grants and cooperative agreements that USAID awarded to U.S. institutions of higher education, hospitals, and other non-profit organizations, and to U.S. commercial organizations; and to subawards under it. **See [22 CFR 226, Administration of Assistance Awards to U.S. Non-Governmental Organizations](#)**

591.3.1.1 U.S. Nonprofit Organizations

Effective Date: 01/01/2004

U.S. nonprofit organizations that expend \$500,000 or more in Federal awards within their fiscal year must have a single or program-specific financial audit conducted for that year in accordance with OMB Circular A-133. USAID bases the determination of when an award is expended on when the activity (for example, expense transaction or disbursement of funds) related to the award occurs. **[OMB Circular A-133](#)** provides guidance on determining the Federal awards expended.

Financial audits must be performed annually. A nonprofit organization that had biennial audits performed for periods ending between July 1, 1992, and January 1, 1995, may still have a biennial audit performed. These audits must cover both years within the biennial period.

When an auditee expends Federal awards under only one Federal program (excluding research and development), and the Federal program's laws, regulations, or grant agreements do not require a financial audit, the auditee may elect to have a program-specific audit conducted in accordance with OMB Circular A-133.

Prime recipients must ensure that their U.S. nonprofit subrecipients expending \$500,000 or more in Federal awards during their fiscal year are audited in accordance with OMB Circular A-133. USAID's legal relationship is with the prime recipient. Therefore, USAID is not responsible for directly monitoring subrecipients. A foreign organization that is only a subrecipient of a U.S. prime recipient is only subject to monitoring by that prime recipient in accordance with OMB Circular A-133 requirements. If the subrecipient is a U.S. for-profit organization, the prime must ensure its compliance with Section **591.3.1.2** of this ADS chapter.

The independent auditor performing the audit of the primary recipient must determine whether the audit or monitoring requirements pertaining to subrecipients have been met.

Organizations expending less than \$500,000 a year in Federal awards are exempt from OMB Circular A-133 audit requirements for that year, but they must make records available for review or audit upon request by USAID officials (including the OIG), prime recipients, or the Government Accountability Office (GAO).

Financial audits required by OMB Circular A-133 must be conducted in accordance with auditing standards that the Comptroller General of the U.S. has approved. See [Government Auditing Standards](#).

Financial audits performed in accordance with OMB Circular A-133 do not limit the authority of USAID and the OIG to conduct or arrange for additional audits, reviews, and evaluations.

Recipients must submit OMB Circular A-133 audit reports to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period. Recipients must also submit the reports to M/OAA/CAS when requested by the Office of Acquisition and Assistance (M/OAA) or the OIG.

Awards with U.S. nonprofit organizations must include a provision requiring the organizations to contract with an independent non-Federal auditor to perform financial audits in accordance with OMB Circular A-133, and include the USAID requirement for indirect cost rate information.

M/OAA/CAS must use the information that the audit reports provide to negotiate indirect cost rate agreements.

591.3.1.2 U.S. For-Profit Organizations

Effective Date: 01/01/2004

* At least annually, M/OAA/CAS must assess risks associated with all U.S. for-profit organizations performing under direct contracts, grants, cooperative agreements, or cost-reimbursable host country contracts, and subcontracts to determine when these

organizations should be audited. M/OAA/CAS must share the results of the risk assessment(s) with the OIG. The cognizant U.S. audit agency or an independent auditor will generally conduct these audits. The audits must be performed upon receipt of a final incurred cost submission from the organization. The Federal cognizant agency or independent auditor must audit the direct and indirect costs incurred under the awards to determine the allowable direct costs and recommend the indirect cost rates.

Normally, as stated in the Federal Acquisition Regulations [FAR 42.101](#), for contractors other than educational institutions and nonprofit organizations, the Defense Contract Audit Agency (DCAA) is the responsible Government audit agency. Accordingly, the Memorandum of Understanding between the USAID OIG and the DCAA states that DCAA will perform the audits of U.S. for-profit firms for which USAID is cognizant. When DCAA cannot be responsive to USAID's needs, the OIG must contract with a non-Federal auditor or perform the audit with its own audit staff.

The audits must be performed in accordance with a specific scope of work. The independent auditor is only legally accountable for the requirements contained in the scope of work.

For annual incurred cost audits, the contractor must submit a final incurred cost submission to M/OAA/CAS reflecting actual cost incurred during the period covered. M/OAA/CAS must forward the incurred cost submission and the audit request to DCAA and provide a copy to the OIG. The OIG provides DCAA with the billing number required to initiate the audit. The OIG must ensure that M/OAA/CAS receives a copy of the audit report.

Annual incurred cost audits of non-USAID cognizant contractors are the responsibility of the cognizant agency.

*USAID must arrange for a financial audit of all host country contracts and subcontracts awarded to U.S.-based organizations when the results of M/OAA/CAS's risk assessment(s) indicate that an audit is warranted. (See **591.3.4.1**)

591.3.2 Audits of Foreign Organizations and Host Government Entities

Effective Date: 12/04/1998

591.3.2.1 Foreign Organizations

Effective Date: 01/01/2004

Foreign nonprofit organizations that expend \$300,000 or more during their fiscal year in "USAID awards" (i.e., as recipients of USAID cost reimbursement awards or as subrecipients) and host governments that directly expend \$300,000 or more per their fiscal year under USAID grants must have an annual audit conducted in accordance with the requirements detailed in the [Guidelines for Financial Audits Contracted by Foreign Recipients](#), published by the OIG.

Foreign organizations that are subrecipients of a host government must be audited in accordance with the above Guidelines for Financial Audits.

* Missions must assess risk at least annually to determine when financial audits of foreign for profit organizations are warranted. They must share the results of these risk assessments with the RIG. Generally, DCAA or an independent auditor will perform the audit in accordance with a specific scope of work that the USAID Mission has prepared and which is approved by the cognizant Regional Inspector General (RIG). DCAA or an independent auditor must perform the audits upon the receipt of a final incurred cost submission from the organization. The Federal cognizant agency or independent auditor must audit the direct and indirect costs incurred under the awards to determine the allowable direct costs and recommend the indirect cost rates.

Nonprofit organizations expending less than \$300,000 per their fiscal year under direct USAID cost reimbursement awards, and host governments expending less than \$300,000 per their fiscal year under USAID grants, are exempt from the above audit requirements. Although laws and regulations do not require a financial audit, Missions are still responsible for ensuring accountability for those funds. As such, Missions should use the [Recipient Control Environment Assessment Checklist](#) to determine the level of monitoring necessary for these organizations. However, if the Mission determines that it requires a financial audit, the Mission must submit the audit report to the cognizant RIG office for review and issuance. Organizations must make records available upon request by USAID officials, prime recipients, or the GAO.

Foreign organizations receiving centrally funded awards must have audits conducted in accordance with the [Guidelines for Financial Audits Contracted by Foreign Recipients](#).

Audits performed by independent audit firms or by a government's Supreme Audit Institution must be in accordance with auditing standards approved by the Comptroller General of the U.S.

If a Mission determines that the capability to conduct a financial audit in accordance with the required standards is not available locally, and timely and economical audit services are not available through other means, the Mission must conduct a financial review that, to the maximum extent possible, meets the requirements of the [Guidelines for Financial Audits Contracted by Foreign Recipients](#).

Foreign prime recipients are responsible for monitoring their subrecipients. The prime recipient must impose the [Guidelines for Financial Audits Contracted by Foreign Recipients](#) on foreign subrecipients and U.S.-based organizations that are only subrecipients. A U.S.-based subrecipient that is also a prime recipient of USAID funds is covered by the requirements of OMB Circular A-133, but must still be monitored by the foreign prime recipient. USAID agreements must include provisions notifying

organizations of their responsibility to establish a system for monitoring their subrecipients. USAID's legal relationship is with the prime recipient. Therefore, USAID is not responsible for directly monitoring subrecipients.

Contract/Grant Officers must ensure that the responsible RIG receives audits of prime recipients conducted in accordance with this section for desk review within nine months after the end of the fiscal year in which the expenditures were incurred. The RIG will establish recommendations for action, if appropriate, and provide copies of the audit reports to the responsible Contract/Grant Officer, M/CFO/APC, and M/OAA/CAS. Subrecipients must submit copies of their audits to the prime recipient for review by their independent auditor as part of the prime's annual audit. If the independent auditor determines that required subrecipient audits are not being performed or are deficient or defective, he or she must include a recommendation to have the audits performed or the deficient or defective issues corrected in the audit report of the prime recipient.

Where host government organizations are unable to arrange for required audits, the responsible USAID Mission has the option of assisting in contracting for the audit services. The Mission also has the option of requesting the RIG to perform or supervise the audits. The RIG has the option of performing or supervising the audits at its discretion.

Cognizant Contract/Grant Officers must provide technical assistance to organizations and their independent auditors regarding recipient-contracted audit requirements, including assistance in developing scopes of work for audits and approval of audit contracts.

M/OAA/CAS must develop and maintain the audit inventory of foreign organizations receiving centrally funded awards. M/OAA/CAS must publish the "Centrally Funded Awards to Non-U.S. Based Recipients" quarterly report, and ensure that the information regarding audit requirements and audit reports is current. USAID missions must send the audit report to the cognizant RIG, with a copy to M/OAA/CAS.

591.3.2.2 Host Country-Owned Local Currency

Effective Date: 01/01/2004

Local currency special accounts must be audited periodically. The audits must be professionally executed in accordance with generally accepted auditing standards and accounting principles prescribed by the host country's laws, or that have been adopted by public accountants or associations of public accountants in the host country, together with generally accepted international auditing standards, where feasible.

USAID missions must discuss the requirements for auditing local currency special accounts with the host government. A Strategic Objective Agreement (SOAG) must contain specific language concerning audit responsibilities, frequency of audits, and funding. The SOAG must indicate that USAID audit rights cannot be subordinated or infringed by arrangements for audits by host country or independent auditors. Audits

conducted under SOAGs may be conducted by host country or independent auditors in accordance with [Guidelines for Financial Audits Contracted by Foreign Recipients](#).

The [Financial Audit Requirements Chart](#) contains summary information on the above sections and requirements in table format.

591.3.3 Other Audits/Surveys

Effective Date: 05/13/1996

591.3.3.1 Pre-Award Audits/Surveys

Effective Date: 01/14/2002

The Contracting Officer must request a pre-award audit or survey before negotiating any contract or modification resulting from a proposal in excess of \$500,000, unless the Contracting Officer considers the information available sufficient to determine the reasonableness of the proposal or the financial responsibility of the organization. At his or her discretion, the Contracting Officer may request pre-award audits for contracts or modifications resulting from proposals less than \$500,000. For grants, the Contracting Officer must request a pre-award survey if the prospective recipient has not received a Federal award in the last five years or the Contract/Grant Officer or Cognizant Technical Officer (CTO) is uncertain about the organization's capacity to perform technically or financially. M/OAA/CAS must determine whether pre-award audits or surveys of U.S. organizations are to be conducted. Pre-award audits and surveys are conducted by the cognizant audit agency, non-Federal resources, or other Federal auditors. M/OAA/CAS direct-hire staff may conduct pre-award surveys and other financial reviews, but cannot perform pre-award audits conducted in accordance with standards approved by the Comptroller General of the U.S. Federal or non-Federal auditors contracted by the RIGs or contracted by Bureaus and missions, in consultation with the RIGs, must conduct pre-award audits of foreign organizations' pricing proposals.

591.3.3.2 Close-Out Audits

Effective Date: 01/01/2004

The Contract/Grant Officer determines the need for a close-out audit after obtaining all necessary information, including a final voucher for expenditures incurred under an award. Contract Information Bulletin (CIB) 90-12 requires that all awards in excess of \$500,000 be subject to a final close-out audit.

As a general rule, annual incurred cost audits are acceptable as fulfilling the close-out audit requirements for U.S. and foreign for-profit organizations, and OMB Circular A-133 annual audits are acceptable as fulfilling the close-out audit requirement for U.S. nonprofit organizations. Annual audits in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" are acceptable as fulfilling the close-out audit requirements for foreign nonprofit organizations. The Contract/Grant Officer cannot proceed with the close-out process until USAID has taken final action on all audit

recommendations. (See mandatory references, [OMB Circular A-133](#) and [Guidelines for Financial Audits Contracted by Foreign Recipients](#))

If a U.S. organization requires a close-out audit, M/OAA/CAS must include a close-out audit request in the next regularly scheduled audit of the organization. If another Federal organization is cognizant, M/OAA/CAS must ask that organization's auditors to include the close-out audit work in the next regularly scheduled audit.

If a close-out audit is required for a foreign organization but it cannot be included as part of an annual audit as described in **591.3.3.2** above, the audit may be either (1) contracted by the Contract/Grant Officer and supervised by the cognizant RIG or (2) contracted by the foreign organization, in accordance with the [Guidelines for Financial Audits Contracted by Foreign Recipients](#).

591.3.3.3 Contract Termination Claims

Effective Date: 01/14/2002

When the U.S. Government terminates a contract for the convenience of the Government, the contractor must submit a settlement proposal to the Contracting Officer. Upon request by the Contracting Officer, M/OAA/CAS must coordinate an audit or perform a desk review of the proposal to determine its reasonableness and to prepare specific data for use in negotiating or determining a settlement. USAID must use audit reports for negotiating a settlement and for issuing a unilateral determination. Contracting Officers are responsible for ensuring that settlements are properly justified, documented, and promptly executed.

591.3.4 Audit Planning and Monitoring

Effective Date: 09/27/1997

591.3.4.1 U.S. Contractors and Recipients

Effective Date: 12/04/1998

M/OAA/CAS must ensure that required financial audits are conducted for U.S. contractors and recipients. M/OAA/CAS must maintain an inventory and tracking system for all U.S. contractors and recipients and ensure that audits include all direct and indirect costs.

Missions must include all agreements with U.S. contractors and recipients, including fixed price contracts, fixed obligation grants, and cash transfer and nonproject assistance awards, in their audit inventories and confirm that they are included in the M/OAA/CAS audit inventory. Subrecipient agreements are not to be included in the audit inventory or annual audit plan.

The OIG Office of Audits, Financial Audits Division (IG/A/FA) must coordinate requests for audit support with the cognizant audit organization and keep the USAID Mission or Office informed.

591.3.4.2 Foreign Contractors and Recipients

Effective Date: 01/14/2002

USAID missions, in consultation with the cognizant RIG, must 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. M/OAA/CAS must maintain an inventory of foreign organizations receiving centrally funded contracts or grants issued by M/OAA, including those in nonpresence countries, and ensure that required audits are conducted. Regional and central Bureaus must maintain an inventory of foreign organizations receiving centrally funded contracts or grants not issued by M/OAA, including those in nonpresence countries, and ensure that required audits are conducted.

Missions must maintain an inventory of all contracts, grants, and cooperative agreements, including cash transfer and nonproject assistance awards, awards financed with host country-owned local currency, and activities in nonpresence countries for use in determining audit requirements. The inventory or annual audit plan does not include subrecipient agreements. Missions must include the following information in the inventory listing:

- Contractor/recipient name;
- Type of organization (e.g., for-profit);
- Award number, amount in U.S. dollars, and start/completion dates;
- Prior audits and period covered;
- Receipt date for required audits;
- Dates for planned audits; and
- Reason(s) for not including in the annual audit plan.

USAID missions must develop an annual audit plan to ensure complete audit coverage of direct awards to prime foreign organizations. The AMO must coordinate with the appropriate activity managers in developing the Mission's inventory and annual audit plan. The Mission must provide copies of the inventory and plan to the cognizant RIG and M/OAA/CAS.

Although activities in nonpresence countries, awards financed with host country-owned local currency, and cash transfer and nonproject assistance awards may not be subject to audit, USAID must include them in the inventory and consider them for inclusion in the annual audit plan. The responsible Mission Controller is responsible for determining: (1) the feasibility of conducting audits on a case-by-case basis; and (2) the

level of audit, if required, necessary to ensure appropriate accountability for these awards. The [Recipient Control Environment Assessment Checklist](#) can assist the Controller in making this determination.

Fixed price contracts and fixed obligation grants are not subject to the annual audit requirements detailed in Section **591.3.2.1** of this ADS chapter.

591.3.5 Audit Funding

Effective Date: 12/04/1998

USAID determines funding for financial audits by the nature of the audit and the organization requiring the audit.

- a. U.S. For-Profit Organizations:** IG/A/FA must ensure that funds are available for financial audits of U.S. for-profit organizations performed by other Federal agencies such as DCAA or by independent public accountants.
- b. U.S. Non-Profit Organizations:** Financial audits are normally funded by the recipient organization, and USAID eventually pays for the audit. The Contract/Grant Officer will determine if the cost of the audit is an allowable direct or indirect expense based on the applicable cost standards.
- c. Special Audit Requests:** The cognizant Mission or Bureau generally funds special audit requests initiated because of specific concerns about a contractor or recipient.
- d. Foreign Organizations and Host Government Entities:** The recipient organization normally funds financial audits, and USAID eventually pays for these audits. The Contract/Grant Officer will determine if the cost of the audit is an allowable direct or indirect expense based on the applicable cost standards. USAID may, at its discretion, perform audits of host government recipients and subrecipients using program funds or other sources.
- e. Local Currency Accounts:** Host country-owned local currency is the preferred source of funding for audits of local currency special accounts. While less preferable, USAID may use appropriated dollar program funds for the audits. The Mission and the host government must agree on the funding source for these audits, and this funding source must be explicitly stated in the program agreement.
- f. Reimbursement to Cognizant Agencies:** USAID must reimburse Cognizant Federal audit agencies for services rendered under formal or informal cross-servicing arrangements. DCAA establishes the audit hourly rates for this work. IG/A/FA must ensure that sufficient funds are available before scheduling these audits.

591.3.6 USAID Audit Rights

Effective Date: 01/14/2002

USAID reserves the right to audit all aspects of program implementation, including contracts, grants, and cooperative agreements financed by the Agency. Individual missions have the right to request audits of a subrecipient if the mission determines that the potential for waste or fraud exists for that specific sub-agreement. Missions must coordinate these audits with the responsible prime recipient. USAID will exercise its audit rights by conducting audits with its own staff through the OIG; by requesting that other Federal agencies, such as DCAA, conduct audits; or by contracting with an independent audit firm or equivalent to provide the services.

USAID retains the right to conduct a financial review, require an audit, or otherwise ensure adequate accountability of recipient organizations regardless of the audit requirement. Any additional financial reviews or audits must build on the work performed by other auditors. USAID agreements must include provisions for the right to conduct a financial review, when deemed necessary, or otherwise ensure adequate accountability of organizations expending USAID funds.

The OIG retains the authority to perform or supervise audits when requested by USAID or at its own discretion under the Agency-contracted audit program.

Foreign nonprofit organizations expending less than \$300,000 per their fiscal year under direct USAID cost reimbursement awards, and host governments expending less than \$300,000 per their fiscal year under USAID grants, are not required to have an audit performed for that fiscal year. Missions should use the [Recipient Control Environment Assessment Checklist](#) to determine the level of monitoring necessary for these organizations. However, if the Mission determines that an audit is required, the Mission must submit the audit report to the cognizant RIG office for review and issuance.

591.3.7 Auditor Access to Recipient Records

Effective Date: 5/13/1996

The Comptroller General of the United States, the USAID OIG, or any other duly authorized representative auditor must have access to any pertinent books, documents, papers, and records of the recipient and their subrecipients to perform audits and examinations and make excerpts, photocopies, and transcripts.

591.3.8 Noncompliance with Audit Requirements

Effective Date: 05/13/1996

In cases of the recipient's continued inability or unwillingness to have an audit performed in accordance with the terms of established provisions, USAID must consider appropriate sanctions, which may include the suspension of all or a percentage of disbursements until the audit is satisfactorily completed.

591.3.9 Reporting Restrictions

Effective Date: 05/13/1996

Audit reports containing proprietary financial information are exempt from the Freedom of Information Act under 18 U.S.C. 1905. The following statement must appear on the report cover or face sheet of each report containing proprietary financial information: "Financial information contained in this report may be privileged. The restrictions of 18 U.S.C. 1905 must be considered before any information is released to the public." (See mandatory reference, [18 U.S.C. 1905](#))

591.3.10 Review and Issuance of Audit Reports

Effective Date: 01/14/2002

The OIG must conduct desk reviews for all financial audits of prime U.S. and foreign organizations prior to issuance of the reports. In addition, the OIG must conduct quality control reviews of selected audits. The OIG does not review and issue audits of subrecipients unless the audit has been performed at the request of USAID, based on a determination that the potential for waste or fraud exists.

Following a required desk review, the cognizant OIG office prepares a memorandum that summarizes any findings and recommendations identified in the audits for official USAID tracking and action. The memorandum must clearly identify monetary and procedural recommendations, or state that there are no recommendations. The memorandum must identify monetary recommendations as questioned costs (ineligible and unsupported), or funds to be put to better use. The OIG provides a copy of the memorandum to the applicable action office and M/CFO/APC.

The OIG performs quality control reviews of selected financial audits to ensure that the auditors performed the audits in accordance with OMB Circular A-133 or the Guidelines for Financial Audits Contracted by Foreign Recipients.

The OIG must notify the responsible Mission/Office, recipient organization, and non-Federal auditor when an audit does not meet the required standards. The OIG provides assistance to the non-Federal auditor to help correct the noted deficiencies.

USAID must withhold final payment for any work the OIG determines to be substandard until the auditor takes acceptable corrective action.

591.4 MANDATORY REFERENCES

Effective Date: 11/10/2005

591.4.1 External Mandatory References

Effective Date: 11/10/2005

- a. [22 CFR 226, Administration of Assistance Awards to U.S. Non-Governmental Organizations](#)

- b. [FAR 42.101](#)
- c. [Inspector General Act of 1978, as amended](#)
- d. [OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations](#)
- e. [18 U.S.C. 1905, Crimes and Criminal Procedure, Disclosure of Confidential Information](#)
- f. [Government Auditing Standards](#)

591.4.2 Internal Mandatory References

Effective Date: 11/10/2005

- a. [ADS 590, Audit](#)
- *b. [ADS 595, Audit Management Program](#)
- c. [Guidelines for Financial Audits Contracted by Foreign Recipients](#)

591.5 ADDITIONAL HELP

Effective Date: 11/10/2005

- a. [Financial Audit Requirements Chart](#)
- b. [MPI Audit Recommendation Final Action \(Closure\) Procedures](#)
- c. [Recipient Control Environment Assessment Checklist](#)

591.6 DEFINITIONS

Effective Date: 01/14/2002

The terms and definitions listed below have been included into the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

Activity Manager

Member of a Strategic Objective (SO) Team or sub-team who is responsible for the day-to-day management of one or more specific activities. The Activity Manager is selected by the SO Team, and may or may not also have the delegated authorities of a Cognizant Technical Officer (CTO), whose authority to carry out contract management functions is designated by a Contracting or Agreement Officer. (**See “Cognizant Technical Officer (CTO)”**) (Chapters 200-203, 591, 592)

agency-contracted financial audit

An audit of specific USAID-funded grants or contracts where the Office of Inspector General (OIG) manages non-Federal auditors and issues the resulting audit report. Non-Federal auditors are generally U.S. or U.S.-affiliated firms hired under OIG contracts. (Chapter 591)

Audit Management Officer (AMO)

The individual designated to coordinate and monitor the overall audit program at the Mission, Bureau, or Independent Office level. (Chapters 591, 592, 593, 595)

audit plan

An annual plan developed by USAID missions, which outlines audit requirements for all foreign contractors and recipients. (Chapter 591)

audit report

The completed report of the auditor containing the final findings, recommendations and, to the extent possible, comments and actions taken or planned by the management official. Audit reports include audits made by the Office of Inspector General, independent public accountants, Supreme Audit Institutions, other Government agencies, such as the Defense Contract Audit Agency (DCAA), and the U.S. Government Accountability Office (GAO). (Chapters 591, 592, 595)

close-out audit

The final audit report to be submitted upon completion or termination of a cost-reimbursable, time and material type contract, grant, or cooperative agreement. (Chapter 591)

cognizant agency

The Government agency with primary audit responsibility for a particular contractor or recipient. (Chapter 591)

Cognizant Technical Officer (CTO)

The individual who performs functions that are designated by the Contracting or Agreement Officer, or are specifically designated by policy or regulation as part of contract or assistance administration. In other parts of the U.S. Government, the synonymous term is usually Contracting Officer's Technical Representative (COTR).

desk review

A limited review of a financial audit report to determine whether the report contains all the required elements and appears to be accurate and logical. (Chapters 590, 591, 595)

final action

The completion of all actions that USAID management has concluded, in management decisions, are necessary with respect to the findings and recommendations included in an audit report. (Chapters 591, 595)

financial audit

An audit to assess whether a contractor, recipient, or host government has accounted for and used USAID funds as intended and in compliance with applicable laws and regulations. (Chapters 591, 595)

financial review

A review of a USAID-funded organization's financial policies, procedures, systems, and controls. This review is not conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

grant

A legal instrument used where the principal purpose is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation authorized by Federal statute and where substantial involvement by USAID is not anticipated. (Chapters 304, 591, 595)

incurred cost audit

An annual audit of costs incurred under cost reimbursable contracts to determine allowability, allocability, and reasonableness of costs. This audit is conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

incurred cost submission

Required by the Federal Acquisition Regulation's "Allowable Cost and Payment" clause; a submission due 90 days after the close of the contractor's fiscal year which is used as the basis for conducting an incurred cost audit. (Chapter 591)

Management Control Review Committee (MCRC)

A group of senior officials at the Mission, Bureau, or Office level who provide oversight and assistance for the management control program and audit management issues. (Chapters 591, 595, 596)

non-Federal auditor

A Certified Public Accountant (CPA) (or equivalent) operating as a sole practitioner, or a CPA (or equivalent) firm. (Chapter 591)

nonprofit organization

Any corporation, trust, association, cooperative, or other organization that is operated primarily for service, charitable, scientific, educational, or other similar purposes; is not

organized for profit; and uses its net proceeds to maintain, improve, and/or expand its operations. (Chapter 591)

pre-award audit

An advisory audit conducted on pending awards to determine the reasonableness, allowability, and allocability of proposed costs. This audit is conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

pre-award survey

An evaluation of a prospective recipient's ability to perform under a Government sponsored agreement. Such surveys are normally limited to assessing the adequacy of the recipient's accounting system to accumulate cost information under an agreement and/or the financial capability to perform under a prospective award. Surveys may also encompass technical, production, and quality assurance considerations. This survey is not conducted in accordance with standards approved by the Comptroller General of the U.S. (Chapter 591)

procedural recommendation

A recommendation type that involves nonmonetary corrective actions. (Chapters 591, 595)

quality control review

A review of the working papers supporting an audit report prepared by non-Federal auditors to ensure that the work complies with auditing standards approved by the Comptroller General of the United States. (Chapters 590, 591)

questioned costs

Costs determined to be potentially unallowable. It includes *ineligible costs* (violation of a law, regulation, contract, grant, cooperative agreement, etc., or an unnecessary or unreasonable expenditure of funds) and *unsupported costs* (those not supported by adequate documentation at the time of the audit). (Chapters 591, 595)

recipient

An organization receiving financial assistance directly from USAID to carry out a program under a grant or cooperative agreement. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public and private nonprofit organizations. The term may also apply to profit-making organizations that are performing work under a grant or cooperative agreement relationship with USAID. (Chapters 591, 636)

recipient-contracted financial audit

A periodic audit of a nonprofit organization receiving USAID funding, in which the auditee hires non-Federal auditors to perform the audit and the Office of Inspector General is responsible for maintaining quality control over the resulting audit field work and report. U.S.-based organization audits follow the rules and procedures contained in

OMB Circular A-133 (generally called “A-133 audits”), while foreign organization audits follow the rules and procedures contained in the USAID-produced “Guidelines for Financial Audits Contracted by Foreign Recipients” (generally called “recipient-contracted audits”). (Chapter 591)

subrecipient

Any person or Government department, agency, establishment, or nonprofit organization that receives financial assistance to carry out a program through a primary recipient or other subrecipient. (Chapter 591)

Supreme Audit Institution

A foreign country’s principal government audit agency, often referred to as its “Supreme Audit Institution” (SAI). (Chapters 590, 591)

termination claims

Claims for compensation of costs incurred when a contract is terminated for default or the convenience of the Government. (Chapter 591)

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