

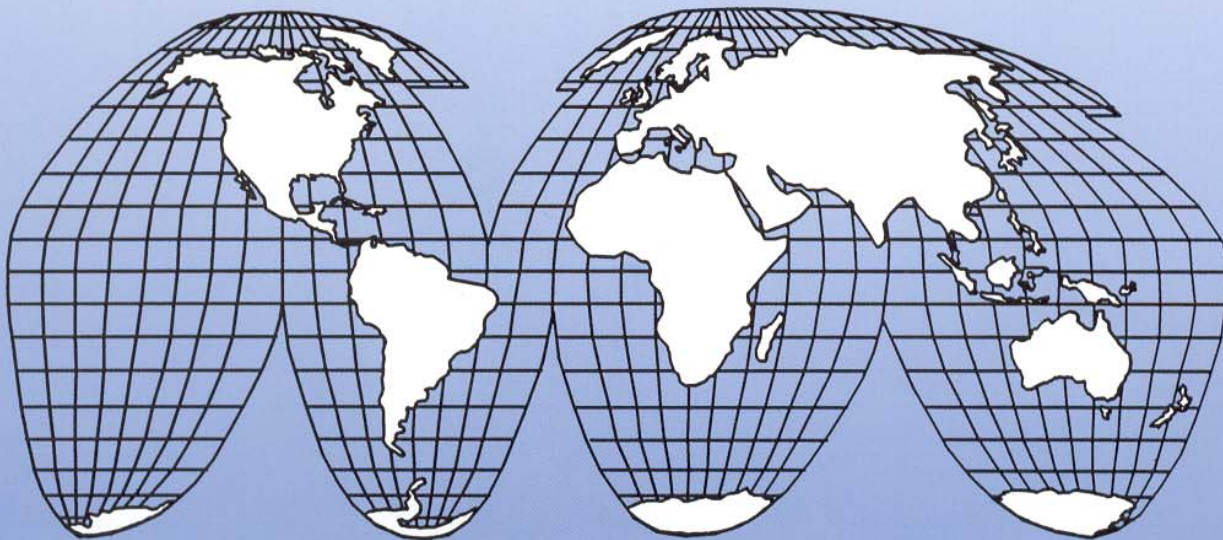
USAID

OFFICE OF INSPECTOR GENERAL

**Audit of USAID/Ethiopia's Financial Operations
and Controls for Fiscal Year 2002**

Audit Report No. 4-663-03-001-F

February 28, 2003



PRETORIA, SOUTH AFRICA



February 28, 2003

MEMORANDUM

FOR: Acting Mission Director, USAID/Ethiopia, Valerie Dickson-Horton

FROM: Regional Inspector General/Pretoria, Jay Rollins /s/

SUBJECT: Audit of USAID/Ethiopia's Financial Operations and Controls for Fiscal Year 2002 (Report No. 4-663-03-001-F)

This memorandum is our report on the subject audit.

USAID/Ethiopia's management comments on the draft report were considered and included as Appendix II. This report contains no recommendations for your action.

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

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Summary of Results

The audit of USAID/Ethiopia's financial operations and controls for fiscal year 2002 focused on determining whether financial data were free from material misstatements. (See page 4.)

The audit showed that USAID/Ethiopia's fiscal year 2002 financial data were free from material misstatements. Substantive testing did not identify any discrepancies in the Mission's financial data reported for fiscal year 2002 that would materially impact the Mission's account balances. (See page 4.)

Management indicated that they agreed with our findings. They also thanked the audit team for the professional and cooperative manner displayed throughout the audit. (See page 5.)

Background

The Government Management Reform Act of 1994 requires agencies to complete audited financial statements each year covering all accounts and associated activities of the agencies. These financial statements are required to not only report the financial position and results of operations of the agency, but also to provide further information allowing Congress and the public to assess management's performance and stewardship of agency resources. As a result of this legislation, USAID management is required to compile USAID-wide financial statements and supplemental information. For fiscal year 2002, these financial statements were to be audited and submitted to the Office of Management and Budget (OMB) no later than February 1, 2003.¹

This review is part of a USAID-wide effort, led by the Office of Inspector General's Financial Audits Division in Washington, D.C., to audit USAID's fiscal year 2002 financial statements prior to their submission to OMB. USAID/Ethiopia uses the Mission Accounting and Control System (MACS) for accounting and controlling budget transactions. During fiscal year 2002, MACS data was consolidated into USAID/Washington's system using the MACS Auxiliary Ledger. This ledger is a detailed transaction-level database maintained and used by USAID/Washington, Office of Management, Financial Management Division to journalize and post mission transaction balances to the USAID general ledger and then to the financial statements.

¹ OMB Bulletin No. 01-09, September 25, 2001.

Audit Objective

As part of a USAID-wide effort, RIG/Pretoria performed this audit to answer the following question:

Are USAID/Ethiopia's fiscal year 2002 financial data free from material misstatements?

Appendix I provides a complete discussion of the scope and methodology for this audit.

Audit Findings**Are USAID/Ethiopia's fiscal year 2002 financial data free from material misstatements?**

USAID/Ethiopia's fiscal year 2002 financial data were free from material misstatements. The substantive testing phase of our audit did not identify any discrepancies in the Mission's financial data reported for fiscal year 2002 that would materially impact the Mission's account balances. Overall, the Mission's fiscal year 2002 financial data met the following financial statement assertions as required by Office of Management and Budget Bulletin No. 01-02 and related General Accounting Office Guidance:

- All assets and liabilities actually exist and expense transactions actually occurred (Existence and Occurrence).
- All transactions and accounts are presented in the financial statements (Completeness).
- Amounts recorded as assets represent property rights and the amounts recorded as liabilities represent obligations of the entity (Rights and Obligations).
- Assets, liabilities, revenue and expenses are assigned proper values (Valuation and Allocation).
- Accounting principles are properly applied and disclosures are adequate. (Presentation and Disclosure).

During the audit we became aware of a minor discrepancy relating to property, plant and equipment that we believe warrants management's attention. We communicated this to USAID/Ethiopia in a separate memorandum.

**Management
Comments and
Our Evaluation**

In response to our draft report, management indicated that they agreed with our findings and thanked the audit team for the professional and cooperative manner displayed throughout the audit.

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**Scope and
Methodology**

Scope

RIG/Pretoria conducted this audit in accordance with generally accepted government auditing standards. The audit is part of a USAID-wide effort led by the Office of Inspector General, Financial Audits Division (IG/A/FA) in Washington, D.C. In auditing the financial data, IG/A/FA performed an earlier internal control review at the Mission in May 2002. Fieldwork was conducted at USAID/Ethiopia in Addis Ababa, Ethiopia, from October 16 to November 8, 2002.

The audit was conducted to determine if USAID/Ethiopia's fiscal year 2002 financial data were free from material misstatements. The audit focused on reviewing and testing management controls over the financial data generated under the following accounting processes: advances, accruals, data calls, disbursements, SF-1221 Treasury Fund Balance reconciliation, budgetary balances, and closing procedures. To audit the aforementioned accounting processes, sample items were either judgmentally or statistically selected for testing, as identified below:

Advances – The Office of Inspector General (OIG) statistician statistically selected a sample of 64 transaction items from a total universe of 266 transaction items. The net value of the sample items was \$379,536 of a total \$420,690. The absolute value of the sample was approximately \$940,000 of a total absolute value of approximately \$1 million. We determined the amount of outstanding advances over 120 days.

Accruals – The OIG statistician statistically selected a sample of 67 transaction items from a total universe of 373 transactions. The absolute value of the sample items was \$30.8 million out of a total absolute value of \$40.6 million.

Data Calls – RIG/Pretoria auditors judgmentally selected several sample items from the Mission's data calls for the following costs:

- Non-expended Property - the auditors selected two sample items and physically verified the existence of all capitalized items listed on the Capitalized Property Report.
- Expendable Property – The auditors physically verified the existence of items less than \$25,000 and determined if any item was unused or idle that should be written off.
- Schedule 9 Account Receivables – The auditors reviewed the Mission's two delinquent accounts receivable and verified to the supporting documentation.

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- **Unfunded Accrued Annual Leave for Foreign Service Nationals and Personal Service Contractors** – The auditors judgmentally selected 16 sample items to verify the total amount of unfunded leave.
 - **Operating Leases** – The auditors verified two operating leases to supporting documentation.

Disbursements – The OIG statistician statistically selected a sample of 81 transaction items from a universe of 2,835 transactions. The absolute value of the sample items was \$14.4 million of a total absolute value of \$24.5 million.

SF-1221 Treasury Fund Balance Reconciliation – The tests covered the July and August 2002 reconciliation process for appropriations 72X1021, 72X1095, and 72231021.

Budgetary Balances – During fiscal year 2002, USAID/Ethiopia processed 1,108 items with an absolute value of approximately \$41.3 million. We statistically selected 76 items with an absolute value of approximately \$38.2 million.

Closing Procedures – The review covered interviewing the Controller and verifying supporting documentation to determine if the Mission implemented the required closing procedures.

Methodology

To accomplish the audit objective, the auditors conducted interviews with officials and staff at USAID/Ethiopia in order to gain an understanding of the Mission's existing procedures and controls covering the processes tested.

The OIG statistician statistically selected sample transaction items from the MACS Auxiliary Ledger for testing. The sample size was derived with the assumption of less than five percent error rate, four percent precision and 90 percent confidence level for each population. The sampling plan was based on prior history, knowledge of the operation, risks, and the costs involved. In assessing accuracy, we used a materiality threshold of plus or minus five percent relative to the population being audited.

The tests of details included verifying the accuracy of the data with source documentation and detailed accounting records maintained by the Mission. In addition, we determined whether the data met the five financial statement assertions: existence and occurrence; completeness; rights and obligations; valuation and allocation; and presentation and disclosure. To gather audit evidence, the audit procedures involved recalculation, physical observation, confirmation, interviews, examination of documents, vouching, tracing, and sampling. The audit also

included a review of the procedures and controls in place at the time of our fieldwork.

For criteria, the auditors used financial management-related chapters from the Automated Directives System, Office of Management and Budget circulars and bulletins, the Government Management Reform Act of 1994 and General Accounting Office guidance.

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**Management
Comments**



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MEMORANDUM

TO: Regional Inspector General/Pretoria, Jay Rollins

FROM: Acting Mission Director, USAID/Ethiopia, Valerie Dickson-Horton /s/

DATE: February 28, 2003

SUBJECT: Audit of USAID/Ethiopia's Financial Operations and Controls for Fiscal Year 2002 (Report No. 4-663-03-00X-F)

We agree with your findings. We would also like to express our appreciation for the professional and cooperative manner that your audit team displayed throughout the audit.