

USAID

OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report on USAID's Fund Balance
with U.S. Treasury and Related Internal Controls for Fiscal
Year 2000.

Audit Report (Report No. 0-000-01-005-F)
February 1, 2001

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





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM FOR CFO, Michael T. Smokovich

FROM: IG/A/FA, Alvin A. Brown

SUBJECT: Independent Auditor's Report on USAID's Fund Balance with the U.S. Treasury and Related Internal Controls for Fiscal Year 2000. Report No. 0-000-01-005-F

This is our audit report on the U.S. Agency for International Development's (USAID's) Fund Balance with the U.S. Treasury and related Internal Controls. This report being transmitted to you as part of your audit of USAID's consolidated financial statements which is required by the Government Management and Reform Act of 1994.

Because of problems noted to in previous years' audits, we agreed with USAID officials to focus our fiscal year 2000 audit efforts on the material line items on USAID's balance sheet. This report is one in a series of reports that communicate the results of our audits conducted on the selected line item reported on USAID's Fiscal Year 2000 Balance Sheet.

This audit was performed to determine whether adequate internal controls were implemented by USAID to permit reliable reporting of its Fund Balance with the U.S. Treasury as of September 30, 2000. We determined that USAID has implemented adequate internal controls to permit reliable reporting of its fund balance with the U.S. Treasury account as of September 30, 2000.

We have received and considered the CFO's response to our draft report and its recommendation. We made two recommendations for USAID's management action. Based on your comments, we accepted your decision as management decision. Please forward to me all information on your request to the Office of Management and Planning and Innovation for acceptance of the final management action related to the recommendations. See Appendix II for USAID's Management Comments.

I would like to express my sincerest appreciation for the courtesies extended by your staff to the auditors.

Background

The United States Agency for International Development was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in 70 countries; 42 of which have operational and formal USAID missions.

According to the U.S. Department of the Treasury procedures,¹ the Fund Balance with the U.S. Treasury account is an asset account representing the future economic benefit of monies that can be spent for authorized transactions. Federal agencies must use the Fund Balance with the U.S. Treasury account to reconcile with the Department of the Treasury, Financial Management Services (FMS) records.

In previous years, we could not express an opinion on USAID's financial statements because our audit was impaired. Our audits of those years indicated that USAID's poorly functioning accounting and financial management systems and other previously reported material internal control weaknesses caused this impairment. For those years, we concluded that these deficiencies in USAID's accounting and financial management systems² created consequential risks that the financial statements could contain material misstatements. The amount of substantive testing required to express an opinion on the fairness of the presentation of USAID's financial statements would have been prohibitive and unattainable by the statutory deadline of March 1, for submitting the audited financial statements to OMB. Accordingly, we did not express an opinion on the fairness of the financial statements.

In our fiscal year 1999 audit report,³ we noted that USAID's Fund Balance with the U.S. Treasury was not reliable. While USAID has improved in this area, we identified several continuing problems that hindered USAID's ability to reconcile differences with the fund balance account. Specifically, USAID's Office of Financial Management and the overseas missions did not consistently reconcile—research and resolve—differences identified between USAID's records and the U.S. Treasury's records. In fiscal year 1999, USAID's Office of Financial Management made unsupported adjustments of a net \$21.8 million (\$266 million in absolute dollar value) that brought its cash balance in agreement with Treasury's balance. According to USAID's Office of Financial Management officials, this

¹ Fund Balance with Treasury Reconciliation Procedures: A Supplement to 1 TFM 2-5100, August 1999.

² According to OMB Circular A-127 and the Chief Financial Officers' Act, a financial management system includes supporting systems that contain the information needed to carry out financial management functions, manage financial operations, and report financial status information. The systems provide the information managers need to (1) carry out their fiduciary responsibilities, (2) deter fraud, waste, and abuse; and (3) relate financial consequences to agency program performance. Thus, in addition to basic accounting functions, USAID's financial management system includes supporting systems that perform performance measurement, budget, and procurement functions.

³ Report on USAID's Fund Balance with the U.S. Treasury and Related Internal Controls for Fiscal Year 1999 (Audit Report No. 0-000-99-005-F), February 17, 2000.

adjustment has been made since fiscal year 1996 because they believed that Treasury's balance was more accurate than their fund balance in the general ledger. In addition, USAID had not implemented a system of funds control to manage appropriated funds as required by Title 31 of the United States Code (USC) and the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies. These material weaknesses affected USAID's ability to prepare auditable financial statements.

Audit Objective

For fiscal year 2000, USAID's Office of Inspector General agreed with USAID Management that it would be advantageous for the audit to concentrate on selected major balance sheet items including the Fund Balance with the U.S. Treasury. Accordingly, the objective of this audit is as follows:

Were Adequate Internal Controls Implemented by USAID to Permit Reliable Reporting of its Fund Balance with the U.S. Treasury as of September 30, 2000?

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and maintain accountability over assets;
- Funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and
- Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that the Office of Management and Budget or USAID Management have identified as being significant for which compliance can be objectively measured and evaluated.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect USAID's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

The following section presents our findings and recommendations for those matters that we consider reportable conditions.

Audit Findings

Were Adequate Internal Controls Implemented by USAID to Permit Reliable Reporting of its Fund Balance with the U.S. Treasury as of September 30, 2000?

We determined that USAID has implemented adequate internal controls to permit reliable reporting of its Fund Balance with the U.S. Treasury account as of September 30, 2000. USAID improved its procedures for reconciling and clearing differences with the U.S. Treasury and its funds control.

Despite these improvements, we identified reportable conditions that if corrected would enable USAID to provide a more reliable account of its Fund Balance with the U.S. Treasury and more reliable financial information to its oversight agencies at fiscal yearend. These reportable conditions do not have a material impact on USAID's Fund Balance with Treasury line item. The significant reportable conditions are as follows:

1. USAID did not consistently reconcile its Fund Balance with the U.S. Treasury accounts, and
2. USAID did not consistently comply with OMB reporting requirements.

This report provides two recommendations to assist USAID Management in the improvement of its Fund Balance with the U.S. Treasury reconciliation and reporting and complying with applicable laws and regulations.

USAID Did Not Consistently Reconcile Its Fund Balance with the U.S. Treasury

The U.S. Department of Treasury's guidance⁴ for reconciling fund balances requires that Federal agencies research and resolve differences reported by the U.S. Treasury on a monthly basis. Agencies must also resolve all differences between the balances reported in their general ledger Fund Balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences.

⁴ Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual, ITFM 2-5100, August 1999.

The reconciliation process contains two steps: (1) identify the differences between USAID's records and the U.S. Department of Treasury's records and (2) research and resolve these differences. Some of the differences are timing differences that will be eliminated with the passage of time, while other differences are accounting and posting errors that must be corrected. The U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with U.S. Treasury account. The procedures further state that an agency can adjust its Fund Balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. In addition, the procedures state that an agency should document "Month cleared" (the accounting month that the discrepancy was adjusted and recorded "cleared"), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy. USAID did not consistently follow the first and second steps of the reconciliation process.

As of September 30, 2000, USAID continued to have immaterial unreconciled differences between the fund balance amounts in its records and the amount reported by the U.S. Treasury. According to USAID officials, the unreconciled items, which resulted from transactions initiated by the Office of Financial Management in Washington, were caused by system deficiencies and the unreconciled items, which resulted from overseas mission transactions, were caused by the lack of adequate documentation for the disbursements and collections. Further, many of these differences were created prior to fiscal year 2000. As a result, USAID's Office of Financial Management made unsupported year-end adjustments of about \$18.6 million net (\$82.9 million in absolute dollar value) to bring its September 30, 2000 cash balance in agreement with Treasury's balance.

The 2000 difference was an improvement over the 1999 difference⁵. Despite these improvements, USAID needs to continue researching and resolving all outstanding reconciling items. Therefore, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID's Office of Financial Management:

- 1.1 Continue to perform a detailed analysis of its outstanding reconciling items, which were reported by the overseas missions, and to resolve or write off the remaining reconciling items.**
- 1.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.**

⁵ In the September 30, 1999 financial statements the fund balance difference between USAID and the U.S. Treasury was net \$21.8 million (\$266 million in absolute value).

Reports to the Oversight Agencies

The Office of Management and Budget (OMB) Circular A-34, which governs the preparation and submission of the Report on Budget Execution, requires that the budget reports be submitted quarterly through FACTS II⁶ and a paper copy of the budget reports for each calendar quarter submitted directly to the Committee on Appropriations, House of Representatives. Financial transactions should be properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets. This policy states that agencies should establish and maintain accounting and internal control systems that provide reliable accounting for the activities of the agencies.

USAID did not submit its budget reports⁷ for the first two quarters of fiscal year 2000 to OMB. According to USAID officials, this occurred because of system deficiencies in processing mission data⁸. Specifically, during fiscal year 2000, USAID continued to experience frequent disruptions with the Country Financial Reporting (CFR) system. USAID's Office of Financial Management was unable to obtain the financial data needed to record the mission activities into the New Management System (general ledger) and submit the reports to the OMB by the established deadline. Consequently, because of the incomplete balances in the general ledger, USAID's Office of Financial Management did not submit the budget reports to OMB. As a result, USAID did not comply with OMB Circular A-34 reporting requirements during the periods mentioned above.

USAID Management agreed with the OIG findings and recommendations reported in our Report to USAID Managers on Selected Internal Controls, dated March 31, 1999. However, USAID has not taken corrective action to address this deficiency. Therefore, we are making the following recommendation.

Recommendation No. 2: We recommend that USAID's Office of Financial Management develop and implement procedures to obtain the necessary information needed from its overseas missions to prepare and submit the required budgetary reports to the Office of Management and Budget as required by the Office of Management and Budget Circular A-34.

⁶ Federal Agencies Centralized Trial-Balance Systems II (FACTS II) electronically collects U.S. Standard General Ledger account adjusted trial balances plus attributes from the federal agencies.

⁷ Office of Management and Budget's Standard Form 133, Report on Budget Execution, reports budgetary resources, status of budgetary resources, and relation of obligations to outlays.

⁸ Mission data is processed in the U-101 reporting system which processes the monthly U-101 Report Summary of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Accounts. The reports are electronically transmitted to USAID's Office of Financial Management in Washington and processed in the Country Financial Reporting (CFR) system which processes the information, performs edit checks and produces a variety of reports including journal vouchers to be posted into the agency's general ledger.

Others Matters

At year-end, USAID made unsupported adjustments to transfer \$144 million from its Treasury Suspense Account 72 F 3875 to various appropriations. This occurred because:

- USAID posted unliquidated advances to its Treasury Suspense account to avoid potential Anti-deficiency violations;
- USAID did not liquidate and clear these advances during fiscal year 2000, and
- The U.S. Treasury does not allow agencies to close the fiscal year with large amounts in its suspense accounts.

USAID intends to transfer these unliquidated advance balances back into the suspense account during fiscal year 2001. Further, USAID plans to research and resolve these advance items during fiscal year 2001. We will perform a review of these items during our fiscal year 2001 financial statement audit.

USAID Took Action to Improve Its Fund Balance with the U.S. Treasury

During fiscal year 1999, USAID contracted with a Certified Public Accounting firm to assist in performing USAID's fund balance reconciliation and researching and resolving the differences between USAID's records and the U.S. Treasury's records. The preliminary results of the project indicate that USAID's fund balance reconciliation process is improving. We will verify the extent of USAID's progress during our fiscal year 2001 financial statement audit.

Management Comments and Our Evaluation

USAID's Deputy Chief Financial Officer (D/CFO) commented that USAID's management officials (USAID Management) were pleased to note that we were able to determine that adequate internal controls were implemented to permit reliable reporting of the Fund Balance with the U.S. Treasury.

The D/CFO stated that USAID Management agreed to take the recommended actions but are unable to specify when the actions on Recommendation No. 1.1 and 1.2 will be completed. USAID Management believed that they are continuing their reconciliation efforts with all available but clearly limited resources and will continue to do so until this matter is no longer a reportable condition.

We believe that USAID should be able to take the recommended actions by fiscal year ended September 30, 2001. We have analyzed the 17,110 outstanding reconciling items of the overseas missions and found that many of the items could be resolved and/or written off. Although this report does not provide details on these items, we believe that the discussions held with USAID's Office of Financial Management officials provided enough information about our review of these items.

The D/CFO stated that USAID will not be able to resolve Recommendation No. 2 until the Phoenix Auxiliary Ledger, a feeder system for recording mission data into the Phoenix General Ledger, will replace the Country Financial Reporting System (CFRS) in fiscal year 2002. Further, the D/CFO stated that the Phoenix Auxiliary Ledger would be replaced when Phoenix is established and implemented at USAID's overseas accounting stations. The D/CFO commented that USAID would not produce the first and second quarter budgetary reports for fiscal year 2001.

Accordingly, we will review the Phoenix Trial Balances, the CFRS reports, the Mission Accounting Controls System reports, the implementation plans of the Phoenix Auxiliary Ledger, and the Phoenix General Ledger at the overseas missions for the first and/or second quarters of fiscal year 2001.

SCOPE AND METHODOLOGY

Scope

For fiscal year 2000, USAID's Office of Inspector General agreed with USAID's Office of Financial Management that it would be advantageous for the audit to concentrate on selected major balance sheet items. One of those balance sheet items is Fund Balance with the U.S. Treasury. We analyzed the process for making entries to the Fund Balance with the U.S. Treasury account. In addition, we reviewed the actual account reconciliations and USAID's procedures for making them. Accordingly, the scope of this audit was limited to the review of USAID's fund balance as of September 30, 2000. Therefore, this report does not contain an opinion about the fairness of the statements taken as a whole.

At September 30, 2000, USAID's Fund Balance with the U.S. Treasury line item amount is \$11.1 billion. The audited amount of USAID's Fund Balance with the U.S. Treasury line item was the \$11.1 billion reported for that line item.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounts audited are free from material misstatement.

We obtained an understanding of the design and implementation of relevant policies and procedures within USAID's Office of Financial Management for reconciling accounts, researching and resolving differences and reporting the fund balance with the U.S. Treasury accounts. We determined whether those procedures were adequate and had been placed in operation to meet the objectives and requirements of the Treasury Financial Manual and other regulations. We considered all reasonable efforts made by USAID Management to improve the management of the reconciliation process and respond to our previous recommendations relating to the Fund Balance with Treasury account.

Methodology

In accomplishing our audit objectives, we reviewed significant line items reported in USAID's balance sheet. These line items included accounts payable, the Fund Balance with the U.S. Treasury, advances, and loan receivable.

To accomplish our Fund Balance specific audit objective, we:

- reviewed fund balance accounts and budgetary accounts,
- all available reconciliations and related documents,
- reviewed related reports submitted to U.S. Treasury and other federal regulatory agencies,
- reviewed the contractor's reconciliation and other work performed to date,
- conducted meetings with USAID's Office of Financial Management and its contractors, and
- selected the following four appropriations for review:
 - No-Year Development Assistance (72X1021),
 - 1999/1990 Development Assistance (729/01021),
 - 1998/1999 Economic Support Fund (728/91037),
 - No-Year Economic Support Fund (72X1037), and
 - No-Year Operating Expense (72X1000).
- reviewed USAID's funds control process.

We reviewed USAID's compliance with laws and regulations related to the legal and regulatory requirements for reporting fund balance with the U.S Treasury to determine whether:

1. USAID's reconciliation procedures for the Fund Balance with the U.S. Treasury line item is in compliance with the U.S. Treasury's guidance,
2. USAID was meeting the timeliness for completion of the monthly reconciliation, which includes reconciling Fund Balance accounts and related records, and
3. USAID's funds control and Anti-Deficiency reports are in compliance with USAID's Administrative Control of Funds Policy and Procedures and other federal laws.

Based on USAID's 1999 Net Cost of Operations, a materiality threshold of 5 percent was calculated for the overall financial statements. Therefore, any amount over \$314 million was considered material and included in our review of USAID's 2000 financial statements.

USAID MANAGEMENT COMMENTS



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

FEB 9 2001

MEMORANDUM

TO: IG/A/FA, Alvin A. Brown

FROM: M/CFO, Elmer S. Owens

SUBJECT: Audit of USAID's Fund Balance with the U.S. Treasury
and Related Internal Controls for Fiscal Year 2000

We have reviewed your draft report on the subject audit and agree with your findings and recommendations. We are extremely pleased to note that you were able to determine that adequate internal controls had been implemented that permitted reliable reporting of Fund Balance with Treasury.

As for the specific recommendations, we agree to take the recommended actions. However, at this time, we are unable to specify when the action on Recommendation 1 will be completed. We are continuing our reconciliation efforts with all available but clearly, limited resources and will continue to do so until this matter is no longer a reportable condition.

As regards Recommendation 2, this issue will not be resolved until the Country Financial Reporting System (CFRS) is replaced by the Phoenix Auxiliary Ledger. We expect the Phoenix Auxiliary Ledger to come on-line for FY 2002 operations. Therefore, for FY 2001 we will continue to use the CFRS. Accordingly, we will not produce the first or second quarter budgetary reports. The Phoenix Auxiliary Ledger will be a repository of MACS transaction level data transmitted from each accounting station to M/FM. The repository will replace the CFRS and serve as the feeder system for posting the SGL entries into the Phoenix General ledger until Phoenix is deployed to the field accounting stations.

USAID MANAGEMENT COMMENTS

2

I would like to thank you and your staff for the professional and cooperative manner in which the audit was conducted.

Cc: M/CFO, N. Smokovich
M/CFO, T. Cully
M/MPI, S. Malone-Gilmer
M/FM, D. Ostermeyer
H/FM/CAR, T. Vapniarek
H/FM/CAR, E. White