USAID
OFFICE OF INSPECTOR GENERAL

Audit of USAID/Regional Center for Southern Africa's Fiscal Year 2000 Financial Operations and Controls

Audit Report No. 4-690-01-002-F
April 2, 2001

PRETORIA, SOUTH AFRICA
OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/PRETORIA

APRIL 2, 2001

MEMORANDUM

FOR: REGIONAL DIRECTOR, USAID/RCSA, Edward Spriggs

FROM**:** Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Audit of USAID/Regional Center for Southern Africa's Fiscal Year 2000 Financial Operations and Controls, Audit Report No. 4-690-01-002-F

This memorandum is our report on the Audit of USAID/Regional Center for Southern Africa's Fiscal Year 2000 Financial Operations and Controls, Report No. 4-690-01-002-F. We have received your comments on the draft report and have included them in their entirety as an appendix to this report (see Appendix II). This report contains no recommendations for your action.

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

Summary of Results

Our audit of the Regional Center's fiscal 2000 year-end financial operations and controls focused on determining whether financial data relating to its accruals, project advances, 1221 reconciliation and U101 reporting processes were accurately stated and adequately supported on its U101 report.

Our results showed that the Regional Center's fiscal 2000 year-end financial data relating to its accruals and project advances as shown on its U101 report were accurately stated and adequately supported with respect to the items tested. However, our audit noted weaknesses in the SF-1221 reconciliation and U101 reporting process. Specifically, we found that the Regional Center had reconciling items outstanding for over three years, reconciling items that could not be identified, and an outstanding difference with U.S. Treasury records. The Regional Center also had long-standing open obligations on its U101 report because contracts had not been closed out. We are not making recommendations since the Regional Center is taking action on all the items.

These areas are discussed in more detail in the *Audit Findings* section of this report.

Background

Beginning in fiscal year (FY) 1996, the Government Management Reform Act required agencies to complete audited financial statements each year covering all accounts and associated activities of the agencies. These financial statements are intended 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 performance and stewardship of agency resources. As a result of this legislation, the U.S. Agency for International Development's (USAID) management is required to compile USAID-wide financial statements and supplemental information. For FY 2000, these financial statements are to be audited and submitted to the Office of Management and Budget (OMB) no later than March 1, 2001.

In compiling these financial statements, USAID incorporates financial data transmitted by its 36 accounting centers located around the world and relies on the systems in place at each of these centers to ensure that the data is accurate and reliable. Prior Office of Inspector General (OIG) audits, however, have identified a number of material weaknesses in USAID's existing accounting systems. For example, as a part of the FY 1999 Government Management Reform Act audit, the OIG found that the overseas accounting stations were not properly reconciling disbursements and collections with the U.S. Disbursing Officer (USDO) and the U.S. Treasury. The OIG also found that the overseas accounting stations were not properly calculating and reporting accrued expenses and related accounts payables or reporting outstanding advances at year-end.

This review is part of an USAID-wide effort, led by the OIG's Office of Financial Audits in Washington, D.C., to audit USAID's FY 2000 financial statements prior to their submission to OMB. The OIG used a two-phase approach in auditing these financial statements. First, the internal control phase focused on gaining an understanding of USAID's internal control structure and assessing control risk. The results were used to determine the nature, timing and extent of testing in the second phase—substantive testing. This phase focused on testing the year-end financial data reported by the Mission Accounting and Control System (MACS) for accuracy, completeness, and reliability. Ten randomly selected overseas missions and USAID/Washington were included in this review.

Audit Objective

This audit involved a review of USAID/Regional Center for Southern Africa's (RCSA) fiscal 2000 year-end financial data and was designed to answer the following question:

> Was USAID/RCSA's fiscal 2000 year-end financial data relating to its accruals, project advances, 1221 reconciliation process and U101 reporting process accurately stated and adequately supported on its U101 report?

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

Audit Findings

Was USAID/RCSA's fiscal 2000 year-end financial data relating to its accruals, project advances, 1221 reconciliation process and U101 reporting process accurately stated and adequately supported on its U101 report?

USAID/RCSA's fiscal 2000 year-end financial data relating to accruals and project advances as shown on its U101 report were found to be accurately stated and adequately supported with respect to the items tested. However, we identified weaknesses in the 1221 reconciliation and the U101 reporting processes.

Using statistical sampling, we tested financial transactions for each of the four accounting processes included in our audit objective. These tests included tracing transaction data reported on the Regional Center's September 30, 2000, U101 report to appropriate supporting documents as well as other tests to ascertain whether the data was adequately stated and accurately supported. The results of our review are summarized below.

Accruals

The Regional Center's accruals were accurately stated and adequately supported on the U101 report. Specifically, the Regional Center's accruals were:

- based on reasonable estimates;
- reduced prior to being posted to MACS for disbursements made just before the quarter ended; and
- posted properly to MACS and reversed accordingly.

We also verified that the Regional Center complied with recommendations made during the internal control phase of this audit, which was conducted by our Washington Office of Financial Audits. During that phase, the auditors were not able to attest to the validity of the accrual estimates due to lack of supporting documentation. The auditors suggested that the Regional Center attach documentation supporting the accrual estimates to the accrual worksheets. The Controller promptly implemented this suggestion.

Project Advances

The Regional Center's project advances were accurately stated and adequately supported on the U101 report. Specifically, the Regional Center's advances were:

- approved administratively by the project officer;
- given on an as-needed basis;
- certified for payment and liquidated; and
- reviewed by the Regional Center on a quarterly basis to ensure that funds advanced were not in excess of immediate disbursement needs.

Furthermore;

- unliquidated funds were refunded to the Regional Center; and
- all remittances of earned interest on advances were properly reported in the U101 report.

We also verified that the Regional Center complied with a USAID directive implemented in FY 1999. The directive instructed missions to report estimated accrued expenses that are covered by outstanding advances at fiscal year-end. This permits USAID/Washington to reduce its payables by the amount of any outstanding obligations by recording an adjustment to USAID's general ledger. The Regional Center complied with this directive.

1221 Reconciliation Process

The Regional Center did not timely and effectively perform the 1221 reconciliation process. Specifically, we found that the Regional Center had reconciling items outstanding for over three years, reconciling items that could not be identified, and an outstanding difference with U.S. Treasury records. Failure to implement timely and effective reconciliation processes could increase the risks of fraud, waste and mismanagement of funds.

The SF-1221—Statement of Transactions According to Appropriations, Funds, and Receipt Accounts (Foreign Service Account)—is prepared by the U.S. Disbursing Officers (USDOs) that collect and/or disburse foreign currency. This report provides the U.S. Treasury (Treasury) with a monthly statement of payments and collections made by the USDOs. Each month the missions are required to reconcile their records with USDO records.

In June of FY 1999, the Regional Center implemented an aggressive plan to identify, research and clear reconciling items on a monthly basis; thus, clearing a significant number of reconciling items.

We tested the monthly reconciliations for three appropriations: 72X1021, 72X1014 and 72X1000. Our results showed that the Regional Center:

- tracked the status of the reconciling items on a monthly basis;

- maintained supporting documentation to show how the reconciling items cleared; and

- verified that the reconciling items reported on the U101 report were consistent with the reconciliation worksheets.

However, the Regional Center had:

- reconciling items that have remained uncleared (i.e., outstanding) for over three years;

- "unknown" reconciling items that could not be identified; and

- a difference with Treasury records that had not been cleared.

These issues are discussed in more detail below.

Uncleared Reconciling Items - At September 30, 2000, the Regional Center had a backlog of approximately 284 uncleared reconciling items with an absolute value of $2.9 million in the three appropriations tested. The reconciling items exceeded the two-to-three month timeframe recommended by Treasury to clear such items. The Regional Center attributed the uncleared reconciling items to incomplete records received from transferred and closed missions.

The Regional Center maintains the residual accounting records for three closed missions: Lesotho, Swaziland and Botswana and provides accounting services for two transferred missions: Namibia and Angola. (In July of 1998, USAID/RCSA transferred accounting responsibility for Angola to USAID/South Africa.) Regional Center officials stated that incomplete records were received from the missions when the accounting services were transferred to them about three years ago. As indicated by Table 1, 95.5 percent of the total dollar value of the Regional Center's reconciling items have been outstanding for over three years. The next step would be for the Regional Center to request USAID/Financial Management (USAID/FM) to write-off the uncleared items. However, the Controller stated that all efforts would be made to clear the reconciling items before requesting write-off from USAID/FM.

USAID/RCSA's Outstanding Reconciling Items
As of September 30, 2000
(Table 1)

Age	Number of Items	Dollar Value (Absolute Value)	Percentage (Based on the Dollar Value)
Over 3 years	203	$2,750,665	95.50
2-3 years	33	48,914	1.70
1-2 years	28	50,257	1.75
6 months-1 year	8	9,852	.34
4-6 months	12	20,400	.71
Totals	284	$2,880,088	100.00

USAID financial management guidance requires overseas missions to reconcile their monthly disbursement records to the payments made on the mission's behalf as reported by the USDO's overseas and the Treasury Regional Finance Centers in the United States. To ensure accountability over each mission's cash reconciliation, the guidance also requires missions to follow up on any cumulative reconciling items that remain unreconciled (i.e. uncleared) and are not cleared within two months.

The Regional Center has implemented a successful plan to identify, research and clear reconciling items on a monthly basis. The Controller also plans to exhaust all efforts to clear the reconciling items before requesting write-off from USAID/FM. Therefore, we are not making a recommendation on this issue.

Unknown Reconciling Items - The Regional Center has approximately $1.5 million of "unknown" cumulative reconciling items. The reconciling items are tagged "unknown" because the source or derivation of the items could not be readily identified—no record of the existence or occurrence of the transactions could be found in either the USDO or the Regional Center's records. The Regional Center attributed this to incomplete records received from the two transferred and three closed missions. The Controller's Office has initiated efforts to research and clear the unknown reconciling items. At the time of our testing, the Regional Center had reduced the items to approximately $1.3 million, which will be reflected in their records at the beginning of FY 2001. Because of the actions planned and initiated, we are not making a recommendation on this issue.

Outstanding Difference with Treasury - Since July 1999, a difference of $46,588 has existed between the Regional Center and Treasury records. This difference resulted from the incorrect posting of a deposit transaction on the July 1999 SF-224 report. The Regional Center researched the difference and corrected the posting on the August 1999 SF-224 report. However, Treasury did not clear the difference and continues to report it on the FMS-6652, Statement of Differences report.

The SF-224, Statement of Transactions is prepared by each agency at the close of each accounting month in order to report their monthly accounting activity to Treasury. The SF-224 report provides Treasury with information on an agency's deposits and disbursements at financial institutions. Treasury relies on the totals reported on the SF-224 to identify differences between Federal agencies' records and Treasury control totals reported by financial institutions. If there is a discrepancy, Treasury generates an FMS 6652, Statement of Differences, for both disbursement and deposit transactions. According to the Treasury Financial Manual, dated November 1999, "All agencies must research and resolve differences reported on the monthly FMS-6652".

With assistance from USAID/Washington, the Regional Center is working with Treasury to clear the difference. Therefore, we are not making a recommendation on this issue.

U101 Reporting Process

The Regional Center's U101 report was accurately stated and adequately supported. However, the Regional Center had open obligations on the September 30, 2000 report that have not been liquidated or de-obligated due to an untimely close-out of contracts. This issue is explained in more detail in the following paragraphs.

Contract Closeout - The Regional Center has not taken the necessary steps to officially close out expired or terminated contracts. Many of the contracts, dated as early as FY 1989, had no cumulative disbursements made against them in FY 2000. According to the Regional Contracting Office, contract closeout is done on an ad-hoc basis because they do not have available staff. As a result, the Regional Center has open obligations on its September 2000 U101 report that should be liquidated or de-obligated.

The contract closeout process is the responsibility of the Contracts Division. To officially close out a contract, the contracting officer must ensure that the terms of the agreement have been met which include ascertaining that (1) all advances have been liquidated, (2) there are no outstanding claims, (3) all required reports have been received, and (4) all performance requirements have been completed.

The Agency's written procedures—Automated Directives System, Chapter 621, Obligations—states that, "Obligated funds must be deobligated when a determination is made that the funds are no longer needed for the purposes for which they were obligated or the funding exceeds forward funding guidelines without proper authorization. The funds must generally be deobligated by the obligating official."

The written procedures further states, "A careful review of the unliquidated obligations strengthens the Agency's internal controls by deleting balances from the accounting system that are no longer required for future payments and helps to identify funds that can be reprogrammed for current requirements. In addition, the review supports the Agency's formal year-end certification to the Department of Treasury."

The Regional Center identified this issue as a weakness in its Federal Managers' Financial Integrity Act reviews for FYs 1998-2000. The Regional Center is aware of the backlog of contracts requiring closeout and plans to hire an additional staff member whose sole responsibility will be to close out contracts. Therefore, we are not making a recommendation on this issue.

Management Comments and Our Evaluation

USAID/RCSA agreed with the findings and conclusions made in the draft audit report. In its response, USAID/RCSA advised us that the outstanding difference of $46,588 between the Regional Center and Treasury records had been cleared up with assistance from USAID/Washington.

Furthermore, USAID/RCSA noted that its aggressive plan to clear reconciling items on a monthly basis began in June 1999 and that it no longer provides accounting services to Angola. We have modified our report to reflect this additional information.

Scope and Methodology

Scope

We audited USAID/RCSA's fiscal 2000 year-end financial data in accordance with generally accepted government auditing standards.

This audit was conducted by RIG/Pretoria as part of an USAID-wide audit led by the OIG Office of Financial Audits in Washington to audit USAID's FY 2000 financial statements. In auditing these financial statements, the OIG performed a review of USAID's financial controls which included testing a sample of transactions on a stratified statistical basis to ensure that the year end financial data reported through Mission Accounting and Control System (MACS) on the U101 report was accurate and reliable. This review was performed both at USAID/Washington and at ten randomly selected overseas missions including USAID/RCSA. This report deals solely with the results of our audit at USAID/RCSA.

The audit focused on reviewing financial data generated under the following four accounting processes:

1) Accruals
2) Project Advances
3) 1221 Reconciliation Process
4) U101 Reporting

In auditing these accounting processes, we selected transactions on a stratified statistical basis from the MACS to determine whether the transactions were accurately stated and adequately supported on the September 30, 2000, U101 report.

Accruals. During the last quarter of FY 2000, the Regional Center processed 150 accrual transactions with a total value of approximately $23 million. We tested 30 transactions, or 20 percent, which represented approximately $21 million, or 91 percent, of the total dollar value.

Project Advances. During the last quarter of FY 2000, the Regional Center processed 42 project advance transactions with a total value of approximately $3.1 million. We tested 30 transactions, or 71 percent, which represented approximately $3.0 million, or 97 percent, of the total dollar value.

SF-1221 Reconciliation Process. We tested the Regional Center's process of reconciling the SF-1221 report to its records by reviewing the monthly reconciliations for three appropriations: 72X1021, 72X1014 and 72X1000 for the fourth quarter of FY 2000.

U101 Reporting. We tested selected line items on the September 30, 2000, U101 report for accuracy, completeness and reliability.

Our fieldwork was conducted at the USAID/RCSA in Gaborone, Botswana from October 25 to November 17, 2000.

Methodology

The objective of this audit was to determine whether USAID/RCSA's fiscal 2000 year-end financial data relating to its accruals, project advances, 1221 reconciliation process and U101 reporting process were accurately stated and adequately supported on its U101 report.

To accomplish this audit objective, we conducted interviews with officials at USAID/RCSA, principally in the Controller's Office, to gain an understanding of the Regional Center's existing procedures and controls covering each of the above four processes. Our review also included tests of stratified statistically selected financial data from the Regional Center's accounting system as described earlier in the Scope section.

The data was then traced to appropriate supporting records to verify whether the data was accurately stated and adequately supported. The audit also included a review of the procedures and controls in place at the time of our fieldwork and whether prior recommendations were properly implemented.

Our reviews showed that the internal control processes at the USAID missions were ineffective. Therefore, we assessed the risks associated with USAID missions' internal control structure at the maximum level and conducted maximum testing.

A description of the specific areas tested under each accounting process is summarized below.

Accruals. We conducted interviews with the accountants and the project officers to determine whether the accruals were based on reasonable estimates. We reviewed the accrual worksheets and MACS reports to ensure that the accruals were reasonably accurate, adjusted for subsequent disbursements, and posted correctly to MACS.

Project Advances. Our tests included verifying that the project officer administratively approved the advances, the advance request amount was appropriate and represented the entity's immediate disbursing needs, and that the advance was given on an “as needed” basis. We also reviewed the expenditure reports to determine whether interest was earned and remitted to the Regional Center; recalculated the advance request amount to ensure that it was reduced by any outstanding unliquidated amounts; and verified that the payment was properly liquidated. In addition, we reviewed the status of outstanding advances.

<u>1221 Reconciliation Process</u>. Our tests included ensuring that the Regional Center was identifying, researching and clearing reconciling items in a timely manner and properly recording the reconciling items on the U101 report. We prepared an aging analysis of the outstanding reconciling items to determine how long the items remained outstanding before the Regional Center cleared them. For those reconciling items that were cleared, we reviewed documentation to ensure they were cleared appropriately.

<u>U101 Reporting Process</u>. Our testing of the U101 reporting process involved determining whether the line items reported on the U101 report were accurate. We reviewed the preparation and reconciliation of the U101 report by tracing the line items to supporting documentation.

Management Comments

USAID

Regional Center for Southern Africa

memorandum

Date: March 12, 2001

TO: Regional Inspector General/Pretoria, Joseph Farinella

FROM: Acting Regional Director, USAID/RCSA, D. Annette Adams

SUBJECT: Audit of USAID/Regional Center for Southern Africa's Fiscal Year 2000 Financial Operations and Controls, Audit Report No. 4-690-01-XXX-F

We have reviewed the final report on the subject audit. We agree to the finding and conclusions made.

We are pleased to note that the RCSA began an aggressive plan to identify, research and clear reconciling items on a monthly basis in June of 1999, not the latter part of FY 2000. This coincides with the arrival of our present Regional Controller to post, Dean Walter. We also are no longer providing accounting services to Angola.

The amount of $46,588 noted in your report as a difference between the Regional Center and Treasury records has now been cleared with the assistance of USAID/W.

We appreciate the hard work that went into conducting the audit. A great deal of material was covered in a relatively short period of time. The Controller and his OFM told me on numerous occasions that it was a pleasure to work with such a competent group of professionals. Most encouraging was the manner in which they interacted with our staff and their dedication to improving our operations, not just finding problems or crafting recommendations to fill the audit report. Kudos to your staff.