OFFICE OF INSPECTOR GENERAL

FOLLOW-UP AUDIT OF NEGATIVE UNLIQUIDATED OBLIGATION BALANCES IN USAID'S FINANCIAL MANAGEMENT SYSTEM

AUDIT REPORT NO. A-000-14-003-P
May 28, 2014

WASHINGTON, D.C.

Office of Inspector General

May 28, 2014

MEMORANDUM

TO: Chief Financial Officer, Reginald W. Mitchell

FROM: Director, IG/A/ITA, Mark S. Norman /s/

SUBJECT: Follow-up Audit of Negative Unliquidated Obligation Balances in USAID's Financial Management System (Report No. A-000-14-003-P)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and included them, without attachments and clearances, in Appendix II.

The final report contains two recommendations. Based on our evaluation of management comments, USAID has taken final action on Recommendation 1 and made a management decision on Recommendation 2. Please provide the Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendation 2.

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

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SUMMARY OF RESULTS

Between December 2000 and May 2006, USAID deployed Phoenix, a commercial off-the-shelf financial management system, at its Washington headquarters and overseas missions. Phoenix supports USAID's financial management policies, requirements, and business processes. To query data and create ad hoc financial reports from Phoenix, USAID uses PhoenixViewer, a reporting application, which is available to all USAID employees.

In June 2011 the Office of Inspector General (OIG) found that a report generated by PhoenixViewer was reporting $47.1 million in negative unliquidated obligation balances.[1] A negative unliquidated obligation balance occurs when an amount spent exceeds the amount obligated to be spent, and it can represent a violation of the Anti-Deficiency Act, 31 U.S.C. 1341(a)(1)(A). This act prohibits officers of the U.S. Government from making expenditures or obligations exceeding the amount available in an appropriation or fund for the expenditure or obligation.[2] Although OIG subsequently concluded that there had been no violation of the act, it made two recommendations to USAID's chief financial officer (CFO) to address the negative unliquidated obligation balances reported in PhoenixViewer. In March and September 2012 USAID reported that it had completed final action on the two recommendations.

OIG/Information Technology Audits (ITA) Division conducted this follow-up audit to determine whether USAID fully implemented the two recommendations to resolve the reporting of negative unliquidated obligation balances in PhoenixViewer. We concluded that USAID had fully implemented them (page 2).

During its fieldwork OIG also identified a matter of concern in a report on obligations in PhoenixViewer; "1311 Analysis - Unliquidated Obligations" presented unliquidated obligations with negative balances (page 3). OIG determined that this was caused largely by fluctuating currency rates and using those rates to convert foreign currency trust fund transactions to U.S. dollars. OIG also found that the data transferred from the Agency's older financial systems to Phoenix and subsequent accounting adjustments resulted in negative unliquidated obligation balances. These events created the appearance of Anti-Deficiency Act violations.

To address these issues, OIG makes the following recommendations.

- USAID's CFO should modify the design of "1311 Analysis - Unliquidated Obligations" to present accurate trust fund obligation balances in U.S. dollars (page 3).

- USAID's CFO should identify the financial transactions that caused the negative unliquidated obligation balances in Phoenix and take the appropriate actions to correct them (page 4).

Details on the audit's results follow. Appendix I contains a discussion of the audit's scope and methodology. Our evaluation of management comments is included on page 5 of the final report, and the full text of those comments appears in Appendix II.

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[1] "Survey of USAID Negative Unliquidated Obligation Balances in the Financial Management System" (No. 2-000-11-005-S), June 22, 2011.
[2] See, e.g., Comp. Gen. B-300192, November 13, 2002.

AUDIT FINDINGS

Recommendations Were Fully Implemented

Recommendation 1 from OIG's June 2011 report asked the CFO to implement improvements in the design of the PhoenixViewer "Current Status by Program Element" report to provide more reliable, consistent financial information. OIG made the recommendation because the report could not aggregate Phoenix financial transactions correctly; the report's design caused it to show $47.1 million in negative unliquidated obligation balances that did not exist in Phoenix.

In response to the recommendation, the CFO initially modified the design, but subsequently determined that the report was no longer needed and removed it from PhoenixViewer. We then concluded that the CFO had taken final action on Recommendation 1.

Recommendation 2 from the same report asked the CFO to identify financial transactions and resolve any additional inconsistencies that were presenting negative unliquidated obligation balances in the PhoenixViewer "Current Status by Program Element" report. In response to the recommendation, an official from the office of the CFO said he had reviewed the modified report and the underlying transactions in Phoenix, but did not find any instances in which disbursements exceeded the amount obligated. However, as mentioned above, the CFO subsequently determined the report was no longer needed and removed it from PhoenixViewer. Consequently, we concluded that the CFO had taken final action on Recommendation 2.

OTHER MATTER

PhoenixViewer Reported Negative Unliquidated Obligation Balances

As stated earlier, the Anti-Deficiency Act prohibits officers of the U.S. Government from making expenditures or obligations that exceed the amount available in an appropriation or fund for the expenditure or obligation. To facilitate the review of unliquidated obligations, PhoenixViewer's "1311 Analysis – Unliquidated Obligations" report identifies the amount of obligations that have not been disbursed and remain unpaid. As of April 19, 2013, there were 3,333 obligations with negative balances totaling $5.1 million, and 3,263 (or 98 percent) of them were related to trust fund obligations with negative balances totaling $3.8 million. The remaining 70 obligations, which had $1.3 million in negative balances, related to obligations transferred to Phoenix from older financial systems and subsequent accounting adjustments.

Foreign Currency Conversions Cause PhoenixViewer to Report Negative Unliquidated Obligation Balances. The trust fund obligations appeared in "1311 Analysis - Unliquidated Obligations" because the report reflects trust funds' obligations, disbursements, and unliquidated amounts in U.S. dollars, whereas USAID employees record them in their respective local foreign currencies.

Consequently, when the report is generated, PhoenixViewer needs to convert the foreign currency amounts into U.S. dollars. To do this, PhoenixViewer uses the currency exchange rate in effect the day the transactions were posted in Phoenix, and converts and then aggregates the amounts to U.S. dollars. However, the application of various exchange rates during the currency conversion process caused the trust fund obligations to reflect negative U.S. dollar balances although they actually had positive or zero balances in their local currency equivalents.

The negative obligation balances, which appear in the report, are a red flag for users of the report because the numerous negative balances appear to indicate that the Agency spent more than was available and may have violated the Anti-Deficiency Act. Therefore, we make the following recommendation.

> ***Recommendation 1.*** *We recommend that the Chief Financial Officer modify the PhoenixViewer "1311 Analysis – Unliquidated Obligations" report to either include the trust funds' obligation, disbursement, and unliquidated amounts in foreign currency or exclude them from the report and document the determination.*

Transferring Data to Phoenix and Accounting Adjustments Cause PhoenixViewer to Report Negative Unliquidated Obligation Balances. In 2001 USAID transferred obligation data from its older financial systems to Phoenix. Officials from the CFO's office said the Agency wanted to preserve amounts and balances as they were recorded in the older system. In some cases, this meant sending obligations with negative unliquidated balances to Phoenix.

In addition, USAID made accounting adjustments to the obligations and disbursements transferred from the old system, which also caused obligations to reflect negative balances. Such adjustments included cancelled credits, reorganizations that affected disbursement. To illustrate an accounting adjustment, PhoenixViewer's obligation liquidation record for obligation document No. PCE-I-08-97-00042-00, accounting line 1, showed an $11,304 adjustment to a disbursement posted on December 8, 2003. However, on March 9, 2007, a subsequent adjustment was made to reverse the entry and caused the obligation to reflect a negative balance of $11,304.

As of April 19, 2013, the data and accounting adjustments caused 70 obligations in PhoenixViewer to report negative balances of $1.3 million. The negative balances give the appearance that the Agency spent more than was available and may have violated the Anti-Deficiency Act. Therefore, we make the following recommendation.

> ***Recommendation 2.*** *We recommend that the Chief Financial Officer identify and document the financial transactions that caused the negative unliquidated obligation balances in Phoenix and take the appropriate actions to correct them.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID agreed to take action on all recommendations. USAID has taken final action on Recommendation 1. Further, OIG acknowledges USAID's management decision on Recommendation 2. A detailed evaluation of USAID's response to each recommendation follows.

Recommendation 1. USAID's Chief Financial Officer revised the PhoenixViewer/Washington version of the "1311 Analysis - Unliquidated Obligations" report to show the trust funds' obligation, disbursement, and unliquidated amounts in local currency. Based on OIG's review of the revised report, USAID has taken final action on Recommendation 1.

Recommendation 2. USAID's Chief Financial Officer agreed to identify and document the financial transactions that caused the negative unliquidated obligation balances in Phoenix, and to take the appropriate actions to correct them when supporting documentation is available. In the case of canceled funds or balances for which no supporting documentation exists at this time, the Chief Financial Officer will modify the "1311 Analysis – Unliquidated Obligations" report to exclude them and document the determination as part of the report design documentation in the Agency's configuration management system. USAID plans to complete final action by November 30, 2014. Therefore, OIG acknowledges that USAID made a management decision on Recommendation 2.

SCOPE AND METHODOLOGY

Scope

OIG conducted this 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 in accordance with our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OIG/ITA performed this audit to determine whether USAID fully implemented corrective actions to resolve the reporting of negative unliquidated obligations in PhoenixViewer. We examined selected internal controls for closing audit findings by reviewing management's final actions and related supporting documentation. We conducted the audit at USAID's Washington headquarters between April 25 and December 20, 2013.

Methodology

To answer our audit objective, we obtained and reviewed "Survey of USAID Negative Unliquidated Obligation Balances in the Financial Management System"; examined CFO and Audit, Performance, and Compliance Division supporting documents to close the recommendations in that report; and interviewed officials from the CFO's office and the Office of the Chief Information Officer. We also reviewed actions the CFO took to correct the negative unliquidated obligations in PhoenixViewer. To do so, we reviewed supporting documents for the modifications made to PhoenixViewer and examined a PhoenixViewer report to verify whether PhoenixViewer was no longer reporting nonexistent negative unliquidated balances.

Because the CFO removed the "Current Status by Program Element" report, we selected another PhoenixViewer report, "1311 Analysis - Unliquidated Obligations," that was reporting a large amount of negative unliquidated obligations. As of April 19, 2013, it had 131,189 obligations with a total unliquidated balance of $22 billion. Of those, 3,333 obligations had a total negative unliquidated balance of $5.1 million. We selected a judgmental sample of 21 obligations representing $3.6 million in total negative unliquidated obligations. We based our judgmental sample selection on the dollar value of each obligation.

We selected non-trust fund obligations with a negative unliquidated balance equal to or greater than $5,000. For trust fund obligations, we selected those with negative unliquidated balances equal to or greater than $100,000. We used the judgmental sampling method because we did not need to project our results to the population. So the results of our testing should not be projected to the population. We validated the obligation balances using the Phoenix general ledger and transaction journal. We recalculated the foreign currency conversions made by PhoenixViewer. We also discussed our results with the CFO's staff and OIG's financial auditors.

We reviewed the following: the Chief Financial Officers Act of 1990; the Federal Financial Management Improvement Act of 1996; Office of Management and Budget Circular A-127, "Financial Management Systems"; the Anti-Deficiency Act; and USAID Automated Directives System Chapters 620, "Financial Management Principles and Standards"; 621, "Obligations"; and 634, "Administrative Control of Funds."

MANAGEMENT COMMENTS

May 15, 2014

MEMORANDUM

TO: Mark S. Norman, Director (OIG/A/ITA)

FROM: Reginald W. Mitchell, Chief Financial Officer (M/CFO) /s/

SUBJECT: Draft Report on the Follow-Up Audit of Negative Unliquidated Obligation Balances in USAID's Financial Management System (Report No. A-000-14-00X-P)

Thank you for your draft report on the *Follow-Up Audit of Negative Unliquidated Obligation Balances in USAID's Financial Management System*. My office is pleased to respond to the USAID Office of the Inspector General's (OIG) request for a response to its recommendations. Our comments and management decisions regarding the proposed audit recommendations follow:

The Office of the CFO takes pride in its stewardship and financial management of U.S. taxpayer dollars. We appreciate the OIG recognized that the appearance of negative unliquidated obligations in the USAID/Washington Agency-level version of the "PhoenixViewer 1311 Analysis – Unliquidated Obligations" report was primarily the result of fluctuation in foreign currency exchange rates and migration of financial data in 2001. The PhoenixViewer report that was reviewed is not the sole source of determining the validity of obligations. It is used to facilitate the 1311 review of unliquidated obligations, but the principal means of preventing the obligation of funds in excess of allotments and limitations below the allotment level is the Agency's funds control system, which is documented in ADS Chapter 634, *Administrative Control of Funds*. We do not disagree with the recommendations that the OIG made, but would like to clarify some of the conditions that the OIG stated in the draft audit report as the basis of the matter of concern for which two recommendations were made.

Local Currency Trust Funds. The vast majority of the lines (3,268 out of 3,339 or 98%) belong to local currency trust fund obligations. The obligations are issued in currencies other than U.S. dollars. Phoenix (and the PhoenixViewer report) translates these foreign currency amounts into U.S. dollars. Because of exchange rate fluctuations, the U.S. dollar value of an obligation may end up being less than the U.S. dollar value of the disbursement against that obligation. The U.S. dollar balance is irrelevant for local currency trust funds. These funds are not U.S. dollar appropriated funds, but funds contributed by the host government in local currency to support the development assistance that the U.S. government is providing, which USAID holds in trust and administers as a matter of convenience on behalf of the host government. The fund, obligation, and disbursements are all performed in local currencies, and the balance in those currencies is what matters when assessing whether there are negative unliquidated obligations.

Local currency trust funds are subject to Section 1311 of the Supplemental Appropriation Act, 1955, i.e., federal requirements for the review and certification of unliquidated obligations amounts as valid obligations, but contract commitments made clearly and solely with trust funds are not subject to the "anti-deficiency act", 31 U.S.C. 1341. Instead, trust fund obligations and expenses are not to exceed the balance in the trust fund.[3] Mission Directors and Mission Controllers are responsible for managing local currency trust funds. Mission-based staff use the PhoenixViewer instance specific to their mission, which contains their local trust fund currency trust fund obligations, disbursements, and balances in local currency because the report is designed to present data in its *fund* currency, not its US dollar equivalent.

Data Migration from Legacy Systems. Twenty-seven out of the 3,339 lines on the report display a negative unobligated balance due to the AWACS migration in 2001 and the MACS migration between 2004 and 2006. Both data migrations sought to preserve the balances as they existed in the legacy systems. This data migration strategy was discussed with the OIG prior to executing the migration and the results of the data migration were also discussed with the OIG and no concerns were raised. The financial statements issued by the Agency with this migrated data in the current financial system, Phoenix, have been audited since 2003 without data migration issues being raised. The statutory documentation requirements do not allow us to research the underlying source documents since 13 years have elapsed since the first data migration to Phoenix. Additionally, 52 of the lines have expired funds and 5 of those lines have cancelled funds.

Human Error. Forty-four of the 3,339 lines are the result of accounting adjustments conducted after the original obligations and disbursements, i.e., credits or transfers that were canceled or applied incorrectly; reorganizations that affected the disbursement balance; DHHS payments posted to an incorrect obligation.

This background on the negative unliquidated obligations in the Washington version of the report provides context for the Office of the CFO's management decisions that follow.

<u>Recommendation 1</u>: We recommend that the Chief Financial Officer modify the PhoenixViewer "1311 Analysis – Unliquidated Obligations" report to either include the trust funds' obligation, disbursement, and unliquidated amounts in foreign currency or

[3] BULLETIN NO. 5 LOCAL CURRENCY TRUST FUNDS - 72FT800 (Host Country Owned Funds)

exclude them from the report and document the determination.

<u>Management Decision</u>: The Chief Financial Officer has updated the PhoenixViewer/Washington version of the report to show the trust funds' obligation, disbursement, and unliquidated amounts in local currency. Because PhoenixViewer is a parameter driven reporting tool, the "1311 Analysis – Unliquidated Obligations" report can be run to not display local currency trust funds by excluding trust funds in the Fund Type, excluding Treasury Symbols that contain TF, or excluding BFY/Funds that start with TF when specifying report query criteria. The report can also be saved to Excel and these values could be filtered out. Similarly, the report can be run to exclude cancelled and/or expired funds. Based on the action taken, we request closure of this recommendation upon issuance of the final audit report. *(Samples of the parameters demonstrating that the Fund Currency Unliquidated Amount has been added as a parameter and a sample report demonstrating the report output displays amounts in the fund currency are attached to this memo as supporting documentation.)*

<u>Recommendation 2</u>: We recommend that the Chief Financial Officer identify and document the financial transactions that caused the negative unliquidated obligation balances in Phoenix and take the appropriate actions to correct them.

<u>Management Decision</u>: The Chief Financial Officer will identify and document the financial transactions that caused the negative unliquidated obligation balances in Phoenix and take the appropriate actions to correct them when supporting documentation is available. In the case of canceled funds or balances as a result of the migration of legacy data for which no supporting documentation exists at this time, the Chief Financial Officer will take appropriate actions to modify the "1311 Analysis – Unliquidated Obligations" report to exclude them and document the determination as part of the report design documentation in the Agency's configuration management system.

<u>Target Date</u>: November 30, 2014

In closing, I would like to confirm USAID's commitment to continual improvement in providing financial information that is useful for Agency managers' decision-making.

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