

# **USAID**

## **OFFICE OF INSPECTOR GENERAL**

### **Audit of USAID/Bulgaria's Recipient Audit Universe**

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**Audit Report No. B-183-01-002-P**

**January 18, 2001**

**Budapest, Hungary**



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



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*RIG/BUDAPEST*

January 18, 2001

## **MEMORANDUM**

**FOR:** USAID/Bulgaria Director, Debra D. McFarland

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

**SUBJECT:** Audit of USAID/Bulgaria's Recipient Audit Universe, Report Number B-183-01-002-P

This is a report on the subject audit. The report concludes that USAID/Bulgaria developed an accurate and complete audit universe of its non-U.S. awards and took several positive actions to establish an audit management system in accordance with the requirements of ADS Chapter 591. However, the Mission needed to: (1) formalize its written procedures and (2) document proceedings of the Management Control Review Committee meetings.

Accordingly, we have made two recommendations to address the above findings. In finalizing this report, we considered your comments on the draft report and have included them in their entirety in Appendix II herein.

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

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## **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

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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 by the Agency. 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 the Agency's 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.

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## Audit Objective

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

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

The audit scope and methodology are described in Appendix I.

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## Audit Findings

The audit showed that USAID/Bulgaria developed an accurate audit universe of its non-U.S. awards. For the period audited, none of these awards met the required audit threshold of \$300,000 in annual disbursements and, therefore, did not require audits. Nevertheless, audits of two non-U.S. grants were conducted based on Mission management's risk assessment. Our review of the reports showed that they complied with USAID's guidelines on financial audits of foreign recipients.

During the year ended September 30, 2000, USAID/Bulgaria disbursed approximately \$15.6 million in awards to 41 U.S. and 26 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	
Contract	\$8,589,012	24	\$- 0 -	0	\$8,589,012	24
Grant	2,063,063	7	1,910,858	26	3,973,921	33
Cooperative Agreement	3,066,080	10	- 0-	0	3,066,080	10
<b>TOTALS</b>	<b>\$13,718,155</b>	<b>41</b>	<b>\$1,910,858</b>	<b>26</b>	<b>\$15,629,013</b>	<b>67</b>

Our audit showed that the Mission 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 USAID/Bulgaria took several actions to establish an audit management system in accordance with the requirements of ADS Chapter 591. Specifically:

- USAID/Bulgaria 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 quarterly meetings to review progress towards implementation of this program; (3)

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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 drafted in August 2000, defining duties and responsibilities of the MCRC.

- In March 2000, the Mission designated an Audit Management Officer (AMO) to coordinate and monitor the Mission's financial audit program and follow-up on implementation of audit recommendations. A Mission Order was drafted in August 2000, defining the duties and responsibilities of the AMO.
- In August 2000, USAID/Bulgaria drafted a comprehensive Mission Order on audit management and resolution to facilitate: (1) planning, scheduling, and following up audits, (2) establishing an effective audit tracking system, and (3) providing guidance to cognizant Mission officials on implementing the Mission's audit management program.
- In September 2000, the AMO developed an Audit Management Plan for fiscal year 2001, which is currently awaiting approval by management.

Moreover, the AMO regularly coordinated with USAID/Bulgaria's accounting station, the USAID Regional Financial Management Center in Budapest, Hungary to maintain and update a database inventory of non-U.S. grants, contracts, and cooperative agreements, identify those awards that meet the audit threshold of \$300,000, and to schedule, monitor, and track such audits. Our tests on the database inventory showed that the information therein was accurate and complete.

Furthermore, as part of its reporting responsibilities under the FMFIA, Mission officials identified certain areas of improvement in its audit management system and took adequate steps to address the problems.

The above actions have established a sound foundation for an efficient and effective audit management system. However, we noted that USAID/Bulgaria needs to: (1) formalize its Mission Orders, and (2) maintain written records that document the proceedings of its MCRC meetings and the decisions taken by management on implementing its audit management program. These findings are described below in detail.

### **USAID/Bulgaria Should Formalize Its Mission Orders and Document Proceedings of Its Committee Meetings**

A sound and effective internal control system requires that adequate documents be maintained and regularly updated to record: (1) procedures established and authorized by management, (2) minutes of meetings conducted by management, and (3) decisions reached on matters of importance.

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USAID/Bulgaria has drafted two Mission Orders that provide guidance on implementing its audit management program and the functioning of its Management Control Review Committee. While the Mission Orders are comprehensive and well written, these have not yet been formally approved by management and are, therefore, *ad hoc* in nature. According to the Audit Management Officer, the draft Mission Orders have not been finalized because the documents have not yet been reviewed by all cognizant officials whose opinions and inputs need to be considered before final approval is given by management.

Furthermore, there is a lack of adequate written records documenting implementation of the audit management program. According to the AMO, the MCRC meets every quarter to monitor, review and make decisions on audit-related matters. However, no documents are available recording the proceedings of such meetings. Without such written records, it is difficult to determine to what extent the Mission is fulfilling its audit management responsibilities.

The AMO acknowledged the lack of written records and stated that recent changes in audit management officials may have disrupted the recording of MCRC proceedings and preparation of written records. In order to conduct its audit management responsibilities efficiently and effectively, the Mission needs to formalize its policies and procedures and document proceedings of its management committee meetings. Therefore, we are making the following recommendations:

**Recommendation No. 1: We recommend that USAID/Bulgaria formalize the Mission Orders on its audit management program.**

**Recommendation No. 2: We recommend that USAID/Bulgaria maintain written records of the proceedings of its Management Control Review Committee meetings.**

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## **Management Comments and Our Evaluation**

USAID/Bulgaria concurred with the findings and recommendations of the audit report and took appropriate corrective actions to implement Recommendation Nos. 1 and 2.

Specifically, the Mission Director signed all Mission Orders on January 10, 2001 and the Executive Officer prepared minutes for all MCRC meetings which were cleared by the committee and filed by the Mission.

Based on the actions taken, we consider that the required management decisions and final actions have been taken by USAID/Bulgaria on the aforementioned recommendations to permit their closure.

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

The audit was done in accordance with generally accepted government auditing standards and assessed whether (1) USAID/Bulgaria'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 Sofia, Bulgaria and at its accounting station at the USAID Regional Financial Management Center in Budapest, Hungary from November 6 through November 22, 2000. The audit covered approximately \$1.9 million of USAID disbursements to 26 non-U.S. recipients during the fiscal year 2000 and included:

- (1) reviewing USAID/Bulgaria'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/Bulgaria's grants, contracts and cooperative agreements and determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit

## Appendix I

coverage at September 30, 2000. The above information was obtained from the Mission's contract files and the Mission Accounting and Control System (MACS) database maintained at its accounting station in Budapest, Hungary.

We then ascertained whether: (1) such agreements 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 USAID's guidelines and sent to RIG/Budapest for desk review, and the (4) agreements contained the required audit clauses.

We did not audit USAID/Bulgaria'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



U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT

### ACTION MEMORANDUM

Director of Audit Operations, RIG/Budapest, Nathan Lokos  
*Debra D. McFarland* 1.12.01

From: USAID/Bulgaria Mission Director, Debra D. McFarland

Cc: USAID/Bulgaria MCRC Committee

January 5, 2001

Subject: USAID/Bulgaria Written Comments on Audit Report Number 183-01-00X-P  
 ( Audit of the Accuracy of USAID/Bulgaria's Recipient Audit Universe)

The Mission's Audit Management Officer (AMO) and Management Control Review Committee (MCRC) reviewed the subject report in detail and agreed with the findings and recommendations of the audit report. The Regional Inspector General (RIG) audit team, comprised of Dev Sen and Lee Jewell, shared their findings and recommendations at an exit briefing for the USAID/Bulgaria senior management and AMO. USAID/Bulgaria also identified similar weaknesses during the FY 2000 FMFIA review and has developed plans for improvements. Several corrective actions were implemented in late fall to improve the management control systems in general.

**Recommendation No 1.** We recommend that USAID/Bulgaria formalize its Mission Orders on its Audit Management Program.

**Action taken:** The MCRC reviewed and cleared Mission Orders regarding the USAID/Bulgaria Directives System, Audit Management and Resolution Program, and the MCRC. The Mission Director signed all referenced MOs on January 10, 2001. (Note: The DLG Office Chief cleared the final version, and will sign the final version upon her return from home leave.) (See attachments.)

**Recommendation No 2.** We recommend that USAID/Bulgaria maintain written records of the proceedings of its Management Control Review Committee (MCRC) meetings.

**Action taken:** Since July 2000, USAID/Bulgaria has reconstituted the MCRC and has regular meetings. Nonetheless, the Mission identified the lack of relevant documentation on the MCRC as a FMFIA weakness. The Executive Officer of USAID/Bulgaria was assigned the responsibility to prepare meeting minutes. Minutes for all meetings were prepared, cleared by the committee and sent to the official files. (See attachments.)

Based on the above description of corrective actions taken as a result of the recommendations and the submission of the relevant signed Mission Orders and minutes of the MCRC meetings attached, we request that the above audit recommendations be considered closed upon issuance of the final report.

Attachments