

# USAID

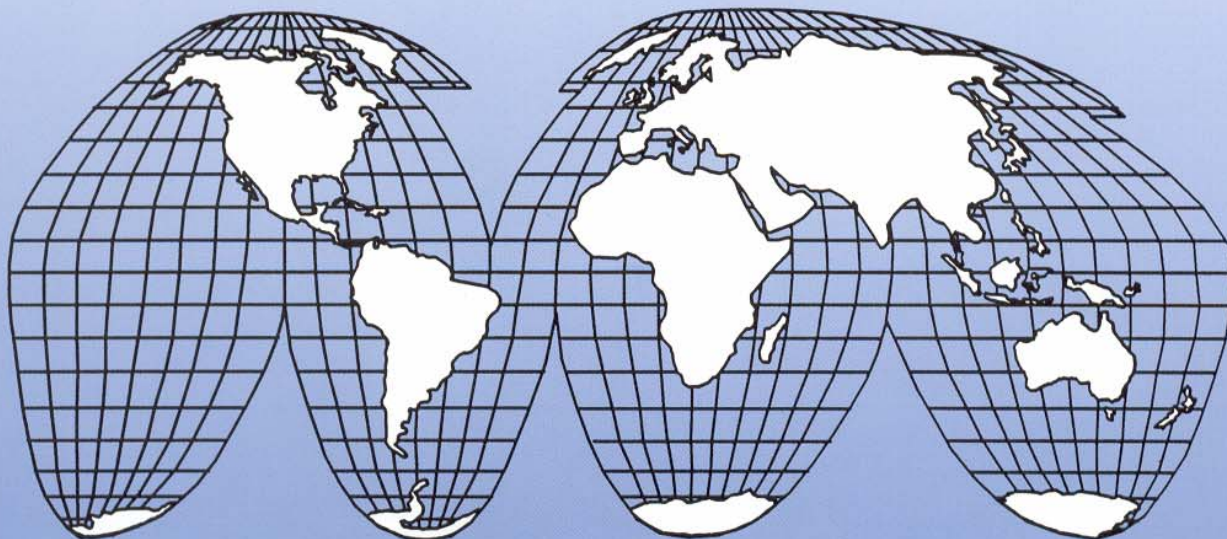
## OFFICE OF INSPECTOR GENERAL

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### Audit of USAID/South Africa's Selected Financial Data during Fiscal Year 2003

Audit Report No. 4-674-04-001-F

February 24, 2004



**PRETORIA, SOUTH AFRICA**



February 24, 2004

## **MEMORANDUM**

**FOR:** USAID/South Africa Mission Director, Dirk W. Dijkerman

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

**SUBJECT:** Audit of USAID/South Africa's Selected Financial Data during Fiscal Year 2003 (Report No. 4-674-04-001-F)

This memorandum is our report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments, in their entirety, as Appendix II in this report.

This report includes one recommendation. In response to the draft report, USAID/South Africa concurred with and took corrective final action with regard to the recommendation. Therefore, we consider that both a management decision and final action have been achieved upon issuance of this report. No further action is required with regard to the recommendation.

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

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**Summary of Results**

This audit report discusses the results of testing of selected USAID/South Africa's (Mission) recorded financial data during fiscal year 2003. The objective of the audit was to determine whether selected financial data were recorded accurately and in accordance with USAID policy. (See page 5.)

The Mission's Office of Financial Management made improvements to the processes and quality of financial data as compared to an internal control review conducted by RIG/Pretoria earlier in the year. (See page 6.) Based on evidence obtained by performing audit procedures at the Mission, selected financial data were found to be correct except for building costs reported under the category of Property Plant & Equipment. (See page 6.)

Management comments are included in their entirety in Appendix II. (See page 11.)

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**Background**

The U.S. Agency for International Development (USAID) is a decentralized organization with 38 overseas accounting stations located at various missions around the world. Financial and accounting data for USAID's overseas missions are accumulated and reported to USAID/Washington through the Mission Accounting and Control System (MACS). However, there is some financial information that overseas missions are required to report to USAID/Washington that the missions are not able to produce in MACS. Such information is reported separately from MACS through periodic data calls.

This audit covered selected program and operational transactions recorded by USAID/South Africa during fiscal year 2003. The objective of the audit was to determine whether the Mission's recording of those expended and accrued transactions was accurate and in accordance with USAID policy.

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**Audit Objective**

RIG/Pretoria conducted testing of selected financial data of USAID/South Africa recorded during fiscal year 2003 to answer the following question.

Were selected financial data recorded at USAID/South Africa during fiscal year 2003 correct and in accordance with USAID policy?

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

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## **Audit Findings**

### **Were selected financial data recorded at USAID/South Africa during fiscal year 2003 correct and in accordance with USAID policy?**

Selected financial data recorded at USAID/South Africa were correct and in accordance with USAID policy, except for building costs reported to USAID/Washington under the category of Property Plant & Equipment.

The Mission made several improvements in the processing and reporting of financial data when compared to the internal control review conducted earlier in the year by RIG/Pretoria. The improvements were:

- Requested documentation for testing was made available in a more timely manner.
- Outstanding project advances decreased by 39 percent.
- The offset of project accruals and advances was more accurately reported.
- Project accruals were better supported and were more accurately calculated and reported.

However, the Mission needed to improve its reporting in the area of Property Plant & Equipment. This area is discussed in more detail below.

### **Additional Office Building Costs Need to Be Reported as Property Plant & Equipment**

Per USAID guidance, all material elements of construction costs are to be included in the cost basis of U.S. Government facilities. The Mission had not included costs for an upgraded security system and other modifications in the cost basis of its new office building as reported to USAID/Washington in data call information for the third quarter of fiscal year 2003. The additional costs had not been included due to an oversight on the part of the Mission's Office of Financial Management. As a result, the total value of Property Plant & Equipment reported as of June 30, 2003 was understated by about \$1.2 million.

USAID Handbook 19, Chapter 15, states that accounts for the cost of facilities constructed by or for the Government should include all material elements of cost including those for, "Fixed and severable collateral equipment and its installation needed to complete the facility for its intended use."

The primary component of the cost category Property Plant & Equipment at USAID/South Africa was the cost of the new office building which was completed and occupied in October 2002. The cost basis for the new building was last updated in January 2003 as \$3,883,885, and that was the amount the

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Mission reported to USAID/Washington in response to a data call at the end of the third quarter of fiscal year 2003. Because the total cost of Property Plant & Equipment was not a recognizable component of the Mission's accounting system, the Mission had to identify and accumulate that information manually. Additional disbursements totaling \$1,206,358, for a security system upgrade and other modifications to make the building fit the needs of the Mission, had not been included in the building cost basis reported to USAID/Washington.

The reason the additional expenditures had not been added to the cost basis was due to an oversight on the part of the Mission's Office of Financial Management. Had the additional expenditures been included, the total cost basis the Mission should have reported to USAID/Washington for its new office building would have been \$5,090,243, rather than \$3,883,885. As a result, the total value of Property Plant & Equipment reported to USAID/Washington was understated by \$1,206,358. Consequently, we are making the following recommendation.

**Recommendation No. 1: We recommend that USAID/South Africa determine the amount of all material cost elements expended on its new office building and report the total amount as Property Plant & Equipment in the next data call to USAID/Washington.**

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**Management  
Comments  
and Our  
Evaluation**

USAID/South Africa concurred with the recommendation and took immediate action to correct the under-reporting. Specifically, the Mission determined the full cost basis for the new office building and included the revised figure in the September 30, 2003 data call to USAID/Washington. We therefore consider Recommendation No. 1 to have received both a management decision and final action upon report issuance.

Mission management also commented on three other recommendations contained in the original draft audit report. However, the Office of Inspector General's Financial Audits Division requested the deletion of two of the draft findings and recommendations because they duplicated findings in USAID's annual financial statement audit report. Another finding, with its associated recommendation, was deleted based on USAID/South Africa's management comments.



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

RIG/Pretoria conducted this audit in accordance with generally accepted government auditing standards. Fieldwork was performed at USAID/South Africa in Pretoria, South Africa, from July 21 to August 29, 2003. The audit was focused on selected financial data of USAID/South Africa recorded during fiscal year 2003. Management controls related to the selected financial data for program expenditures and operating expenditures were assessed. These controls included approvals by responsible parties, comparison to third party documents, compliance with USAID policy as to timing and nature of expenditure, and correctness for entry into the financial reporting system.

In testing USAID/South Africa's accounting data, the sampled items were judgmentally or statistically selected.

**Methodology**

We developed the audit objective to determine whether USAID/South Africa established and implemented adequate internal controls over its financial accounting. We did not assess the overall reliability of the Mission Accounting and Control System (MACS).

The OIG statistician statistically selected sample transaction items from the MACS Auxiliary Ledger for testing. The sample size was derived with a 90-percent confidence level for each population. The sampling plan was based on prior history and knowledge of the operation, risks, and costs involved. In assessing accuracy, we used a materiality threshold of plus or minus 5 percent relative to the population being audited. Other samples were judgmentally selected when the population did not lend itself to statistical sampling.

The tests of details included verifying the accuracy of the data with source documentation and detailed accounting records maintained by the Mission. The audit procedures involved recalculation, physical observation, confirmation, interviews, examination of documents, vouching, tracing, and sampling. The criteria used included financial management-related chapters from the Automated Directives System.

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Management  
Comments



UNITED STATES GOVERNMENT  
MEMORANDUM

**DATE** : January 05, 2004

**TO** : Jay Rollins: Regional Inspector General/Pretoria

**FROM** : Eric Schaeffer: Controller, USAID/SA /s/

**SUBJECT** : Audit of USAID/South Africa's Financial Account Balances for the Third Quarter of Fiscal Year 2003 (Report No. 4-674-04-0xx-F)

**IN RESPONSE TO THE DRAFT REPORT'S RECOMMENDATIONS IN SUBJECT AUDIT REPORT, THE MISSION HAS REVIEWED THE AUDIT REPORT AND IS MAKING THE FOLLOWING COMMENTS:-**

- 1. RECOMMENDATION 1: We recommend that USAID/South Africa determine all amounts expended on the USAID/South Africa new office building and report the total amount in the data call for Property Plant & Equipment to USAID/Washington.**

**Management Comment:**

Management agrees with the recommendation and included the revised figure in the September 30, 2003 data call to USAID/Washington.

- 2. Recommendation No. 2: We recommend that USAID/South Africa clear its backlog of Standard Form 1221 reconciling items that are older than 90 days.**

**Management Comment:**

Management acknowledges that the process of clearing reconciling items on a timely basis needs improving, and has set a goal to bring the mission in compliance with the 90-day rule by June 2004. One positive step taken to date is that coordination of this effort has been assigned to the Controller's Office data management specialist. Progress has been made to date with respect to recent items, but further effort is required to clear older reconciling items.

- 3. Recommendation No. 3: We recommend that USAID/South Africa accrue the entire amount for all open Operating Expense obligations in accordance with applicable criteria.**

**Management Comment:** Mission acknowledges this and will accrue Operating Expense obligations accordingly, beginning with 1<sup>st</sup> quarter FY 2004.

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- 4. Recommendation No. 4: We recommend that USAID/South Africa contact USAID/Washington to clarify the definition of the term “Unfunded Annual Leave” as it applies to Personal Service Contractors’ annual leave accruals and report to USAID/Washington any PSC annual leave accruals required for inclusion in USAID’s financial statements.**

**Management Comment:**

Mission agrees to do so. On January 5, 2004, Mission sent an email to Alfred Buck – copy attached, requesting such clarification. Based on USAID/Washington’s response to clarification of “Unfunded Annual Leave”, Mission will report to USAID/Washington as required during the next term’s accruals report – March 31, 2004.