



Office of Inspector General

February 1, 2016

MEMORANDUM

TO: Reginald W. Mitchell, Chief Financial Officer

FROM: Alvin Brown, DAIG/A /s/

SUBJECT: Control Deficiencies Identified During the Office of Inspector General's Audit of USAID's Financial Statements for Fiscal Years 2015 and 2014

We have audited the consolidated balance sheets as of September 30, 2015 and 2014, 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), and have issued an unmodified opinion thereon dated November 16, 2015. In planning and performing our audit, we considered USAID's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and 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 the attachment to this memo for your consideration. The comments and suggestions, all of which have been discussed with the appropriate members of your management team, are intended to improve USAID's internal controls and result in other operating efficiencies.

We appreciate the cooperation and courtesies 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 (a/s)

INTERNAL CONTROL DEFICIENCIES AT USAID/WASHINGTON

Employee Separation

Some employees separated from USAID without completing the required form, the Employee Exit Clearance for Separating or Moving Within the Agency (AID 451-1). Of 60 separated employees whose records we randomly selected for testing, 11 had not submitted forms to the Office of Human Capital and Talent Management. This lapse occurred because management did not have controls in place to verify that AID 451-1 was completed when an employee separated from the Agency. The form triggers several actions: revocation of the employee's physical and electronic access, return of USAID property (such as badges, keys, and keycards), and collection of outstanding liabilities. Without submitting the form, employees could retain access and property, compromising USAID's security and the integrity of its information. In September 2015, USAID implemented new procedures to remedy this situation. We will test the new procedures in fiscal year (FY) 2016.

Sensitive Payments

In several respects, Agency staff deviated from procedures on recording sensitive payments. Requisitions for reimbursement did not specify for which vehicles gas or car-wash services were procured, the Daily Vehicle Use Record was not completed accurately, and gas receipts did not have the date of purchase. As a result, the Agency may not be able to prevent or detect the misuse of public funds. The U.S. Government Accountability Office's (GAO's) *Guide for Evaluating and Testing Controls Over Sensitive Payments* (GAO/AFMD-8.1.2) states that controls over sensitive payments should prevent or detect the misuse of public funds and noncompliance with related laws and regulations. Therefore, we suggest that the Chief Financial Officer coordinate with the Office of Executive Services to ensure that all records of official activity and purchases are properly completed.

Posting Models

In reconciling the general ledger (GL) to the subsidiary ledger (SL), the Office of the Chief Financial Officer (CFO) determined that certain adjustments to the general ledger were necessary because some posting models for updating the GL were not operating as intended. Personnel in the CFO's office developed and implemented *GL Posting Model Procedures* in September 2015. However, these procedures do not provide proper segregation of duties because the GL team lead has the ability to develop, review, approve, and make changes in the accounting system. GAO's *Standards for Internal Control in the Federal Government* (Principle 10.03, "Design of Appropriate Types of Control Activities") states:

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

The lack of the segregation of duties on the GL team creates the potential for posting errors or fraudulent entries to go undetected, which could result in a material misstatement of the financial statements. To reduce the risk of error, the CFO should ensure proper separation of

duties. Therefore, we suggest the CFO update the procedures for making changes to the posting models so that certain key functions are not controlled by one employee.

Property, Plant, and Equipment

Controls to make sure staff record the acquisition and depreciation of assets correctly and on time were not effective. Of 103 property, plant, and equipment items tested, several had incorrect records:

- USAID recorded acquiring eight vehicles worth \$1.5 million in 2015 although they were acquired in prior years.
- USAID had not removed nine assets worth \$1.6 million from the asset listing after disposing of them.
- USAID reported the wrong country as the location of four assets.

To update the Agency general ledger, the Central Accounting and Reporting Division (CAR) of the CFO's office relied on missions to provide information related to the acquisition and disposal of depreciable assets. Yet mission personnel approved erroneous information before sending it to the CFO. *Standards for Internal Control in the Federal Government* states that management should design control activities so that all transactions are completely and accurately recorded.¹ Not verifying the accuracy of information on assets increases the risk that account misstatements will not be detected and assets will be lost. Therefore, we suggest the CFO augment its policies and procedures on recording and reporting depreciable assets by directing mission controllers to review data before approving and submitting them to the office of the CFO.

Unliquidated Obligations

At the end of FY 2014, we identified approximately \$115 million in unliquidated obligations (ULOs) that did not have disbursements for 3 or more years. We recommended that USAID review them to determine if they should be deobligated and the funds put to better use. During FY 2015, USAID reviewed \$91 million of them and deobligated \$53 million worth. However, at the end of FY 2015 we identified an additional \$25 million in ULOs that did not have disbursements for 3 or more years, bringing the amount requiring review to \$49 million. Although we did not report this amount as a significant deficiency, we believe that USAID management should continue its efforts to resolve the remainder. We will continue to monitor progress during FY 2016 and suggest that USAID management conduct annual reviews of ULOs without disbursements for 3 or more years and deobligate those that are no longer needed.

Financial Reporting

Submission of Financial Statements. CAR continuously revised and resubmitted to the Office of Inspector General (OIG) final consolidated FY 2015 financial statements. The financial statements we received contained multiple errors and numerous balance changes, and they were often incomplete. Many of the errors and balance changes could have been prevented and

¹ GAO-14-704G.

the lack of supporting documentation—for instance, the flux analyses—identified if CAR had used its quality and assurance checklists. Having the OIG review numerous versions of the financial statements delays the audit process. Therefore, we suggest that the CFO require CAR personnel to complete all checklists and conduct all appropriate analysis of financial statements before submitting them to OIG.

CAR Staffing. CAR relies heavily on just a few staff for multiple duties. For example, there is only one accountant who is knowledgeable enough to respond to our inquiries about accounting processes, financial analyses, reconciliations, and input and approval of general ledger transactions. These functions are not properly segregated, increasing the risk of error or fraud and resulting in undue delays in responding to auditors' requests. As noted above, GAO's *Standards for Internal Control in the Federal Government* (Principle 10.03), encourages segregating key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. Segregation of duties is critical to effective internal control. When these functions cannot be separated, management must design alternative control activities to mitigate the risk. Therefore, we suggest the CFO evaluate and segregate, as necessary, the functions performed by CAR personnel to reduce the risks of misstatements and fraud in the financial statements and to promptly respond to requests.

INTERNAL CONTROL DEFICIENCIES AT MISSIONS

Aside from the material weakness and significant deficiencies included in the audit report, during our FY 2015 audit at the ten selected missions we identified the following internal control deficiencies.

Unliquidated Obligations

As of June 30, 2015, six missions had not completed their annual reviews of the unliquidated obligations (ULO) inactive for more than 2 years. They were waiting for their grantees and contractors to submit final audits and finalize Negotiated Indirect Cost Rate Agreements. In addition, personnel at four missions knew they had ULOs that were no longer needed but had not deobligated them. According to ADS 621.3.9, obligation managers must continuously monitor unexpended, obligated balances and request the obligating official to deobligate excess or unneeded funds. Therefore, we suggest that the CFO's office coordinate with the Office of Acquisition and Assistance and mission controllers to ensure that mission personnel immediately deobligate funds when they are no longer needed.

Property, Plant, and Equipment

As of June 30, 2015, four² missions had deficiencies in accounting for and reporting quarterly on these assets:

- Two missions did not properly capitalize property, plant, and equipment, resulting in understatements of \$267,463 and \$37,000.
- One mission and its International Cooperative Administrative Support Services (ICASS) warehouse provider did not update the inventory for financial reporting. The mission could not locate one itemizer it bought for \$34,317 and had no disposal authorization for it.

² Two of the four missions had issues that were identified below; therefore, the total does not add up to four.

According to the Mission, the inventories will be rectified upon clarification of ownership of the itemizer.

- Two missions did not report one vehicle each that were disposed of in May 2015 and October 2013, while another mission had not completed and certified its authorizations to dispose of three items.
- One mission still cannot obtain titles for four USAID-owned residences. In addition, it had not compared the VIN number of one vehicle with the number in the vehicle inventory to ensure the accurate VIN number was reported to USAID/Washington.

ADS 629, "Accounting for USAID-Owned Property and Internal Use Software," states that USAID capitalizes individual items of property, plant, and equipment that have a unit acquisition cost of \$25,000 or more and an estimated useful life of 2 years or more. It also states that when assets are disposed of, property and accumulated depreciation must be removed from the general accounts. Therefore, we again suggest that the Chief Financial Officer direct mission controllers to ensure that assets are correctly capitalized, recorded, and reported.

Advances

Missions had problems with advances. Four missions continued to have advances outstanding for more than 150 days. One mission made new advances to grantees that had not liquidated earlier ones.

ADS 636 states that mission controllers must continually monitor outstanding advances. At least quarterly, controllers must verify that funds advanced are not in excess of immediate disbursement needs. We, therefore, suggest that the Office of Chief Financial Officer direct mission controllers to (1) research and resolve all advances outstanding for more than 150 days to determine if they should be recovered or corrected, and (2) ensure that new advances are not issued to grantees who have not liquidated old advances. We also suggest that the CFO consider revising ADS 636 to require that grantees complete lines 10(a) through 10(c) of Form SF425s before submitting it to the appropriate USAID's technical offices. These lines, which provide cash management information, will help technical offices monitor grantees' spending for activities and programs and follow up on any excess funds advanced.

Accruals/Accounts Payable

We noted that four missions and several client missions had deficiencies in their processes for accruing expenditures:

- One mission had not developed appropriate methods for accruing expenses for three leases, resulting in an overstatement of \$77,400.
- One mission and a client mission did not follow the established policies and procedures for calculating accrued expenses for ongoing projects. The client mission used an incorrect disbursement amount to calculate project accruals, resulting in an understatement of \$42,655.
- One mission had incorrectly calculated four accruals for payroll. As a result, the accrual amount exceeded the funds available in the obligations by \$119,190.

- One mission had not developed appropriate methods for calculating accruals for utilities, resulting in an error of \$4,100.

We suggest that USAID's Office of the Chief Financial Officer direct mission controllers to review accrual methodologies, especially for client missions, to ensure that expenses are accurately calculated and reported.

Cash Advances/Travel Vouchers

One mission did not have adequate internal controls over travel-related cash advances. It received and paid claims for lodging expenses that exceeded those incurred by the employee. Additionally, four employees of the same mission did not immediately return unused portions of their travel advances after the mission processed their travel vouchers. Aside from sending e-mail reminders to these travelers to liquidate their advances, the mission had not taken further action to collect the money. Therefore, we suggest that the CFO's office direct mission controllers to follow Agency policy for reviewing and approving travel advances and vouchers to ensure that employees are reimbursed for allowable expenses only and that excess travel advances are promptly returned to the mission.

At four missions, employees submitted 27 travel vouchers late. ADS 633, "Financial Management Aspects of Temporary Duty Travel," requires travelers to submit travel vouchers within 5 business days of trip completion or every 30 calendar days for an extended trip. Because travelers did not submit their vouchers on time, the missions could not make unliquidated balances available for other purposes. Because this finding repeats one from last year, we continue to suggest that USAID's Office of the CFO direct mission controllers to stress to mission personnel the importance of submitting travel vouchers within the established time frame.

Local-Currency Trust Funds

One mission reviewed had problems with local-currency trust funds. It did not update the balance of local-currency trust funds in the Agency accounting system and although it expended more than \$300,000, it did not have an audit of its funds. ADS 627.3.11, "Local Currency Trust Fund Verification," requires a non-Federal audit of trust funds when the disbursements are more than \$300,000 during the year. Therefore, we suggest that the CFO's office ensure that audits of local-currency trust funds are conducted as required.