



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: December 07, 2023

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

FROM: Assistant Inspector General, Office of Audits, Inspections, and Evaluations,
Toayoa D. Aldridge /s/

SUBJECT: Management Letter for USAID's Fiscal Years 2023 and 2022 Financial Statements
Audit Report (0-000-24-001-C)

On November 14, 2023, we transmitted the financial statement 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) 2023 and 2022 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 04, 2023, which reports on such matters for FY 2023.

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.



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 2023**

December 4, 2023

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, 2023 and 2022 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 6, 2023. 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. /s/

December 4, 2023

**U.S. Agency for International Development
Management Letter Comment
Year Ended September 30, 2023**

1. Process of Identifying and Liquidating Outstanding and Overdrawn Advances should be strengthened (Repeat)

We reviewed the FY2023 Q3 DHHS SYNC Report and noted that six (6) out of 730 Letter of Credit (LOC) grantees had instances of advances or liquidations for expenditures which exceeded the amount authorized by approximately \$1 million.

GRANTEE EIN	AUTH AMT	DISB AMT	CHARGED AMT	AUTH < DISB	AUTH < CHARGED	TOTAL OVER DISB/ CHARGED
1042577837A1	\$30,951,928	\$30,783,820	\$30,991,640	(\$4,083)	\$168,108	(\$39,712)
1521265061A1	65,804,983	64,983,267	66,006,892	(570,278)	821,716	(201,909)
1135562308C6	10,733,941	10,735,756	10,735,756	(6,687)	(1,815)	(1,815)
1521004080A2	1,680,060	1,680,060	1,787,386	(168,285)	-	(107,326)
1520741336A1	7,256,109	7,826,387	7,921,933	168,108	(570,278)	(665,824)
1846000555D7	24,701,254	24,677,522	24,701,437	821,716	23,733	(182)
AMOUNT OVERDRAWN						(\$1,016,768)

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 \$80,435,411 of unliquidated Non-Letter of Credit (NLCs) advances were outstanding for more than 150 days as of September 30, 2023. \$47,852,917 of the balance is from Interagency Agreements.

FY	ADVANCES 150+ DAYS
2017	\$36,421,249
2018	39,912,527
2019	53,569,342
2020	56,060,598
2021	44,710,189
2022	52,916,030
2023	80,435,411

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 following circumstances exist:*

For Appropriated Funds:

a.1. Over-obligation or over-expenditure of an appropriation or fund – 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.

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According to USAID's ADS 636MAA page 3, Advance payments or any portion of an advance payment not liquidated within 150 days (i.e., 120 days for voucher submission plus 30 days for processing) is considered delinquent.

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 further noted that the delay in making the necessary adjustments to correct the reporting in PMS is because the grantees are no longer active. M/CFO/CMP is currently researching the reason for the most recent LOC overdrawn account that occurred during the current year.

M/CFO/CMP stated that the majority of the outstanding NLC advances is due to an advance amount of approximately \$44 million paid out for humanitarian and economic support. Grantees encountered delays in submitting the SF-425 to liquidate the outstanding advances. However, the delayed SF-425 were submitted by the end of October 2023 to enable the liquidation of the outstanding advances. This reduced the balance to approximately \$36 million.

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.

**U.S. Agency for International Development
Management Letter Comment
Year Ended September 30, 2023**

2. *The controls over timely review and reconciliation of purchase cardholder's statements of accounts need to be strengthened (Repeat)*

We tested a sample of 45 purchase cards holders as of June 30, 2023. We observed that the approving official and the card holders did not perform the exceptions noted in the table below.

#	DESCRIPTION	CT
1	The Citibank E-Statement not signed by both cardholder and Approving Official	5
2	The Citibank E-Statement was not signed by card holder	1
3	The Citibank E-Statement was not signed by Approval Official	5
4	The Citibank E-Statement was not signed within 5 days of receipt	3
5	Purchase Card Buying logs were not signed by card holder and Approval Officer	7
6	The Citibank E-Statement was not provided	1
7	Purchase Card log was not provided	1
8	No purchase requisition or another pre-approval form from the Approval Official was provided.	1
9	Purchase Card Log did not reconcile to the Citibank E-Statement	2
Total		26

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- Cardholders perform timely review and reconciliation of all charges and, when necessary, promptly initiate the disputes process. AOs approve the reconciled 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.

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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).

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3. 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 (Repeat)

1. During our review of fiscal year 2023 *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 2022) TyGR report reconciliation revealed long outstanding items that were outstanding for more than the three-month Treasury rule totaling 221 and \$79.7 million, in count and absolute values, respectively, which we reported as a Management Letter Comment.

In fiscal year 2023, our follow up and review of management actions on the prior year management letter comment, revealed the Office of the Chief Financial Officer (OCFO) implemented procedures and actions to research and reconcile long outstanding reconciling and suspense items identified in prior years. As a result of the measures and actions of OCFO, we noted that although the count for total reconciling items greater than three months increased by 15% (34) to 255 at the end of Q3 2023 compared to the prior year Q3, the absolute dollar amount change decreased by approximately 96% (\$76.5 million) to \$3.2 million in the same period. According to the agency, it is on track to clear all long outstanding reconciling items. However, the agency still has aged reconciling items outstanding for more than the Treasury three-month rule. Table 1 below illustrates the age, count and absolute amount of outstanding reconciling items at June 30, 2023 (Q3 2023) compared with June 30, 2022 (Q3 2022);

Table 1:

AGING CATEGORY	JUNE 2022		JUNE 2023		VARIANCE	
	CT	\$ABS	CT	\$ABS	CT	ABS
> Year	9	\$369,001	4	\$31,811	(56%)	(91%)
6-12 Months	88	1,494,098	69	1,079,009	(22%)	(28%)
4-6 Months	62	11,643,979	73	1,157,205	18%	(90%)
91-120 Days	62	66,182,662	109	931,998	76%	(99%)
TOTAL	221	\$79,689,740	255	\$3,200,023	15%	(96%)

2. During our review of the FBWT Suspense account for the end of the third quarter of fiscal year 2023, we noted that the OCFO implemented procedures and actions to research and reconcile long outstanding suspense items (TAS 72F3885 – Undistributed Intra-Governmental Payments, USAID) identified in prior year’s Management Letter comments, in order to reduce the aged suspense regular items outstanding for more than 60-business

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days. As a result of management’s efforts, the number of total regular suspense items aged more than the 60-business-days decreased by 83% (135) and 88% (\$560K), in count and absolute dollar amount, respectively, at the end of 2023 Q3 from 2022 Q3.

Table 2 below illustrates the age, count and absolute dollar amount of regular aged suspense outstanding reconciling items as of June 30, 2023 (Q3 2023) compared with June 30, 2022 (Q3 2022);

Table 2:

AGING CATEGORY	JUNE 2022		JUNE 2023		VARIANCE	
	CT	\$ABS	CT	\$ABS	CT	ABS
> Year	122	\$447,477	-	\$ -	(100%)	(100%)
4-12 Months	14	36,578	1	2,491	(93%)	(93%)
2-3 Months	27	150,349	27	71,883	-%	(52%)
TOTAL	163	\$634,404	28	\$74,374	(83%)	(88%)

Our review of the year end (Q4) reconciling and suspense aging reports revealed the agency researched and cleared all regular aged suspense outstanding items at year end.

Our review of the FY 2023 aged suspense payroll outstanding reconciling items (TAS 72X6809 – Suspense Deposits Abroad, USAID) revealed that the agency has outstanding items for more than 60-business days. The total count and absolute dollar amount of suspense payroll outstanding reconciling items at Q3 2023 was 81 and \$1.4 million, respectively. Approximately 96% of these are from the Missions.

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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4. *Intragovernmental Transactions (IGT) Differences Remain Outstanding (Repeat)*

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 outstanding in FY 2023. At the end of the third quarter of FY 2023 (Q3 FY 2023), USAID had IGT differences outstanding amounting to \$137 million and ranked as the 28th largest contributor out of 149, contributing 0.16% to the total federal government IGT differences. The Agency has been working with the Department of Treasury and its trading partners to reduce its IGT differences and improve its ranking from prior years. As a result of its efforts, the agency’s ranking and amount of differences outstanding improved in Quarter two (Q2) and Quarter three (Q3) of FY 2023 compared to same quarters in FY 2022. The dollar amount difference decreased from \$286 million to \$156 million (45.5%) and the ranking improved from 20th to 25th, respectively, for Q2 FY 2022 and Q2 FY 2023. The dollar amount difference decreased from \$216 million to \$137 Million (36.6%) and the ranking improved from 23rd to 28th, respectively, for Q3 FY 2022 and Q3 FY 2023.

The Agency’s IGT differences and rankings at the end of Q2 and Q3 of the prior and current fiscal years (FY 2022 and 2023) are shown in the Table below:

QTR/ FY	RANK	IGT \$ MILLIONS OUTSTANDING
Q2 FY 2022	20th	\$ 286
Q3 FY 2022	23rd	\$ 216
Q2 FY 2023	25th	\$ 156
Q3 FY 2023	28th	\$ 137

The U.S. Government Accountability Office (GAO) Independent Auditor’s Opinion on the accrual based consolidated financial statements of the US government in FY 2022 identified IGT differences as one of the material weaknesses contributing to its disclaimer of opinion on the consolidated financial statements.

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 the 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, there are some known and timing IGT differences to resolve.

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OMB Circular A-136, “*Financial Reporting Requirements*,” May 19, 2023, Page 121, 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 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, and additional actions from the trading partners.

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

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5. Capitalized inventory items are not valued at full cost (Repeat)

During our inventory observation at a Miami warehouse, we noted that certain Disaster/Humanitarian Assistance inventory items were not valued at full cost. Shipping and transportation costs incurred to bring the items to the inventory site were not included in the valuation for financial reporting purposes. USAID reports its inventory as operating materials and supplies.

Statement of Federal Financial Accounting Standards, 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.

(1) 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.

40 If (1) operating materials and supplies are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost beneficial to apply the consumption method of accounting, then the purchases method may be applied to operating materials and supplies. The purchases method provides that operating materials and supplies be expensed when purchased.

VALUATION UNDER THE CONSUMPTION METHOD. 42 Operating materials and supplies shall be valued on the basis of historical cost. 43 Historical cost shall include all appropriate purchase 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.

All applicable shipping and transportation costs are not included in the calculation of the inventory.

The full cost of inventory is not captured. Inventory line item is understated on the financial statements.

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6. USAID’s Maintenance of Support and Calculation of Employees Leave and Earnings Statement Benefits Deductions Need Improvement (Repeat)

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 seven (7) out of the sample of forty-five (45) active 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 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 \$506 in employee withholdings were not adequately supported as shown on Table 1 below.
- For fourteen (14) 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:
 - Eight (8) out of fourteen (14) health benefit deductions, difference of \$568; and
 - Six (6) out of fourteen (14) life benefit deductions, difference of \$106.

As a result, we noted a total difference of \$674 as shown on Table 1 below.

TABLE 1 – Deduction Errors

DEDUCTION TYPE	MISSING DOC	AMT (\$)	INCORRECT CALC	AMT (\$)	TOTAL EXCEPTIONS	TOTAL AMT (\$)
SF-2809 FEHB	7	\$505	8	\$568	15	\$1,073
SF-2817 FEGLI	2	1	6	106	8	107
TOTAL	9	\$506	14	\$674	23	\$1,180

- For one (1) out of the sample of forty-five (45) separated employees tested, SF-50, *Notification of Personnel Action* was not provided. For eight (8) out of the sample of forty-five (45) separated employees tested, AID-451, *Employee Exit Clearance forms* were not provided. For eleven (11) out of the sample of forty-five (45) separated employees tested, SF-1150, *Record of Leave Data*, were not provided as shown on Table 2. These forms provide evidence that employees that separated from USAID during the fiscal year were removed from the employee master listing and do not receive a salary.

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TABLE 2 – Missing Documents

DEDUCTION TYPE	SF-50	AID 451	SF-1150	TOTAL
TOTAL EXCEPTIONS	1	8	11	20

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.