Office of Inspector General

June 22, 2011

MEMORANDUM

TO: David Ostermeyer, Chief Financial Officer
Office of the Chief Financial Officer

FROM: Joy Kadnar, Director /s/
Inspections and Evaluations Division, Office of Audit

SUBJECT: Survey of USAID Negative Unliquidated Obligation Balances in the Financial Management System (Report No. 2-000-11-005-S)

This memorandum transmits the final report on the subject survey. We considered your comments on the draft in finalizing the report and have included your responses in Appendix II.

This report contains two recommendations to address negative unliquidated obligations reported in the financial management system. Based on an evaluation of management comments, management decisions have been reached on Recommendations 1 and 2. A determination of final action on these recommendations will be made by the Audit Performance and Compliance Division upon completion of the planned corrective actions.

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

SUMMARY

To comply with the Chief Financial Officers Act of 1990, Public Law 101-576 (CFO Act), and guidance from the Office of Management and Budget Circular A-127, "Financial Management Systems," USAID implemented a financial management system. This financial management system consists of Phoenix—the core accounting system—and various subsystems and tools that feed into Phoenix or provide financial reports based on Phoenix data.

USAID uses PhoenixViewer, a fast, efficient, and easy-to-use reporting application, to present financial information from Phoenix data. PhoenixViewer is USAID's solution for responding to ad hoc financial reporting requests. Unlike Phoenix, which is available only to users who have been granted specific access, PhoenixViewer is available to all employees connected to USAID's intranet.

The Office of Inspector General (OIG) conducted this survey after analyzing information gathered during other OIG audits (one of which is described in Appendix III). These analyses revealed that some reports from PhoenixViewer were reporting negative unliquidated obligations. Negative unliquidated obligations are disbursement transactions in which the amount disbursed (spent) exceeds the amount obligated (available to spend). USAID cannot disburse more than the amount obligated without violating the Antideficiency Act, 31 U.S.C. 1341(a)(1)(A). A violation of this act through the overexpenditure of appropriations, funds, apportionments, allotments, or earmarks constitutes a funds control violation. The objective of the survey was to determine why negative unliquidated obligations were being reported in the financial management system.

The OIG observed $47,094,369 in negative unliquidated obligations reported by PhoenixViewer. Subsequently, the OIG tested $18,015,368 in negative unliquidated obligations from a report generated by PhoenixViewer. The OIG observed no such obligations in Phoenix, the core accounting system.

The negative unliquidated obligations in PhoenixViewer resulted from design features in the specific report tested. Specifically, the report tested did not accommodate financial transactions recorded using previously accepted accounting procedures.

The PhoenixViewer report provides unreliable information that is both inconsistent with other information produced by USAID's financial management system and misleading because it creates the appearance of a funds control violation. OIG makes two recommendations to address this matter.

- Make improvements to the design of the report to provide more reliable and consistent financial information (page 5).

- Identify and resolve transactions that cause inconsistent information (page 5).

Our evaluation of management comments is on page 6. Appendix I contains a discussion of the survey's scope and methodology. Management comments appear in Appendix II. Appendix III includes additional background on a 2008 OIG audit of Phoenix.

In response to this report, the Chief Financial Officer (CFO) agreed with Recommendations 1 and 2. Based on an evaluation of management comments, management decisions have been reached on both recommendations.

SURVEY RESULTS

A PhoenixViewer Report Presented Nonexistent Negative Unliquidated Obligations

A key purpose of the CFO Act is to "provide for the production of complete, reliable, timely, and consistent financial information for use by the executive branch of the Government and the Congress in the financing, management, and evaluation of Federal programs." The Government Accountability Office (GAO) interpretation of the CFO Act, *The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform* (AFMD-12.19.4, September 1, 1991), states, "Agency financial management systems are to provide complete, reliable, consistent, and timely information. Financial data are to be prepared on a uniform basis and be responsive to the financial information needs of agency management." The act requires USAID to provide reliable and consistent financial information, not only for its annual financial statements but also to meet the needs of employees responsible for the management of the agency and its programs.

A negative unliquidated obligation occurs when a disbursement exceeds an obligation, and might be an indication of a funds control violation. Of the seven people that OIG interviewed in Washington, D.C.—including bureau and office controllers and individuals performing controller functions—most mentioned that negative unliquidated obligations should not occur because system controls in Phoenix are meant to prevent such events from occurring. Hence, the mere presence of negative unliquidated obligations calls into question the reliability and consistency of financial information presented in financial reports.

A January 19, 2011, Current Status by Program Element report (the report) produced $47,094,369 in negative unliquidated obligations. In testing 14 line items, representing $18,015,368 of the negative unliquidated obligations in the report, OIG found the following:

- In three instances, the accounting data had been corrected. These three instances represented $2,018,131 of the total tested. The report did not capture all components of the transaction completely, but Phoenix did.

- In four instances, details on the supplemental information for the obligation did not match what was recorded for the disbursement. These four instances represented $1,266,862 of the total tested. Supplemental information, such as program elements, should be consistently recorded for related obligations and disbursements.

- In seven instances, the report contained subobligations exceeding total obligations. These seven instances represented $14,730,375 of the total tested. When financial information is summarized by total obligations, subobligations should be included in that total.

- All 14 samples included fully liquidated obligations; and in 1 sample refund information was not provided. Including fully liquidated obligations and refunds indirectly adds to the amount of the negative unliquidated obligations presented, which is not consistent with Phoenix.

The design of the report is the primary reason negative unliquidated obligations are being reported in PhoenixViewer. The report is designed to aggregate financial transactions from Phoenix data and then derive financial information, including unliquidated obligations. The report's design does not easily accommodate changing accounting procedures. For example, previous accounting procedures did not require program elements to match related transactions of obligations and disbursements.

When transactions are aggregated by program element, the derived information in the report presents the total obligations and total disbursements as separate lines of information. When disbursements do not match obligations on the same line of information, a negative unliquidated obligation is presented. The report's difficulty accommodating changing accounting procedures results in inconsistencies with Phoenix because the aggregated and derived information in the report is not correct. OIG found no evidence of Phoenix allowing a negative unliquidated obligation to occur or of funds control violations in the 14 line items tested.

As a result of the report's design, USAID provides unreliable information when negative unliquidated obligations are presented in the report. If the report is available to all USAID employees, including those who do not have access to Phoenix, it should provide reliable and consistent financial information. If it does not, some USAID employees might misinterpret the information derived, and use or provide unreliable and inconsistent financial information. The GAO interpretation states, "The lack of useful financial information impedes the federal government's efforts to build an effective financial management structure. Better management information can be an early warning measure which identifies developing problems before they reach critical proportions." Only through the identification and resolution of negative unliquidated obligations can more reliable and consistent information be obtained.

To address this problem, this survey makes the following recommendations:

> ***Recommendation 1.*** *We recommend that USAID's Chief Financial Officer implement improvements in the design of the PhoenixViewer Current Status by Program Element report to provide more reliable and consistent financial information.*
>
> ***Recommendation 2.*** *We recommend that USAID's Chief Financial Officer identify financial transactions and resolve any additional inconsistencies that are presenting negative unliquidated obligations in the PhoenixViewer Current Status by Program Element report.*

EVALUATION OF MANAGEMENT COMMENTS

After evaluating management's response to the draft report, we have determined that management decisions have been reached on Recommendations 1 and 2.

Recommendation 1. The CFO agreed with the recommendation. The CFO will review the report design and determine what improvements can be made to the report. The target date for completion is December 31, 2011. A management decision has been reached on this recommendation.

Recommendation 2. The CFO agreed with the recommendation. The improved report, derived from implementing Recommendation 1, will inform the CFO whether specific transactions are still causing inconsistencies in the underlying Phoenix data. Thereafter, the CFO will assess the practicality of resolving these inconsistencies. The target date for completion is March 31, 2012. A management decision has been reached on this recommendation.

Management comments are presented in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General's Inspections and Evaluations Division conducted this survey of negative unliquidated obligations in the financial management system. This survey complies with the general standards in Chapter 3 as well as with the evidence and documentation standards in Paragraph 7.55 and Paragraphs 7.77 through 7.84 of *Government Auditing Standards*. Those standards require that we plan and perform the survey to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions in accordance with the survey objective.

The purpose of this survey was to determine why negative unliquidated obligations were reported in the financial management system. We conducted this survey in Washington, D.C., from January 13 to March 23, 2011. The survey team interviewed bureau and office controllers, as well as individuals from independent divisions in the Office of the Chief Financial Officer.

Methodology

To answer the survey objective, we identified one report from PhoenixViewer—Current Status by Program Element—that was reporting the largest amount of negative unliquidated obligations as of January 19, 2011. Sampling criteria were established to select line items containing negative unliquidated obligations. Using various PhoenixViewer tools, we tested each line item to identify the cause of the negative unliquidated obligation. Once a preliminary cause was established, we examined a subselection of obligation documents supporting the negative balance in Phoenix to identify any inconsistencies in the unliquidated balance. The samples were also discussed with the CFO's staff to confirm our understanding and to identify the primary reason for the balance being reported from PhoenixViewer.

MANAGEMENT COMMENTS

Joy Kadnar, Director
Director, Inspections & Evaluations Division
Office of Audit
Office of Inspector General
USAID
Washington, DC 20523

Dear Mr. Kadnar:

I am pleased to provide the U.S. Agency for International Development's Office of Chief Financial Officer's formal response to the Office of the Inspector General's (OIG) Survey of USAID Negative Unliquidated Obligation Balances in the Financial Management System (Report No. X-000-11-00X-S).

The enclosed USAID comments are provided for incorporation with this letter as an appendix to the final report.

Thank you for the opportunity to respond to the OIG draft report and for the courtesies extended by your staff in the conduct of this audit review.

Sincerely,

David D. Ostermeyer
Chief Financial Officer
Office of the Chief Financial Officer

Enclosure: a/s

USAID COMMENTS ON OIG DRAFT REPORT No. X-000-11-00X-S

Recommendation 1. *We recommend that USAID's Chief Financial Officer implement improvements in the design of the PhoenixViewer Current Status by Program Element report to provide more reliable and consistent financial information.*

Management Decision: The CFO concurs that design improvements to the PhoenixViewer Current Status by Program Element report can be made. The CFO will review the reporting logic in the design of the PhoenixViewer Current Status by Program Element report to determine improvements in design. Changes to the reporting logic for this report will be implemented by December 31, 2011.

Recommendation 2. *We recommend that USAID's Chief Financial Officer identify financial transactions and resolve any additional inconsistencies that are presenting negative unliquidated obligations in the PhoenixViewer Current Status by Program Element report.*

Management Decision: The CFO concurs with the OIG observations that negative obligations presented on the Current Status by Program Element are not actual negative obligation balances or potential funds control violations. The CFO will identify the financial transactions that present negative unliquidated obligations in the PhoenixViewer Current Status by Program Element Report. If updating the reporting logic used by the PhoenixViewer Current Status by Program Element does not address the problem of some unliquidated obligations appearing to be negative, then the CFO will assess the practicality of resolving these inconsistencies in the underlying data in Phoenix. Identifying these transactions will be completed by March 31, 2012.

Clearances:
M/CFO/WFS:RBachman___(draft)__:Date: 06/03/2011
M/CFO/FS:MBowanko___(draft)__:Date: 06/03/2011
M/A-DCFO:CCollins______________Date:_________________

M/CFO/WFS:RBachman:Negative Liquidated Obligations Reportcc.doc

ADDITIONAL BACKGROUND

In 2008, OIG issued an audit titled "Phoenix Post Implementation Audit of USAID Mission Users' Needs."[1] According to the audit report, "the Agency has not fully met its goal to provide its customers with access to quality information that is timely, accurate, and complete." Although 80 percent of users surveyed stated that reports (including standard, Business Objects Enterprise, and PhoenixViewer reports) met their needs, almost 60 percent indicated that reports needed improvement, predominantly with respect to the quality of their reporting information. Therefore, the audit concluded that the "Quality of Information and Ability to Create Reports Needs Improvement."

The survey also indicated the following:

- Sixty-seven percent of the respondents indicated dissatisfaction with reports.

- Fifty-five percent of the respondents encountered inaccurate data with reports. Users identified problems such as summary totals not matching details, pipeline data often showing negative balances, end of prior-quarter information showing double the obligated amount, and negative open obligations.[2]

- Forty-five percent of respondents communicated that reports are either incomplete or do not provide useful information.

OIG recommended that the Office of the Chief Financial Officer analyze outstanding reporting issues and requests from Phoenix users to assess the overall Phoenix users' information needs. OIG suggested that this analysis include preparing and implementing a detailed plan with time frames to (1) fully document mission users' specific reporting needs, (2) eliminate reporting gaps in information provided from Phoenix, (3) eliminate unneeded reports supported by the Agency, and (4) use mission-developed reports to the extent possible.

The Office of the Chief Financial Officer agreed with the recommendation and offered to do the following:

- Establish and formalize a working group by February 29, 2008, to discuss and document mission reporting needs and address gaps in current reporting information provided by Phoenix.

- Review and eliminate reports that are no longer used by June 30, 2008.

- Assess mission-developed reports through September 30, 2008, as resources permit.

The recommendation was closed on March 17, 2009, based on management actions.

[1] http://www.usaid.gov/oig/public/fy08rpts/a-000-08-002-p.pdf.
[2] Negative open obligations are also known as negative unliquidated obligations.