

**Audit of USAID/South Africa's  
Fiscal 1998 Year End Financial Data**

**Report No. 4-674-99-002-F  
April 15, 1999**

**REGIONAL INSPECTOR GENERAL/PRETORIA**



# memorandum

Regional Inspector General  
Pretoria

April 15, 1999

**FOR:** USAID/SOUTH AFRICA DIRECTOR, William Stacy Rhodes  
**FROM:** Regional Inspector General/Pretoria, Joseph Farinella  
**SUBJECT:** Audit of USAID/South Africa's Fiscal 1998 Year End Financial Data,  
Report No. 4-674-99-002-F

This memorandum is our report on the Audit of USAID/South Africa's Fiscal 1998 Year End Financial Data. We have considered your comments on the draft report and have included them in their entirety in Appendix II. The report contains one recommendation. Based on your comments, we believe that a management decision has been reached on this recommendation. Please advise the Office of Management Planning and Innovation (M/MPI) in Washington when final action is complete so that it may be recorded.

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

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## Summary of Audit Findings

Our audit of the Mission's 1998 fiscal year end financial data focused on determining whether the Mission's financial data was adequately supported and accurately recorded and reported under the following five accounting processes: (1) processing of disbursements; (2) accruals; (3) project advances; (4) preparation of the U-101 Report; and (5) performance of the monthly 1221 reconciliation. In reviewing each of these areas, we examined the procedures and controls in place and determined that they were generally operating effectively. We also tested a sample of financial transactions and verified that these transactions were adequately supported and accurately recorded in the Mission's Accounting and Control System (MACS). The audit noted, however, that the Mission was not adequately following up and addressing outstanding 1221 reconciling items in a timely manner causing a backlog of uncleared reconciling items to develop. This finding is discussed in further detail in the body of this report. The report contains one audit recommendation intended to address this problem.

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## Background

Beginning in fiscal year 1996, the Government Management Reform Act required federal agencies to prepare consolidated financial statements each year covering all of their accounts and associated activities. These financial statements are intended to not only report the financial position and results of operations of the agencies, 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. USAID prepared its first consolidated financial statements covering all of its accounts and activities in fiscal year 1996. For fiscal year 1998, audited financial statements are to be submitted to OMB by March 1, 1999.

In compiling these financial statements, USAID incorporates financial data transmitted by its 36 accounting centers spread 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 audit reports, however, have identified a number of material weaknesses in USAID's existing accounting systems. In addition, USAID management has reported systems weaknesses in its fiscal year 1997 FMFIA report, weaknesses which included the need for an effective, integrated financial management system, lack of up-to-date reconciliations, and the absence of documented, standardized financial management policies and procedures.

This audit was conducted by RIG/Pretoria as part of a USAID-wide audit led by the OIG Office of Financial Audits in Washington to audit USAID's fiscal year 1998 financial statements prior to their submission to OMB. In auditing these financial statements, the OIG performed a review of the USAID's financial controls related to the Mission Accounting and Control System (MACS), which included testing sampled financial transactions, to ensure that the year end financial data reported through MACS was accurate and reliable. This review was performed both at USAID/Washington and at ten randomly selected overseas missions including USAID/South Africa.

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## Audit Objective

This audit involved a review of USAID/South Africa's year end financial data for fiscal year 1998 and was designed to answer the following question:

**Was USAID/South Africa's year end financial data accurately stated and adequately supported under the following processes: disbursements, accruals, project advances, U-101 reporting, and the 1221 reconciliation?**

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

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## **Audit Findings**

**Was USAID/South Africa's year end financial data accurately stated and adequately supported under the following processes: disbursements, accruals, project advances, U-101 reporting and the 1221 reconciliation?**

USAID/South Africa's year end financial data relating to disbursements, accruals, project advances, U-101 reporting and the 1221 reconciliation was determined to be accurately stated and adequately supported with respect to the items tested.

In reviewing the accuracy of the financial data, we performed tests on a statistical sample of financial transactions under each of the five accounting processes. These tests included checking transaction data recorded in the Mission Accounting and Control System (MACS) against appropriate supporting records as well as other tests to ascertain whether proper procedures were being implemented and adequate controls were in place in processing these transactions. Based on the results of these tests, we were able to verify the following for the items tested under each area:

### Processing Vouchers (Disbursements)

- ▶ disbursements were accurately recorded in MACS and supported with adequate supporting documentation contained in the payment files;
- ▶ disbursement vouchers were being processed in a timely manner; and
- ▶ none of the disbursements tested represented duplicate payments.

### Accruals

- ▶ accruals were estimated based on a joint SO and Controller Office review;
- ▶ accruals were being reviewed by the Supervisory Accountant who cross-checked this data to the appropriate MACS report to ensure that (1) accruals were accurately input into MACS and (2) accruals did not cause balances to exceed authorized commitment levels; and
- ▶ accruals were not posted to MACS until after all disbursements had been recorded at the end of the quarter.

### Project Advances

- ▶ project advances were administratively approved by the project officers;
- ▶ project advances were reviewed and processed by the Voucher Examiners; and

- ▶ project advances were certified for payment by the Certifying Officer.

#### U-101 Reporting

- ▶ data reported in the U-101 report was generally accurate, reliable and supported by data contained in related MACS reports and other Mission and USDO records.

#### 1221 Reconciliation

- ▶ the monthly reconciliation was properly performed and an accurate listing of the outstanding reconciling items under each appropriation was being maintained.

Our review, however, noted that while the Mission maintained an accurate listing of its outstanding (uncleared) 1221 reconciling items, the Mission was not adequately following up on these reconciling items to ensure that they were addressed in a timely manner.

#### **Mission Needs to Improve its Follow up on Outstanding 1221 Reconciling Items**

USAID financial management guidance requires overseas missions to reconcile their monthly disbursement records to the payments made on the missions' behalf as reported by the U.S. Disbursing Offices (USDOs) overseas and the Treasury Regional Finance Centers in the United States. The guidance also requires missions to follow up on any cumulative reconciling items that remain unreconciled (i.e., outstanding) and are not cleared within two months to ensure accountability over each Mission's cash reconciliation. Our review, however, disclosed that USAID/South Africa continues to experience problems in not following up and clearing its outstanding reconciling items in a timely manner.

The Controller's Office cited this as a control weakness in a self assessment done in 1997 and acknowledged that the problem still exists. An official in this office attributed the problem, in part, to staff not allocating time to following up and addressing the outstanding reconciling items each month. We verified this during our field work and noted, among other things, that staff were not meeting on a monthly basis as instructed to discuss and decide which cumulative reconciling items to follow up on. We also noted that the Controller's Office was not adequately monitoring the status of this work to ensure that it was being done in a timely manner. This has led to staff assigning a low priority to the review of outstanding reconciling items. As a result, the Mission's backlog of cumulative reconciling items has increased substantially during the fiscal year as evidenced by the results of our analysis which showed the number and absolute dollar amount of reconciling items increasing from 131 items (\$699,588) in October 1997 to 460 (\$1,257,607) in August 1998. As of September 30, 1998, the Mission had a total of 344 unreconciled items valued at \$2,312,894 and broken down as follows:

Breakdown of USAID/South Africa's Outstanding Reconciling Items  
as of September 30, 1998

<u>Age</u>	<u>No. of Items</u>	<u>Dollar Value (Absolute value)</u>	<u>%</u>
Over 2 years	44	\$242,150	10%
1 to 2 years	46	\$86,898	4%
6 mo. to 1 yr.	60	\$87,034	4%
2 mo. to 6 mo.	43	\$697,787	30%
Under 2 mos.	<u>151</u>	<u>\$1,199,025</u>	<u>52%</u>
Totals	<u>344</u>	<u>\$2,312,894</u>	<u>100%</u>

As indicated in the chart above, nearly half of the \$2.3 million in cumulative reconciling items have remained outstanding for over two months and, in some cases, for over two years. To address this problem and reduce the Mission's backlog of outstanding reconciling items, the Controller's office needs to require its staff to review outstanding reconciling items on a monthly basis while providing increased oversight over this task to ensure the reconciling items are cleared, or at least, addressed in a timely manner.

Based on the above discussion, we are making the following recommendation:

**Recommendation No. 1: We recommend that USAID/South Africa establish procedures to ensure that outstanding reconciling items are reviewed and addressed in a timely manner.**

**Management Comments and Our Evaluation**

In responding to our draft audit report, the Mission concurred with the audit finding and recommendation contained in the report and furnished RIG/Pretoria with a memo outlining additional procedures to be implemented by the Controller staff in order to address the recommendation. These included procedures requiring staff to review a certain number of outstanding reconciling items each month in order to reduce the Mission's backlog. The Mission also planned to develop a system for tracking the status on these reconciling items as they are assigned to allow for closer monitoring and ensure that cumulative reconciling items are reviewed and addressed in a more timely manner in the future. Based on the Mission's comments and the actions it has taken to address the recommendation, we believe that a management decision has been reached on Recommendation No. 1.

The complete text of the Mission's comments is included in Appendix II.

## SCOPE AND METHODOLOGY

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### Scope

We audited USAID/South Africa's 1998 fiscal year end financial data in accordance with generally accepted government auditing standards. This audit was conducted by RIG/Pretoria as part of a USAID-wide audit led by the OIG Office of Financial Audits in Washington to audit USAID's fiscal year 1998 financial statements. In auditing these financial statements, the OIG performed a review of the USAID's financial controls related to the Mission Accounting and Control System (MACS), which included testing a statistical sample of transactions, to ensure that the year end financial data reported through MACS was accurate and reliable. This review was performed both at USAID/W and at ten randomly selected overseas missions including USAID/South Africa. This report deals solely with the results of our audit at USAID/South Africa.

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

- 1.) disbursements
- 2.) accruals
- 3.) project advances
- 4.) U-101 reporting
- 5.) 1221 reconciliation

In reviewing these processes, we selected statistical samples from the Mission's MACS transaction files for testing to determine whether the transactions were accurately stated and adequately supported.

The audit covered accounting entries processed by the Mission during fiscal year 1998 and included a review of the procedures and controls in place at the time of our field work. Our fieldwork was conducted at the USAID/South Africa Controller's Office in Pretoria, South Africa from September 8, 1998 through December 15, 1998.

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## **Methodology**

Our audit objective was to determine if USAID/South Africa's year end data balances for fiscal year 1998 was accurately stated and adequately supported under the following five processes: processing of disbursements, accruals, project advances, U-101 reporting and the 1221 reconciliation.

To accomplish this audit objective, we initially conducted interviews with officials at USAID/South Africa, principally in the Controller's Office, to gain an understanding of the Mission's existing procedures and controls covering each of the above five processes. Our review of these processes also included tests involving statistical samples using stratified sampling methodology where we randomly selected financial data from the MACS transaction files. The selected data was then checked against appropriate supporting records to verify whether the data was accurate and adequately supported as well as to determine whether proper procedures were being implemented in processing these transactions. Processes found to have data transactions with an error rate up to 5 percent were considered accurate for reporting purposes. Error rates exceeding 5 percent were considered significant.

We also obtained written representations from cognizant Mission officials for all essential assertions relating to the audit objective.

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United States  
Agency for  
International  
Development

## memorandum

DATE: 2/25/99

TO: Joseph Farinella, Regional Inspector General/Pretoria

THRU: \*

FROM: William S. Rhodes, Mission Director USAID/Pretoria *W.S. Rhodes*

SUBJECT: Audit of USAID/South Africa's Fiscal 1998 Year End  
Financial Data, Report No. 4-674-99-002-F

We have received the draft report summarizing the results of the subject audit, which involved a review of the Mission Accounting and Control System (MACS) processes. We concur with the single recommendation that USAID/South Africa establish procedures to ensure that outstanding reconciling items are reviewed and addressed in a timely manner. In response to this report, the Controller's Office has established such procedures, a copy of which has been provided to you. We, therefore, are requesting that you consider that a management decision has been made for this finding.

Thank you.

Drafter: *[Signature]* Robert P. Jacobs, USAID/Pretoria Controller