

December 2, 1999

**MEMORANDUM**

TO: James Hradsky, Director, USAID/Mali

FROM: Henry Barrett, RIG/Dakar

SUBJECT: Audit of USAID/Mali's Role in Obtaining Audits of Its Contracts, Grants, and Cooperative Agreements, Audit Report No. 7-688-00-001-P

This memorandum is our final report on the subject audit. We have considered your comments to the draft report and have included them in Appendix II.

This report contains nine recommendations, which have all reached the management decision stage. Furthermore, the Mission is currently in the process of implementing many of these recommendations. However, as of the date of this report, the required actions have not been completed. Consequently, the USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to these recommendations has occurred.

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

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**Background**

In response to congressional concerns that USAID was not providing adequate audit coverage of its grants and contracts, particularly its awards to non-U.S. recipients, USAID has taken a more active role in using audits to ensure financial accountability of its programs. USAID established an audit management program to oversee its financial audit program in 1992 and amended its standard provisions for contracts, grants and cooperative agreements in 1997 to include new audit requirements. This program required USAID to take a more involved and assertive role in the overall audit management process to include audit planning, implementation, and follow-up.

In May 1996, USAID consolidated its policies and procedures for financial audits, previously found in several different directives, into Chapter 591 of the Automated Directives System (ADS). In September 1997, USAID amended ADS Chapter 591 to change certain audit responsibilities, including the dollar thresholds for requiring an audit. Currently, the audit threshold is \$300,000 of expenditures which is applicable to both U.S. and non-U.S. private organizations, as well as foreign governmental entities. Both for-profit and non-profit organizations are included. Missions have the responsibility for managing audits of non-U.S. organizations, while USAID/Washington retains responsibility for U.S. organizations.

Under the audit management program, some of the more important mission responsibilities are as follows:

- issue specific guidance on audit management responsibilities and procedures, that includes establishing a management control review committee to address all management control issues;
- ensure that recipients complete and submit required audits within nine months of the close of their fiscal year;
- take follow-up action on open recommendations within required time frames; and
- develop an audit management plan to ensure complete audit coverage of agreements that require audit.

For fiscal year 1998, USAID/Mali reported project expenditures for contracts, grants, and cooperative agreements of \$53,457,654 for both U.S. and non-U.S. organizations and governmental entities. This figure does not include local currency trust funds.

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## **Audit Objective**

As an addition to our annual audit plan, RIG/Dakar completed the subject audit to answer the following audit question:

**Has USAID/Mali managed its audit-related activities and responsibilities in accordance with USAID guidelines?**

Appendix I contains a discussion of the scope and methodology for the audit.

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## **Audit Findings**

**Has USAID/Mali managed its audit-related activities and responsibilities in accordance with USAID guidelines?**

Although USAID/Mali carried out some aspects of its role in obtaining audits of its contracts, grants and cooperative agreements, the Mission has not managed its audit-related activities and responsibilities in accordance with USAID guidelines.

USAID/Mali has taken several steps to implement an audit management program. For example, the Mission has:

- written a mission order establishing a “Mission Management Control Review Committee” (MCRC) and delineating individual audit management responsibilities;
- started preparing a draft audit management plan;
- budgeted funds for audits in appropriate agreements;
- prepared a recommendation follow-up report; and
- included audit management responsibilities in employees’ work objectives.

However, USAID/Mali has not adequately managed its audit program to ensure that it has achieved adequate accountability of USAID funds expended by non-U.S. organizations. In our audit we determined that (1) audits were not conducted and submitted by required due dates, (2) recipient agreements were not amended to include updated audit provisions, (3) audit recommendations were not being actively followed-up, and (4) the audit management plan and inventory were not complete. These issues are discussed in detail below.

### **Audits of Recipients Were Not Conducted and Reports Submitted By The Required Due Dates**

USAID/Mali did not ensure that audits were conducted of non-U.S. recipients and that their audit reports were submitted by the due dates as required in USAID guidance. This occurred because Mission personnel were not aware of the audit requirements and the Mission’s decentralized organization did not focus on these requirements. Therefore, control and accountability over USAID funds expended by recipients were weakened.

**Recommendation No. 1: We recommend that USAID/Mali initiate action to have financial audits conducted in accordance with the “Guidelines for Financial Audits Contracted by Foreign Recipients” for the following recipients and their fiscal years:**

- 1.1 the Government of Mali’s expenditures of USAID funds under the Community Health and Population Services Project (Project No. 688-0248), for its fiscal years ending December 31, 1997 and December 31, 1998;**
- 1.2 the Government of Mali’s expenditures of USAID funds under the Basic Education Expansion Project (Project No. 688-0258), for its fiscal years ending December 31, 1997 and December 31, 1998;**

**1.3 the Government of Mali's expenditures of USAID funds under the Development of the Haute Vallee Project (Project No. 688-0233), for its fiscal years ending December 31, 1997 and December 31, 1998;**

**Recommendation No. 2: We recommend that USAID/Mali strengthen communication and the organizational structure between the Controller's Office and the activity analysts.**

**Recommendation No. 3: We recommend that USAID/Mali provide in-country training to analysts and team leaders on ADS Section 591 and audit management.**

**Recommendation No. 4: We recommend that USAID/Mali develop a plan to review and, where necessary, schedule current audits for all non-U.S. recipients that require audits per USAID guidance.**

ADS 591.5.4b states that host governments directly expending \$300,000 or more per year under a USAID grant must have an annual audit conducted in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients." Furthermore, this section states that reports on these audits will be provided to the cognizant RIG within nine months after the end of the year in which expenditures are incurred.

We noted that USAID/Mali had not scheduled required audits and submitted audit reports by the required due dates for any of the three project recipients that we selected for our detailed review:

- USAID/Mali's Management Accounting and Control System (MACS) reflected fiscal year 1998 expenditures of \$509,297 by the Government of Mali for the Community Health and Population Services Project (Project No. 688-0248). However, the most recent audit report for the project recipient covered the period ending December 31, 1996. The report for the recipient's year ending December 31, 1997 was due on September 30, 1998, but had not yet been received as required. Furthermore, during the time of our fieldwork (August 1999) the Mission was in the process of preparing a "Statement of Work" (SOW) to have an audit performed for the years ended December 31, 1997 and 1998. Thus, with less than two months available to have a SOW prepared, an audit firm selected, the audit conducted and a report issued, it is our opinion that the audit for the year ending December 31, 1998 will not be received by the September 30, 1999 due date.
- USAID/Mali's MACS reflected fiscal year 1998 expenditures of \$2,231,076 by the Government of Mali for the Basic Education Expansion Project (Project No. 688-0258). The most recent audit report for the project recipient covered the period ending September 30, 1996. The report for the period ending December 31, 1997 was due on September 30, 1998, but had not yet been received as required. Furthermore, during the time of our fieldwork (August 1999) the Mission was in the process of preparing a "Statement of Work" (SOW) to have an audit performed for the period ended December 31, 1997 and the year ended December 31, 1998. Thus with less than two months

available to have a SOW prepared, an audit firm selected, the audit conducted and a report issued, it is our opinion that the audit for the year ending December 31, 1998 will not be received by the September 30, 1999 due date.

- USAID/Mali's MACS reflected fiscal year 1998 expenditures of \$595,132 by the Government of Mali for the Development of the Haute Vallee Project (Project No. 688-0233). The most recent audit report for the project recipient covered the period ending September 30, 1996. The report for the period ending December 31, 1997 was due on September 30, 1998. However, as of the time of our fieldwork (August 1999) the process of preparing a "Statement of Work" (SOW) to have an audit performed for this period had not yet taken place. In addition, the Mission had not yet begun audit planning for the next period ending December 31, 1998. Therefore, with less than two months available to have a SOW prepared, an audit firm selected, the audit conducted and a report issued, it is our opinion that the audit for the year ending December 31, 1998 will not be received by the September 30, 1999 due date.

The Mission and its analyst did not take action to have the governmental recipients submit audit reports for Project Nos. 688-0248 and 688-0258 for a combination of two reasons. The mission analyst responsible was not aware of the new ADS guidelines, which require annual audits. Previously, audits could be performed and submitted once every two years. In addition, from 1995 until January 1999, the Mission's analysts reported to and were supervised by the team leaders, instead of the controller. During this period the team leaders were not focussed on accounting or audit issues. Thus, they did not urge the analysts to change the reporting schedules of their respective recipients from once every two years to once a year. It wasn't until January 1999 that an organizational change was made and the analysts began reporting to, and being supervised by, the controller.

For Project No. 688-0233, a delay in obtaining a satisfactory audit report for the prior period contributed to the delay in having an audit performed for the recipient's year ended 12/31/97. The Mission initially received the draft audit report for the recipient's fiscal year ending 12/31/96 in June 1997. However, because of problems with the quality of the audit report, it was not until September 1998 that RIG/Dakar finally approved the report for release. This delay of over one year contributed to the delay in scheduling the follow-on audit. The Mission is currently planning audits for the following three one-year periods of January 1, 1997 to December 31, 1999.

As a result of the above, control and accountability over USAID/Mali's activities and their expenditures have been weakened. Two years of USAID/Mali's expenditures totaling \$4,173,778, for three of its projects, have not been properly accounted for in accordance with USAID guidelines.

### **Management Comments and Our Evaluation**

USAID/Mali concurs with and is currently in the process of implementing all four of the recommendations in this finding. More specifically, in its response to the draft report, the Mission stated that it had fully implemented the suggestions in recommendation number 2.

However, as of the date of this report, the Mission had not provided us with sufficient documentary evidence to demonstrate that satisfactory corrective action had been fully implemented. Thus, for recommendation number 2, as well as recommendation numbers 1, 3 and 4, USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to these recommendations has occurred.

**Recipient Agreements Do Not Contain Updated Provisions to Ensure Audit Rights and Access to Recipients' Records**

USAID/Mali did not update recipient agreements to reflect revised USAID guidance concerning audit rights and access to recipients' records. This occurred because Mission personnel were not aware of the new requirements and the Mission's decentralized organizational structure did not emphasize audit management. As a result, Mission and recipient personnel may attempt to comply with agreement provisions that are no longer valid.

**Recommendation No. 5: We recommend that USAID/Mali update and amend its agreements with (1) the Government of Mali for its funding of the Community Health and Population Services Project, (Project No. 688-0248), (2) the Basic Education Expansion Project (Project No. 688-0258), and (3) the Development of the Haute Vallee Project (Project No. 688-0233), to include current provisions for audits and rights of access to the recipients' accounting records.**

**Recommendation No. 6: We recommend that USAID/Mali develop a plan to review agreements with all of its recipients and, where necessary, include appropriate provisions (depending on the type of recipient) for current audits and rights of access to recipients' accounting records.**

Various sections of ADS 591 discuss USAID's audit rights and its access to recipients' records. The ADS says that the Comptroller General of the United States or any duly authorized representative auditor shall have access to any pertinent books, documents, papers and records of the recipient to make audits and examinations. USAID shall exercise its audit rights by conducting audits with its own staff through the OIG, by requesting that audits be conducted by other federal agencies or by contracting with a commercial CPA firm.

As a result, USAID agreements must include provisions requiring the recipient to contract with an auditor to perform the required audits under their grants with USAID. All agency cost-type contracts, grants and cooperative agreements shall have provisions requiring audits of direct costs. In addition, contracting officers shall ensure that cost reimbursable agreements include a provision requiring an audit of direct costs. The ADS includes standard provisions for use with non-U.S. grantees that specify, in detail, the accounting and audit requirements of grantees.

For the three recipients whose agreements we examined, none of the agreements contained the audit clauses and access rights required by the ADS.

- We noted that USAID’s agreement with the Government of Mali in the Community Health and Population Services Project (Project No. 688-0248) was last updated in August 1994, to comply with the audit requirements in effect at that time. However, since August 1994 this agreement has not been updated for the new ADS audit requirements and access provisions, which became effective in September 1997.
- The Mission could not provide us with any evidence that USAID’s agreement with the Government of Mali for the Basic Education Expansion Project (Project No. 688-0258) had been updated for new audit requirements and access rights since the project’s inception in August 1989.
- We determined that the agreement with the Government of Mali in the Development of the Haute Vallee Project (Project No. 688-0233) was last updated in August 1993 to comply with the audit requirements in effect at that time. However, since then, this agreement has not been updated for the new ADS audit requirements and access provisions, which became effective in September 1997.

These agreements had not been updated because the Mission and its analysts did not take action to have the agreements amended and updated as required. This inaction occurred due to a combination of two situations. The Mission analysts responsible for Project Nos. 688-0248, 688-0233 and 688-0258 were not aware of the new ADS guidelines which changed the wording of USAID’s audit requirements and access rights. In addition, from 1995 until January 1999 the Mission’s analysts reported to and were supervised by team leaders, instead of the controller. During this period the team leaders were not focussed on accounting or audit issues. Thus, this organizational structure and the lack of focus on audit and accountability contributed to the oversight in updating the agreements for changes in audit requirements and access to the recipients’ records.

Without current audit provisions, Mission and recipient personnel may attempt to comply with agreement provisions, which are no longer valid. For example, earlier audit provisions had a significantly lower threshold of expenditures (\$25,000) which would trigger the requirement for an audit. Also, recipients were allowed to submit their audit reports much later (13 months after their year-end) than the current requirement (9 months after their year-end). Thus, reliance on the outdated provisions could result in unnecessary audits being conducted or the late submission of required audit reports.

### **Management Comments and Our Evaluation**

USAID/Mali concurred with the two recommendations in this finding. For recommendation number 5, the Mission stated that it will initiate action to amend each of the agreements specified in the recommendation to include provisions for audits and rights of access to the recipients’ accounting records. For recommendation number 6, the Mission said that it will initiate action to review and amend, where necessary, agreements with its recipients. Thus, USAID Management Bureau’s Office of Management Planning and Innovation will be responsible for deciding when final action related to these recommendations has occurred.

## **Audit Recommendations Are Not Being Actively Followed-Up**

In two of the three projects we reviewed, USAID/Mali followed-up on audit recommendations to reach a management decision and take final action as required by USAID guidance. However, in the third project sampled, as well as the RIG/Dakar audit that preceded this report, USAID/Mali did not follow-up on audit recommendations as required by USAID guidance. This occurred because key internal controls were not functioning as designed, personnel were not aware of requirements, and the Mission's decentralized organizational structure did not emphasize audit management. As a result of this inaction, funds that should have been repaid to USAID have not been collected, and weaknesses in the recipients' and the Mission's internal control systems continue to exist.

**Recommendation No. 7: We recommend that USAID/Mali resolve (management decision) and close (final action) the outstanding recommendations relating to Audit Report Nos. 7-688-98-007-R, 7-688-98-009-R and 7-688-97-006-P.**

**Recommendation No. 8: We recommend that USAID/Mali activate the Mission Management Control Review Committee, including their review for completeness and accuracy of the Mission's Monthly Status of Open Audit Reports Handled by the Mission.**

The ADS glossary defines "audit follow-up" as the process used to ensure that prompt and responsive action is taken on findings and recommendations contained in final audit reports.

### **Resolution of Audit Recommendations (Management Decision)**

ADS Section 591.5.20 states that audit recommendations shall be resolved within six months after issuance of a final report. According to this section, "resolution" for monetary findings occurs when the contracting/grant officer issues a final decision on the allowability of questioned costs.

Additionally, this ADS section states that the contracting officer shall notify the contractor of the questioned costs within two weeks of receiving the audit report. If no response is received within 30 days, the contracting officer shall send a follow-up letter to the contractor. If, after 20 days, no response is received to this follow-up letter, then the contracting officer shall make and issue his final decision. In summary, the contracting officer has, at most, 64 days after audit report issuance in which to reach his final decision on the allowability of the questioned costs.

### **Closure of Audit Recommendations (Final Action)**

ADS Section 591.5.21 states that reasonable efforts shall be made to close audit recommendations within one year after resolution is reached. According to this section, "closure" occurs when the contract/grant officer determines that questioned costs are subsequently substantiated, there is a basis for non-recovery, or collection action is

completed. The contract/grant officer's notification to M/MPI/MIC that a bill of collection has been issued is an essential procedure in this closure process.

For one of the three projects that we reviewed, we determined that recommendation follow-up – resolution and closure – was not being performed in accordance with USAID's ADS guidelines. Additionally, recommendation follow-up for a prior audit report concerning the audit management program was not being performed as required by USAID guidance. Recommendation follow-up, however, was being handled in accordance with USAID guidelines for the remaining two projects in our sample that we reviewed.

- Three recommendations were included in the August 13, 1998 audit report (No. 7-688-98-009-R) on the Government of Mali's expenditures under the Community Health and Population Services Project, (Project No. 688-0248). As of the date of our audit in mid-August, 1999, all three of these recommendations were still unresolved and the questioned costs of \$298 remained uncollected.
- A prior audit report covering USAID/Mali's role in obtaining audits of its contracts, grants and cooperative agreements, Audit Report No. 7-688-97-006-P, was dated June 6, 1997. RIG/Dakar determined that USAID/Mali reached a management decision (resolution) on the one recommendation in the report on June 16, 1998. RIG/Dakar's and M/MPI/MIC's records, however, currently indicate that final action (closure) was never taken on the recommendation. USAID/Mali's Monthly Status of Open Audit Reports Handled by the Mission, dated March 31, 1999, did not indicate that any open recommendations remained for this audit report. Mission officials were not able to provide any evidence that final action was taken on the subject recommendations, nor that M/MPI/MIC was notified of final action (closure).
- One recommendation was included in the June 16, 1998 audit report (No. 7-688-98-007-R) on the Government of Mali's expenditures under the Basic Education Expansion Project (Project No. 688-0258). This recommendation was resolved on October 28, 1998, which was within the six-month period specified in USAID's guidelines. As of the date of our audit in mid-August, 1999, this recommendation had not been closed. Since the issuance of a letter to the recipient on October 23, 1998, no formal documented action has been taken by the Mission to collect the questioned costs of \$7,192.
- One recommendation was included in the August 28, 1998 audit report (No. 7-688-98-012-R) on the Government of Mali's Development of the Haute Vallee Project (Project No. 688-0233). This recommendation was resolved in October 1998, which was within the six-month period specified in USAID's guidelines. As of the date of our audit in mid-August 1999, however, this recommendation had not been closed. The last action took place on July 27, 1999 when the Mission sent a letter to the recipient in an attempt to collect the \$9,051 of questioned costs.

The Mission did not follow-up on these recommendations as required in the ADS guidelines because of a combination of three situations:

- The Mission’s internal control system for audit management and resolution was not functioning as designed. For example the Mission Management Control Review Committee (MCRC) had never met to discuss the resolution and closure of audit recommendations. Also, the Mission’s Monthly Status of Open Audit Reports Handled by the Mission is incomplete and did not accurately reflect the status of recommendations.
- The Mission analysts responsible for Project Nos. 688-0248, 688-0233 and 688-0258 were not fully aware of the resolution and closure requirements specified in the ADS guidelines.
- From 1995 until January 1999 the Mission’s analysts reported to and were supervised by the team leaders, instead of the controller. During this period the team leaders were not focussed on accounting or audit issues. Thus, this organizational structure and the lack of focus on recommendation resolution and closure contributed to the instances of non-compliance.

As a result of the delays in resolving and closing audit recommendations relating to USAID’s recipients, \$16,541 that recipients should have refunded to USAID remain uncollected. In addition, weaknesses in the recipients’ and Mission’s internal control systems continued to exist. These continuing internal control weaknesses, in turn, may contribute to future questioned costs.

### **Management Comments and Our Evaluation**

USAID/Mali concurred with the two recommendations related to this finding but, as of the date of this report, had not taken sufficient action to close either recommendation. Thus, USAID Management Bureau’s Office of Management Planning and Innovation will be responsible for deciding when final action related to these recommendations has occurred.

### **USAID/Mali’s Audit Management Plan is Not Complete**

USAID/Mali did not develop a complete audit management plan that conformed to USAID guidance. This occurred because the staff was not aware of the audit plan requirements and did not implement procedures to adequately analyze the Mission’s project portfolio to identify projects that required audits. Without a complete audit management plan, the Mission will be unable to obtain assurance that all required audits are scheduled and follow-up on recommendations has been completed as required by guidance.

### **Recommendation No. 9: We recommend that USAID/Mali develop a complete Audit Management Plan that complies with the requirements of ADS section 591.5.17.**

The ADS glossary defines an “audit management plan” as an annual plan developed by USAID missions, which outlines audit requirements for all non-U.S. contractors and

grantees. Section 591.3 of the ADS says that the mission Audit Management Officer is responsible for coordinating with the Regional Inspector General for Audit, mission activity managers, and other mission officials to develop this annual plan.

Section 591.5.17 states that USAID missions shall: (1) develop an audit management plan to ensure complete audit coverage of all non-U.S. organizations (including mission-funded activities in non-presence countries); (2) implement a mission Management Control Review Committee to monitor the status of the implementation of the mission's audit management plan; and (3) in connection with this plan, maintain an inventory of contracts, grants and cooperative agreements with foreign organizations. The plan shall include information regarding the contractor/grantee, the agreement start and completion dates, as well as prior, current, and future audits.

USAID/Mali was in the process of developing its required audit management plan. However, this management plan did not contain all of the non-U.S. organizations for which USAID/Mali is responsible. Nor did it have all of the above information required by ADS section 591.5.17. Grants to the following three non-U.S. organizations, which reported expenditures in excess of \$300,000 in one year, were missing from the audit management plan:

- Grant No. 688-0271, a \$2 million grant to the United Nations Development Program on behalf of the Government of Mali in its efforts to end civil unrest in the northern regions, was not included in the plan although it reported expenditures exceeding \$300,000 in fiscal year 1997. The expiration date of the grant is October 1, 1998. The terms of the grant include an audit clause stating that the grant account is subject to audit in accordance with established procedures under appropriate provisions of the financial regulations and rules of USAID.
- Cooperative Agreement No. 624-0434-A-00-3063-00, a \$5 million grant to the African Development Bank for institutional strengthening, was not included in the plan although it reported expenditures in excess of \$300,000 in fiscal year 1997. The completion date for the agreement was April 25, 1997. The terms of the agreement required that an independent audit be performed.
- Grant No. 624-G-00-95-00056-00, a \$2.2 million grant to the Agriculture/Hydrology/Meteorology Program (AGRHYMET), was not on the plan although it reported expenditures in excess of \$300,000 in fiscal year 1998. The completion date of this grant is December 31, 1998. Although this grant was not reflected on the audit plan, the grantee was nevertheless being audited under another audit for a different grantee, which included several components. Under the audit for The Permanent Interstate Committee for Drought Control in the Sahel (CILSS), one of the components was AGRHYMET, in addition to other USAID/Mali-supported entities. The Africa Bureau had recently contracted for an audit of these components; however, the CILSS audit and the included components were not identified on the plan.

In addition, the audit management plan did not reflect the grant/contract start dates as required by the above-mentioned ADS.

One cause for the incomplete plan was that the Mission did not have in place a functioning system to identify and inventory potential audits. The current audit plan, which is still in draft, was an initial one-time effort to prepare a plan. The procedures used to prepare the plan did not include an examination of the projects/programs that the Mission had received from other countries. An additional cause was that the Mission did not completely review MACS expenditures to identify and inventory those potential projects/programs that may need audit.

As a consequence of the above, USAID/Mali does not have assurance that all projects/programs needing audit coverage have been identified. At least \$7 million of expenditures have not received audit coverage, and \$9.2 million were not included in the audit management plan. Additionally, potential questioned costs and project/program control system weaknesses may not have been identified.

### **Management Comments and Our Evaluation**

USAID/Mali concurred with this recommendation and provided our office with a copy of their FY 2000 Audit Management Plan. However, this Plan did not include all of the recipients that we identified as being subject to the ADS audit requirements. Thus, USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to this recommendation has occurred.

## **SCOPE AND METHODOLOGY**

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### **Scope**

We audited USAID/Mali's audit management program in accordance with generally accepted government auditing standards. The audit assessed USAID/Mali's internal controls over the financial audit process. Specifically, the audit addressed whether USAID/Mali:

- included appropriate clauses in grants, contracts, and cooperative agreements with non-U.S. organizations;
- developed mission-specific guidance for its financial management program, including the establishment of a management control review committee;
- established an accurate audit universe and audit management plan;
- provided funding for audits in project and other agreements;
- completed audits as frequently as required under USAID guidance; and
- tracked and resolved audit recommendations.

The audit examined USAID/Mali's audit coverage of \$53,457,654 in expenditures reported in the MACS for the period October 1, 1997 to September 30, 1998. However, we did not examine those expenditures reported by U.S.-based organizations that were included in this amount; nor did we examine host country-owned local currency. We did not verify the reliability of the Mission's computer generated data; nor did we project the results of our test to items that we did not test.

The field work was conducted at USAID/Mali in Bamako, Mali, during the period August 2, 1999 to August 20, 1999.

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## Methodology

We began the field work with a study and evaluation of the Mission's internal control system as it related to the audit management program. This included an analysis of Mission guidance, the procedures followed for developing the audit inventory and audit plan, the involvement of the management control review committee, and the procedures for closing audit recommendations. We then analyzed the Mission's internal control system and compared our results to the requirements found in USAID guidance. Since the Mission's control system was not functioning as intended, we assessed control risk as relatively high.

From the Mission's MACS, we developed and identified a universe of seven non-U.S. recipients that individually reflected expenditures on USAID/Mali's records of more than \$300,000 for the fiscal year ending September 30, 1998. Expenditures for these seven recipients totaled \$5,251,328 which is the amount subject to audit according to USAID's ADS guidelines. We judgmentally selected the following three recipients for our detailed audit review:

- Government of Mali for the Community Health and Population Services Project, (Project # 688-0248), with fiscal year ending 9/30/98 expenditures of \$509,297;
- Government of Mali for the Basic Education Expansion Project (Project #688-0258) with fiscal year ending 9/30/98 expenditures of \$2,231,076; and
- Government of Mali for the Development of the Haute Vallee Project (Project #688-0233), with fiscal year ending 9/30/98 expenditures of \$595,132.

These three recipients represent 43% of all recipients subject to audit requirements and their combined expenditures totaled \$3,335,505 (64% of the expenditures subject to audit). We tested this sample to determine whether: (1) the required audits had been completed and submitted as required, (2) the agreements included a budget for audits, (3) the agreements contained updated audit clauses, and (4) audit recommendation follow-up was performed as required.

We also examined expenditures in fiscal year 1997 to determine if there were any recipients that should have had an audit that were not included in the Mission's audit plan and inventory.



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APPENDIX II  
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OCT 29 1999

To: Mr. Henry Barrett, RIG/Dakar  
From: James Hradsky, Mission Director  
Subject: Draft Audit Report on USAID/Mali's Audit  
Management

We have completed our review of the draft audit report prepared by your staff on USAID/Mali's role in obtaining audits of its contracts, grants and cooperative agreements. This memorandum is the Mission's management response to the draft report.

**Recommendation Number 1:** we recommend that USAID/Mali initiate action to have financial audits conducted in accordance with the "Guidelines for Financial Audits contracted by Foreign Recipients" for the following recipients and their fiscal years:

- 1.1 the Government of Mali's expenditures of USAID funds under the Community Health and Population Services Project (Project No. 688-0248), for its fiscal year ending December 31, 1997 and December 31, 1998;
- 1.2 the Government of Mali's expenditures of USAID funds under the Basic Education Expansion Project (Project No. 688-0258), for its fiscal years ending December 31, 1997 and December 31, 1998;
- 1.3 the Government of Mali's expenditures of USAID funds under the Development of the Haute Vallee Project (Project No. 688-0233), for its fiscal years ending December 31, 1997 and December 31, 1998.

The Mission has included the above audits for the periods cited in the FY 2000 Audit Plan submitted to RIG in September 1999. As noted in the draft report, scopes of work for these audits were in process for the fiscal year

ending December 31, 1997. The Mission will revise these scopes of work to ensure the audits of these recipients, conducted in the first half of calendar year 2000, cover both fiscal years 1997 and 1998.

Upon completion of these scopes of work, copies will be submitted along with a request to close this recommendation.

Accordingly, Mission requests RIG/Dakar consider this recommendation resolved.

**Recommendation Number 2:** We recommend that USAID/Mali strengthen communication and organizational structure between the controller's Office and the activity analysts.

Effective September 30, 1999, the Mission has relocated the financial analyst within OFM. In addition, the Mission entered into a two year USPSC to fill the position of Supervisory Financial Analyst. Each analyst is assigned to provide support to a particular Strategic Objective (SO) Team but will be supervised directly by the Supervisory Financial analyst. The Controller serves as supervisory for the USPSC Supervisory analyst. The Mission recognized the need to improve communication between each SO and believes these organizational changes and improvements in OFM supervisory oversight will result in the needed improvement.

Based on actions taken to date by the Mission, we request RIG/Dakar consider recommendation number 2 resolved and close the recommendation upon issuance of the final audit report.

**Recommendation Number 3:** We recommend that USAID/Mali provide in-country training to analysts and team leaders on ADS Section 591 and audit management.

The Mission has requested M/MPI provide in-country training to appropriate Mission staff on ADS 591 and audit management. At present, a staff member from MPI is planning to conduct this training in January 2000. In addition, several of the Mission financial analysts and other appropriate staff will travel to Dakar in January 2000 to participate in an Audit Management and Resolution workshop to be conducted by M/MPI and RIG/Dakar.

Following completion of training, Mission will request closure of this recommendation.

Accordingly, Mission requests RIG/Dakar consider recommendation number 3 resolved.

**Recommendation Number 4:** We recommend that USAID/Mali develop a plan to review and, where necessary, schedule current audits for all non-U.S. recipients that require audits per USAID guidance.

The Mission plans to update the current Mission order on Audit Management and Resolution in line with the recent restructuring of OFM. The Supervisory Financial analyst will be designated as the Audit Management Officer (AMO). One FSN analyst has been assigned the responsibility for maintaining an up-to-date inventory of all USAID recipients. The annual inventory plan prepared by the Mission will be based on this recipient inventory. Audits will be scheduled in accordance with most recent ADS guidance.

Following issuance of the revised Mission Order, we will request closure of this recommendation.

Accordingly, Mission requests RIG/Dakar consider recommendation number 4 resolved.

**Recommendation Number 5:** We recommend that USAID/Mali update and amend its agreements with (1) the Government of Mali for its funding of the Community Health and Population Services Project (Project No. 688-0248), (2) the Basic Education Expansion Project (Project No. 688-0258), and (3) the Development of the Haute Vallee Project (Project No. 88-0233), to include provisions for audits and rights of access to the recipients' accounting records.

The Mission concurs and will initiate action to amend each of the agreements to include provisions for audits and rights of access by USAID to the recipients' accounting records. In fact the Mission routinely visits the activity offices. Each of the organizations listed above has always willingly provided USAID staff with access to their accounting records. In addition, recipient audits of each organization have been conducted in the past.

Following issuance of amended agreements, the Mission will request closure of this recommendation.

Accordingly, Mission requests RIG/Dakar consider recommendation number 5 resolved.

**Recommendation Number 6:** We recommend that USAID/Mali develop a plan to review agreements with all recipients and, where necessary include appropriate provisions (depending on the type of recipient) for the current audit and rights of access to recipients' accounting records.

The Mission concurs and will initiate action to review and amend where necessary agreements with recipients. Following this review, Mission will request closure of this recommendation.

Accordingly, Mission requests RIG/Dakar consider Recommendation Number 6 resolved.

**Recommendation Number 7:** We recommend that USAID/Mali resolve (management decision) and close (final action) the outstanding recommendations relating to Audit Report Nos. 7-688-98-007-R, 7-688-98-009-R and 7-688-97-006-P.

RIG/Dakar will be provided with a written management decision on Audit Report 7-688-98-009-R NLT December 31, 1999. Based on restructuring in OFM which has taken place since the conduct of the RIG audit, the Mission will be able to take more aggressive follow-up action to close audit recommendations within the time line set by the ADS.

The Mission will request closure of this recommendation once a management decision on AR 7-688-98-009-R has been taken and further follow-up action taken to close open recommendations in the audit reports cited above.

Accordingly, Mission requests RIG/Dakar consider recommendation number 7 resolved.

**Recommendation Number 8:** We recommend that USAID/Mali activate the Mission Management Control Review committee, including their review for completeness and accuracy of the Mission's Monthly Status of Open Audit Reports Handled by the Mission.

The Mission will define the role of the MCRC in the revised Audit Management and Resolution Mission Order to be issued. It should be noted while the report published by the Mission is titled as a monthly status report, it is in fact only issued quarterly. The report title will be corrected.

Following issuance of the revised Mission Order, the Mission will request this recommendation be closed.

Accordingly, Mission requests RIG/Dakar consider recommendation number 8 resolved.

**Recommendation Number 9:** We recommend that USAID/Mali develop a complete Audit Management Plan that complies with the requirements of ADS section 591.5.17.

A FY 2000 Audit Management Plan was submitted to RIG/Dakar in September 1999. This plan was developed in accordance with appropriate ADS guidance. However, the plan did not include Grant number 688-0271 to UNDP, the agreement with ADB or AGRHYMET.

The Mission is reviewing the UNDP agreement to determine audit requirements. If we conclude the UNDP grant should be included in the FY 2000 Audit Management Plan, we will amend the plan. Based on anecdotal information, the Mission believes a close out audit of the agreement with ADB was conducted by REDSO in 1997. We are reviewing the hundreds of file storage boxes received by USAID/Mali from REDSO in September 1998 in an effort to locate the audit report. Finally, an audit is currently underway of CILSS which includes USAID funding provided to AGRHYMET. Following a review of the audit report, we will determine if an additional audit of USAID funding to AGRHYMET is required.

Accordingly, Mission requests RIG/Dakar consider recommendation number 9 resolved. Based on submission of the FY 2000 Audit Management Plan, Mission requests recommendation number 9 be closed on issuance of the final audit report.

I would like to take this opportunity to thank you for the collaborative style in which your staff approached this assignment. By working closely with Mission personnel and maintaining regular communication regarding findings, the audit has provided Mission Management with a useful report

and constructive recommendations, implementation of which will result in more effective management of our program resources.