

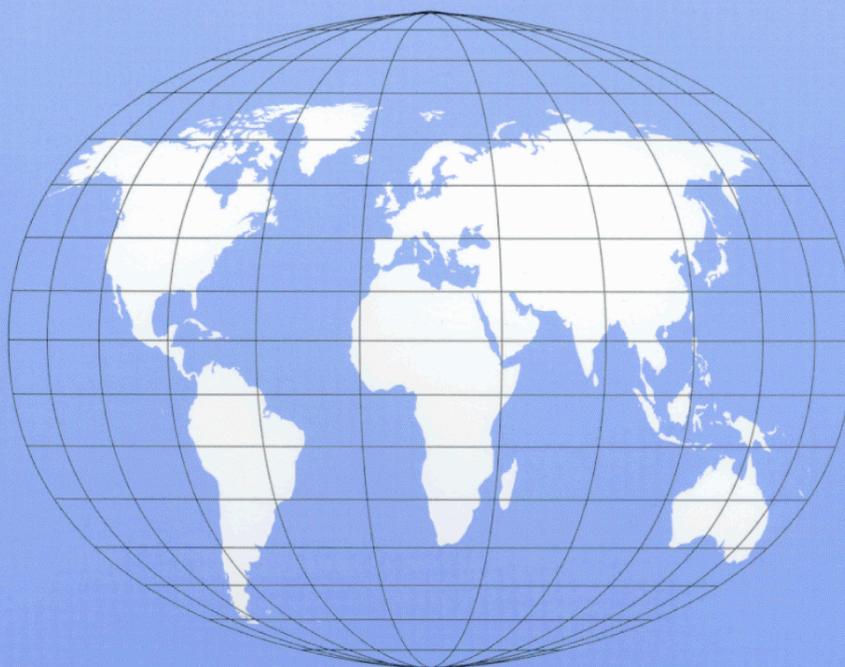
# **Report of Audit**

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## **Audit of USAID/South Africa's Fiscal Year 2001 Financial Operations and Controls**

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**Report No. 4-674-02-001-F  
February 28, 2002**



**PRETORIA, SOUTH AFRICA  
OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*RIG/Pretoria*

**February 28, 2002**

**MEMORANDUM**

**FOR:** Director, USAID/South Africa, Dirk W. Dijkerman

**FROM:** Acting Regional Inspector General/Pretoria, Nancy J. Lawton

**SUBJECT:** Audit of USAID/South Africa's Fiscal Year 2001 Financial Operations and Controls, Audit Report No. 4-674-02-001-F

This memorandum is our report on the subject audit. We received your comments to our draft report and included those comments as Appendix II to this report.

This report makes one recommendation for your action. Based on information provided by the Mission documenting corrective actions taken, the recommendation is closed upon issuance of this report.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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**Summary of Results**

Our audit of USAID/South Africa's fiscal year 2001 financial operations and controls focused on determining whether financial statement account balances related to USAID/South Africa's costs during fiscal year 2001 were free from material misstatements.

Our audit identified that the financial statement account balances, related to the USAID/South Africa's costs during fiscal year 2001, were free from material misstatement for the Mission processes reviewed. However, the audit identified internal control weaknesses in USAID/South Africa's process of monitoring outstanding advances (see page 4). Specifically, USAID/South Africa did not monitor, or follow up on, outstanding advances to ensure they were liquidated in a timely manner. USAID/South Africa did not follow established procedures for monitoring outstanding advances because it gave priority to clearing outstanding 1221 reconciling items. However, the longer advances remain outstanding the more difficult they are to collect and the likelihood increases that outstanding advances will not be collected.

We recommended that USAID/South Africa develop a plan to collect outstanding advances and initiate write-off action for those advances determined to be uncollectable. USAID/South Africa concurred with this recommendation and took the necessary corrective actions. As a result, the recommendation is closed upon report issuance (see page 6).

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**Background**

The Government Management Reform Act of 1994 requires agencies to complete audited financial statements each year covering all accounts and associated activities of the agencies. These financial statements are intended to not only report the financial position and results of operations of the agency, but also to provide further information allowing Congress and the public to assess management's performance and stewardship of agency resources. As a result of this legislation, U.S. Agency for International Development's (USAID) management is required to compile USAID-wide financial statements and supplemental information. For FY 2001, these financial statements are to be audited and submitted to the Office of Management and Budget (OMB) no later than March 1, 2002.

This review is part of an USAID-wide effort, led by the OIG's Office of Financial Audits in Washington, D.C., to audit USAID's FY 2001 financial statements prior to their submission to OMB. USAID/South Africa uses the Mission Accounting and Control System (MACS) for accounting and controlling budget transactions. As of FY 2001, MACS data was consolidated into USAID/Washington's system using the MACS Auxiliary Ledger. This Ledger is a detailed transaction-level database maintained and used by USAID/Washington, Office of Management/Financial Management division

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to journalize and post mission transaction balances to the USAID general ledger and then to the financial statements.

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**Audit Objective** As part of an USAID-wide review, RIG/Pretoria performed this audit to answer the following question:

Are financial statement account balances related to USAID/South Africa's costs during fiscal year 2001 free from material misstatements?

Appendix I provides a complete discussion of the scope and methodology for this audit.

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**Audit Finding** **Are financial statement account balances related to USAID/South Africa's costs during fiscal year 2001 free from material misstatements?**

Financial statement account balances, related to USAID/South Africa's costs during fiscal year 2001, were free from material misstatement for the Mission processes reviewed. However, the audit identified internal control weaknesses in USAID/South Africa's process of monitoring outstanding advances.

We reviewed financial data generated in nine of the Mission processes. These processes included: accrued expenditures, operating expense and project disbursements, data calls, SF-1221 Treasury Fund Balance reconciliation, budgetary balances, foreign currency trust fund activity, closing procedures, exception reporting, and advances. The Mission's systems were adequate for all processes except advances. The eight processes found to be operating effectively are discussed in Appendix III, page 11. Problems with advances are discussed below.

#### **USAID/South Africa Needs to Monitor Outstanding Advances**

The ADS Chapter on Program Funded Advances, Section E636.5.3b, *Excessive Advances/Periodic Review of Requirements* states, in part, that the mission controller must ensure that outstanding advances for contractors and recipients are periodically reviewed (at least quarterly) so that funds advanced are not in excess of immediate disbursement needs. For periodic advances issued by the U. S. Treasury, *immediate disbursing needs* is defined as 30 calendar days from the date the advance is received until expended. This means that the recipient has 30 days to expend the advance. The Mission

requests the recipient to submit vouchers liquidating the advance within 45 days of the advance.

USAID/South Africa did not monitor or follow-up on outstanding advances to ensure they were liquidated in a timely manner. This occurred because USAID/South Africa concentrated its efforts in clearing 1221 reconciling items, which was a higher priority. The Mission planned to address outstanding advances at a later date.

***USAID/South Africa's Advances  
as of September 30, 2001***

Description	Total Advances for FY2001	Outstanding 120 Days or Less	Outstanding More Than 120 Days
Total Amount of Advances	<b>\$5,011,824</b>	<b>\$4,179,355</b>	<b>\$832,469</b>
Number of Advances	<b>416</b>	<b>165</b>	<b>251</b>
Percent of Total Number of Advances	<b>100%</b>	<b>40%</b>	<b>60%</b>

Note: USAID/Angola's outstanding advances are included as part of the totals because USAID/South Africa is the accounting station.

As shown in the table above, 251 advances—totaling more than \$832,000—were outstanding for more than 120 days. During our fieldwork, the Mission took action to determine if the oldest advances were collectable and issued bills for collection for ten advances that were outstanding for more than 360 days. These advances had been given to the recipients as early as August 1993 and, in one case, the date of the advance was unknown. As a result, at least a portion of these long outstanding advances may no longer be collectable.

Monitoring advances ensures good financial and program management and provides effective controls over funds. To ensure that advances are reasonable and liquidated in a timely manner, the Mission must adhere to established procedures in ADS 636. A large number (both in number and dollar amount) of the Mission's advances remained outstanding at September 30, 2001. To ensure that the Mission addresses outstanding advances, we are making the following recommendation:

**Recommendation No. 1: We recommend that USAID/South Africa develop a plan to collect outstanding advances and initiate write-off action for those advances determined to be uncollectable.**

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**Management  
Comments and  
Our Evaluation**

USAID/South Africa concurred with the recommendation to develop a plan to collect outstanding advances and initiate write-off action for those advances determined to be uncollectable.

In response to the recommendation, USAID/South Africa officials stated that they had developed the plan. The Controller's Office also provided copies of recently issued bills for collection that initiate write-off procedures.

Based on our review of USAID/South Africa's plan and additional documents provided by the Controller's Office, final action has been taken as of the date of final report issuance.

**Scope and  
Methodology**

**Scope**

RIG/Pretoria conducted this audit as part of an USAID-wide audit led by the OIG Office of Financial Audits in Washington. The audit was conducted in accordance with generally accepted government auditing standards. In auditing these financial statements, the OIG performed a review of USAID's financial controls which included testing a statistical sample of transactions, to determine if financial statement account balances related to the mission costs during fiscal year 2001 were free from material misstatement.

This review was performed both at USAID/Washington and at ten randomly selected overseas missions including USAID/South Africa. This report deals solely with the results of our audit at USAID/South Africa. Fieldwork was conducted at the USAID/South Africa in Pretoria, South Africa from October 30 to December 14, 2001.

The OIG used a two-phase approach in auditing these financial statements. First, the internal control phase focused on gaining an understanding of the mission's internal control structure and assessing the control risk. The results were used to determine the nature, timing and extent of testing in the second phase—substantive testing. This phase focused on testing the year-end financial data reported by the Mission Accounting and Control System (MACS) for accuracy, completeness, and reliability.

Material deficiencies were identified during the internal control phase of this audit and the control risk was assessed as high. As a result, detailed testing was performed during the substantive-testing phase. Our materiality threshold was set at 5 percent.

The audit focused on reviewing financial data generated under the following mission processes:

- 1) Accrued Expenditures
- 2) Advances
- 3) Disbursements
- 4) Data Calls
- 5) SF-1221 Treasury Fund Balance Reconciliation
- 6) Budgetary Balances
- 7) Foreign Currency Trust Fund Activity
- 8) Closing Procedures
- 9) Exception Reporting

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In auditing USAID/South Africa's accounting processes, our sample items were judgmentally or statistically selected, as identified below:

Accrued Expenditures. During the last quarter of FY 2001, USAID/South Africa processed 199 project accruals with a total value of approximately \$31 million. We statistically selected and tested 73 project accruals, or 37 percent, which represented approximately \$26 million, or 84 percent, of the total value of transactions.

Advances. During FY 2001, USAID/South Africa processed 559 project and operating expense advance transactions with a total value of approximately \$5 million. We statistically selected and tested 91 transactions, or 16 percent, which represented approximately \$4.5 million, or 90 percent, of the total value of the transactions. We also determined the amount and percentage of outstanding advances over 120 days.

Disbursements. Our tests covered project and operating expense disbursements.

*Project Vouchers:*

During FY 2001, USAID/South Africa processed approximately 7,036 project disbursement transactions totaling \$89 million. We statistically selected and tested 113 transactions, or 1.6%, which represented approximately \$29 million, or 33 percent.

*Operating Expense Vouchers:*

During FY 2001, USAID/South Africa processed approximately 11,020 operating expense disbursement transactions totaling \$7 million. We statistically selected and tested 114 operating expense transactions, or 1 percent, which represented \$1.5 million, or 20 percent.

Data Calls. We judgmentally selected sample items from the Mission data calls for each of the costs and verified the accuracy of relevant information with the Mission's underlying source documents.

SF-1221 Reconciliation Process. We tested USAID/South Africa's process of reconciling the SF-1221 report to its records by reviewing the monthly reconciliations for three appropriations: 72X1021, 720/11037 and 72X1037 for the fourth quarter of FY 2001. We also obtained the total number and value of all outstanding reconciling items as of September 30, 2001.

Budgetary Balances. We judgmentally selected 30 sample items to test for the validity of the obligations.

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### Foreign Currency Trust Fund Activity

No testing was done of this process because USAID/South Africa does not have any foreign currency trust funds and no such activity has been reported to the USAID/Washington, Office of Management/Financial Management.

### Closing Procedures.

We reviewed the adequacy of the Mission's implementation of the fiscal year closing procedures distributed by USAID Office of Management/Financial Management.

### Exception Reporting

We did not perform testing in this area. USAID/South Africa did not report any exceptions on the validation exception report as of September 30, 2001.

### **Methodology**

To accomplish the audit objective, we conducted interviews with officials at USAID/South Africa, principally in the Controller's Office, to gain an understanding of USAID/South Africa's existing procedures and controls covering the processes tested.

We statistically selected detailed transaction data from the MACS Auxiliary Ledger and verified the accuracy of this information with source documentation and detailed accounting records maintained by the Mission. We verified whether the data met the six financial statement assertions: (1) existence and occurrence, (2) completeness, (3) cutoff, (4) rights and obligations, (5) valuation and allocation and (6) presentation and disclosure. To gather audit evidence, our audit procedures involved recalculation, physical observation, confirmation, verbal inquiry, examination of documents, vouching, tracing and sampling. We did not assess the overall reliability of the Mission Accounting and Control System.

The audit also included a review of the procedures and controls in place at the time of our fieldwork.

## Management Comments



## UNITED STATES GOVERNMENT MEMORANDUM

**DATE** : February 25, 2002

**TO** : Nancy Lawton, Acting Regional Inspector General

**FROM** : Dirk Dijkerman, Mission Director

**SUBJECT** : Response to Audit of USAID/SA FY 2001 Fin. Ops. and Controls

We concur with the recommendation that **“USAID/South Africa develop a plan to collect outstanding advances and initiate write-off action for those advances determined to be uncollectable”**. We have already developed the plan and have initiated the action required by the plan.

USAID/South Africa plan is as follows:

- Voucher Examiner Kenneth Briggs is assigned the duties of carrying out the plan.
- Outstanding advances for USAID personnel are to be liquidated after first contacting the employees to get them to submit vouchers. If the voucher is not enough to cover the full amount of the advance, the balance is to be paid back via cash in order to fully liquidate the advance.
- Outstanding advances for Projects of current Grantees are to be liquidated by first contacting the grantee and getting them to submit liquidating vouchers. No further advances are to be issued until such time as advances older than 90 days have been fully liquidated.
- For all remaining advances that have been identified as uncollectable, Bills for Collection will be issued to commence the procedure which will enable us to write off these advances as uncollectable.
- The Self-Help advances, which constitute the majority of the oldest advances will be addressed after the others.

### Progress to date:

	<u>Sept '01</u>	<u>Feb '02</u>	<u>Decrease</u>	<u>% Decrease</u>
<b>Total Advances</b>	\$5,011,824	\$4,066,118	\$945,706	18.8
<b>Current-120 days</b>	\$4,179,355	\$3,704,673	\$474,682	11.4
<b>121- over 360 days</b>	\$832,469	\$361,445	\$471,024	56.6
<b>Total No.of Advances</b>	416	435		
<b>Current - 120</b>	165	197		
<b>121 - over 360</b>	251	238		

While the number of old advances has not been decreased significantly, the outstanding advance amount outstanding for the old items has been reduced significantly. The vast majority of the remaining items and balance pertains to Self-Help Program advances, many of which were issued in the 1994 to 1996 time period. Work is now beginning on clearing these advances, most of which, it is anticipated, will be eventually written off.

Drafted by: Eric Schaeffer, Acting Controller

## Detailed Results of Audit Testing

### Accrued Expenditures.

The sampled accrual amounts appeared to be generally based on reasonable estimates. However, errors made by the accountants and project officers in estimating and calculating the accruals resulted in an immaterial under-accrual of approximately \$581,000 for fourth quarter fiscal year 2001.

### Advances.

- Results are reported in the body of the report (page 4).

### Disbursements.

- We determined that disbursements for project and operating expenses were supported by adequate documentation.
- The expenses were properly allocable to the overall operation of the Mission and properly assigned to the appropriate accounting period.

Data Calls. (Non-Expended Property, Expendable Property, Schedule 9 Accounts Receivable, Net Cost Statement, Unfunded Accrued Annual Leave for FSNs and PSCs, and Operating Leases)

- We reviewed the Mission Data Calls that were submitted to USAID/Washington, Office of Management/Financial Management for the reporting period ending September 30, 2001 to determine whether they were accurately supported by adequate documentation and that the costs were assigned to the proper accounting period.
- The sampled data call amounts were supported by adequate documentation and the costs were assigned to the proper accounting period.

### SF-1221 Reconciliation Process.

- The Mission made a tremendous effort in clearing outstanding reconciling items since the internal control phase of this audit.
- As of September 30, 2001, the Mission had a total of 503 outstanding reconciling items with an absolute value of \$2.1 million. Of that amount, \$1.1 million were outstanding less than 60 days and due to be cleared in October 2001.
- We found that the Mission's process to reconcile its disbursement records with the records of USAID/Washington, Treasury and the U.S. Disbursing Offices was adequate.
- The Mission researched and resolved reconciling items in a timely manner.

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Budgetary Balances.

Based on our testing, all the sampled items met the criteria for a valid obligation. Thus, we have reasonable assurance that USAID/South Africa's obligations were valid.

Foreign Currency Trust Fund Activity.

USAID/South Africa does not have any foreign currency trust funds and no such activity was reported to USAID/Washington.

Closing Procedures.

USAID/South Africa's year-end closing procedures were adequate.

Exception Reporting.

We did not perform testing in this area. USAID/South Africa did not report any exceptions on the validation exception report as of September 30, 2001.