Office of Inspector General

November 15, 2011

MEMORANDUM

TO: David D. Osterm[redacted] Officer

FROM: Tim Cox, AIG/A [redacted] /s/

SUBJECT: Control Deficiencies Identified During the Office of Inspector General's Audit of USAID's Financial Statements for Fiscal Years 2011 and 2010

We have audited the balance sheet of U.S. Agency for International Development (USAID), as of September 30, 2011, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended, hereinafter referred to as the financial statements of the U.S. and have issued an unqualified opinion thereon, dated November 15, 2011. In planning and performing our audit, we considered USAID's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on internal control. We have not considered the Agency's internal control since the date of our report.

During our audit we noted certain matters involving USAID's internal control, which we present in this letter for your consideration. The comments and suggestions herein, all of which we have discussed with the appropriate USAID management officials, are intended to improve USAID's internal control or result in other operating efficiencies and do not rise to the level of a significant deficiency.

We appreciate the cooperation and courtesies that your staff extended to the Office of Inspector General during the audit. If you have questions concerning this letter or would like to discuss its contents, please contact Rohit Chowbay at 202-712-1317.

Attachment (a/s)

Fund Balance With Treasury

During our audit we noted that reconciliations of the FBWT account balances with the balances reported by Treasury are not reviewed and signed by supervisory personnel as required by Treasury Financial Manual (TFM) 2–5100, which states that an authorized agency official should review and sign the monthly reconciliation documents. In addition, USAID's management did not provide supporting documentation for 19 out of 25 items that were initially recorded in the suspense accounts but subsequently removed and recorded in other appropriations. TFM 2–5100 stipulates that agencies must ensure that the balance in the FBWT account for each fund symbol agrees with internal supporting documents. Further, we noted that management has not updated many of the process descriptions in the Financial Management Manual for several years and that certain sections, such as the Cash Transaction section, deserve priority attention. Failure to document and implement an effective reconciliation process could increase the risk of undetected errors and violations of appropriation laws, which ultimately could affect USAID's ability to monitor its budget and result in inaccurate financial reporting. In the material weakness that we reported, we made a recommendation that we believe will correct the conditions in this finding when it is implemented. Therefore, we suggest that the CFO update the outdated sections of the Financial Management Manual related to the cash reconciliation process.

Computer Security Violations

During our review of USAID's process for preparing financial statements, we observed a contractor using the login and password of a former employee. The contractor used the login and the password to access the reporting database of the Phoenix accounting system, where USAID's financial data is stored and used to generate USAID's financial statements. In addition, we observed an employee who was logged on to a USAID computer improperly allowing a contractor access to USAID's AIDNET; in this case access was unauthorized because the contractor did not have a valid security clearance to perform certain financial functions. Unauthorized access to USAID's financial accounting system exposes the system to vulnerabilities in maintaining accurate financial information and preparing financial statements. Automated Directives System (ADS) 545.3.3.1, "Identification and Authentication of Passwords," states that USAID's network, systems, and e-mails must be carefully managed and administered. The directive further states that users must not share their passwords and must follow password standards and procedures. Officials in the Central Accounting and Reporting (CAR) office explained that, because obtaining a security clearance for a contractor takes so long, they were forced to grant the contractor access to carry out their mission. However, CAR has discontinued this practice, and therefore, we make no suggestions to USAID management to remediate this condition.

USAID Payroll Policies and Desk Procedures

During our audit of payroll, we determined that USAID's payroll policies and desk procedures are outdated. Specifically, USAID's "Payroll Procedures and Quick Reference Guides for USAID/Washington" has not been updated since July 31, 2001. In addition, ADS 626, which establishes the policy directives and required procedures for processing payroll transactions for direct hires, Foreign Service Nationals, and personal service contractors, has been in draft format since fiscal year (FY) 2009 and has not yet been completed. Management challenges such as coordination between key stakeholders have prevented the policies from being finalized. Established procedures for processing financial transactions are necessary to ensure the accuracy and integrity of USAID's payroll information. OMB Circular A–123, "Management's

Responsibility for Internal Controls," requires that all agencies incorporate a clear, well-defined documentation process that contains an audit trail and verifiable results so that any user not connected with the procedures can understand the assessment process. Because USAID's payroll policies and procedures are outdated, we suggest that USAID's Chief Financial Officer periodically review and update the Agency's policies over payroll functions and procedures to process payroll transactions.

USAID's Time and Attendance System's Processes

During our testing of payroll activities, we found that USAID's time and attendance system, Web/TA, needs improvement. Specifically, we found that in processing time card corrections, Web/TA erroneously allowed excess advance sick leave to be credited to an employee. Because Web/TA corrections are designed to address unique situations, some normal system flags can be bypassed if multiple corrections covering multiple pay periods are made during a single pay period. In the case we observed, Web/TA corrections allowed sick leave in excess of the 240 hour ceiling to be advanced. The Web/TA system allowed the employee's supervisor to erroneously validate the excess advance leave. In addition, because of timekeeper and supervisor error, the same employee erroneously received post differential, overtime, and danger pay. Web/TA allowed the erroneous corrections to be processed through payroll and National Finance Center validation. However, once the excess leave advance was recognized by the system in the first pay period following the corrections, no further actions were allowed in Web/TA by the mission. Subsequently, all timecards for that individual had to be validated by the payroll office in Washington, where officials overrode Web/TA to allow the employee to be paid. Eventually the employee was issued a bill of collection for the erroneous payments and the Web/TA account was properly modified. Foreign Affairs Manual 3 FAM 3428.1, "Restrictions on Advance of Sick Leave," states that full-time employees who accrue leave may be advanced no more than 30 workdays (or 240 hours) of sick leave. Web/TA's Supervisor Job Performance Guide states that supervisors should ensure that they comply with all applicable laws and regulations and not rely on the system as an assurance or guarantee of compliance. Because excess leave represents a potential risk for overstating payroll liabilities, disbursements, and accounts receivable, we suggest that USAID's Chief Financial Officer implement controls to prevent advances of excess sick leave and grant premium pay only when applicable.

Controls to Record Estimated Accrued Expenses and Accounts Payable

USAID's methodology for estimating and recording accounts payable and accrued expenses using contracting officer technical representatives (COTR) reviews of the information contained in the Accrual Reporting System is not effective. We found that USAID/Washington COTRs did not consistently review or accurately record the estimated accounts payable and accrued expenses in the general ledger. Of the 35 accrual transactions that auditors selected and reviewed for accuracy at the end of the fiscal year, 16 lacked documentation showing that estimated accrued expenses were accurately calculated, and COTRs for the 16 transactions did not respond to requests for documentation. This occurred because USAID's COTR listing is not accurate. In our attempts to contact the COTR, we noted several instances of personnel stating that they are no longer the COTR or that the COTR listed is no longer a USAID employee. Therefore, we suggest that the Chief Financial Officer, in coordination with the Office of Acquisition and Assistance, (1) verify that the COTR list is updated periodically and reflects the current COTR responsible for recording Modified Accrued Amounts; and (2) direct COTRs to respond promptly to auditors' requests for documentation and to review, validate, and modify as necessary, the quarterly accounts payable and accrued expenses generated by the Accrual Reporting System before that information is recorded in the general ledger.

Review and Understanding of External Reports

During our review of the financial statements, we noted that USAID reported approximately ($378) million in Distributed Offsetting Receipts in the FY 2011 Combined Statement of Budgetary Resources (SBR). Of this amount, approximately ($168) million resulted directly from an error in the FY 2010 SBR, in which ($71) million was inadvertently added to the Distributed Offsetting Receipts instead of deducted and ($26) million was not recognized and reported in the same line item. These mistakes occurred because CAR personnel did not understand or review an external report containing the Distributed Offsetting Receipts numbers that was downloaded from the Department of Treasury's Government Wide Accounting (GWA) Web site. The Distributed Offsetting Receipts numbers were inserted into USAID's financial statement templates as downloaded, without proper review. The financial statement templates automatically multiplied the summary number by negative one, resulting in an addition to net outlays instead of a subtraction from net outlays. USAID financial statement preparers were working under the assumption that the GWA Distributed Offsetting Receipts were downloaded from the Web site expressed in normal balances, but this assumption proved incorrect. In addition, at the time that CAR obtained this information, Treasury had not yet posted the ($26) million, and CAR was not aware of its existence. When CAR finally reviewed and understood the GWA report and the associated accounting codes accompanying the report, the error was discovered. At that time, it was too late to revise the financial statements, and CAR decided to correct the error in FY 2011 by restating the FY 2010 SBR (which is presented together with the FY 2011 SBR in the FY 2011 Agency Financial Report). OMB Circular A–123, "Management's Responsibility for Internal Control," paragraph E, "Monitoring," states that periodic reviews, reconciliations, or comparison of data should be included as part of the regular assigned duties of personnel. Because CAR has implemented procedures to prevent the recurrence of this condition, we make no suggestion.

Missions

During our audit at the 12 selected missions, we identified the following internal control deficiencies:

Administrative Approval of Project Disbursements

During our audit of project disbursements, we noted deficiencies in administrative approval. In some instances, the COTR could not provide evidence of administrative approval for project disbursements. In other instances, the COTR's checklists were not completed or they were missing from the related files. USAID's Office of Procurement Guidebook for Managers and COTRs on Acquisition and Assistance states that COTRs should maintain the contract work file for their projects. The contract work file should contain all relevant documentation, such as notes of conversations with the contractor, written instructions to the contractor, and similar items that were provided to the COTR. Therefore, we suggest that the Chief Financial Officer coordinate with the Office of Acquisition and Assistance to verify that COTRs comply with the requirement to maintain documentation of site visits and other oversight activities of projects for which they are responsible.

Submission of Travel Vouchers

During our audit of travel vouchers at the 12 selected missions, we found 25 travel vouchers totaling approximately $115,000 that were submitted for payment more than 5 days after completion of travel. ADS 633.3.5, "Travel Voucher Processing Requirements," requires travelers to submit travel vouchers within 5 business days after the completion of a trip or every 30 calendar days for an extended trip. Because these travelers did not submit their travel vouchers on time, the USAID missions could not determine whether the unliquidated balances in the related obligations could be made available for other purposes. Therefore, we suggest that the Chief Financial Officer direct mission controllers to emphasize the importance of prompt submission of travel vouchers to mission personnel.

Researching and Resolving Outstanding Reconciling Items

Our review of the missions' process to reconcile their FBWT accounts revealed that the missions are not researching and promptly resolving reconciling items. As of June 30, 2011, we found that 1,949 reconciling items valued at approximately $13.9 million were outstanding for more than 90 days. As noted in TFM supplement 2-5100, "Fund Balance with Treasury Reconciliation Procedures," federal agencies must not permit prior month differences to remain outstanding for more than 90 days, and any differences unresolved for more than 90 days should be disclosed separately and explained on the FMS 6653 worksheet, "Undisbursed Appropriation Account Ledger." Additionally, the outstanding items should be researched to identify and clear differences in the next reporting period. Failure to reconcile cash accounts and resolve reconciling items in the allotted time could increase the risk of fraud and reduce USAID's ability to execute its budget effectively. Therefore, we suggest that the Chief Financial Officer direct mission controllers to intensify their efforts to research and promptly resolve all reconciling items.