

**Audit of Certain USAID/Dominican Republic
Financial Operations**

**Audit Report No. 1-517-01-002-F
January 9, 2001**

San Salvador, El Salvador



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

January 9, 2001

MEMORANDUM

FOR: USAID/Dominican Republic Director, Elena Brineman

FROM: RIG/San Salvador, Timothy E. Cox

SUBJECT: Audit of Certain USAID/Dominican Republic Financial Operations
(Report No. 1-517-01-002-F)

This memorandum is our report on the subject audit.

This report contains four recommendations for your action. Final action has been taken on all four recommendations and, therefore, Recommendation Nos. 1, 2, 3, and 4 are closed upon issuance of this report.

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

Background

This report focuses on USAID/Dominican Republic's procedures for processing advances and disbursements and its procedures for reporting on the status of its budget allowances to USAID/Washington. According to USAID/Dominican Republic's records, during the 12-month period ending March 31, 2000, the Mission made 105 advances of \$1,500 or more, totaling \$7.1 million. USAID/Dominican Republic's records indicate that, during the same period, 801 project and 346 operating expense disbursements of \$1,500 or more were made totaling respectively \$18.3 and \$2.7 million.

USAID/Dominican Republic's Controller Office, which is the Mission's focal point for financial operations, has 18 staff including a Controller, Chief Accountant, Certifying Officer, accountants, financial analysts, voucher examiners, and other professionals. USAID/Dominican Republic also has a fiscal agent, the Banco de Desarrollo Dominicano, for 22 local recipient organizations under two mission programs. This fiscal agent reviews the recipients' advance requests and advance liquidations and submits fiscal agent's vouchers on behalf of the recipients to the Mission. A Mission official estimated that the fiscal agent handles up to half of the

Mission's project vouchers. Also, Mission officials said the fiscal agent's reviews were both similar to reviews by Mission's voucher examiners and more extensive, because local organizations submitted not only their monthly financial reports, but also the supporting documentation for expenses. Mission controls on the fiscal agent consisted of a Mission staff who performed monitoring tasks, an external audit of the fiscal agent, and financial audits of the local organizations.

USAID/Dominican Republic also performs the controller functions for USAID/Guyana. It performed the controller functions for the RDO/Caribbean in Barbados until June 2000, when the controller functions were transferred to USAID/Jamaica.

Audit Objective

As part of its fiscal year 2000 audit plan, the Office of the Regional Inspector General for Audit/San Salvador performed an audit to answer the following audit objective:

- Were USAID/Dominican Republic's advances, disbursements, and balances properly processed and reported?

Appendix I describes the audit scope and methodology.

Audit Findings

Were USAID/Dominican Republic's advances, disbursements, and balances properly processed and reported?

USAID/Dominican Republic's advances, disbursements, and balances as of March 31, 2000 were properly processed and reported, except that some recipients submitted insufficient financial data for Mission analysis of the advance request, Mission monitoring of outstanding advances was not frequent enough, and there was a backlog of unreconciled items over three months old.

With respect to advances, based on an examination of sample transactions, as described in Appendix I:

- Advances were requested by the recipients or the Mission's fiscal agent.
- Advance requests were approved by project officers.
- Advance requests were reviewed and approved by Controller Office personnel consistent with USAID policies and procedures, except for advance requests reviewed by the fiscal agent and submitted with insufficient financial data.
- Advances were correctly certified by Controller Office staff.

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- Amounts advanced were in agreement with the supporting documentation.

With respect to disbursements, based on a review of sample transactions as described in Appendix I, USAID/Dominican Republic:

- Correctly annotated vouchers with the date they were received by USAID/Dominican Republic.
- Made payments on time.
- Made sure that invoices were arithmetically correct.
- Verified that the payment request was in compliance with the contract or agreement.
- Ensured that payments were made to correct payees.
- Recorded payment information correctly in its accounting system and payment tracking system.

Among the vouchers for disbursement processed by the Mission were payments for support services provided by the U.S. Embassies in Santo Domingo, Dominican Republic and Georgetown, Guyana, called International Cooperative Administrative Support Services (ICASS) charges. Although the Mission performed extensive reviews of the U.S. Embassies' proposed ICASS budget, the Mission did not have assurance that the subsequent charges represented actual costs. ICASS charges for fiscal year 1999 support services totaled \$326,462 for both USAID missions in the Dominican Republic and Guyana. We did not review the embassies' supporting documentation for ICASS charges and we did not make a recommendation on ICASS charges, because a joint audit of ICASS charges by the Offices of Inspector General of the Department of State and USAID is scheduled for the year 2001.

With respect to the Mission's U-101 accounting report, based on a review of amounts reported by USAID/Dominican Republic for two appropriations, balances as of March 31, 2000 were properly reported and disbursements were reconciled with disbursing office accounts. However, there were a large number of unreconciled items, as of March 31, 2000, between the Mission Accounting and Control System and the U.S. Disbursing Office's 1221 reports.

The following sections discuss matters regarding advances and unreconciled items.

Cash Advances

The Mission process for cash advances has two weaknesses, involving incomplete financial reports from organizations requesting advances and infrequent reviews of outstanding advances. Mission policy and procedures to implement respective

USAID Automated Directives System (ADS) requirements could be improved on these two weaknesses, which have resulted in the use of advances for expenses incurred at dates later than the intended period and overdue advance liquidation vouchers.

ADS 636.5.3 requires that program-funded advances for immediate disbursing needs (which is defined as up to 30 calendar days for advances by Treasury check, automated clearing house, or electronic funds transfer) be based on an analysis of an organization's working capital requirements. Mission Order No. IV.11, section V.B.2 requires that the organization requesting an advance submit a financial report, which states the status of advances received, expenditures, and projected expenditures. This financial report is intended for a Mission analysis, which considers cash on hand, compares the requested advance to prior expenditures, and requires written justification when the requested advance exceeds the average monthly expenditures for the past three months by more than 15 percent.

Our sample of 20 advance transactions showed that financial reports for four advance requests did not contain sufficient data to enable the Mission to analyze the respective requested advances and prepare an accompanying cash advance analysis worksheet. As a result, these advances exceeded immediate disbursing needs, as indicated by the dates for expenditures in their advance liquidation vouchers. The Mission has provided instructions on advance requests to organizations, but these instructions lacked details on the financial data for inclusion in the financial report.

In addition, ADS E636.5.3b requires monitoring of outstanding advances on an on-going basis, at a minimum, quarterly. USAID/Dominican Republic's Mission Order did not address such monitoring.

USAID/Dominican Republic has monitored outstanding advances, but not on an on-going basis. Specifically, it reviewed the Advance Aging Report as of July 15, 1999, November 2, 1999, and December 28, 1999; reviewed advances provided to certain organizations in the Spring of 2000; and followed up these reviews with requests for voucher submissions and refunds. Our sample showed two advances that needed mission follow-up actions as of September 2000. These advances have not been liquidated, since the recipients have not submitted expenditure vouchers to liquidate the advances.

Accordingly, we are recommending that USAID/Dominican Republic address financial reports for its advance analysis and periodic reviews of outstanding advances.

Recommendation No. 1: We recommend that USAID/Dominican Republic issue written instructions to implementing organizations on the data needed in their financial reports for advance analysis.

Recommendation No. 2: We recommend that USAID/Dominican Republic revise its Mission Order to address the monitoring of outstanding advances on an on-going basis, at least quarterly.

Unreconciled Items Over Three Months Old

The Mission has a backlog of unreconciled items from its monthly reconciliations of its Mission Accounting and Control System (MACS) with U.S. Disbursing Office's (USDO) 1221 reports. Although the Financial Management Bulletin provides guidance, the Mission was not been able to process the unreconciled items last year due to additional workload caused by Hurricane Georges. The effect of the unreconciled items was minimal. As the additional workload has decreased, a Mission official said that efforts to reduce the unreconciled items have been made. Nevertheless, one type of unreconciled item, which involves the U.S. Embassies in Guyana and Dominican Republic, constitutes a third of the backlog and requires written procedures among the organizations.

USAID Financial Management Bulletin, Part 2 No. 14b, section III.B.2 states that outstanding reconciling items over two months old need to be researched and corrected. USAID Financial Management Bulletin, Part 2 No. 14b, section V.A.3 states that a mission should make formal arrangements with the U.S. Embassy to obtain copies of vouchers processed on behalf of the mission.

The Mission's 1221/MACS reconciliation list for March 31, 2000 showed 776 unreconciled items totaling \$2,783,602 that were over three months old, of which 52 percent involved USAID/Guyana and the remainder involved USAID/Dominican Republic. Also, of the 776 unreconciled items, there were 589 items (76 percent) due to accounting entries in the USDO's 1221 report without corresponding MACS entries and the remainder were MACS entries without corresponding USDO entries. The following table shows these data:

Unreconciled Items in:	USAID/Guyana	USAID/DR	Totals
MACS	24	163	187
USDO's 1221 Report	376	213	589
Totals:	400	376	776

Of the 589 USDO items, there were 267 transactions made by U.S. Embassies for expenses of respective USAID missions. Of the 267 transactions, 216 transactions were identified for the U.S. Embassy in Guyana and 51 transactions were identified for the U.S. Embassy in the Dominican Republic. USAID/Dominican Republic officials said that corresponding accounting entries could not be made in MACS until the U.S. Embassies provided vouchers and/or supporting documentation.

With respect to the unreconciled USAID/Guyana items, Mission officials described two other types of unreconciled items. One type involved disbursements that appeared in the USDO's 1221 report, but not in the MACS. These

unreconciled items were attributed to a backlog of USAID/Guyana vouchers awaiting data input into the MACS. The other type involved disbursements that appeared in the MACS, but not in the USDO's 1221 report. These unreconciled items were attributed to two factors. First, the U.S. Embassy in Guyana did not change the default code, which charged disbursements to USAID/Washington, to USAID/Guyana. Second, USAID/Washington was late in sending advice of charges for the error-coded disbursements to USAID/Dominican Republic.

With respect to the unreconciled USAID/Dominican Republic items, Mission officials described another recurring type of unreconciled item. USDO/Charleston issued payroll checks in local currency and charged Mission appropriations. Afterwards, the Mission made the appropriate reconciling MACS entries, which were usually three to four months after payments. Since the payroll was budgeted from both appropriations (U.S. Government funds) and trust funds (host government funds deposited at a local bank), USAID/Dominican Republic also issued payments to USDO/Charleston for reimbursement of the locally-funded share of payroll expenses. A Mission official said that the budget for the trust fund's share of payroll for calendar year 2000 was about \$350,000 or a third. This payroll reimbursement process is described in Mission Order No. IV.4.1.

Mission officials said that the unreconciled USAID/Dominican Republic items resulted from a temporary work overload last year caused by the Mission's efforts on Hurricane Georges reconstruction activities and were being processed. Similarly, Mission officials indicated that the unreconciled USAID/Guyana items were being processed.

The effect of the unreconciled items was minimal. For example, 42 of the 776 items have a value of \$10,000 or more, totaled \$2,123,225, and consisted mostly of payroll, ICASS, incoming advice of charges, and items for write-off. The other 734 items totaled \$660,377, which compared to total disbursements of \$1,500 or more for the 12-month period ended March 31, 2000, was 3.1 percent.

We believe that the Mission has given unreconciled 1221/MACS items due attention commensurate with its workload and priorities and should be able to reduce the number of unreconciled items as other tasks require less efforts. Nevertheless, the Mission should strengthen the controls on charges initiated and processed through the U.S. Embassies in Guyana and Dominican Republic for charges to the respective missions, on which a USAID/Dominican Republic official said that there were no agreements among the parties.

Accordingly, we make the following recommendations.

Recommendation No. 3: We recommend that USAID/Dominican Republic establish, in consultation with USAID/Guyana and the U.S. Embassy in Guyana, written procedures on the vouchers

initiated and processed through the U.S. Embassy for charges to USAID/Guyana.

Recommendation No. 4: We recommend that USAID/Dominican Republic establish, in consultation with the U.S. Embassy in Dominican Republic, written procedures on the vouchers initiated and processed through the U.S. Embassy for charges to USAID/Dominican Republic.

Management Comments and Our Evaluation

USAID/Dominican Republic agreed with the report findings and the recommendations by taking actions as follows.

In response to Recommendation No. 1, USAID/Dominican Republic held a meeting with all grantees and contractors that either receive advances directly or administer advances to sub-grantees to discuss the new advance request format and later provided written instructions to those same institutions. The new advance request format included a revised chart on advances and monthly expenditures in the financial report submitted with the advance request.

In response to Recommendation No. 2, USAID/Dominican Republic revised Mission Order No. IV.11 to include procedures on monitoring outstanding advances on a quarterly basis.

In response to Recommendation No. 3, USAID/Dominican Republic signed a Memorandum of Understanding with USAID/Guyana and U.S. Embassy in Guyana on procedures for USAID/Guyana vouchers processed by the Embassy.

In response to Recommendation No. 4, USAID/Dominican Republic signed a Memorandum of Understanding with U.S. Embassy in the Dominican Republic on procedures for USAID/Dominican Republic vouchers processed by the Embassy.

See Appendix II for the full text of USAID/Dominican Republic's comments.

Based on the information above, final action has been taken on Recommendation Nos. 1, 2, 3, and 4 and, therefore, these recommendations are closed upon issuance of the report.

Scope and Methodology

Scope

The Office of the Regional Inspector General/San Salvador conducted an audit of certain USAID/Dominican Republic's financial operations. The audit was performed in accordance with generally accepted government auditing standards at USAID/Dominican Republic' offices from August 21, 2000 through October 3, 2000.

As part of the audit, we obtained an understanding of the controls over the advance process, payment process, and reconciliation process. We determined whether the controls were placed in operation, and we assessed control risk. We also assessed compliance with the Prompt Payment Act and Office of Management and Budget Circular No. 125. We did not assess compliance with any other laws and regulations applicable to the audit objective.

The audit examined USAID/Dominican Republic's financial operations related to cash advances, disbursements, and reporting on the status of its budget allowances for the period April 1, 1999 through March 31, 2000 and subsequent follow-up actions on selected items as of September 2000. It did not cover any other USAID/Dominican Republic financial operations.

Methodology

The audit objective was to determine if USAID/Dominican Republic' advances, disbursements, and balances were properly processed and reported.

In examining advances, we reviewed a random sample of 20 advances made by USAID/Dominican Republic from April 1, 1999 to March 31, 2000. The population of all advances of \$1,500 or more and the sample of 20 advances we reviewed are compared in the following table:

Advances of \$1,500 or more	Number	Amount
Population	105	\$7,106,731
Sample	20	\$1,684,579

For each sample item, we reviewed documentation and interviewed USAID/Dominican Republic personnel to verify that: (1) the request for advance was approved by the project officer, (2) the Controller's Office certified the advance for payment, (3) the voucher was reviewed and approved by the Controller's Office personnel consistent with USAID/Dominican Republic and USAID policies and procedures, (4) the advance was requested by the recipient, (5) the amount advanced agreed with the supporting documentation, and (6) the period covered by the advance was in accordance with USAID policies, and (7) liquidations against the advance covered the same period.

In examining disbursements, we used queries developed by USAID/Dominican Republic’s staff to obtain from the Mission Accounting and Control System a list of all disbursements of \$1,500 or more by USAID/Dominican Republic during the 12-month period. We did not perform any specific audit procedures to verify that this list was complete but during the audit we were alert to any possible indications that the list might not be complete. We divided the list into two groups of disbursements:

- Program-type disbursements that represent costs of USAID assistance programs and typically represent relatively high value, non-routine expenses.
- Administrative-type disbursements that represent relatively low value, routine expenses. Many, although not all, of these disbursements are for Mission operating expenses.

We then drew two samples of disbursements for detailed review. Since program-type disbursements present a higher degree of inherent risk, because of their relatively high value and non-routine nature, we drew a random sample of 30 program-type disbursements. Because administrative-type disbursements present a lower degree of inherent risk, we drew a judgment sample of 10 administrative-type disbursements for detailed review. Upon review, we eliminated the non-disbursement transactions (7 transactions from program-type disbursements and 2 transactions from administrative-type disbursements) from the samples. The populations and samples reviewed are compared below:

Population	Number (vouchers)	Amount
Program-type disbursements	801	\$18,340,649
Administrative-type disbursements	346	\$2,674,328
Total	1,147	\$21,014,977

Sample	Number (vouchers)	Amount
Program-type disbursements	23	\$282,560
Administrative-type disbursements	8	\$61,923
Total	31	\$344,483

For the disbursements in the sample of program-type disbursements, we performed the following steps:

- Verified that the date the voucher was received was annotated on the face of the voucher.
- Traced each voucher through the payment process from the time it was received until it was paid, noting the dates it was received, certified for payment, and actually paid.

- Verified the arithmetical accuracy of each voucher.
- Compared the payment request with the terms and provisions of the underlying contract or agreement to verify that the payment request was in compliance with the contract or agreement.
- Compared the payee shown in the payment request to the payee shown in the contract or agreement.
- Verified that each payment was made within the time permitted for payment (generally 30 days unless the contract or agreement provides for a different payment period) and that interest was added to any late payments.
- Compared the information recorded in the Mission Accounting and Control System and payment tracking system for each payment to source documents to verify that the information was accurate.

For the disbursements in the sample of administrative-type disbursements, we compared the disbursement with the underlying contract, grant, or other authorizing document to verify that the payment was in compliance with the authorizing document.

In reviewing the balances as of March 31, 2000 reported by USAID/Dominican Republic, we traced the amounts reported by USAID/Dominican Republic in its U-101 report (Summary of Allowance Ledger Transactions and Reconciliation with the Disbursing Officer's Account) for two appropriations to the supporting documentation and verified the correctness of the amounts reported. These appropriations were selected judgmentally.

We also reviewed the reconciliation of the disbursements reported in the Mission Accounting and Control System with the disbursements reported by the State Department and Treasury Department disbursing offices as of February 29, 2000, and we calculated the number and absolute value of the unreconciled transactions as of March 31, 2000.

In performing the audit tests described above, we considered non-compliance exceeding 5 percent of the cases reviewed to represent material non-compliance.

**MANAGEMENT
COMMENTS**

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
Santo Domingo, Dominican Republic

**UNITED STATES GOVERNMENT
MEMORANDUM**

Date: Thursday, December 07, 2000

To: Timothy E. Cox, Regional Inspector General, San Salvador

From: Elena Brineman, Mission Director

Subject: Draft Report on the Audit of Certain USAID/DR Financial Data

Subject draft report contains three recommendations. The audit of USAID/DR's Financial Data had the following objective: to determine if USAID/DR's advances, disbursements, and balances were properly processed and reported. The recommendations made to USAID/DR follows:

1. USAID/DR issues written instructions to implementing organizations on the data needed in their financial reports for advance analysis;
2. USAID/DR revises its Mission Order to address the monitoring of outstanding advances on an on-going basis, at least quarterly;
3. USAID/DR establishes,
 - 3.1.in consultation with USAID/Guyana and the U.S. Embassy in Guyana, written procedures on the vouchers initiated and processed through the U.S. Embassy for charges to USAID/Guyana; and
 - 3.2.in consultation with the U.S. Embassy in the Dominican Republic, written procedures on the

vouchers initiated and processed through the U.S. Embassy for charges to USAID/DR.

In connection with recommendation 1., a meeting was held on November 8th at the USAID office with all grantees and contractors that either receive advances directly or administer advances to sub-grantees (15 of the 16 invited participated). Controller Office Staff reviewed the new advance request format, discussed all concerns and any questions with the attendees. On November 16th, a follow up letter with written instructions was sent to these same institutions. See attached letter (A1), instructions (A2a, A2b) and revised form (A3). USAID/DR considers this recommendation closed.

In connection with recommendation 2., USAID/DR Mission Order No. IV.11 has been revised to include procedures for monitoring outstanding advances on a quarterly basis (see attachment B). USAID/DR considers the recommendation closed.

In connection with recommendation 3., MOUs have been signed with the U.S. Embassy and USAID/Guyana and with the U.S. Embassy in the Dominican Republic (see attachments C and D). USAID/DR considers this recommendation closed.

USAID/Dominican Republic would like to thank the Regional Inspector General's Office in San Salvador for the advice and suggestions that were made to USAID staff during the performance of the audit. We look forward to receiving the final report that indicates that all recommendations have been closed.