

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
STATEMENT OF EVERETT L. MOSLEY, INSPECTOR GENERAL
BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM'S
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL
MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

MAY 8, 2001

MR. CHAIRMAN, OTHER COMMITTEE MEMBERS, AND COMMITTEE STAFF, GOOD MORNING AND THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. I HAVE WITH ME TODAY MR. BRUCE N. CRANDLEMIRE, WHO IS OUR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT WITH RESPONSIBILITY FOR THE FINANCIAL STATEMENT AUDIT PROCESS AT THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID). WE ARE PLEASED TO BE HERE TODAY AND PROVIDE TESTIMONY AND ANSWER QUESTIONS ON THE RESULTS OF THE OFFICE OF INSPECTOR GENERAL'S (OIG) AUDIT OF USAID'S FISCAL YEAR 2000 FINANCIAL STATEMENTS AND ACTIONS NEEDED TO CORRECT LONG-STANDING PROBLEMS IN USAID'S FINANCIAL MANAGEMENT SYSTEMS. AS DOCUMENTED, WE WERE UNABLE TO RENDER OPINIONS ON USAID'S ANNUAL FINANCIAL STATEMENTS FOR THE LAST FOUR YEARS.

IN THIS TESTIMONY, I WOULD LIKE TO DISCUSS THE RESULTS OF OUR AUDIT OF USAID'S FISCAL YEAR 2000 FINANCIAL STATEMENTS AND USAID'S CORRECTIVE ACTIONS TO DATE. I WOULD ALSO LIKE TO DISCUSS WHAT REMAINS TO BE DONE FROM USAID'S PERSPECTIVE OF CORRECTING SYSTEM PROBLEMS AND PREPARING AUDITABLE FINANCIAL STATEMENTS FOR FISCAL YEAR 2001 AND FROM AN OIG PERSPECTIVE OF AUDITING THE FINANCIAL STATEMENTS. AT THE CONCLUSION OF THIS TESTIMONY, WE WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

UNDER A SERIES OF LEGISLATIVE INITIATIVES, THE FEDERAL GOVERNMENT HAS EMBARKED ON A COURSE TO INCREASE THE QUALITY OF FINANCIAL INFORMATION USED TO MANAGE ITS ACTIVITIES. THESE INITIATIVES INCLUDE THE CHIEF FINANCIAL OFFICERS (CFO) ACT OF 1990, THE GOVERNMENT MANAGEMENT REFORM ACT (GMRA) OF 1994, AND THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996. EACH OF THESE LAWS HAS IMPACTED THE PREPARATION AND AUDIT OF ANNUAL FINANCIAL STATEMENTS BY FEDERAL AGENCIES.

THE OVERWHELMING THEME WOVEN THROUGH THESE LEGISLATIVE INITIATIVES IS THAT THE FEDERAL GOVERNMENT NEEDS TO HAVE GOOD FINANCIAL SYSTEMS WHICH WILL ENABLE THEM TO PRODUCE COMPLETE,

CONSISTENT, RELIABLE, AND TIMELY INFORMATION THROUGHOUT THE FISCAL YEAR. THE AUDIT OPINION ON THE FINANCIAL STATEMENTS, WHICH REPRESENTS THE STATUS OF FINANCIAL OPERATIONS AT A SPECIFIC POINT IN TIME, IS OR SHOULD BE A SIMPLE BY-PRODUCT OF GOOD FINANCIAL SYSTEMS BECAUSE THE OPINION IS BASED ON EVERY-DAY INFORMATION CONTAINED IN ITS ACCOUNTING RECORDS. WE DO NOT BELIEVE THAT THE LEGISLATION CONTEMPLATED THE USE OF HEROIC MEASURES TO PREPARE AND AUDIT A SET OF FINANCIAL STATEMENTS WHICH DO NOT REFLECT THE INFORMATION NORMALLY PRESENT AND USED TO MANAGE OPERATIONS.

FOR EXAMPLE, IT IS POSSIBLE FOR AN AGENCY THAT HAS INADEQUATE FINANCIAL SYSTEMS TO RECEIVE AN OPINION—EVEN AN UNQUALIFIED OPINION. HOWEVER, TO DO SO, TWO THINGS WOULD HAVE TO HAPPEN. FIRST, THE AGENCY WOULD HAVE TO INVEST SIGNIFICANT TIME AND MONEY TO CREATE "WORK-AROUND PROCEDURES" TO ACHIEVE ACCURATE INFORMATION THAT THE SYSTEMS COULD NOT PRODUCE. SECOND, THE OIG WOULD HAVE TO INVEST SIGNIFICANT TIME AND MONEY TO PERFORM EXTENSIVE TESTING OF THESE PROCEDURES DUE TO THE INCREASE IN AUDIT RISK ASSOCIATED WITH UNRELIABLE SYSTEMS.

IN MY OPINION, IT WOULD BE A WASTE OF RESOURCES AND A CONTRADICTION TO THE LEGISLATIVE INTENT FOR AN AGENCY TO GO THROUGH SUCH EFFORTS TO RECEIVE AN OPINION ON ITS FINANCIAL STATEMENTS WHEN IT DOES NOT HAVE SYSTEMS THAT CAN PROVIDE COMPLETE, CONSISTENT, RELIABLE, AND TIMELY INFORMATION FOR MANAGERS TO USE THROUGHOUT THE YEAR IN MAKING DECISIONS.

RESULTS OF USAID FISCAL YEAR 2000 AUDIT

DURING THE LAST 18 MONTHS, USAID HAS MADE PROGRESS TOWARD RESOLVING SOME LONGSTANDING PROBLEMS WITH ITS FINANCIAL MANAGEMENT SYSTEMS AND HAS COMMITTED SIGNIFICANT RESOURCES FOR ADDITIONAL IMPROVEMENTS NECESSARY FOR PREPARING AUDITABLE FINANCIAL STATEMENTS, AS WELL AS, INFORMATION TO USE FOR MANAGING OPERATIONS. DESPITE THESE EFFORTS, USAID STILL FACED SOME IMMEDIATE CHALLENGES AT THE ONSET OF OUR AUDIT OF ITS FISCAL YEAR 2000 FINANCIAL STATEMENTS. THESE CHALLENGES INCLUDED:

- CORRECTING OUTSTANDING FINANCIAL MANAGEMENT SYSTEM DEFICIENCIES;
- IMPLEMENTING AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM;
- RECONCILING FINANCIAL DATA, AND
- PROCESSING, RECORDING, AND REPORTING FINANCIAL

INFORMATION IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

BECAUSE USAID HAD EMBARKED ON SIGNIFICANT EFFORTS TO IMPROVE THE SYSTEMS THAT PRODUCE ITS FINANCIAL STATEMENTS BUT HAD NOT FULLY IMPLEMENTED ALL RELATED CORRECTIVE ACTIONS, THE OIG AND USAID'S MANAGEMENT AGREED THAT IT WOULD BE MOST BENEFICIAL TO FOCUS OUR AUDIT EFFORTS ON THE FIVE AREAS THAT WERE PROHIBITING USAID FROM GETTING AN OPINION. THE FIVE AREAS WERE:

- COMPLYING WITH FFMIA REQUIREMENTS SUCH AS COMPUTER SECURITY AND THE USE OF FEDERAL ACCOUNTING STANDARDS;
- RECONCILING AND MANAGING USAID'S FUND BALANCE WITH THE U.S. TREASURY;
- REPORTING CREDIT PROGRAM RECEIVABLES;
- ACCOUNTING FOR ADVANCES TO GRANTEES, AND;
- CALCULATING AND REPORTING ACCOUNTS PAYABLE AND ACCRUED EXPENSES.

BY FOCUSING ON THESE FIVE AREAS, RATHER THAN PERFORMING SUBSTANTIVE TESTING ON WHAT WE AGREED WAS UNRELIABLE FINANCIAL INFORMATION, THE OIG AND MANAGEMENT OFFICIALS CONCLUDED THAT USAID WOULD BE IN A BETTER POSITION TO ESTABLISH RELIABLE BEGINNING BALANCES FOR FUTURE STATEMENTS TO BE AUDITED AND PROGRESS TOWARDS HAVING A SYSTEM CAPABLE OF HELPING MANAGERS MANAGE.

WE WERE UNABLE TO EXPRESS AN OPINION ON USAID'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2000. WE DISCLAIMED AN OPINION BECAUSE USAID HAD NOT IMPLEMENTED ADEQUATE FINANCIAL MANAGEMENT SYSTEMS TO PRODUCE COMPLETE, CONSISTENT, TIMELY, AND RELIABLE FINANCIAL STATEMENTS.

OTHER FACTORS THAT LED TO OUR DECISION TO DISCLAIM AN OPINION WERE THAT USAID MADE SOME MATERIAL CHANGES IN ITS ACCOUNTING PROCESSES AFTER THE CLOSE OF FISCAL YEAR 2000.

AN EXAMPLE OF SUCH A CHANGE WAS USAID'S METHODOLOGY FOR CALCULATING AND REPORTING ACCOUNTS PAYABLE. USAID'S CHANGE RESULTED IN A MATERIAL ADJUSTMENT— \$2.3 BILLION— BEING MADE TO ITS FINANCIAL STATEMENTS LATE IN DECEMBER 2000. BECAUSE THE AGENCY'S AUTOMATED SYSTEMS COULD NOT BE USED TO DEVELOP INFORMATION THAT THE OIG COULD USE TO VALIDATE THE ADJUSTMENT, WE DID NOT HAVE SUFFICIENT SUPPORT TO DETERMINE WHETHER THE ADJUSTMENT WAS RELIABLE.

IN ANOTHER INSTANCE, USAID CONTRACTED WITH THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS) FOR ACCOUNTING SERVICES FOR ITS ADVANCES TO GRANTEEES. DURING THE LATER STAGES OF THE FISCAL YEAR, DHHS EXPERIENCED SYSTEM PROBLEMS. AS A RESULT, USAID'S MANAGEMENT HAD TO DEVELOP A METHODOLOGY TO ESTIMATE THE BALANCES FOR THE ACCRUED EXPENSES RELATED TO ADVANCES TO GRANTEEES. THIS RESULTED IN A MATERIAL YEAR-END ADJUSTMENT— \$767 MILLION— BEING MADE LATE IN DECEMBER 2000. OF THE \$767 MILLION ADJUSTMENT, THE OIG WAS ABLE TO VERIFY \$300 MILLION TO SUPPORTING DOCUMENTATION. HOWEVER, BECAUSE OF THE LACK OF SUFFICIENT SUPPORTING DOCUMENTATION, WE WERE UNABLE TO EVALUATE THE REASONABLENESS OF \$467 MILLION OF THE \$767 MILLION ADJUSTMENT.

THE UNCORRECTED SYSTEM DEFICIENCIES AND MATERIAL ADJUSTMENTS CREATED A CONSEQUENTIAL RISK THAT THE FINANCIAL STATEMENTS COULD CONTAIN MATERIAL MISSTATEMENTS. USAID MANAGEMENT CONCURRED WITH THE AUDIT FINDINGS AND AGREED TO ELIMINATE THESE PROBLEMS. WE ARE CONTINUING TO WORK WITH USAID MANAGEMENT TO EVALUATE THEIR EFFORTS IN TAKING CORRECTIVE ACTIONS.

USAID'S CORRECTIVE ACTIONS TO DATE

TO CORRECT THE DEFICIENCIES REPORTED, USAID DEPLOYED A CORE FINANCIAL ACCOUNTING COMPONENT OF A NEW FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM IN DECEMBER 2000. THIS COMMERCIAL OFF-THE-SHELF ACCOUNTING SYSTEM, PHOENIX, REPLACED KEY ASPECTS OF THE AGENCY'S UNRELIABLE FINANCIAL MANAGEMENT SYSTEM CALLED THE NEW MANAGEMENT SYSTEM (NMS).

IN ADDITION, OUR AUDIT OF THE FISCAL YEAR 2000 FINANCIAL STATEMENTS SHOWED THAT USAID HAS IMPROVED ITS ABILITY TO RECONCILE AND MANAGE ITS FUND BALANCE WITH THE U.S. TREASURY AND REPORT RELIABLE BALANCES FOR ITS CREDIT PROGRAM RECEIVABLES.

AS NOTED EARLIER, USAID ESTABLISHED, IN LATE DECEMBER 2000, A NEW METHODOLOGY FOR ESTIMATING ITS ACCOUNTS PAYABLE AND ACCRUED EXPENSES RELATED TO ADVANCES TO GRANTEEES AT YEAREND. I AM PLEASED TO NOTE THAT DURING THE INITIAL PHASES OF THE FISCAL YEAR 2001 AUDIT, THE OIG HAS ANALYZED THE ADVANCE-RELATED ACCRUED EXPENSES ESTIMATING METHODOLOGY AND FOUND IT TO BE ADEQUATE.

REGARDING THE PROBLEMS NOTED IN FISCAL YEAR 2000 WITH THE ACCOUNTS PAYABLE ESTIMATES, THE OIG IS CURRENTLY EVALUATING USAID'S PROCEDURES TO DETERMINE THE REASONABLENESS OF ITS ESTIMATING METHODOLOGIES.

WHAT REMAINS TO BE DONE

DESPITE HAVING IMPLEMENTED PHOENIX IN HEADQUARTERS, THERE REMAINS WORK TO BE DONE. USAID NEEDS TO SUCCESSFULLY COMPLETE THE PHOENIX IMPLEMENTATION WORLDWIDE, COMPLETE FINAL ACTIONS ON OUTSTANDING AUDIT RECOMMENDATIONS, AND ADDRESS SEVERAL SPECIFIC ISSUES WITH MATERIAL LINE ITEMS ON ITS FINANCIAL STATEMENTS.

ALONG WITH DEPLOYING PHOENIX, USAID IS FACING THE CHALLENGES THAT TYPICALLY OCCUR WHEN IMPLEMENTING NEW ACCOUNTING SYSTEMS. PHOENIX IS NOT YET FULLY OPERATIONAL. IN THE SHORT-TERM, USAID NEEDS TO 1) COMPLETE THE TESTING AND DEPLOYMENT OF THE INTERFACES LINKING THE MISSIONS AND PROCUREMENT DATA TO THE CORE FINANCIAL SYSTEM, 2) ELIMINATE SEVERAL KEY OPERATIONAL ELEMENTS PERFORMED OUTSIDE THE CORE FINANCIAL SYSTEM (SUCH AS MAKING PAYMENTS AND GENERATING FUND CONTROL REPORTS), AND 3) MIGRATE THE BEGINNING BALANCES FOR FISCAL YEAR 2001.

TO DATE, USAID HAS NOT ENTERED IN THE WASHINGTON HEADQUARTERS ACCOUNTING RECORDS ANY FINANCIAL INFORMATION RELATED TO ITS OVERSEAS OPERATIONS FOR FISCAL YEAR 2001. OVERSEAS OPERATIONS ARE RECORDED AND MAINTAINED IN THE MISSION ACCOUNTING AND CONTROLS SYSTEMS (MACS). USAID DOES NOT PLAN TO ENTER THE INFORMATION IN THE WASHINGTON HEADQUARTERS ACCOUNTING RECORDS UNTIL AN ELECTRONIC INTERFACE FOR FIELD DATA IS DEPLOYED—CURRENTLY SCHEDULED FOR LATE IN THIS FISCAL YEAR (2001). THIS WILL HAVE A CRITICAL IMPACT ON THE FISCAL YEAR 2001 AUDIT BECAUSE WE CANNOT FULLY ASSESS RISKS ASSOCIATED WITH THE ELECTRONIC INTERFACE UNTIL ITS DEPLOYMENT. FURTHER, MACS IS NOT CURRENTLY SCHEDULED FOR REPLACEMENT UNTIL FISCAL YEAR 2003. THIS WILL CONTINUE TO IMPACT FUTURE AUDITS UNTIL MACS IS REPLACED WITH THE WORLDWIDE IMPLEMENTATION OF PHOENIX.

USAID ALSO NEEDS TO ADDRESS THE 28 OIG RECOMMENDATIONS THAT WERE NOT BEEN FULLY COMPLETED AS OF SEPTEMBER 30, 2000. FOR EXAMPLE:

- IN FISCAL YEAR 1997, WE RECOMMENDED THAT THE ASSISTANT ADMINISTRATOR FOR MANAGEMENT DEVELOP AND IMPLEMENT AN EFFECTIVE COMPUTER SECURITY PROGRAM.
- IN OUR AUDIT OF THE FISCAL YEAR 1998 FINANCIAL STATEMENTS WE NOTED THAT THE CHIEF FINANCIAL OFFICER LACKED THE AUTHORITY CALLED FOR IN THE CFO ACT. WE RECOMMENDED ELIMINATING THE FRAGMENTED AND UNCLEAR ORGANIZATIONAL RESPONSIBILITIES THAT HINDERED USAID'S EFFORTS TO IMPLEMENT MODERN FINANCIAL MANAGEMENT SYSTEMS THAT HAVE ADEQUATE COMPUTER SECURITY AND COMPLY WITH THE FEDERAL ACCOUNTING STANDARDS.

- IN A REPORT ISSUED DECEMBER 1998, WE RECOMMENDED THAT THE DIRECTOR OF INFORMATION RESOURCE MANAGEMENT STRENGTHEN ACCESS AND SOFTWARE CONTROLS BY DEVELOPING AND IMPLEMENTING STANDARDS FOR ACCESS AND SYSTEM SOFTWARE INSTALLATIONS AND MAINTENANCE.

MANAGEMENT HAS CONCURRED WITH THESE RECOMMENDATIONS. AS OF SEPTEMBER 30, 2000 USAID HAD NOT TAKEN FINAL ACTION.

FINALLY, USAID MUST BE ABLE TO ESTABLISH BEGINNING BALANCES FOR MATERIAL LINE ITEMS ON ITS FINANCIAL STATEMENTS FOR THE OIG TO OPINE ON THE FISCAL YEAR 2001 FINANCIAL STATEMENTS. WE ARE CURRENTLY WORKING WITH USAID TO REVIEW THESE BEGINNING BALANCES FOR OUR FISCAL YEAR 2001 AUDIT.

CONCLUSION

THE CHALLENGES FACED BY USAID ALSO PRESENT CHALLENGES TO THE OIG IN PLANNING OUR AUDIT OF THE FISCAL YEAR 2001 FINANCIAL STATEMENTS. AT THIS TIME, WE CANNOT BE CERTAIN WHAT PROBLEMS MAY ARISE AS USAID CONTINUES TO ADDRESS ITS FINANCIAL MANAGEMENT PROBLEMS AND COMPLETE THE DEPLOYMENT OF THE PHOENIX SYSTEM AND ITS NECESSARY INTERFACES.

WHILE USAID LOST VALUABLE TIME DURING THE PERIOD WHEN IT WAS ATTEMPTING TO IMPLEMENT THE NMS, CONSIDERABLE PROGRESS HAS BEEN MADE SINCE A DECISION WAS MADE TO DEPLOY PHOENIX. IN ADDITION, USAID'S FINANCIAL MANAGERS HAVE SHOWN AN INCREASINGLY STRONG AND SUPPORTIVE ATTITUDE TOWARDS THE FINANCIAL STATEMENT AUDIT AND THE VALUE THAT IT BRINGS TO THEIR SYSTEMS. SPECIFICALLY, THE NEW ADMINISTRATOR, WHO WAS SWORN IN JUST LAST WEEK, HAS SAID THAT IMPROVING THE AGENCY'S MANAGEMENT SYSTEMS WILL BE HIS PRIMARY FOCUS IN HIS FIRST YEAR.

WE ARE CURRENTLY HOPEFUL THAT USAID CAN DEVELOP DURING FISCAL YEAR 2001 FINANCIAL STATEMENTS ON WHICH WE CAN RENDER AN OPINION.

WE WOULD BE PLEASED TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE AT THIS TIME.

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