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

MEMORANDUM

DATE: January 6, 2023

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

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

SUBJECT: Transmittal of the Management Letter for USAID's Fiscal Years 2022 and 2021 Financial Statements Audit Report (0-000-23-001-C)

On November 12, 2022, we transmitted the financial statements audit report performed by the independent public accounting firm of GKA P.C. Certified Public Accountants and Consultants (GKA). The auditors issued an unmodified opinion on USAID's fiscal years (FY) 2022 and 2021 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 management letter dated December 2, 2022, which reports on such matters for FY 2022.

This letter does not affect the auditors' unmodified opinion on the financial statements. GKA is responsible for the enclosed letter and the conclusions expressed in it.

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

gka, p.c.
Certified Public Accountants
& Consultants

1920 L Street, NW, Suite 425
Washington, DC 20036
Tel: 202-857-1777
www.gkacpa.com

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MANAGEMENT LETTER
FISCAL YEAR 2022

December 2, 2022

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, 2022 and 2021 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, 2022. 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.

/s/

December 2, 2022

1. *USAID needs formal policy and procedures for accounting for inventory dispositions*

During our inventory observation at a Miami warehouse, we noted that currently, USAID does not have a formal policy for accounting for dispositions – sales, destructions, etc. Accounting for dispositions is performed on an "ad hoc" basis. The lack of a formal policy is a potential issue.

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.

Management stated that this occurred due to the infrequent nature of inventory dispositions.

Without formal policy and procedures, including 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.

2. *Lack of support for inventory values and absence of valuation*

During our inventory observation at the warehouse 01 managed by Kuehne & Nagel (K&N) International, in Dubai, UAE, Support for values were not available for 12 of the 18 items tested (67%) - Items 2,3,4,6,8,9,10,12, 13, 16, 17, and 18. This amounts to $103,150 out of a total inventory value of $1,672,826 or 6%. Additionally, four of these items had no value assigned – items 10,12, 16. And 18.

Statement of Federal Financial Accounting Standards (SFFAS), Number 3**,** Accounting for Inventory and Related Property, states as follows:

20. Valuation. Inventory shall be valued at either (1) historical cost or (2) a method that reasonably approximates historical cost. 21. Historical cost shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period.

These related to items transferred-in from the previous warehouse (Logenix). Related support was not readily available.

Inventory may be misstated for those items without valuation support, and understated for those without values on the financial statements.

3. *USAID needs to reconcile agency identification numbers for inventory held to that of the identification number used by the Contractor*

During our inventory observation at the United Nations Humanitarian Response Depot (UNHRD) warehouse in Dubai, UAE, we noted that for 10 out of the 18 commodity types in the warehouse (56 percent), the inventory identification number used by USAID based on SKUs (Stock Keeping Unit), did not agree with the identification tagged on the inventory by the inventory contractor, UNHRD. These related to items 2, 3, 4, 5, 6, 9, 14, 15, 16 and 17 on the count sheet.

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.

USAID identifies its inventory held by the Contractor using the Stock Keeping Unit (SKU). The contractor has a different identification number in its inventory management system (World Food Program (WFP)/UNHRD SAP. This particularly applied to items purchased through the previous contractor, Chemonics. Items purchased by UNHRD for USAID can be identified with USAID's SKU.

Due to the differing identification numbers, the only way to match the item is by the description of the item. This is not an optimal way of identifying the item since similar items may have the same description but have varying SKUs, due to differences in price, weight, size, or other unique characteristics. This could lead to challenges if proper stock management in times of emergency can't be identified, e.g., shipping out the wrong commodity.

4. *Improper accounting for and valuation of inventory*

During our inventory observation at Global Health (GH) warehouse 03 managed by Kuehne & Nagel (K&N) International, in Dubai, UAE, 119 of the 1,185 items (Pharm/ Non-Pharma), we noted that items valued at approximately $489,252, had expired and/ or were marked for destruction. Some had expired more than 2.5 years ago and continue to accumulate storage costs. Also, our review of the FY22 year-end inventory data the GH warehouses in Belgium and South Africa had over $2.2 million in expired and quarantined items. Only quarantined items are reported as a part of the CFO Data call.

In addition, we noted that the cost of inventory at year end did not include all costs incurred in the acquisition of the items. Depending on the circumstances, in addition to the purchase costs, such costs may include (a) shipping (b) government duties (c) handling, and (d) storage.

With respect to excess, obsolete, and unserviceable inventory, Statement of Federal Financial Accounting Standards (SFFAS), Number 3**,** Accounting for Inventory and Related Property, requires that such items *shall be either (1) included in the inventory line item on the face of the financial statements with separate disclosure in footnotes or (2) shown as a separate line item on the face of the financial statements*…and *valued at its expected net realizable value.* With respect to the cost of inventory, GAAP requires that "*historical costs shall include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, shall be charged to operations of the period.*"

We noted the following causes for this condition:

- At the beginning of the pandemic (third and fourth quarter of FY2020), the Procurement and Supply Management (PSM) project moved a lot of products to destination countries from Regional Distribution Centers (RDC) to ensure that those countries would have enough products to distribute. Expiring inventory were due to either (a) not having a destination location or (b) changes in treatment guidelines by either the President's Emergency Plan for AIDS Relief (PEPFAR), World Health Organization (WHO), or national regulator entities.

- Destruction of expired inventory in Dubai is slower than in other localities because products brought under bond are not allowed to be destroyed in the United Arab Emirates (UAE). After CO approval for destruction, it is necessary to sign a contract with a company to transport and dispose of the products internationally. The process of exportation involves getting UAE export permits, which can take 6 months or longer to obtain. Then the products must be transported out of UAE, received in the destination country (most likely in Europe), and then destroyed. The pandemic has had a negative impact on this process, causing delays and the stockpiling of these items.

- Shipping and transportation costs are not considered in the valuation of inventory.

The failure to segregate and report excess, obsolete, and unserviceable inventory in accordance with SSFAS Number 3 could result in the following:

- The over valuation of inventory in the financial statements
- The stockpiling of items that are no longer effective for their stated purpose
- Possible distribution of expired items that could be harmful to the recipients
- Failure to replace expired/obsolete/unserviceable items timely, such that useable items may not be on hand when needed

The failure to properly account for all costs incurred in the acquisition of inventory, including the costs noted above, will result in the undervaluation of inventory on the balance sheet at year end, and the overstatement of net cost of operations.

5. *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, 2022, and noted the following:

a. Three purchase card holder's cardholder transactions were not authorized by approving official before procurement date. The approving official is responsible for ensuring that funds have been committed in the accounting system before purchase; oversees monthly reconciliations; approves the cardholder's billing statement; and reports any misuse of the purchase card to the APC.
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 funds were committed, approved and available; and 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).

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

1. During our review of FY 2022 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 (FY 2021) TyGR report reconciliation revealed several long outstanding items that were outstanding for more than the three-month Treasury rule totaling 370 and $20.3 million, in count and absolute values, respectively, which we reported as a Management Letter Comment.

   In FY 2022, our follow up and review of management actions on the prior year management letter comment, revealed the Office of the Chief Financial Officer implemented procedures to research and reconcile long outstanding reconciling and suspense items identified in prior years. As a result of the measures implemented, we noted that the count for total reconciling items greater than three months reduced by 40% (149) at the end of Q3 2022 compared to the prior year Q3, however, the absolute dollar amount change increased by approximately 300% ($59.4 million) in the same period. According to the agency, it is on track to clear all long outstanding reconciling items. Notwithstanding, the agency still has aged reconciling items outstanding for more than Treasury three-month rule. Table 1 below illustrates the age, count and absolute amount of outstanding reconciling items at June 30, 2022 (Q3 2022) compared with June 30, 2021 (Q3 2021);

   Table 1:

Aging Category	June 2021		June 2022		%Increase/ Decrease (-) Q3 June 2022 Vs June 2021	
	Count	$Absolute	Count	$Absolute	Count	$Absolute
> 1 Year	35	$ 7,855,042	9	$ 369,001	-74%	-95%
6-12 Months	152	9,992,543	88	1,494,098	-42%	-85%
4-6 Months	84	1,079,007	62	11,643,979	-26%	979%
91-120 Days	99	1,352,383	62	66,182,662	-37%	4794%
TOTAL	**370**	**$ 20,278,975**	**221**	**$ 79,689,740**	**-40%**	**293%**

2. During our review of the FBWT Suspense account for the end of the third quarter of FY 2022, we noted that USAID CFO office implemented procedures to research and reconcile long outstanding suspense items identified in the prior year FY 2021 Management Letter comments, in order to reduce the suspense items transactions outstanding for more than 60 business days. As a result, total suspense account items aged more than the 60 business-days Treasury mandated timeframe decreased by 46% (138) and 52% ($686 thousand) in count and absolute dollar amount, respectively, from the third quarter FY 2021 to the third

quarter FY 2022. However, the agency still has aged suspense items outstanding for more than Treasury sixty business-days rule. Table 2 below illustrates the age, count and absolute amount of outstanding suspense account reconciling items at June 30, 2022 (Q3 2022) compared with June 30, 2021 (Q3 2021);

Table 2:

Aging Category	Jun-21		Jun-22		%Increase/ Decrease (-) Q3 June 2022 Vs June 2021	
	Count	$Absolute	Count	$Absolute	Count	$Absolute
> 1 Year	149	$ 290,635	122	$ 447,477	-18%	54%
4-12 Months	107	834,811	14	36,578	-87%	-96%
2-3 Months	45	195,039	27	150,349	-40%	-23%
TOTAL	**301**	**$ 1,320,485**	**163**	**$ 634,404**	**-46%**	**-52%**

Our audit of USAID Missions revealed some of the Missions had reconciling and suspense transactions that exceeded Department of Treasury's three (3) month and sixty (60) business days guidelines, for reconciling and suspense transactions, respectively.

Our review of the year end (Q4) reconciling and suspense aging reports revealed the agency researched and cleared outstanding aging suspense items at year end. The reports showed no significant outstanding suspense aging issues at year end (Q4).

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 FY 2019 corrective action plan commitment to perform timely research and clear **all** outstanding reconciling items within three months and sixty business 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.

7. *Intragovernmental Transactions (IGT) Differences Remain Unreconciled*

When a Federal Government Agency buys goods or services from another Federal Agency, the two engage in an intragovernmental transaction and are referred to as "trading partners." Differences arise in Government-wide financial reporting when the Agencies record such transactions in different periods or make accounting errors. In FY 2013, Treasury developed "scorecards" to track and correct these differences. The scorecards rank each Federal Agency by its contribution to the Government-wide differences.

USAID has IGT differences that remain unreconciled in FY 2022. During its FY 2022 GMRA audit, GKA noted that USAID IGT differences in dollar amount and ranking increased in Quarter two (Q2) of FY 2022 compared to Q2 of FY 2021. The dollar amount difference increased from \$202 million to \$286 million (41.6%) and the ranking from 23rd to 20th. In Q3 of FY 2022 compared to FY 2021 Q3, the dollar amount difference increased from \$215 million to \$216 Million (0.5%) and the ranking improved from 21st to 23rd.

The Agency's IGT differences and rankings at the end of the second and third quarters (Q2 and Q3) of the prior and current FYs (FY 2021 and 2022):

Table 3:

Quarter & FY	Rank	IGT Diff $ Million
Q2 FY21	23rd	$202
Q3 FY21	21st	$215
Q2 FY22	20th	$286
Q3 FY22	23rd	$216

USAID was 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 Consolidated Financial Statements of the U.S. Government. Although the agency continues to coordinate and work with trading partners to resolve remaining outstanding identified differences, it has been unable to resolve all the differences.

OMB Circular A-136, "*Financial Reporting Requirements*," August 10, 2021, Page 114, states that throughout the FY 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 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. *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 six (6) out of the sample of forty-five (45) active employees tested, health benefits election form, SF 2809, was either not provided (4 of the 6) or incomplete (2 of the 6). The form supports the health benefit deductions used to calculate employee benefits, contributions, and withholdings. For two (2) out of the sample of forty-five (45) active employees tested, the life insurance election form, SF 2817, was not provided. As a result, a total of $665 in employee withholdings were not adequately supported as shown on Table 1 below.
- For ten (10) out of the sample of forty-five (45) active employees tested, the calculated amounts on the leave and earnings statements were inconsistent with GKA's calculation as follows:

    - Two (2) out of ten (10)) health benefit deductions, difference of $216; and
    - Eight (8) out of ten (10) life benefit deductions, difference of $352;

  As a result, we noted a total difference of $568 as shown on Table 4 below.

Table 4: Deduction Errors

Deduction Type	Missing Doc	Amt ($)	Incorrect Calc	Amt ($)	Total Exceptions	Total Amt ($)
SF-2809 FEHB	6	$627	2	$216	8	$843
SF-2817 FEGLI	2	38	8	352	10	390
TOTAL	**8**	**$665**	**10**	**$568**	**18**	**$1,233**

- Seven (7) out of the sample of forty-five (45) separated employees tested, AID-451, *Employee Exit Clearance forms* were not provided. For eight (8) out of the sample of forty-five (45) separated employees tested, SF-1150, *Record of Leave Data*, were not provided as shown on Table 5. These forms provide evidence that employees that separated from USAID during the FY were removed from the employee master listing and do not receive a salary.

Table 5: Missing Documents

Deduction Type	AID 451	SF-1150	Total
Total Exceptions	7	8	15

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.

Appendix A of OMB Circular No. A-123, *Management's Responsibility for 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 needs improvement. Related supporting documentation were not 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.

9. *Process of Identifying and Liquidating Outstanding and Overdrawn Advances should be strengthened*

USAID/WASHINGTON

- We reviewed the FY2022 Q3 DHHS SYNC Report and noted that eight (8) out of 723 Letter of Credit (LOC) grantees had instances of advances or liquidations for expenditures which exceeded the amount authorized by approximately $1.2 million.

Table 6:

Grantee EIN	End Date	Auth Amt	Disb Amt	Charged Amt	Auth. < Disb.	Auth. < Charged.	Total Over Disb/ Charged.
1330222873A1	09/14/02	$859,931	$864,014	$843,097	($4,083)	$16,834	($4,083)
1520741336A1	05/31/06	7,256,109	7,826,387	7,921,933	(570,278)	(665,824)	(665,824)
1237011243A2	01/31/07	1,635,607	1,642,295	1,635,607	(6,687)	-	(6,687)
1133392006A1	05/16/15	5,256,836	5,425,121	5,256,836	(168,285)	-	(168,285)
1042577837A1	09/30/06	30,951,928	30,783,820	30,991,640	168,108	(39,712)	(39,712)
1521265061A1	07/31/12	65,804,983	64,983,267	66,006,892	821,716	(201,909)	(201,909)
1521004080A2	11/30/00	1,680,060	1,680,060	1,787,386	-	(107,326)	(107,326)
1042103545B4	06/29/20	647,556	649,640	649,640	(2,084)	(2,084)	(2,084)
TOTAL							**($1,195,910)**

- USAID CFO/CMP has implemented scorecard reports and procedures to track liquidations of outstanding advances and to ensure that further advances are not paid to grantees with advances outstanding for more than 150 days until those advances have been cleared. However, we noted during our year end testing that $52,916,030 of unliquidated Non-Letter of Credit (NLCs) advances were outstanding for more than 150 days as of September 30, 2022.

Table 7:

Quarter	Advances Over 150 Days
Q4 FY21	$ 26,791,076
Q1 FY22	31,524,907
Q2 FY22	52,193,138
Q3 FY22	68,748,381
Q4 FY22	52,916,030

USAID/MISSIONS

Mission A

- We noted four outstanding advances amounting to $305,221, from one vendor greater than 150 days processed by Mission A.

- We further noted seven outstanding advances (six of them from one vendor) amounting to $2,349,103 that are greater than 150 days. We inquired with Mission A management and noted that the awards are managed by Washington and are not processed by Mission A.

<u>Mission B</u>
We noted four outstanding advances from one vendor greater than 150 days. Confirmation correspondence with the vendor revealed a difference of $193,188 between Mission B and vendor records. We inquired of Mission B management the cause of the variances and they indicated that the award is managed by Washington and is not processed by Mission B.

Automated Directive Systems (ADS) chapter 634.3.5.1 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 expenditure from or creates or authorizes an obligation against any appropriation or fund in excess of the amount available in the account (paragraph a.1)*

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, 636.3.3.2, Mission Controllers and M/CFO/CMP must ensure that requests for the advance of funds are reasonable and not excessive to the recipients' immediate disbursement needs. Mission Controllers and M/CFO/CMP must ensure that outstanding advances are monitored on an on-going basis. At a minimum, Mission Controllers and M/CFO/CMP must conduct reviews periodically (at least quarterly) to ensure funds advanced are not in excess of immediate disbursement needs. Funds in excess of immediate disbursement needs must be refunded to USAID (see ADS 625, Accounts Receivable and Debt Collection). The only exceptions are when the excess funds will be disbursed within seven days or when the amount is less than $10,000 and will be disbursed within 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)

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 the Anti-Deficiency Act (ADA). Violation of the ADA requires the CFO to immediately inform the Office of the Inspector General and the Congress of the United States.

M/CFO/CMP indicated that the overdrawn LOC grantee accounts occurred because the funds were de-obligated after payment had already been recorded in PMS. They added that this occurred almost exclusively with awards that were issued prior to the interfaces between Phoenix and DHHS being established and/or before they began recording LOC payments as disbursements against the awards in Phoenix. M/CFO/CMP is currently researching the reason for the most recent LOC overdrawn account that occurred during the current year.

Though M/CFO/CMP has implemented scorecard reports and procedures to help track and liquidate outstanding NLCs advances, liquidations are not being applied promptly and balances in the NLCs are accumulating. Some of the outstanding balances are from the Missions and M/CFO/CMP does not have direct managerial responsibility over them. As a result, M/CFO/CMP is unable to enforce strict controls over their advances process and only coordinate with them through the quarterly scorecard reports and emails. M/CFO/CMP also indicated that a big part of the outstanding advances are currently under litigation and the Department of Justice is overseeing the cases. As a result, USAID cannot liquidate those advances until final resolution.

The lack of prompt review of potential funds control violations increases the risk that an Anti-Deficiency Act violation may occur and go undetected.

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.

10. *Account Management Controls should be strengthened*

We noted the following with respect to the account management controls for the Phoenix Application.

- An annual account recertification has been implemented for the Phoenix application; however, ADS 545 requires a semi-annual review of user accounts

- The Phoenix System Security Plan (SSP) has not been updated to reflect changes in Phoenix Account Management Controls. Specifically, we noted the SSP identifies the following two processes that have been replaced with an annual review/recertification of Phoenix Access that is documented in the Phoenix Access Controls Policies and Procedures:

  - Bureau Transaction Coordinators (BTC) and other designated personnel in missions and bureaus have primary responsibility for accepting and forwarding (to Phoenix 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.
  - Phoenix 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.*

The Phoenix Access Controls Policies and Procedures, states that:

- *Phoenix Information System Security Officer (ISSO) Team will conduct yearly role reviews to verify that all Phoenix users have the necessary roles to perform their duties. Each BTC and Mission POC/Controller will be required to review their users' roles in accordance with the Phoenix BTC Roles & User Id Report and provide confirmation via email of any variation.*

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

- <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 planned to update the ADS 545 recertification requirements as a part of the revision to the policy. The ADS 545 revision was not completed by the end of FY 2022 which resulted in a continuing disconnect between the policy requirements and the actual recertification process in place for the application. Additionally, USAID was in the process of updating the SSP for the system to include NIST 800-53 Revision 5 controls. Per USAID management, the updated controls were documented; however, a decision was made to await the update for the Cyber Security Assessment and Management (CSAM) used to document the SSP before finalizing and approving the SSP updates. CSAM was not updated by the end of FY 22 and, as a result, the SSP updates were not finalized and approved.

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