OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

MEMORANDUM

DATE: December 17, 2021

TO: USAID, Chief Financial Officer, Reginald W. Mitchell

FROM: Deputy Assistant Inspector General for Audit, Alvin A. Brown /s/

SUBJECT: Transmittal of the Management Letters for USAID's Fiscal Years 2021-2020 Financial Statements Audit Report (0-000-22-005-C)

On November 12, 2021, we transmitted the financial statement audit report performed by the independent public accounting firm of GKA P.C. Certified Public Accountants and Management Consultants (GKA). The auditors issued an unmodified opinion on USAID's fiscal years (FY) 2021-2020 financial statements.

When performing an audit of an agency's financial statements, auditors may identify certain matters involving internal controls that do not rise to a level of significance to be reported in the independent auditors' opinion report; instead these matters are communicated in a management letter. We have attached to this memorandum a copy of the two FY 2021-2020 management letters dated December 1, 2021, which report on such matters.

These letters do not affect the auditors' unmodified opinion on the financial statements. GKA is responsible for the enclosed letters and the conclusions expressed in them.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MANAGEMENT LETTER
FISCAL YEAR 2021

December 1, 2021

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Certified Public Accountants
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Member of the American Institute of Certified Public Accountants

Chief Financial Officer and Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the consolidated financial statements of U.S. Agency for International Development (USAID), which comprise the consolidated balance sheet as of September 30, 2021 and 2020 and the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements (hereinafter referred to as the "consolidated financial statements"), and have issued an unmodified opinion thereon dated November 8, 2021. In planning and performing our audit of the financial statements of USAID, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We have not considered the internal control since the date of our report.

During our audit, we noted certain matters involving the internal control over financial reporting, compliance and other operational matters that are presented in this letter for your consideration. We do not consider these matters to be a material weakness or significant deficiency. The comments have been discussed with the appropriate members of USAID Management and are intended to improve the internal control over financial reporting or result in other operational efficiencies.

We appreciate the cooperation and courtesies extended to us. We will be pleased to meet with you or your staff at your convenience to furnish any additional information.

GKA, P.C.

December 1, 2021

1. The controls over timely review and reconciliation of purchase cardholders' statement of accounts need to be strengthened.

We tested a sample of 45 purchase cards holders as of June 30, 2021 and noted the following:

a. One purchase card holder did not review and reconcile the monthly e-statement of accounts. The card holder is responsible for comparing the e-statement to their buying log and supporting documentation for each transaction. This led to multiple unauthorized charges that the cardholder was not aware of.
b. Additionally, one purchase card holder did not respond to our repeated requests for supporting documentation, therefore, we were unable to verify if controls over purchases were functioning properly and official records for all transactions made with their cards were maintained in accordance with USAID policy.

Automated Directive Systems (ADS) chapter 331.3.8 paragraph d, e, and f states that:

D. All cardholders are responsible for establishing and maintaining official records for all transactions made with their card and maintaining the records in accordance with Section VI of the USAID Worldwide Purchase Card Program Manual (ADS 331MAA)
E. AO's and cardholders must refer to Section VII of the USAID Worldwide Purchase Card Program Manual (ADS 331MAA) for guidance on reconciling the cardholder E-statement of account. ADS 331MAA Section VII; 7.5- Monitoring and resolution of pending charges, disputes, and credits paragraph 2 states that: Cardholders perform timely review and reconciliation of all charges within the established timeframes and monitor Cardholder's progress on resolution of pending items.
F. Cardholders or AOs must dispute unsatisfactory merchandise and billing discrepancies with the vendor and/or the servicing bank as soon as possible in order to comply with Treasury and Financial management regulations and procedures related to financial transactions. Per the GSA master contract, a dispute must be filed within 60 calendar days from the receipt of the first invoice on which the charge appears.

The purchase card holder and approval official did not ensure that the purchase card statements are maintained, reviewed, reconciled, and monitored in a timely manner in line with ADS 331 and ADS 331MAA.

The lack of timely monthly reviews and reconciliation of cardholder statement of accounts increases the risk of unauthorized charges to purchase cards going unnoticed and charges not being resolved/disputed within a timely manner (60 calendar days).

2. *Unliquidated obligations (ULOs) are not consistently identified and de-obligated as excess or unneeded funds*

During FY 2021, USAID implemented the ULO dashboard and Automated De-obligation tool to help track and de-obligate unliquidated obligations without activity for three years or more. USAID and its Missions also review ULOs annually. Though the implemented controls enhanced the process for tracking and de-obligating ULOs, we noted that the Agency and Missions were not consistently de-obligating excess or unneeded funds. When funds are de-obligated, they are made available in the accounting system for reprogramming. During our audit, we analyzed USAID's Unilateral ULOs and determined that, as of September 30, 2021, USAID had approximately $6.2 million in unliquidated obligations with no disbursements for more than three years. These may be available for de-obligation.

DESCRIPTION	AMT
FY2020 ULO Balance (A)	$ 15,203,603
ULO Resolved During FY2021 (B)	(8,318,203)
New ULO Meeting 3-Year Requirement During FY2021 (C)	4,549,329
Accepted Justifications and Less Than $50 ULO (D)	(5,276,748)
FY2021 ULO Balance	$ 6,157,982

Additionally, we tested a sample of March 31, 2021 ULOs without activity for three years or more and noted that evidence of the 1311 review/ justification could not be provided for eight (8) of 45 samples tested.

Under the provisions of US Code, Title 31 Section 1554: Audit, Control, and Reporting,

"*[a]fter the close of each fiscal year, the head of each Agency shall submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation accounts of that Agency during the completed fiscal year… Each report required by this subsection shall… contain a certification by the head of the Agency that the obligated balances in each appropriation account of the Agency reflect proper existing obligations and that expenditures from the account since the preceding review were supported by a proper obligation of funds and otherwise were proper."* Additionally, the regulation requires that *"[t]he head of each Agency shall establish internal controls to assure that an adequate review of obligated balances is performed."*

In addition, USAID's Automated Directives System (ADS) Chapter 621, "Obligations," requires USAID and its Missions to initiate and coordinate reviews of all ULOs, at least annually, to determine whether their balances should be retained or deobligated.

These deficiencies occurred because obligation managers did not consistently monitor the performance of the contracts and grants that were assigned to them. Furthermore, some awards cannot be closed out because they are still pending the Negotiated Indirect Cost Rate Agreement (NICRA) at the Office of Acquisition and Assistance.

There is an increased risk of losing program and operating expense funds that may expire before they are de-obligated. Failure to maintain an effective ULO control environment in which invalid open obligations are identified and de-obligated in a timely manner may result in difficulties in managing funds, improper payments, inaccurate budgetary reports, and possible violations of Federal regulations.

3. Internal controls over the process for calculating and recording accrued expenses should be improved

USAID's methodology for estimating and recording accrued expenses begins with a system generated estimated accrual amount. The Contracting Officer Representative (COR) reviews this amount, modifies it if necessary, before approving the "modified accrual amount" for posting to the general ledger.

USAID/WASHINGTON

a. We selected a judgmental sample of 45 modified accruals as of June 30, 2021, for testing. We noted that:

- For 2 out of the 45 tested, the actual worksheet was submitted after the deadline and was not recorded. Total: $8,556,590. In one instance, the AOR/COR updated the accrual worksheet after the initial submission to reflect the financial statement balance. The amount vouchered (as reported in ARS) was changed from $0 to $8,500,300
- For 4 out of the 45 tested worksheet amounts were posted incorrectly or the worksheet was incorrectly calculated. Total $8,662,242. The COR acknowledged the inaccuracies as wrong posting and entry errors. Since the accrual period was closed during out testing, the COR indicated that the amount will be corrected during the next accrual period.
- For 2 out the 45 the COR worksheet did not match the modified accrual amount in the financial statements. The approximate amount of the difference is $83,000. We were not provided with requested explanation

b. During our year end testing, September 30, 2021, we sampled 57 modified accruals for testing. We noted that:

- For two (2) of the 57 samples selected, the modified accrual amount did not agree to the amount on the accrual worksheet. The worksheets were incorrectly calculated. The sum of error was $473,918. These were noted to be data entry errors.
- For one (1) of the 57 samples selected, the modified accrual amount did not agree to the amount recorded in the financial statements. The difference was $484,216. This was a data entry error.

USAID/MISSIONS

Mission 1

a. We selected a sample of 78 modified accruals for testing. We noted that:

- For one (1) of 78 accruals tested had the modified accrual amounts ($578,169) recorded in the financial statements was different from the amount recorded on the accrual worksheet ($2,606,384). The approximate amount of the difference is ($2,028,215). Mission 1 indicated that the difference was because the AOR based the calculation on wrong obligation amount.

- For 16 of the 78 samples, Modified Accruals Amounts were estimated and recorded in the financial statements without supporting accrual worksheets to justify the transaction. Mission 1 indicated that the AORs did not submit the worksheets. The total without supporting accrual worksheets amounted to $1,564,672.

Mission 2

b. We selected a sample of 78 modified accruals for testing. We noted that one (1) of 78 accruals tested had the modified accrual amount ($990,450) recorded in the financial statements was different from the amount recorded on the accrual worksheet ($1,801,725). The approximate amount of the difference is $811,000.

Even though the quantitative amount may be considered immaterial, our testing determined that the control issues are pervasive throughout USAID.

ADS 631.3.4, Accrued Expenditures, states that, *the obligation manager or COR must (1) review system-generated accrual amounts and/or allocations to determine whether the amount can be validated or needs to be modified, (2) compare the amount developed based on actual conditions and first-hand knowledge of the project or activity with system-generated accrual amounts, and (3) complete the accrual process in accordance with the established time schedule and deadlines.*

The segregation of duties with respect to the posting of the "modified accruals" amounts to the general ledger appears to be inadequate. The COR generates a worksheet (Quarterly Accrual Worksheet) detailing the approved modified accrual amount. Someone other than the COR is responsible for posting the amount to the general ledger. However, it appears that the controls for checking to ensure that the amount posted to the general ledger is the amount approved by the COR was not consistently implemented.

Failure to ensure that only the modified accrual amounts approved by the COR are posted to the general ledger could cause the financial statements to be materially misstated due to error - or for other reasons.

4. The process for identifying and liquidating outstanding advances for Non-Letter of Credits (NLCs) should be strengthened

The Agency continues to have unliquidated advances outstanding for more than 150 days (*See "Table 1" below*). The balance for Total NLC's, and NLC's outstanding greater than 150 days, have decreased in FY21 by $53 million (11%) and $11 million (20%), respectively. The NLC advances outstanding greater than 150 days grew between fiscal years 2018 and 2020 but decreased in fiscal years 2021 and 2017. The most significant change occurred from FY18 to FY20. The balance grew by $190 million (44%) between FY2018 and FY2019; and decreased by approximately $135 million (22%) between FY2019 and FY2020. This indicates progress in the liquidation of advances, however, there is still need for improvement in the timely liquidation of outstanding advances. The table below details advances that were outstanding as of the end of the fiscal years noted, along with the dollar and percentage increase/(decrease) from year to year.

TABLE 1 - Analysis of Aging of Advances and Balances Per FYs (in thousands)

Fiscal Year	Total Advances	$ Change	% Change	Advances Older than 150 Days	$ Change	% Change
FY21	$431,751	$(53,228)	(10.98%)	$44,710	(11,350)	(20.25%)
FY20	484,978	(135,009)	(21.78%)	56,061	2,491	4.65%
FY19	619,987	190,084	44.22%	53,569	13,657	34.22%
FY18	429,903	79,731	22.77%	39,913	3,491	9.59%
FY17	350,172	(6,206)	(1.74%)	36,421	(6,672)	(15.48%)

NLCs are composed of advances to U.S. Governmental Agencies (e.g.: State Department) and to non-governmental entities (e.g.: U.N., World Bank). As of September 30, 2021, $22.3 million of the $44.7 million advances older than 150 days were attributable to U.S. Governmental Agencies (50%).

Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," paragraph 59, states that: *Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire.*

According to USAID's ADS 636, USAID Mission Controllers and the Agency's Cash Management and Payments Division must ensure that requests for the advance of funds are reasonable and not excessive to the recipient's immediate disbursement needs. Funds in excess of immediate disbursement needs shall be refunded to the Agency. The only exceptions are when the excess funds will be disbursed within seven (7) days or when the amount is less than $10,000 and will be disbursed within thirty (30) days.

On September 19, 2014, the Agency implemented a policy extending the reporting period to 120 days and the period advances can be outstanding before being declared delinquent from 90 days to 150 days. Specifically, the policy states that: *Generally, advance payments or any portion of an* *advance payment not liquidated within 150 days (120 days for voucher submission plus 30 days for processing) is considered delinquent. A documented rationale from the Agreeing Officer (AO)/ Agreement Officer Representative (AOR) and approved by the Controller for Missions, or Chief of M/CFO/CMP for Washington, must support any exception.* (See ADS Reference 636MAA pg. 4 par. 2- https://www.usaid.gov/ads/policy/600/636maa)

This policy allows the Agency to not report as late advances older than 90 days because it assumes that (a) grantees will take 30 days to report the expenses, and (b) the Agency will take another 30 days to liquidate the advances. As a result, advances are outstanding for 150 days or more before they are even considered for liquidation; and advances between 90 days and 150 days old are not considered late and subject to liquidation.

The Agency's position is that the Agency uses its discretion to determine whether to advance funds in excess to three months. Furthermore, the Agency assumes that advances to other US Government Agencies create no risk advances because they are between inter-related entities. However, most of these advances are old.

Liquidations are not being applied promptly and balances in the NLCs are accumulating. Failure to liquidate advances within the approved timelines increase the risk that the balance of advances in the financial statements may not be accurate, since these amounts may have already been spent and should no longer be presented as advances.

5. The process for identifying and investigating potential funds controls violations needs to be strengthened

We noted that seven Letter of Credit (LOC) grantees had instances of advances or liquidations for expenditures which exceeded the amount authorized by approximately $1.2 million.

Automated Directive Systems (ADS) chapter 634.3.5.1 paragraph a.5, states that: *Congress enacted the Anti-deficiency Act (ADA) to prevent the obligation of government funds that are not available. Violations of the ADA can occur when an officer or employee authorizes or creates an obligation or makes expenditure in excess of an apportionment or reapportionment. This includes adjustments that cause obligations in expired accounts to exceed the apportionment for the year in which such obligations were incurred.*

ADS 634, requires that USAID *"Establishes, maintains, and oversees the Agency's system of funds control in accordance with Federal law and OMB guidance."* To that end, the Bureau for Management's Chief Financial Officer (M/CFO) has the responsibility to investigate and determine whether funds control violations did occur, and to classify the violations as either administrative funds control violations or violations of ADA. Violations of ADA require the CFO to immediately inform the Office of the Inspector General and the Congress of the United States.

The lack of prompt review of potential funds control violations increases the risk that an Anti-Deficiency Act violation may occur and not be detected.

6. USAID's Maintenance of Support and Calculation of Employees Leave and Earnings Statement Benefits Deductions Need Improvement

During its audit of USAID payroll, GKA noted that the following USAID payroll processes need improvement:

1. Maintenance of support for USAID employees' leave and earnings statement benefits deductions; and
2. Employees leave and earnings statement benefit deductions calculated were inconsistent with authorized deductions in employees' electronic personnel folders.

Specifically, we noted the following:

- For seventeen (17) out of the sample of seventy-eight (78) employees tested, *health benefits election form,* SF 2809, was not provided. The form supports the health benefit deductions used to calculate employee benefits, contributions, and withholdings. For one (1) out of the sample of seventy-eight (78) employees tested, the *life insurance election form*, SF 2817, was not provided. As a result, a total of $2,674 in employee withholdings were not adequately supported as shown on Table 2.

- For ten (10) out of the sample of 78 (seventy-eight) and 6 (six) out of seventy-eight life insurance and health benefit deductions, respectively tested, the calculated amounts on the leave and earnings statements were inconsistent with GKA's calculation. As a result, we noted a total difference of $2,312 as shown on Table 2.

TABLE 2 – Deduction Errors

DEDUCTION TYPE	MISSING DOC	AMT ($)	INCORRECT CALC	AMT ($)	TOTAL EXCEPTIONS	TOTAL AMT ($)
SF-2809 FEHB	17	$2,645	6	$1,843	23	$ 4,487
SF-2817 FEGLI	1	29	10	469	11	498
TOTAL	**18**	**$2,674**	**16**	**$2,312**	**34**	**$ 4,985**

- For three (3) out of the sample of seventy-eight (78) separated employees tested, SF-50, *Notification of Personnel Actions* were not provided as shown on Table 3.
- For six (6) out of the sample of seventy-eight (78) separated employees tested, AID-451, *Employee Exit Clearance forms* were not provided as shown on Table 3.
- For 69 out of the sample of seventy-eight (78) separated employees tested, SF-1150, *Record of Leave Data*, was not provided as shown on Table 3.
- Two (2) out of the sample of seventy-eight (78) separated employees tested recorded hours on their webTA timesheet summary after their effective separation dates as shown on Table 3.
- Twelve (12) out of the sample of seventy-eight (78) separated employees tested remained on the Agency's database after their effective separation dates as shown on Table 3.

TABLE 3 – Missing Documents

DEDUCTION TYPE	SF-50	AID-451	SF-1150	WebTA	Active Listing	TOTAL
MISSING DOC	3	6	69	-	-	**78**
ERRORS		-	-	2	12	**14**
TOTAL EXCEPTIONS	**3**	**6**	**69**	**2**	**12**	

The Standards for Internal Control in the Federal Government (the Green Book), issued by the United States Government Accountability Office (GAO), Section 10.3. states:

Accurate and timely recording of transactions.

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Appropriate documentation of transactions and internal control.

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* states that the reliability of financial reporting requires management to provide the assertion that documentation exists for all transactions and other significant events and is readily available for examination.

This occurred due to inadequate reviewing of information in employees' personnel files to ensure employee payroll information transmitted to National Finance Center (NFC) payroll processing system for the preparation of employees leave and earnings statements are consistent with authorized employee payroll benefits and deductions standard forms. Also, controls to ensure proper calculation and recording of employee benefit deductions is inadequate. Related supporting documentation were not readily available for examination.

Without adequate payroll reviews, analysis, oversight, and reconciliations, discrepancies may exist but go undetected and uncorrected, thereby causing the financial information to be misstated.

Effective management oversight greatly increases USAID’s ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records.

7. Intragovernmental Transactions Remain Unreconciled

When a Federal Government Agency buys goods or services from another Agency, the two engage in an intragovernmental transaction and are referred to as "trading partners." Differences arise in Government-wide financial reporting when Agencies record such transactions in different periods or make accounting errors. In FY2013, Treasury developed "scorecards" to track and correct these differences. The scorecards rank each Agency by its contribution to the Government-wide differences.

At the end of the prior fiscal year 2020, USAID had unreconciled differences of $468 million, and was ranked the 15th largest contributor among federal entities. USAID IGT differences at the end of the third quarter (Q3) of fiscal year 2021 recorded by Treasury was $215 million and the Agency was ranked 21st largest contributor to total IGT differences. This represents over 54% decrease in the amount of USAID's contribution to the government-wide intragovernmental differences from the prior fiscal year. The agency continues to work with trading partners to resolve remaining identified differences.

OMB Circular A-136, "*Financial Reporting Requirements*," August 10, 2021, Page 114, states that throughout the fiscal year and at year-end, entities are required to reconcile intragovernmental balances and transactions with trading partners and resolve any identified differences, with the goal of resolving all differences prior to final submission of data to Treasury for the Financial Report.

Treasury Financial Manual Volume 1, Part 2, Chapter 4700 Section 4706.30a states that Federal entities are expected to work with their respective trading partners to reconcile and resolve intragovernmental differences.

Treasury Financial Manual Volume 1, Part 2, Chapter 4700 Section 9 states that while processing transactions through Intragovernmental Payments and Collections (IPAC), trading partners must follow the business rules to avoid the misstatement of financial balances that occurs when trading partners fail to properly record intragovernmental activity.

Treasury's "Intragovernmental Transactions Guide" suggests that Agencies work together to reconcile any differences and prevent them by eliminating long-term accounting policy differences.

Despite its efforts, the agency has been unable to resolve all its intragovernmental differences with other trading partners through corrective action processes since resolution of these differences will require significant coordination with other Federal Agencies.

There is a risk of misstatement in the financial statements when trading partners fail to properly record intragovernmental transactions.

8. *Long outstanding reconciling items are not being researched and cleared timely, and Suspense Account items are not being researched and resolved within the Department of the Treasury's 60-day rule*

During our review of fiscal year 2021 ***third quarter*** Fund Balance with Treasury (FBWT) reconciliation, we reviewed the Treasury GL Reconciliation (TyGR) Analysis performed outside the Electronic Cash Reconciliation Tool (eCART), to determine whether the process was effective.

The TyGR process provides a monthly and quarterly summary and detail listing of all outstanding reconciling items by appropriation. Our review of the prior year (fiscal year 2020) TyGR report reconciliation revealed several long outstanding items that were outstanding for more than the three-month Treasury rule totaling 393 and $34.4 million, in count and absolute values, respectively, which we reported as a Management Letter Comment, a downgrade from FY 2019 significant deficiency.

In fiscal year 2021, our follow up and review of management actions on the prior year management letter comment, revealed the Office of the Chief Financial Officer has implemented procedures to monitor the progress of researching and reconciling long outstanding reconciling and suspense items identified in the prior year FY 2020 Management Letter comments. As a result of the measures implemented by the agency, we noted improvement during the testing of the fiscal year 2021 third quarter FBWT reconciliation. Total long outstanding reconciling items greater than three months decreased by a total of 6% (23) and 42% ($14.4 million) in count and absolute dollar amount, respectively, compared with the third quarter of fiscal year 2020. According to the agency, it is on track to clear all long outstanding reconciling items. The agency provided evidence of a further decreasing trend at the end of July and year-end September 2021. However, the agency still has aged reconciling items outstanding for more than Treasury three-month rule. Table 4 below illustrates the age, count and absolute amount of outstanding reconciling items at June 30, 2021 (Q3 2021) compared with June 30, 2020 (Q3 2020);

TABLE 4 – Outstanding Reconciling Items

Aging Category	June 2020		June 2021		% Increase/ Decrease (-) June 2021 vs June 2020	
	Count	$ Absolute	Count	$ Absolute	Count	$ Absolute
> 1 Year	64	$10, 864,913	35	$7,855,042	(45%)	(28%)
6-12 months	103	5,014,584	152	9,992,543	48%	99%
4-6 months	81	4,032,447	84	1,0979,007	4%	(73%)
91-120 days	145	14,778,081	99	1,352,383	(32%)	(91%)
TOTAL	**393**	**$34,690,025**	**370**	**$20,278,975**	**(6%)**	**(42%)**

During our review of the FBWT Suspense account for the end of the third quarter of fiscal year 2021, we noted that USAID CFO office has implemented procedures to monitor progress of researching and reconciling long outstanding suspense items identified in the prior year FY 2020 Management Letter comments, in order to reduce the suspense items transactions outstanding for more than 60 days. As a result, total suspense account items aged more than the 60-day Treasury mandated timeframe decreased by 69% (655) and 90% ($21.5 million) in count and absolute dollar amount, respectively, from the third quarter fiscal year 2020 to the third quarter fiscal year 2021. The agency provided evidence of further decreasing trend at the end of July and year-end September 2021. However, the agency still has aged suspense items outstanding for more than Treasury sixty-day rule. Table 5 below illustrates the age, count and absolute amount of outstanding suspense account reconciling items at June 30, 2021 (Q3 2021) compared with June 30, 2020 (Q3 2020);

TABLE 5 – Outstanding Suspense Items

Aging Category	June 2020		June 2021		%	
	Count	$ Absolute	Count	$ Absolute	Count	$ Absolute
> 1 Year	535	$4,240,877	146	$1,027,965	(73%)	(76%)
4-12 Months	307	4,911,137	107	1,142,503	(65%)	(77%)
2-3 Months	113	14,736,725	47	200,868	(58%)	(99%)
TOTAL	**955**	**$23,888,739**	**300**	**$2,371,336**	**(69%)**	**(90%)**

FBWT Reconciliation Procedures, a Supplement to the Treasury Financial Manual, Volume I, part 2-5100, states that federal agencies should not permit prior-month differences to remain outstanding for more than 3 months.

Treasury Financial Manual, Bulletin No. 2017-10 requires that transactions in suspense accounts be cleared within 60 business days of the date of the transaction.

USAID has not completed its fiscal year 2019 corrective action plan commitment to perform timely research and clear all outstanding reconciling items within three months and sixty days from the date of transaction, respectively, for reconciling and suspense items, as mandated by the Department of Treasury.

Long outstanding reconciling items represent an area of uncertainty that increases the risk of misstatements in the financial statements. In addition, the longer they remain in suspense, the less likely they are to be resolved.

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U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MANAGEMENT LETTER
INFORMATION TECHNOLOGY

FISCAL YEAR 2021

December 1, 2021

Chief Financial Officer and Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the consolidated financial statements of U.S. Agency for International Development (USAID), which comprise the consolidated balance sheet as of September 30, 2021 and 2020 and the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements (hereinafter referred to as the "consolidated financial statements"), and have issued an unmodified opinion thereon dated November 8, 2021. In planning and performing our audit of the financial statements of USAID, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. We have not considered the internal control since the date of our report.

During our audit, we noted certain matters involving USAID's information technology (IT) general controls and other operational matters that are presented in this letter for your consideration. We do not consider these matters to be a material weakness or significant deficiency. The comments have been discussed with the appropriate members of USAID Management and are intended to improve USAID's information technology general controls or result in other operational efficiencies.

We appreciate the cooperation and courtesies extended to us. We will be pleased to meet with you or your staff at your convenience to furnish any additional information.

GKA, P.C.

December 1, 2021

Improvements Needed in Information Technology (IT) General Controls over USAID's Financial Systems

During our audit, we identified four findings related to IT access controls and security management that are discussed below.

(A) Access Controls

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. During our audit, we noted two findings in this area.

1. Password controls should be strengthened

We noted the following weaknesses in the password controls for the reporting database supporting one system application were not consistent with USAID policy. Specifically, we noted the following,

- Password length for SERVICE_ACCOUNT Profile, DEFAULT Profile and PHX_USRPRO Profiles were set to 9 characters instead of 12 characters via the use of the ORA12C_STRONG_VERIFY_FUNCTION function.

USAID's Automated Directive System (ADS) Chapter 545, Information Systems Security, states that, "*SOs must conform to the minimum requirements described below; however, SOs must determine whether higher level restrictions and conditions beyond these minimum requirements should be established in light of the risks involved with respect to the particular system. SOs must assure that the final restrictions and conditions are documented in the SSP.* "

"SOs must ensure the information system does the following regarding passphrases and password-based authentication:

1) *Enforces minimum password complexity of at least 12 characters, mix of at least one character from each of three of the following four-character types: upper-case letters, lower-case letters, numbers, and special characters;*
2) *Enforces at least the following number of changed characters when new passwords are created: four characters must be changed;*
3) *Stores and transmits only encrypted passwords;*
4) *Enforces password minimum and maximum lifetime restrictions, with no minimum lifetime and a maximum lifetime of 60 days;*
5) *Prohibits password reuse for 24 generations;*
6) *Allows the use of a temporary password for system logons only with an immediate change upon first-time logon to a new password; and*

The password verification function that controls the passwords for these profiles was changed to a function with weaker password controls. USAID was unaware of the change or why it occurred.

Weakness in password controls increases the risk that unauthorized access to one system and its supporting databases may be compromised, thus putting systems and data at risk of unauthorized disclosure, modification, or destruction of data - possibly without detection.

2. Account Management Controls should be strengthened

We noted the following with respect to the account management controls for one system:

- An annual account recertification has been implemented for one system; however, ADS 545 requires a semi-annual review of user accounts
- USAID did not have an effective process for disabling inactive accounts on the reporting database supporting one system. Specifically, we identified four (4) accounts that had been inactive for more than 90 days. Once USAID was notified, these accounts were subsequently disabled or removed because they were not necessary
- The System Security Plan (SSP) for one system has not been updated to reflect changes in one system's Account Management Controls. Specifically, we noted the SSP identifies the following two (2) processes that have been replaced with an annual review/recertification of one system Access:

    - BTCs and other designated personnel in missions and bureaus have primary responsibility for accepting and forwarding (to Security) completed access request forms and role request forms and auditing their local users' accounts and roles quarterly to determine that least privilege is satisfied.
    - Security also manages a triennial re-benchmark of all user accounts and roles. In the first-year missions are required to review and resubmit role request forms for all their users in year two Washington bureaus do the same. Year three is an off year. As part of the process, accounts for which no forms are received are deactivated. Those accounts may be reactivated later when appropriate documents are received.

ADS Chapter 545, *Information Systems Security*, states that:

Review accounts for compliance with account management requirements semiannually.

One system Access Controls Policies and Procedures, states that:

- *BTCs and Mission POCs/Controllers are responsible for running the one system BTC Roles & User Id Report for the users in their Bureau/Mission. After a review of the report, BTCs and Mission POCs/Controllers are responsible for making any modifications or deletions to user roles and notify the Security Team. Requests must be submitted to one system Access Security Requests mailbox within five (5) days of reviewing the report by sending the updated roles form as an email attachment.*
- *ISSO Team will conduct monthly reviews of user access to verify that no conflicting roles are assigned, and that all user access is properly authorized. ISSO Team will also disable user accounts which are inactive for at least 90 days by using an automated script daily. No exceptions will be made.*

Financial System Database Access Standard Operating Procedure, states that:

- *User database accounts will be deactivated every 90 days of inactivity.*
- *User database accounts will be recertified by The Financial Systems Division Chief or assignee; this will occur twice a year with email verification to users and email confirmation. The Database Administrator will email the Financial Systems Division Chief a complete list of active users for role recertification. The Financial Systems Division Chief will confirm or deny continued access to the database for the database administrator. If access needs to be revoked, the database administrator executes the deactivation of that user or removal of roles for least privilege.*

The Information System Security Plan (SSP), states that:

- <u>AC-2:</u> *Additionally, Security oversees the DBA team in establishing Oracle accounts where required, activating, modifying, reviewing, disabling and removing them, as appropriate. The number of these is limited compared to the one system accounts. Oracle user accounts are recertified twice a year. Unused accounts are locked after 90 days and if deemed no longer needed removed once that determination is made. Some few accounts used only occasionally are maintained in a locked state until they are needed by the user. These are generally related to annual processes.*
- <u>PL-2:</u> *The security plan is reviewed at least annually as part of a regular FISMA review process, and may be adjusted as needed during other times to reflect changes to Phoenix or its interfaces. The security plan is approved annually as part of the FISMA review process and at any other time in which a SA&A is performed due to significant system changes.*

In response to the prior year finding, USAID management updated their recertification process for the one system from a three-year cycle to an annual cycle; however due to an oversight, the system security plan was not updated to reflect the new process in place. There was also confusion as to whether USAID had an annual requirement to re-certify users or whether the requirement was semi-annual. USAID Management also informed us that they do not have adequate personnel resources to recertify the users on a semi-annual basis.

We also noted that the account disablement process for the one system reporting database did not include service accounts. Additionally, the recertification process did not include service accounts as well. As a result, processes were not in place to identify and disable the unnecessary accounts.

Weaknesses in account management controls increases the risk that individuals may have unauthorized access to systems and data, thus putting systems and data at risk of unauthorized disclosure, modification, or destruction of data, possibly without detection.

<u>(B) Security Management</u>
An entity wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. During our audit, we noted two findings in this area.

3. Controls over the monitoring of external service providers for one system should be strengthened

We noted that:

- The Service Level Agreement (SLA) between USAID and the Department of State (DoS) for one system hosting services has not been reviewed and updated since it was signed by the former Chief financial Officer (CFO) on October 31, 2013. The current CFO was hired in 2014. The SLA, which requires annual reviews, has not been updated to reflect this change.

ADS Chapter 545.3.2.14, Use of External *Information Systems*, states that:

- SOs must establish terms and conditions consistent with any trust relationships established with other organizations owning, operating, or maintaining external information systems. The terms and conditions must include provisions for allowing authorized individuals to access the information system from external information systems and process, store, or transmit USAID-controlled information using external information systems. This control recognizes that there are circumstances where members of the workforce using external information systems (i.e., contractors) need to access organizational information systems.
- AOs must only authorize the use of external information systems to process, store, or transmit USAID-controlled information when USAID verifies the implementation of required security controls on the external system. For more information, see USAID Security Assessment and Authorization (SA&A) Process. This must be specified in the system security plan and in an approved information system connection agreement or similar agreements with the organizational entity hosting the external information system.

The Joint Financial Management System (JFMS) Service Level Agreement (SLA) Revision 1states that:

- This SLA will be reviewed annually and modified as required to incorporate amendments that are necessary to support USAID and DoS requirements and to accurately reflect any changes. Any changes require the approval and signature of both USAID and DoS;

USAID has not updated its agreement with the Department of State (DoS) because they are awaiting input and concurrence from the DoS. The agreement is a joint agreement that requires input and approval of both parties.

Weaknesses in the monitoring of third-party providers of information system services increase the risk that USAID management may not be aware of third-party security controls that are not adequately implemented or operating effectively which puts USAID at risk that its sensitive financial information may not be adequately protected. Additionally, Authorizing Officials and System Owners may not have adequate information to continuously monitor the status and effectiveness of information system controls to adequately address and accept risks on behalf of USAID.

4. Controls over the monitoring of external service providers for one system should be strengthened

We noted that:

- USAID did not receive or review the annual results of security control testing performed by the Department of State (DoS) in support of one system to ensure that third-party security controls are implemented and operating effectively.

The Joint Financial Management System (JFMS) Service Level Agreement (SLA) Revision 1 between USAID and DoS states that:

- *This SLA will be reviewed annually and modified as required to incorporate amendments that are necessary to support USAID and DoS requirements and to accurately reflect any changes. Any changes require the approval and signature of both USAID and DoS;*
- *USAID and DoS will exchange information and documents necessary to perform Certification and Accreditation (C&A);*
- *Provide USAID with DoS JFMS (leveraged C&A) C&A package upon completion; and*
- *Perform Annual Assessment of applicable security controls.*

ADS Chapter 545.3.2.14, *Use of External Information Systems,* states that, *SOs must only authorize the use of external information systems to process, store, or transmit USAID-controlled information when USAID verifies the implementation of required security controls on the external system. This must be specified in the system security plan and in an approved information system connection agreement or similar agreements with the organizational entity hosting the external information system.*

USAID has requested the completed annual assessment from DoS; however, DoS has not provided the results to USAID.

Weaknesses in the monitoring of third-party providers of information system services increases the risk that management may not be aware of inadequate third-party security controls, which could negatively impact sensitive financial information. Additionally, Authorizing Officials and System Owners may not have adequate information to continuously monitor the status and effectiveness of information system controls to adequately address and accept risks on behalf of USAID.