OFFICE OF INSPECTOR GENERAL

AUDIT OF REPORTING ON OPERATIONAL COSTS BY SELECTED MISSIONS AND OFFICES IN THE BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

AUDIT REPORT NO. 1-598-09-008-P
May 05, 2009

SAN SALVADOR, EL SALVADOR

Office of Inspector General

May 05, 2009

MEMORANDUM

TO: See Distribution

FROM: RIG/San Salvador, Timothy E. Cox /s/

SUBJECT: Audit of Reporting on Operational Costs by Selected Missions in the Bureau for Latin America and the Caribbean (Report No. 1-598-09-008-P)

This memorandum transmits our final report on the subject audit. Your comments to the draft report are included in appendix II of the report. The report does not contain any recommendations, and thus, no additional action is required of you.

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

Distribution: USAID/El Salvador Director, Larry Brady
USAID/Guatemala Director, Wayne R. Nilsestuen
USAID/Honduras Director, William Brands
USAID/Mexico Director, Rodger D. Garner
USAID/Nicaragua Director, Alexander Dickie IV
USAID/Panama Director, Littleton Tazewell
OFDA/Costa Rica, Tim Callaghan

cc: Acting AA/LAC, Jose Cárdenas
M/ICFO, Robbin Burkhart

U.S. Agency for International Development
Embajada Americana
Urb. y Blvd Santa Elena
Antiguo Cuscatlan, Depto. La Libertad
San Salvador, El Salvador
Tel (503) 2501-2999 - Fax (503) 2228-5459
www.usaid.gov/oig

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SUMMARY OF RESULTS

USAID's Manage to Budget Initiative was established in FY 2006 and implemented USAID-wide in FY 2007 to increase transparency and accountability, provide incentives to managers to control operational costs, and decentralize operating cost budgeting. In conjunction with the Manage to Budget Initiative, the Office of Management and Budget mandated that USAID use expanded object class codes (EOCCs) to identify the purpose of all obligations and disbursements in the Agency's Phoenix accounting system starting in June 2006 (page 2).

As part of the FY 2009 annual audit plan, RIG/San Salvador conducted this audit to determine whether selected missions and offices in the Bureau for Latin America and the Caribbean correctly reported their operational costs (page 3).[1]

The seven selected missions and offices in the Bureau for Latin America and the Caribbean (LAC) covered by our detailed examination reported their operating costs correctly (page 4).

Our audit included two separate lines of inquiry. The first line of inquiry was an analytical review that covered all 19 LAC field missions and offices during FY 2008 and disclosed an error rate of 3.2 percent in reporting operational costs. The second line of inquiry was a more detailed examination of supporting documentation for a sample of 143 transactions recorded by seven selected LAC missions. This examination disclosed an error rate of 2.1 percent. Because we established a materiality threshold of 5 percent for the audit, we considered these errors to be immaterial. However, we communicated certain minor matters identified during the audit to the Deputy Chief Financial Officer through a separate management letter (page 4).

In response to our draft report, the LAC missions were pleased that the audit found that the missions were correctly reporting operating costs. Mission comments in their entirety are presented in appendix II.

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[1] The seven missions and offices selected for detailed examination during the audit were El Salvador, Guatemala, Honduras, Mexico, Nicaragua, OFDA/Cost Rica, and Panama.

BACKGROUND

USAID's Manage to Budget (MTB) initiative was established in FY 2006 and implemented USAID-wide in FY 2007 to: increase transparency and accountability, provide incentives to managers to control operational costs, and decentralize operating cost budgeting. Originally, the MTB initiative was aimed at reducing operational costs. However, with the advent of the Development Leadership Initiative, which will increase operational costs as it aims to double the size of USAID's foreign service workforce by FY 2012, the focus has shifted to improving transparency and accountability for operational expenses.

The MTB initiative established a target for operational costs (including both program and operating expense-funded costs) of 12 percent (later changed to 10 percent) of program costs for most operating units. Note that the distinction made here between operational costs and program costs is not the same as the distinction between USAID's operating expense appropriations and its program appropriations. Rather, for purposes of MTB, operational costs are defined as costs that benefit USAID, and program costs are defined as costs that benefit host countries – regardless of the source appropriation.

In parallel with the MTB, OMB mandated that USAID use seven-digit expanded object class codes (EOCCs) to identify the purpose of all obligations and disbursements in the Agency's Phoenix accounting system starting in June 2006.[2] USAID deployed the EOCC changes during FY 2006 on a trial basis and committed to OMB that all of the Agency's obligations and disbursements would be reported under the seven-digit EOCC structure beginning in FY 2007. The EOCC structure includes five major classifications:

- Series 10 – Personnel Compensation and Benefits (248 sub-codes)
- Series 20 – Services, Support, and Supplies (123 sub-codes)
- Series 30 – Property and Equipment (17 sub-codes)
- Series 40 – Grants, Subsidies, and Fixed Charges (Development Interventions) (28 sub-codes)
- Series 90 – Other (Confidential Interventions) (1 sub-code)

Under this new coding system, technical offices (requestors) are to determine the proper EOCC code at the obligation stage. Accountants are to verify correct coding for obligations and voucher examiners enter EOCC codes for disbursements.

Our audit included an analytical review of 98,870 transactions (obligations and disbursements) during FY 2008 for the 16 missions, 2 regional programs, and the Office of Foreign Disaster Assistance (OFDA)/Costa Rica in the Bureau for Latin America and the Caribbean, as well as a more detailed examination of a sample of 143 transactions recorded by seven selected missions in the LAC region.[3]

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[2] Prior to June 2006, USAID used less detailed six-digit object class codes.
[3] The missions and offices covered by the analytical review included Bolivia, Brazil, Colombia,

AUDIT OBJECTIVE

As part of its FY 2009 annual audit plan, the Regional Inspector General/San Salvador conducted this audit to answer the following question: Have selected missions and offices in the Bureau for Latin America and the Caribbean correctly reported their operational costs?

Please refer to appendix I for the audit's scope and methodology.

Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the regional programs in the Caribbean and Central America, and OFDA/Costa Rica. The seven selected missions covered by the detailed examination included El Salvador, Guatemala, Honduras, Mexico, Nicaragua, OFDA/Cost Rica, and Panama. The latter seven missions and offices are all serviced by the regional accounting station in El Salvador.

AUDIT FINDINGS

The seven selected missions and offices in the Bureau for Latin America and the Caribbean (LAC) that were covered by our detailed examination reported their operating costs correctly.

The audit included two main lines of inquiry. The first line of inquiry was an analytical review of all 98,870 obligation and disbursement transactions recorded by all 19 LAC field missions and offices during FY 2008. The analytical review consisted of sorting and searching data from the Phoenix accounting system, using a spreadsheet program, to look for errors in assigning expanded object class codes (EOCCs). Through this analytical review, we identified 3,210 errors out of a population of 98,870 transactions, for an error rate of 3.2 percent. Because we used a materiality threshold of 5 percent, we considered these errors to be immaterial. The errors were of two types:

- Operational costs charged to the wrong operational EOCC (3 percent). Most of these errors occurred when the National Finance Center in Washington, D.C. miscoded foreign service employee compensation as general service employee compensation (2.5 percent). Other errors occurred when missions incorrectly charged performance bonuses and cash awards (code 1150557) to foreign service national base pay (code 1130007), federal taxes (code 1210307) to foreign service national base pay (code 1130007), and travel to the United States (code 2100700) to travel to foreign areas (code 2100701).

- Operational costs charged to program EOCCs (0.2 percent). Examples of these errors include International Cooperative Administrative Support Services (ICASS) costs (code 2530100), office utilities (code 2330200), and evaluations to support management decisions (2510300) incorrectly charged to program EOCCs (40 series).

The second line of inquiry consisted of a more detailed examination of supporting documents (mainly contracts, grants, and invoices) for a random sample of 143 transactions in seven selected LAC missions. Through this examination, we identified 3 errors for an error rate of 2.1 percent. The errors encountered included charging employer's contribution to U.S. personal services contract (PSC) taxes (code 1210308) to U.S. PSC base pay (code 1130008), and charging living quarter's allowance (code 1211053) to cost of living allowance (code 1210753).

We communicated certain minor matters identified during the audit to the Deputy Chief Financial Officer through a separate management letter dated March 31, 2009.

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, the LAC missions were pleased that the audit found that the missions were correctly reporting operating costs. Mission comments in their entirety are presented in appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/San Salvador conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The purpose of the audit was to determine if selected missions and offices within the Bureau for Latin America and the Caribbean (LAC) reported operational costs accurately through the correct application of the agency's new expanded object class codes (EOCCs).

The audit included two lines of inquiry:

- An analytical review of reporting of operational costs by all 19 missions and offices in the LAC Bureau. The purpose of this review was to become familiar with the data, assess accuracy of reporting by sorting and searching 98,870 obligation and disbursement transactions, assess audit risk, and decide how many missions and offices should be included in our detailed examination.

- A detailed examination of supporting documentation for a random sample of 143 obligation and disbursement transactions recorded by seven missions and offices in the LAC region.

The missions and offices covered by the analytical review included Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the regional programs in the Caribbean and Central America, and Office of Disaster Assistance (OFDA)/Costa Rica. The seven selected missions and offices covered by the detailed examination included El Salvador, Guatemala, Honduras, Mexico, Nicaragua, OFDA/Cost Rica, and Panama.

In planning and performing the audit, we assessed internal controls related to the application of EOCCs to identify the purpose of financial transactions. The internal controls identified included accountants' review of EOCC codes assigned by program officials, USAID's list of EOCC codes, which includes descriptions of the types of transactions included in each code, USAID's Automated Directives System Chapter 601, "Funding Source Policy," and guidance and directives issued by the Office of the Chief Financial Officer and other offices on the Management Bureau.

We also discussed the Manage to Budget initiative and application of EOCC codes with financial management officials in USAID/Washington and selected missions in the LAC Bureau.

The audit was conducted in San Salvador, El Salvador during January and February of

2009. Our audit focused on obligation and disbursement transactions recorded in fiscal year 2008.

Methodology

We began our audit with an analytical review of 98,870 obligation and disbursement transactions recorded in FY 2008 by all 19 LAC Bureau missions and offices. The analytical review consisted of using a spreadsheet program to sort and search data from the Phoenix accounting system to look for errors in assigning EOCC codes.

We also conducted a detailed examination of supporting documentation for a random sample of 143 obligation and disbursement transactions out of a population of 39,202 transactions recorded by seven selected missions and offices. The sampling methodology provides 95 percent confidence that the sample attributes reflect population attributes with precision of plus or minus 3 percent. Through the examination, we determined whether transactions occurred, whether they were assigned the correct EOCC, and whether EOCC codes assigned by program personnel were reviewed by accountants.

In answering the audit objective, we used a materiality threshold of 5 percent for both the analytical review and the detailed examination.

MANAGEMENT COMMENTS

MEMORANDUM

From: USAID/El Salvador Director, Larry Brady /s/ 4/16/09
USAID/Guatemala Director, Wayne R. Nilsestuen /s/ 4/23/09
USAID/Honduras Director, William Brands /s/ 4/23/09
USAID/Mexico Director, Rodger D. Garner /s/ 4/23/09
USAID/Nicaragua Director, Alexander Dickie IV /s/ 4/16/09
USAID/Panama Director, Littleton Tazewell /s/ 4/17/09
OFDA/Costa Rica, Tim Callahan /s/ 4/29/09

To: RIG/SS, Timothy E. Cox

Subject: Audit of Reporting on Operational Costs by Selected Missions in the Bureau for Latin America and the Caribbean

Date: April 30, 2009

Thank you for the opportunity to comment on the subject draft audit report.

We are pleased that you found our missions are correctly reporting operating costs and have no recommendations for action. We have reviewed the report and have no comments. We understand that certain minor findings pertaining to compensation transactions recorded by the National Finance Center in Washington, D.C., mentioned in the report, will be communicated to the Deputy Chief Financial Officer through a separate management letter.

We appreciate the professional and cooperative manner of your staff during this audit.

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave., NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig