Office of Inspector General

December 16, 2013

MEMORANDUM

TO: Reginald Mitchell, Chief Financial Officer

FROM: Nathan Lokos, AIG/A /s/

SUBJECT: Other Matters Identified During the Office of Inspector General's Audit of USAID's Financial Statements for Fiscal Years 2013 and 2012

We have audited the consolidated balance sheets as of September 30, 2013 and 2012, and the consolidated statements of net cost, consolidated changes in net position, and combined statements of budgetary resources for the years then ended-hereinafter referred to as the financial statements of the U.S. Agency for International Development (USAID). We have issued an unmodified opinion thereon dated December 16, 2013. In planning and performing our audit of USAID's financial statements, we considered the Agency's internal control over financial reporting. We did so to determine our auditing procedures for expressing an opinion on the financial statements, not to provide assurance on 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 internal controls that we present in this memo for your consideration. The comments and suggestions, all of which we discussed with the appropriate members of USAID's management, are intended to improve USAID's internal controls or result in other operating efficiencies.

We appreciate the cooperation and courtesies that your staff extended to the Office of Inspector General during the audit. If you have questions concerning this memo or would like to discuss its contents, please contact Rohit Chowbay at 202-712-1317.

Attachment

Washington, D.C.

We identified the following matters at USAID/Washington.

Property, Plant, and Equipment (PP&E)

USAID's inventory of assets contained information that was inaccurate or assets that could not be supported or located. Of 158 items selected for testing, missions did not provide a response for 31 items, and the responses for 81 items were not adequate to support the existence and cost of these items. Included in the 81 items were one vehicle that could not be located by one mission and 15 vehicles that were listed as disposed of but still in use by USAID missions. USAID's Automated Directives System (ADS) Chapter 629, "Accounting for USAID-Owned Property and Internal Use Software," requires the Chief Financial Officer to "reconcile capitalized property balances in the financial accounts annually with the detailed property records" and to make source documentation readily available for audit. Therefore, we suggest that the Office of the Chief Financial Officer (1) emphasize the importance of reconciling PP&E account balances with detailed property records and maintaining adequate documentation to support them and (2) communicate and coordinate with the Overseas Management Division, the Financial Management Division, and missions during the reporting period.

Reconciliation of Loans Receivable

USAID did not completely reconcile its loans receivable account balance with the balance reported by the bank that services the Agency's loan portfolio. PNC Financial Services Group Inc. uses the Enterprise Loan System (ELS) to process USAID's loan transactions and generate a monthly report. USAID uploads the report into its financial accounting system (Phoenix) through an interface. This interface contains a translation table that facilitates the transmission of accounting information on the loans in ELS. During fiscal year (FY) 2013, USAID's management conducted a complete reconciliation of the loans receivable account and resolved all but $5 million in differences. In addition, at the time of the audit, USAID had updated the translation table, but had not tested or implemented the revised version. As a result, the account balance for loans receivable in USAID'S general ledger differed by $5 million from the balance reported by PNC. Generally accepted accounting principles require that the sum of the account balances in the subsidiary ledger equal the total of each line item in the general ledger at the end of the accounting period. Additionally, Statements of Federal Financial Accounting Standards, Technical Release No. 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act,* requires that agencies maintain an audit trail from individual transactions in the subsidiary ledger to the general ledger. Therefore, we suggest that the Office of the Chief Financial Officer (1) determine whether the $5 million is a valid asset of the Agency and (2) coordinate with the Office of the Chief Information Officer to expedite the testing and implementation of the translation table.

Entitlement Payments

The entitlement payments (aggregate pay plus premium pay) of some employees exceeded the biweekly and annual caps allowed by federal guidance. As of December 31, 2012, nine employees serving in critical priority countries received salaries that exceeded $230,700, the maximum allowed, but had not obtained a waiver. Excessive payments totaling $298, 191 were made because the National Finance Center (NFC), which processes the payroll for USAID, did not have the necessary system edits to suspend payments for employees who exceed the established cap. NFC established the biweekly cap in Pay Period 4 of FY 2013 (February 24 to March 9) and the annual cap in Pay Period 11 (June 2-15). Title 5 of the United States Code, Section 5307, limits the total aggregate compensation an employee may receive in a calendar year. This includes base pay, premium pay, lump sum cash bonuses and awards, post differential, and danger pay allowances. To ensure that entitlement payments are not exceeded, we suggest that the Chief Financial Officer coordinate with the Payroll Division to reconcile USAID's entitlement payments with those of the National Finance Center.

Employee Overtime Pay

USAID did not enforce the requirements for overtime work. Out of a random sample of 83 active employees, 8 worked overtime hours without prior approval by supervisors because USAID supervisors and employees did not follow requirements for requesting and approving overtime. USAID ADS 472, "Implementation of the WebTA Electronic Time Keeping System," states that employee requests for overtime work must always be approved in advance by the supervisor and puts the onus on the employee requesting overtime to obtain the proper authorization. Because they and their supervisors did not follow requirements, employees were paid $8,132 for 162.5 hours that were not approved in advance. Therefore, we suggest that the Chief Financial Officer coordinate with other bureaus and offices to emphasize to all employees the importance of obtaining proper approval before working overtime.

Separated Employees

Employees separated from USAID without completing the form that records the employee's clearance from all relevant offices. More than three-quarters of files (64) for 83 randomly selected separated employees lacked the clearance form (7-47A), and the Payroll Office was unable to provide it. This oversight occurred because the Payroll Office did not always obtain the clearance form before employees left. As a result, the Status of Lump Sum Payments report issued by NFC (ID CULP0148) as of October 8, 2013, showed 800 hours of annual leave for 12 of the 50 separated employees, indicating that they had not received a lump sum payment or that their annual leave hours had not been transferred to their new agency. Without the form, the Payroll Office could not record a lump sum payment or transfer the employees' earned leave hours. ADS 451, "Exit Clearance Process for USAID/W Employees," states:

> The Employee Accountability Clearance for Separation/Transfer (AID 7-47A form) is used for recording exit clearances .... The Office of Human Resources, Administrative Management Staff (AMS) is responsible for maintaining the AID 7-47A form and updating it when necessary.

Therefore, we suggest that the Chief Financial Officer coordinate with other bureaus and offices to direct AMS officers to provide the Payroll Office with an electronic verification of clearance along with the completed AID 7-47A before an employee separates from USAID.

Supporting Documentation for Modified Accruals

Contracting officer's representatives (CORs) could not furnish the documentation needed for an audit of accounts payable-in particular, documentation of modified accrual estimates. USAID's Accrual Reporting System (AAS) generates an estimated accrued amount for each contract or agreement based on the obligations, vouchers, and period of performance. CORs, with their intimate knowledge of the awards, modify the estimated accrual amount for any unpaid or anticipated vouchers. Despite repeated requests, 43 CORs did not provide auditors the support they needed to validate the modified estimates of accrual amounts. Even with the intervention of the Deputy Chief Financial Officer, three of the accruals valued at $14.7 million remained unsupported. Documentation was not readily available because the COR list is not periodically updated when CORS are transferred and it becomes difficult to determine which COR is responsible for specific projects. Therefore, we suggest that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance to verify that the COR listing is updated in GLAAS to ensure that requests for documentation can be provided in a timely manner.

Missions

At the ten selected missions, we identified the following matters.

Submission of Travel Vouchers

Employees did not submit travel vouchers by the time stipulated in Agency guidance. At seven of the ten missions, employees submitted 94 travel vouchers totaling approximately $37,869 for reimbursement after the prescribed 5-day deadline. ADS 633.3.5, "Travel Voucher Processing Requirements," requires travelers to submit travel vouchers "within five business days after the completion of a trip or every 30 calendar days" for an extended trip. Because travelers did not submit their vouchers on time, missions could not determine whether the unliquidated balances in the related obligations could be made available for other purposes. Therefore, we suggest that the Chief Financial Officer direct mission controllers to emphasize to all mission employees the importance of submitting travel vouchers on time.

Unliquidated Obligations

Missions were not promptly reviewing and deobligating funds. At eight of the ten missions, obligations totaling approximately $263 million had no activity for more than a year as of June 30, 2013. ADS 621.3.17, "Review of Unexpended Obligated Balances," states: "Unexpended obligated balances must be monitored to ensure that the level of funding is consistent with Agency forward funding guidelines and that balances are deobligated when they are no longer needed for the purposes for which they were initially obligated." Therefore, we suggest that the Chief Financial Officer direct mission controllers to conduct timely review and evaluation of all unliquidated obligations and deobligate excess funds as necessary.

Supporting Documentation for Disbursements

CORs and agreement officer's representatives (AORs) could not provide adequate evidence to support the administrative approval of 17 disbursement vouchers totaling approximately $3,603,393. The USAID Office of Procurement's *Guidebook for Managers and CORs on Acquisition and Assistance* states that CORs should maintain a contract work file for their projects. The contract work file should contain all relevant documentation, such as notes of conversations with the contractors, written instructions given to the contractors, and similar items that were provided by the COR. Therefore, we suggest that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance to implement procedures requiring COR/AORs at the missions to maintain documentation of site visits and other oversight activities that provide support for administrative approval of disbursement vouchers.

Maintenance of Documentation (ASIST)

Missions did not maintain hard copies of documents that were scanned and stored in ASIST. ASIST is the system the agency uses as the central repository for invoices, contracts, and other agreements that support accounting transactions recorded in the financial management systems. One mission scanned documents into ASIST but destroyed them after only 30 days. While the Office of the Chief Financial Officer has a policy on the retention of documents in Washington, it does not have any policy for missions. Therefore, we suggest that the Chief Financial Officer implement a policy to guide mission controllers on the retention of documents that are scanned and stored in ASIST.

Unreconciled Differences

USAID's missions did not research and resolve all Fund Balance With Treasury reconciling items in a timely manner. We determined that 1,307 reconciling items totaling approximately $9 million were outstanding for more than 90 days as of June 30, 2013. As stipulated in the Treasury Financial Manual Supplement 2-5100, *Fund*

Balance with Treasury Reconciliation Procedures, federal agencies must not permit prior months' differences to remain outstanding for more than 90 days. Additionally, the outstanding items should be researched to identify and clear these differences in the next reporting period. Failure to implement timely and effective reconciliation processes could increase the risk of fraud, preventing USAID from monitoring its budget effectively and accurately measuring the full cost of its programs. Therefore, we suggest that the Chief Financial Officer direct the mission controllers to intensify their efforts to research and resolve all reconciling items within the established time frame.

Accrued Expenses

CORs and AORs did not accurately calculate, document, or record quarterly expense accruals in the general ledger. Specifically, 8 accruals were incorrectly computed, 15 did not have adequate supporting documentation, and 3 were recorded without signature approval from AORs. Therefore, we suggest that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance to (1) direct mission CORs/AORs to review and, if necessary, modify the quarterly accrued expenses generated by the Accrual Reporting System before this information is recorded in the general ledger and (2) maintain adequate supporting documentation for accruals.

Responses to Data Calls

Missions reported inaccurate and unsupported information in their responses to the quarterly data calls by the Office of Chief Financial Officer. Data calls are requests from the Office of the Chief Financial Officer to the mission controllers for various types of information including inventory of expendable and non-expendable property and unfunded, accrued annual leave for Foreign Service Nationals. Missions did not include freight-in costs totaling $27,000 in the amount of property that was capitalized, did not remove four vehicles that had been disposed of, and did not report one new car. They overstated the capitalized cost of vehicles by $115,000, which represents freight billed to but not paid by the mission. Furthermore, we noted that the missions did not provide supporting documentation for three nonexpendable items totaling approximately $22,000, and two missions used the incorrect method to calculate unfunded accrued annual leave, resulting in an overstatement of approximately $14,231. ADS 629, "Accounting for USAID-Owned Property and Internal Use Software," states: "USAID capitalizes individual items of PP&E that have a unit acquisition cost of $25,000 or more and an estimated useful life of two years or more." It also states that when assets are disposed of, they must be removed from the general accounts. Therefore, we suggest that the Chief Financial Officer direct mission controllers to review the responses to data calls to ensure that assets are correctly capitalized and reported and that the correct method for calculating unfunded accrued annual leave is used.

Mission Guidance on Managing Local Currency Trust Funds

One mission did not have a mission order for managing its local currency trust funds. ADS 627.3.3 requires missions to issue a mission order before accepting responsibility for trust fund management. Issuing local guidance is necessary because of the high variability of banking and other laws from country to country. Therefore, we suggest that the Chief Financial Officer direct all USAID missions with responsibility for trust fund management to issue local mission orders.

Receipt of Gifts

Some missions received in-kind gifts but did not value or record them as required. One mission received two paintings and another received a wooden sculpture, but neither mission valued or recorded the gifts. ADS 628.3.2 stipulates that gifts must be acknowledged in writing, assigned a fair market value, and recorded. Therefore, we suggest that the Chief Financial Officer direct all mission controllers to value and record all gifts that mission personnel receive.