

# Inspector General Audit Opinion

**T**he Government Management and Reform Act of 1994 requires U.S. Agency for International Development (USAID) to prepare consolidated financial statements and have them audited for inclusion in the government-wide financial statements. This law and applicable auditing standards require the Office of Inspector General to:

- 1) express an opinion on the financial statements including performance overview information,
- 2) report related internal control weaknesses, and
- 3) report noncompliance with applicable laws and regulations.

## ***Auditor's Opinion on USAID's Fiscal Year 1998 Financial Statements***

We could not express an opinion on the consolidated financial statements for the fiscal year ending September 30, 1998, because our audit scope was impaired. This impairment resulted from poorly functioning accounting and financial management systems from which USAID was unable to produce complete, reliable, timely, and consistent financial statements. The amount of substantive testing that would have been required to express an opinion on the presentation of USAID's financial statements would have been prohibitive and unattainable by March 1, 1999—the statutory deadline for submitting the audited financial statements to the Office of Management and Budget (OMB). The deficiencies in USAID's systems create a consequential risk that the financial statements, including the performance overview information, could contain material misstatements. Accordingly, we have not made an opinion on the fairness of the financial statements.

## ***Report on Internal Control Weaknesses***

USAID's poorly functioning accounting and financial management systems prevented USAID from generating complete, reliable, timely, and consistent financial and performance information. Because the statements lack such information, policy makers, oversight officials, managers, and other statement users should exercise caution when reading the statements. They should exercise similar caution when relying on financial and performance information derived from USAID's systems because the information may not be reliable. Further, because USAID managers receive less than reliable financial and performance information, there are increased risks that program managers and others cannot measure program performance or the costs for programs, resources might not be adequately safeguarded, reliable financial data might not be reported, and activities might not comply with laws and regulations. We have provided more information regarding these system deficiencies below. Detailed information concerning reportable conditions with the financial statements and other issues developed during this audit can be found in a report<sup>1</sup> to USAID managers on internal controls. The report details the issues mentioned in this report.

## ***Poorly Functioning Systems Cause Unreliable Information***

USAID's core financial system, performance measurement system, managerial cost accounting system, and budget system have widespread deficiencies. These systems do not meet federal standards that establish minimum requirements needed to perform effectively. These system deficiencies required USAID to process massive data changes outside normal processes and controls. Further, pervasive computer security deficiencies significantly increase risks that data and assets might not be protected from theft, misuse, alteration, or destruction. USAID disclosed many of the systems' deficiencies as material internal control weaknesses in its fiscal year 1998 report to the President under the Federal Managers' Financial Integrity Act (FMFIA). USAID also

<sup>1</sup>Audit Report to USAID Managers on Internal USAID Controls for Fiscal Year 1998 (Audit Report Number 0-000-99-002-F which is scheduled for release in March 1999).

properly reported deficiencies in these systems to the Office of Management and Budget and developed a plan to integrate its financial management systems as required by the Federal Financial Management Improvement Act (FFMIA).

As a result, USAID's systems generate unreliable information and reduce management's effectiveness. These systems' deficiencies have resulted in unreliable or incomplete reports to external parties, including OMB, Congress, and the public. To illustrate, in October 1998, USAID posted unsupported net adjustments of \$60 million (\$590 million in absolute dollar value) to its general ledger to avoid submitting materially inconsistent financial information to OMB and to the U.S. Treasury on USAID's year end expenditures. Furthermore, USAID's Overview on performance does not accurately report on the results of USAID's performance—instead, it reports on the overall accomplishments of the host country and entire donor and recipient community. In addition, USAID's Congressional Presentation, which justifies its budget request, reported incomplete and inaccurate data on host country and other donor financial support of USAID programs and activities.

Unreliable performance information also affects managers' ability to compare actual program results against anticipated results and use such information to make informed decisions, including budget-allocation decisions. For example, reported performance results are not attributed to USAID activities and are not sufficiently supported, objectively verifiable, accurate, and/or validated.

### ***Organization Deficiencies Need Attention***

USAID executives have committed to correct management deficiencies and have taken steps to do so. However, fragmented and unclear organizational responsibilities continue to hinder their efforts to correct the deficiencies. In particular, because USAID has not delegated to the Chief Financial Officer (CFO) the responsibility and authority to develop and maintain an integrated financial management system as required by the CFO Act, USAID may repeat costly mistakes by deploying a new system that does not meet federal requirements and does not operate effectively.

### ***USAID's Computers Are Not Year 2000 Compliant***

USAID is vulnerable to major disruptions to its programs and operations if it does not adequately complete modifications to its computer systems to allow them to process information in the year 2000. To the extent that developing countries receiving USAID assistance encounter disruptions, USAID's program accomplishments could be at risk. As of the end of fiscal year 1998, USAID had not fully assessed its systems or systems provided to host countries. USAID also lacked detailed schedules and resource estimates and did not expect to meet the government-wide dates for implementing compliant systems. In addition, USAID has not completed and tested contingency plans to ensure continuity of service in the event of Year 2000-caused disruptions. Due to the scope and complexity of the needed changes and the limited time remaining to correct problems, USAID faces a high risk that business operations and programs will be disrupted at the start of the new millennium.

### ***Report on Noncompliance with Laws and Regulations***

USAID did not comply with provisions of some applicable laws and regulations effecting the financial statements. Consequently, USAID has no assurance that all transactions were executed in accordance with:

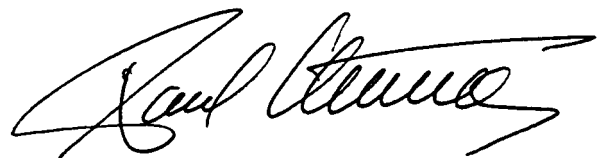
- 1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Principal Statements or Required Supplementary Information, and
- 2) any other laws, regulations and government-wide policies identified by OMB in Appendix C of its bulletin 98-08

### ***Recommendation***

**Recommendation No. 1** Because the Chief Financial Officer lacks the authority called for in the CFO Act, we recommend that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and Bureau For Policy and Program Coordination to:

- 1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.
- 1.2 Request by June 30, 1999, that the Administrator approve specific delegations of authority and resources to the Chief Financial Officer to carry out those Chief Financial Officers Act responsibilities identified in Recommendation 1.1 above.
- 1.3 Implement policies and procedures to carry out the specific delegations assigned by the Administrator in Recommendation 1.2 above.

Detailed information concerning the financial statements and other issues developed during this audit can be found in a Report<sup>2</sup> to USAID managers.



—PAUL ARMSTRONG  
Office of Inspector General  
March 1, 1999

<sup>2</sup>*Management Report to the USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998* (Audit Report Number 0-000-99-002-F which is scheduled for release in March 1999).