OFFICE OF INSPECTOR GENERAL
U.S. Agency for International Development

MEMORANDUM

DATE: December 12, 2024

TO: Reginald W. Mitchell, Chief Financial Officer, USAID

FROM: Paul K. Martin, Inspector General PaKMA

SUBJECT: Management Letter for USAID's Fiscal Years 2024 and 2023 Financial Statements Audit Report (0-000-25-001-C)

On November 14, 2024, we transmitted the financial statement audit report performed by the independent public accounting firm of Williams, Adley & Company-DC LLP (Williams Adley). The auditors issued an unmodified opinion on USAID's fiscal year (FY) 2024 financial statements. The USAID financial statements as of and for the year ended September 30, 2023 were audited by GKA P.C. Certified Public Accountants and Consultants, whose Independent Auditor's Report dated November 6, 2023 expressed an unmodified opinion on those financial statements.[1]

When performing an audit of an agency's financial statements, auditors may identify certain matters involving internal controls that do not rise to a level of significance to be reported in the independent auditors' opinion report, instead these matters are communicated in a management letter. We have attached to this memorandum a copy of the management letter dated December 5, 2024, which reports on such matters for FY 2024.

This letter does not affect the auditors' unmodified opinion on the financial statements. Williams Adley is responsible for the enclosed letter and the conclusions expressed in it.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.

[1] USAID OIG, "Audit of USAID's Financial Statements for Fiscal Years 2023 and 2022" (0-000-24-001-C), November 14, 2023.

Management Letter

Reginald Mitchell, Chief Financial Officer
U.S. Agency for International Development

We have completed our audit of the financial statements of the U.S. Agency for International Development (USAID) as of and for the fiscal year ended September 30, 2024 (fiscal year 2024) and have issued our Independent Auditor's Report thereon dated November 12, 2024.

In planning and performing our audit of the USAID's financial statements as of and for the fiscal year ended September 30, 2024, in accordance with U.S. generally accepted government auditing standards, we considered USAID's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USAID's internal control over financial reporting. Accordingly, we do not express an opinion on the USAID's internal control over financial reporting.

In our fiscal year 2024 audit we identified two deficiencies in internal control over financial reporting that we considered to be significant deficiencies. We also identified 10 internal control deficiencies that did not rise to the level of a material weakness or a significant deficiency, but still warrant management's attention. Seven of these deficiencies were newly identified during fiscal year 2024 audit and are provided in *Appendix I*. The remaining three deficiencies were repeat deficiencies from the prior year audit and are provided in *Appendix II*. We have discussed these comments with USAID personnel, and we will be pleased to discuss them in further detail at your convenience.

This Management Letter is intended solely for the information and use of USAID's management, and those charged with governance and is not intended to be, and should not be, used by anyone other than these specified parties.

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
December 5, 2024

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1. Incorrect Recording of Depreciation Expenses

Condition: USAID recorded the acquisition of 43 capital assets in Quarter 2 of fiscal year (FY) 2024 based on the results of its quarterly data call to the Overseas Management Division (OMD), Office of the Chief Information Officer (CIO), and USAID missions.

However, 27 of the 43 assets (approximately 63%) were acquired and placed in-service for operational use prior to FY 2024. Since those assets were not included in USAID's PP&E subledger until FY 2024, USAID was not recording the associated depreciation expense (U.S. Standard General Ledger [USSGL] account 671000 - Depreciation, Amortization, and Depletion) for these assets in its financial records for FY 2023 and prior. Agency expenses, including annual depreciation expenses, close to USSGL Account 331000 - Cumulative Results of Operations at the end of each FY.[1]

To compensate for unrecorded prior-year depreciation expense for these assets, USAID incorrectly entered the unrecorded prior-year depreciation expenses as current-year depreciation expenses.

Cause: Management stated that its standard process is to record all previously unrecorded depreciation expenses from prior fiscal years as current-year depreciation expenses because the cost/benefit of posting to Cumulative Results of Operations is immaterial to the overall statements. Management also stated that it may continue to use this standard process methodology in future accounting periods.

Effect: The incorrect recording of prior year depreciation expenses resulted in an overstatement of $473,044 on the "Gross Costs" line item on the FY 2024 Statement of Net Cost. The overstatement will continue to increase each quarter in the event that capitalized assets are not recorded in the correct FY due to USAID's posting methodology. In addition, USAID's current posting methodology poses an unnecessary risk that the Statement of Net Cost could become materially misstated.

Further, the failure to record the 27 equipment assets in the correct FY resulted in an understatement of $1,095,350 on the "Property, Plant, and Equipment, Net" line item on the September 30, 2023 Balance Sheet.

Criteria: *Statement of Federal Financial Accounting Concepts (SFFAC) 5: Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements* states:

> "An expense is an outflow of or other decrease in assets, an increase in liabilities, or a combination of both that results in a decrease in the government's net position during the reporting period."

Statement of Federal Financial Accounting Standards (SFFAS) 6: Accounting for Property, Plant, and Equipment states:

[1] Fiscal Year 2024 U.S. Standard General Ledger Accounts and Definitions, Transaction F336, https://tfx.treasury.gov/sites/default/files/2024-03/p1sec3_transactions_2024.pdf.

> "Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E."

2. USAID Needs to Strengthen Controls Surrounding the Review of Unexpended Obligated Balances

Condition: USAID monitoring procedures need improvement to ensure timely and effective reviews of unexpended obligated balances are conducted on a semi-annual basis to determine if any unexpended obligations and sub-obligations are valid, meet forward funding guidelines, and are not subject to de-obligation. We tested 45 unliquidated obligations (ULOs) as of June 30, 2024 and found that documentation was missing and/or insufficient for 23 out of 45 (51%) of the ULOs sampled. Specifically, we identified the following:

- For nine samples, totaling $7,039,746, no documentation was provided to support a review of the ULO occurred in 2024.
- For nine samples, documentation provided did not support a review was performed in 2024 or the review was performed in response to the audit request for support.
- For five samples, we identified weaknesses in actions taken by USAID surrounding the review or de-obligation of the ULO. Specifically, we noted:
    - For two samples, the ULO was reviewed, and the determination was made by the Contracting Officer's Representatives (COR), Agreement Officer's Representatives (AORs) or Obligation Managers that disbursements were made against but did not hit the appropriate obligation line level resulting in an overstatement of the ULO amount. These overstatements, totaling $2,979,023, were not corrected as of June 30, 2024.
    - For three samples, the ULO was reviewed, and the determination was made by the COR, AORs or Obligation Managers that the obligation should be de-obligated. These ULOs, totaling $4,530,721, were referred to the Office of Acquisition and Assistance for de-obligation however the unexpended obligation balance was not de-obligated as of June 30, 2024.[2]

Further, we tested 20 ULOs as of March 31, 2024 at one of the missions, totaling $4,808,309, and found that documentation was not maintained to support the status of the ULO determined at the time of reviews for all 20 samples.

Cause: USAID management has not developed a sufficient monitoring process to ensure timely and consistent reviews are conducted over unexpended obligated balances. Further, although guidance exists it has not been effective in detailing adequate review and document retention procedures to support reviews were conducted.

Effect: Weaknesses in controls surrounding unexpended obligations limit USAID management's ability to properly report accurate obligation balances and put funds available to better use. Without timely reviews and oversight of unexpended obligations, discrepancies may exist but go

[2] Each ULO had an obligation age greater than 2 years.

undetected and uncorrected, thereby compromising the reliability of financial reporting and compliance with laws and regulations.

Criteria: The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (GAO-14-704G), Section 10.3. states:

> "*Appropriate documentation of transactions and internal control.* Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

In addition, Appendix A of OMB Circular No. A-123, *Management's Responsibility for Internal Control,* states:

> "Reliability of financial reporting means that management can reasonably make the following assertions…. documentation for internal control, all transactions, and other significant events is readily available for examination."

The 31 U.S. Code Section 1501, *Documentary evidence requirement for Government Obligations,* Section 1501(a), states:

> "An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is in writing, in a way and form, and for a purpose authorized by law; and executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided."

The 31 U.S. Code Section 1554, *Audit, control, and reporting*, Section 1554(b)(1), states:

> "After the close of each fiscal year, the head of each agency shall submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation accounts of that agency during the completed fiscal year."

USAID Automated Directive System (ADS) 621, *Obligations,* Section 621.3.7.3, *Review of Unexpended Obligated Balances* states:

> "The Review of Unexpended Obligated Balances is also referred to as a Section 1311 Review… This review must be conducted at least semi-annually (quarterly is a best practice) to determine whether all of the unexpended obligations and subobligations are valid, meet forward funding guidelines, and are not subject to deobligation. As part of this review, expired awards awaiting closeout must be reviewed and any excessive residual funds should be identified for deobligation."

> "Unexpended obligated balances must be monitored to ensure that the level of funding is consistent with Agency forward funding guidelines and that balances are deobligated when no longer needed for the purposes for which they were initially obligated."

3. USAID Needs to a Process to Identify and Analyze Public-Private Partnership Transactions

Condition: Statement of Federal Financial Accounting Standard (SFFAS) 49 defines a public-private partnership (P3[3]) as a "collaborative working relationship with external, non-USG resource partners (such as private businesses, private philanthropies, non-governmental organizations, higher education institutions, recipient country governments, and other private or public sector organizations) in which the goals, structure, and governance, as well as roles and responsibilities, are mutually-determined and decision-making is shared." To the extent that federal agencies have P3 transactions as defined by SFFAS 49 (herein referred to as the accounting definition), certain OMB Circular A-136 disclosure requirements may be required.

USAID's Private Sector Engagement (PSE) Hub collects data on all USAID P3s through an Agency-wide voluntary data call. The data call for the current fiscal year occurs during the 1st quarter of the subsequent fiscal year (e.g., the data call for fiscal year 2024 will occur during the 1st quarter of fiscal year 2025). USAID's annual P3 data call is intended to capture how, when, and why USAID operating units are engaging and partnering with the private sector at large. Consequently, the data call asks for and receives information about non-binding and non-obligational arrangements between USAID and private sector entities. Specifically, the data call collects a variety of quantitative and qualitative data on P3s across the Agency including basic partnership information (i.e., name, start/end date, sector or program area), the type of resource partner (i.e., private organization, NGO, private philanthropy, etc.), resource partner contribution amounts (based on commitments) and types (cash or in-kind) for each fiscal year, USAID funding amounts (based on commitments), indicators used, results, success stories, and lessons learned.

As a result, the data call does not collect information to allow an assessment to be made about (1) whether the P3 meets the accounting definition and (2) assess the level of risk and future contingency of each P3 that meets the accounting definition. Therefore, USAID management cannot accurately identify and analyze P3s to determine whether the P3 requires disclosure in their financial statements or the U.S. government-wide financial statements.

Cause: USAID management defined P3s as a "collaborative working relationship with external, non-USG resource partners (such as private businesses, private philanthropies, non-governmental organizations, higher education institutions, recipient country governments, and other private or public sector organizations) in which the goals, structure, and governance, as well as roles and responsibilities, are mutually-determined and decision-making is shared." The annual P3 data call described above was developed under this broad definition.

[3] USAID refers to public-private partnerships as PPP instead of P3. We have elected to use P3 to be consistent with the criteria.

USAID management did not take into consideration the accounting definition of P3s and the related disclosure requirements when developing the Agencies P3 data call process. As such, USAID has not developed a process to assess P3s for the components of SFFAS 49 to determine whether any P3s require disclosure in the financial statements.

Effect: USAID often engages in P3s transactions through either a non-binding memorandum of understanding (MOU) or traditional acquisition and assistance agreements subject to government-wide regulations (i.e., the Federal Acquisition Regulation or 2 CFR 200 and authorized agency supplements), often implemented under bilateral assistance agreements with foreign governments. However, USAID does have the authority to enter into P3s that meet the accounting definition, furthering the need for a process.

Based on inquiry with USAID management and General Counsel, our understanding of USAID as an entity and the nature of USAID's operations (including the type of agreements USAID enters), and independent research, we have not identified any specific P3 transactions that require disclosure for fiscal year 2024.

Criteria: Paragraph 24 of the *Statement of Federal financial Accounting Standards (SFFAS) 49: Public-Private Partnerships: Disclosure Requirements* states:

"Disclosures should be provided for the initial period and all annual periods thereafter where an entity is party to a P3 arrangement/transaction. The following information should be disclosed:

> a. The purpose, objective, and rationale for the P3 arrangement or transaction and the relative benefits/revenues being received in exchange for the government's consideration, monetary and non-monetary; and the entity's statutory authority for entering into the P3.
>
> b. A description of federal and non-federal funding of the P3 over its expected life, including the mix and, where available, the amounts of such funding. For any amounts that are not available, the disclosures should indicate such.
>
> c. The operational and financial structure of the P3 including the reporting entity's rights and responsibilities, including:
>
> > i. A description of the contractual terms governing payments to and from the government over the expected life of the P3 arrangement or transaction to include:
> >
> > > 1. explanation of how the expected life was determined
> > > 2. the time periods payments are expected to occur
> > > 3. whether payments are made directly to each partner or indirectly through a third-party, such as, military housing allowances
> > > 4. in-kind contributions/services and donations
> >
> > ii. The amounts received and paid by the government during the reporting period(s) and the amounts estimated to be received and paid in aggregate over the expected life of the P3
>
> d. Identification of the contractual risks of loss the P3 partners are undertaking
>
> > i. Identification of such contractual risks of loss should include a description of (1) the contractual risk and (2) the potential effect on cash flows if the risks were realized (for example, early termination requirements including related exit amounts and other responsibilities such as asset condition (hand-back)

> requirements, minimum payment guarantees, escalation clauses, contingent payments, or renewal options).
> ii. Disclosure of remote risks of loss should be limited to those included in the terms of the contractual P3 arrangements or transactions. If remote risks of loss are disclosed, an explanation should be included that avoids the misleading inference that there is more than a remote chance of a loss."

In addition, OMB Circular No. A-136, *Management's Responsibility for Internal Control, II.3.8.32. Note 32: Public-Private Partnerships* states:

> "SFFAS 49, paragraph 16 defines public-private partnerships (P3s) as "risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities." Arrangements or transactions that are not excluded by SFFAS 49 paragraph 15 and that meet the definition in paragraphs 16 through 18 should be assessed against the risk-based characteristics in paragraphs 20 and 21.
>
> "Risk" refers to risk of financial losses beyond the types of costs anticipated in the normal course of the agreement, assuming the agreement is carried out over its expected life (i.e., it is risk not fully reflected in the consideration exchanged in executing the agreements). Such risk may relate, for example, to termination, default, or noncompliance with the agreement.
>
> Although loan, loan guarantee, insurance, and grant programs are not P3s, they may be used to finance a P3. In addition, P3 arrangements may include leases between the entity and P3 partner.
>
> See SFFAS 49, paragraph 24, for the required disclosures. Such disclosures should state in plain language the nature and magnitude of risk of loss to the reporting entity. The magnitude of potential risk of loss should be considered in determining whether a P3 is material to the reporting entity's financial statements. Remote risks of loss should only be disclosed if they are included in the terms of the agreement and should be accompanied by an explanation that the risk of loss is remote.

Entities should disclose the amounts received and paid by the Government during the current and prior reporting periods and amounts to be received and paid in the aggregate over the expected life of the P3, as shown in the illustrative table below. The expected life of the P3 is the term or period for which the entity is likely to participate in the P3. Similar agreements or contracts may be combined."

4. USAID Needs to Strengthen Controls Surrounding the Bureau of Humanitarian Assistance Inventory Count and Warehouse Management

Condition: USAID Bureau of Humanitarian and Assistance (BHA) Supply Chain Management (SCM) procedures need improvement to ensure a timely and effective count of inventory. We observed the annual physical count of the Dubai CEVA[4] warehouse conducted September 23rd,

CEVA is the logistics company that owns the warehouse.

through September 26th, 2024, and found that components of BHA Standard Operating Procedures (SOPs) were not effectively performed or not fully implemented at the CEVA facility. Specifically, we identified the following:

1. USAID commodities of the same type were not consistently stored next to and/or adjacent to one another.
2. Certain warehoused items were not properly labeled utilizing the standard labeling scheme provided by SCM (i.e., did not contain commodity type, commodity stock keeping unit (SKU), piece count per carton, carton count per skid, and piece count per skid), labels were damaged, or items were stocked in a manner where labels were not visible to counters.

Due to the dispersed organization of certain warehoused items and labeling insufficiencies encountered, the BHA SCM counting team was unable to consistently perform counts of each item by SKU independently. Further, certain commodities could not be counted at the SKU level and had to be grouped by commodity type to establish a general total count. Therefore, significant time was expended by BHA SCM supervisor and counters to document the count, record all findings, and sign final count sheets.

Cause: Although warehouse management and physical inventory count policies and procedures exist, such activities have not been effectively deployed within the CEVA warehouse operational structure. USAID management noted warehouse services were contracted with the CEVA facility in December 2023, and the September 2024 physical count was the first performed at this facility. Therefore, the physical count control activity had not yet been assessed for effectiveness in the CEVA facility prior to the 2024 annual count.

Effect: Weaknesses in controls surrounding BHA inventory management and count procedures limit USAID management's ability to timely and accurately report inventory amounts by SKU. Further, the sensitive nature of humanitarian assistance efforts requires precise handling and deployment of USAID commodities. Without effective oversight of inventory at the SKU level, discrepancies may exist but go undetected and uncorrected, thereby compromising the efficiency and effectiveness of USAID's humanitarian responses.

Criteria: The GAO Standards for Internal Control in the Federal Government (GAO-14-704G), Principle 3 *Establish Structure, Responsibility and Authority, Documentation of the IC System*, Section 3.11. states:

> "*Documentation of the Internal Control System* …Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity."

GAO Standards for Internal Control in the Federal Government (GAO-14-704G), Principle 12 *Implement Control Activities,* Section 12.05 also states:

> "*Periodic Review of Control Activities*. Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change

> in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators; legislators; and in the federal environment, the Office of Management and Budget and the Department of the Treasury may also change either an entity's objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review."

USAID Bureau for Humanitarian Assistance Warehouse Standard Operating Procedure - Non Food Items, Section 2.3, *Storing Goods* states:

> "Commodities of the same type belonging to the same purchase order shall be stocked together whenever possible. USAID commodities of the same type should be stored next to and/or adjacent to one another and avoid being separated within a warehouse or over multiple warehouses whenever possible."
>
> "Almost all commodities are designated by Stock Keeping Unit (SKU) numbers. SKU numbers indicate the commodity, production run, and when appropriate, number of units on pallets as well as the manufacturer. Accurate accounting per SKU is extremely important; even though two items may appear to be identical, SKUs are used to identify expiration dates, production batches, and other information that directly impacts inventory management decisions."

USAID Bureau for Humanitarian Assistance Warehouse Standard Operating Procedure - Non Food Items, Section 2.4, *Marking and Branding* states:

> "All warehoused items must be properly labeled utilizing a standard labeling scheme provided by SCM. Typically, all SKU items should be labeled by the manufacturer at the time of production; however contracted warehouses will need to apply the same labeling standard from time to time for a variety of reasons.
>
> - All warehouse pallets must be clearly labeled on all four sides, label placed in the top right corner.
> - All warehouse labels must contain commodity type, commodity SKU, piece count per carton, carton count per skid, and piece count per skid."

USAID Bureau for Humanitarian Assistance Inventory Inspection, Count, and Reporting Standard Operating Procedure USAID-procured commodities, Section e, *Count* states:

> - "Counting Lead and each counter counts each item independently…Inventory spreadsheet with description, SKU, inventory quantity, and space to record count is used to document the count. Once count is completed and all findings are recorded, both supervisor and counter sign the sheet."

<u>5. USAID's Automated Accrual Process Needs Refinement</u>

Condition: As of October 1, 2023, USAID implemented an automated accrual process within Phoenix. The new automated accrual process was developed and implemented to address a prior year significant deficiency on the accrual process. The significant deficiency recommended that USAID management ‘update its methodology for reporting and posting quarterly accruals to eliminate or mitigate the human factor while increasing automation by developing a system generated accrual estimation amount for financial reporting purposes.’ While we determined the recommendation was implemented, we identified refinements needed to the process.

Identification of Obligations Needing a Varied Methodology
In our internal control phase testing of IGTs, we noted a significant increase in IGT differences in FY 2024. USAID attributed the increase in differences versus the prior year in Q1 and Q2 (177% and 189%, respectively) to the newly implemented automated accruals process. Specifically, USAID stated that after the transition to the automated accrual process, the accruals calculated and processed for intragovernmental activity were larger than they had been historically. This change resulted in inflated IGT differences with federal trading partners in Q1 and Q2 of FY 2024. In the interest of reducing IGT differences, beginning in FY 2024 Q3, USAID implemented adjustments to the calculation and processing of intragovernmental accruals, as follows:

1) Independent accrual calculations are performed for State, General Services Administration, and transfer of Department of Agriculture accounts, and;
2) Burn-rate based calculations are performed for all other federal trading partners.

Following implementation of the adjusted process, we determined that total IGT differences returned to a value more in line with historical totals (FY 2024 Q3 differences increased 17% over the same quarter in the prior fiscal year). Other instances such as this IGT issue may have not been addressed.

Lookback Analysis
Federal Accounting Standards Advisory Board Technical Release 12 requires a lookback analysis to validate the accuracy and reasonableness of the accrual estimation process. However, because it was the first year of implementation this has not been performed but is necessary to validate that the methodology and estimations are reasonable. USAID plans to perform the analysis during FY 2025 Q3.

Advances and Accrual Gross Up
Further, as part of this process, USAID does not apply open grant advances for other than Letter of Credit grantees against the associated accruals as a reduction.

Cause: Because of the broad categories used in the accrual process, USAID did not consider all situations but primarily addressed the greatest portfolio of expenses. Also, USAID did not consider the impact on other financial areas. USAID plans to perform the lookback analysis in FY 2025 because it must be done after the implementation and thus is a matter of timing.

Effect: These issues increase the risks that USAID’s automated accruals and expenses are misstated. Also, because the advances are not applied against the accrual for financial reporting purposes these financial statement line items may be overstated.

Criteria: *Federal Accounting Standards Advisory Board Technical Release 12- Accruals for Grant Programs* states:

> "Footnote 2. Agencies must recognize and report balances due to or advanced to grantees at the end of the reporting period. Adjustments are needed to provide for eligible expenses that grantees have incurred as of the reporting date but have not yet reported to the agencies. Since these adjustments are based upon estimates, they are referred to as "accrual estimates" in this guidance. In particular:
>
> - Advances: Amounts issued as advances must be adjusted, even if grantees have not yet reported expenses incurred.
> - Accounts Payable: Where there is no advance or no remaining advance, agencies must estimate amounts payable to grantees.
>
> 26. As part of agencies' internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting.
>
> 29. A difference between an accounting estimate and actual result does not necessarily represent a misstatement of the financial statements. Rather, differences could be an outcome of inherent estimation uncertainty. However, it could result in a misstatement if, as described in SFFAS 21, Reporting Corrections of Errors and Changes in Accounting Principles, the difference arises from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. Differences between estimates and actual should be taken into consideration in developing the subsequent period's estimate."

GAO Standards for Internal Control in the Federal Government states:

> "13.04 Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have a logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.
>
> 13.05 Management processes the obtained data into quality information that supports the internal control system. This involves processing data into information and then evaluating the processed information so that it is quality information. Quality information meets the identified information requirements when relevant data from reliable sources are used. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information.

> 13.06 Management processes relevant data from reliable sources into quality information within the entity's information system. An information system is the people, processes, data, and technology that management organizes to obtain, communicate, or dispose of information. Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks."

6. Improvements Needed to USAID's Methodology for Allowance for Doubtful Accounts Process

Condition: We noted several receivables that should be fully reserved in USAID's allowance for doubtful accounts methodology.

During our review of the FY 2024 Q4 Master Accounts Receivable (MARS), we determined that 40 of the 121 outstanding receivables have notes indicating that the receivables were referred to the Department of the Treasury. The 40 receivables that were referred have been outstanding between 2 and 10 years and account for $26.1 million of the total outstanding amount, $57.7 million, or 45%.

The outstanding receivables were referred to Treasury for collection between 2016-2022, after USAID exhausted all collection attempts. Additionally, only four of the 40 receivables had collections, $3,000 in total. These receivables transferred to Treasury are unlikely to be collected; however, USAID has not captured 100 of the receivables in its allowance for doubtful accounts as of September 30, 2024.

Cause: USAID's calculation of the allowance for loss on accounts receivable is based on a historical ratio and the total USSGL 131000-Accounts Receivable balance on a quarterly basis. USAID divides the allowance by total receivables balance, then takes the average of this percentage since 2001 and applies it to the current USSGL 131000 balance. USAID does not consider individual balances nor debtors are separately considered in the allowance.

Effect: By using the historical data rather than the full amount of the receivables referred to Treasury in the calculation of the allowance, there is an increased risk that the accounts receivable, net balance is overstated and the allowance for doubtful accounts is understated on the Balance Sheet by $22,347,076.

Criteria: *ADS 625.3.4.11* states:

> "Bad debt losses on receivables must be recognized when it is likely that the receivables will not be totally collected. Recognition of bad debt losses results in a write-off in the accounting records of USAID. Any financial write-off must be processed against the Allowance Account and not directly to the expense account. Each billing office determines losses due to uncollectible amounts based on an analysis of both individual accounts and a

group of accounts as a whole. A write-off is mandatory for delinquent debt older than two years, unless documented and justified to OMB, in consultation with Treasury."

7. USAID Should Compare the SF 133 Report on Budget Execution and Statement of Budgetary Resources

Condition: As part of the interim and year end testing audit procedures, we requested the SF 133 Report on Budget Execution (SF 133) and Statement of Budgetary Resources (SBR) as of June 30th and September 30th, 2024, respectively. We performed reconciliations of the SF 133s to the agency's SBR TFMUSSGL Supplement, which contains crosswalks from the USSGL to the SF 133/SBR, and Program and Financing schedule.[5] We identified multiple variances during our reconciliations and inquired of USAID management; however, we were unable to obtain reasonable explanations for all variances identified at both interim and year end as summarized below:

- 10 of 12 lines contained unexplained variances as of June 30th
- 12 of 12 lines contained variances as of September 30th

After further inquiry with USAID, additional documentation and explanations were provided for the significant variances identified between the SF 133 and SBR at year-end (i.e., September 30, 2024).

Cause: USAID management did not have in place procedures for comparing SF 133 and SBR reporting to ensure the amounts are conceptually and numerically consistent.

Effect: Weaknesses in controls surrounding the SF 133 reporting may compromise the reliability of information used to help prepare the President's Budget, program operating plans, and spend-out rate estimates. Further, such weaknesses limit USAID management's ability to ensure accuracy of reporting on unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation accounts during the completed fiscal year. Without timely reviews of budget execution and SBR reporting, discrepancies may exist but go undetected and uncorrected, thereby compromising the reliability of financial reporting and compliance with laws and regulations.

Criteria: The GAO Standards for Internal Control in the Federal Government (GAO-14-704G), Section 10.3. states:

> "*Appropriate documentation of transactions and internal control.* Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

In addition, Appendix A of OMB Circular No. A-123, *Management's Responsibility for Internal Control,* states:

[5] See FY2024 TFM USSGL crosswalk at p1sec5_sf133_2024.pdf

> “Reliability of financial reporting means that management can reasonably make the following assertions…. documentation for internal control, all transactions, and other significant events is readily available for examination.”

OMB Circular A-11, Preparation, Submission, and Execution of the Budget, Section 130 —*SF 133*, *Report on Budget Execution and Budgetary Resources,* 130.1 states:

> “The SF 133 Report on Budget Execution and Budgetary Resources:…Ties an agency's financial statements to its budget execution. The compilation of an agency's SF 133s should generally agree with an agency's Statement of Budgetary Resources. The few differences are explained in section 130.18(e).”

OMB Circular A-11, Section 130 —*SF 133*, *Report on Budget Execution and Budgetary Resources,* 130.18 states:

> “Amounts reported on the fourth quarter SF 133 must be consistent with information reported to Treasury as part of year-end closing procedures and must be based on actual accounting information pursuant to 31 U.S.C. 3512. Actuals submitted to OMB for inclusion in the President's annual budget, which is submitted to the Congress, should agree with those submitted to Treasury and those submitted on the fourth quarter SF 133. If one group within your agency (for example, accounting) reports amounts to Treasury while another group (for example, the budget office) prepares budget schedules, then you must take action to ensure that the amounts reported are conceptually and numerically consistent. It may be advisable to allow the budget office to review your SF 133 information before it is submitted.
>
> (a) What reports of actuals should generally be the same?
> - September 30 SF 133 Report on Budget Execution and Budgetary Resources.
> - Statement of Budgetary Resources (SBR)…
> - Your agency's accounting system….
>
> (e) What differences should I expect between the September 30 SF 133 and the Statement of Budgetary Resources?
> - The SF 133 is displayed at the TAFS [Treasury Appropriation Fund Symbol] level, while the Statement of Budgetary Resources is displayed at the agency level. The Statement of Budgetary Resources is displayed as a principal statement for the agency as a whole, and must be displayed as required supplementary information for major TAFSs.
> - The Statement of Budgetary Resources includes a separate column for credit financing TAFSs because they are non-budgetary.
> - The Statement of Budgetary Resources includes separate lines for offsetting receipts and net outlays in order to derive the net outlays for the agency.”

1. Intragovernmental Transactions (IGT) Differences Remain Outstanding (Repeat)

Condition: When a Federal Government Agency buys goods or services from another Federal Agency, the two engage in an intragovernmental transaction and are referred to as "trading partners." Differences arise in Government-wide financial reporting when the Agencies record such transactions in different periods or make accounting errors. In FY 2013, Treasury developed "scorecards" to track and correct these differences. The scorecards rank each Federal Agency by its contribution to the Government-wide differences.

At the end of the third quarter of FY 2024 (Q3 FY 2024), USAID had IGT differences outstanding amounting to $160.9 million and ranked as the 26th largest contributor to total federal government IGT differences. The Agency's intragovernmental differences were temporarily inflated in Q1 and Q2 FY 2024 due to large differences with trading partners caused by the implementation of the new USAID accrual process. Accordingly, differences reported on Treasury's quarterly IGT Scorecard for these periods are not considered in this finding.

However, following adjustment to the accrual calculation for intragovernmental obligations, USAID's Q3 FY 2024 total IGT difference increased $23.8 million (17%) over the total difference reported for the Agency in Q3 FY 2023. Additionally, over the same period, USAID's rank changed from the 28th to 26th largest contributor to total federal government IGT differences. In Q3 FY 2024, differences with six trading partners comprised 94% of the total differences, with the most significant differences existing with the Department of Agriculture ($37 million) and the Department of State ($25 million).

Due to the outstanding differences, which are expected to remain in Q4 FY 2024, USAID will not be in compliance with provisions of the Treasury Financial Manual that state all differences should be resolved by year end.

Cause: Reconciliation and resolution of IGT differences involves coordination between both trading partners involved, however differences that are material and high priority for USAID are frequently of less significance and priority for its trading partners. The inability to coordinate resolution with trading partners contributes to outstanding differences.

Effect: There is a risk of misstatement in the financial statements when trading partners fail to properly record intragovernmental transactions.

In the report on the U.S. government's consolidated financial statements for fiscal years 2023 and 2022, the Comptroller General of the U.S. cited the federal government's inability to adequately account for intragovernmental activity and balances between federal entities as a major impediment to rendering an opinion on the federal government's accrual-based consolidated financial statements.

Criteria: *OMB Circular A-136, "Financial Reporting Requirements,"* May 30, 2024, Page 119, states:

> "Throughout the fiscal year and at year-end, entities are required to reconcile intragovernmental balances and transactions with trading partners and resolve any identified differences, with the goal of resolving all differences prior to final submission of data for the Financial Report."

Treasury Financial Manual Volume 1, Part 2, Chapter 4700 Section 4750.10 states:

> "Accounting differences occur in government-wide financial reporting when trading partners record differing amounts for transactions that should eliminate or net to zero. All differences should be resolved by year-end. Trading partners must reconcile and resolve these differences on a periodic basis with their trading partners."

2. USAID Needs to Strengthen Controls Surrounding Overdrawn Advances (Repeat Modified)

Condition: During the fiscal year USAID implemented a process to identify overdrawn accounts and take corrective action on a quarterly basis in response to the prior year finding. However, there are older accounts that remain overdrawn and unresolved.

At the end of FY23, six out of the 730 Letter of Credit grantees had instances where the liquidation for expenditures exceeded the authorized obligation amounts by approximately $1M. Four of the six advances have been an issue since 2003.

As of June 30, 2024, eight of the 733 Letter of Credit grantees had liquidation for expenditures exceeding the total obligation amount authorized to the grantee by a total of approximately $2.2M. The eight grantees included the six from the prior year and two new grantees with overdrawn accounts totaling approximately $1.2M that were not resolved until Q4 2024.

Cause:
Bureau for Management, Office of the Chief Financial Officer, Cash Management and Payments Division (M/CFO/CMP) indicated that the overdrawn Letter of Credit grantee accounts occurred because the funds were de-obligated after payment had already been recorded in Payment Management System (PMS)[6]. M/CFO/CMP indicated that certain overdrawn accounts were erroneously reduced by more than the charged amount during the de-obligation process.

Additionally, amounts recorded in PMS were erroneously reduced and expenditures were not tracked against the proper award. Previously, USAID awards were pooled for the same awardee and those awardees were not required to specify the award number when requesting funds. This caused certain awards to show as "overdraw" in PMS. These remaining pooled accounts have been difficult to close out because most of the awardees are no longer active and information for reconciling these amounts is no longer available.

[6] PMS is a centralized grants payment and cash management system operated by the US Department of Health and Human Services.

M/CFO/CMP stated that they are working with the Office of Acquisition and Assistance to determine a method to closeout these advances.

Effect: By not having strong controls over the liquidation of outstanding advances, this can cause the total advances to be understated on the Balance Sheet.

Additionally, the lack of prompt review of potential funds control violations increases the risk that an Anti-Deficiency Act (ADA) violation may occur and go undetected.

Criteria: ADS 634, requires that USAID "Establishes, maintains, and oversees the Agency's system of funds control in accordance with Federal law and OMB guidance." To that end, the Bureau for Management's Chief Financial Officer (M/CFO) has the responsibility to investigate and determine whether funds control violations did occur, and to classify the violations as either administrative funds control violations or violations of the ADA. Violation of the ADA requires the CFO to immediately inform the Office of the Inspector General and the Congress of the United States.

ADS chapter 634.3.5.1 states:

> "Congress enacted the Anti-deficiency Act (ADA) to prevent the obligation of government funds that are not available. Violations of the ADA can occur when following circumstances exist:
>
> For Appropriated Funds:
> a.1. Over-obligation or over-expenditure of an appropriation or fund – An officer or employee authorizes expenditure from or creates or authorizes an obligation against any appropriation or fund in excess of the amount available in the account."

3. Long Outstanding Reconciling Items, Including Suspense Account Items, are Not Being Adequately Researched and Resolved Within The Department of The Treasury's 60 Business-Days Rule (Repeat Modified)

Condition: In FYs 2021 and 2022 Fund Balance with Treasury (FBWT) reconciliations, long outstanding items were identified (i.e., outstanding for more than the three-months) and reported as a Management Letter Comment. In addition, both USAID Washington and Missions had reconciling and suspense transactions that exceeded Department of Treasury's three (3) month and sixty (60) business day guidelines, for reconciling and suspense transactions, respectively. Although, USAID's Office of the Chief Financial Officer implemented procedures to research and reconcile long outstanding reconciling and suspense items identified in prior years, we identified an increase in long outstanding reconciling and suspense items in fiscal year 2024 when comparing to fiscal year 2023.

Outstanding FBWT Reconciling Items

During our review of the April 2024 FBWT reconciliation, we examined the Treasury GL Reconciliation (TyGR) Analysis performed outside the Electronic Cash Reconciliation Tool (eCART), to determine whether the reconciliation process was effective. The TyGR analysis provides a monthly and quarterly summary and detailed listing of all outstanding reconciling items by appropriation. We noted that the count of total reconciling items greater than three months increased from 162 to 179 and the absolute dollar amount change increased from $3.4 million to $13.4 million between September 30, 2023 and April 30, 2024.

Outstanding Suspense Items
During our review of the FBWT suspense account for April 2024, we noted that long outstanding suspense items for Treasury Account Symbol (TAS) 72F3885 – Undistributed Intra-Governmental Payments, USAID increased from zero items as of September 30, 2023, to ten items with an absolute value of $2.04 million as of April 30, 2024.

Our review of the April aged outstanding reconciling items for TAS 72X6809 – Suspense Deposits Abroad, USAID revealed an increase from zero items to 100 items with an absolute value of $4.56 million between September 30, 2023, and April 30, 2024. These reconciling items primarily result from Foreign Service National (FSN) payroll transactions. In addition, during our Mission audit procedures, we determined that three of the 10 Missions had suspense payroll outstanding reconciling items outstanding for greater than 60 business days totaling $231,898 as of March 31, 2024.

Year-End Analysis
We were unable to obtain the September 2024 TyGR and suspense analyses during our year-end audit procedures due to the timing of USAID's eCART reconciliation process. Therefore, we obtained the draft Q4 2024 consolidated aging and suspense reports to review the Q4 reconciling and suspense items. Draft reports indicate the agency researched and cleared outstanding aging suspense items at year end. The draft reports showed the following:

- a decrease in the absolute dollar value of reconciling items from $13.4 million to $1.02 million between April and September, although the number of outstanding reconciling items only decreased by eight.
- a decrease in the absolute dollar amount of suspense items in TAS 72F3885 from $2.04 million to $39,720, although the total number of items only decreased by five.
- a decrease in the absolute dollar amount of suspense items in TAS 72X6809 from $4.56 million to $2.01 million and the total number increased by two.

Cause:
Outstanding FBWT Reconciling and Undistributed Intra-Governmental Payments held in Suspense
USAID has not fully implemented its fiscal year 2019 corrective action plan commitment to perform timely research and clear all outstanding reconciling items within three months and sixty days from the date of transaction, respectively, for reconciling and suspense items, as mandated by the Department of the Treasury.

<u>Outstanding Suspense Deposits Abroad</u>
In October of 2010, USAID's Financial Systems Division within the Office of the CFO replaced the manual FSN payroll posting process with an automated process that is performed by uploading United States Disbursing Officer payroll files directly into Phoenix. The "New Procedures for Posting FSN Payroll Information in Phoenix" (dated 2010) was issued, which detailed the roles and responsibilities for the two regional centers, Missions, and the Phoenix team when processing the FSN payroll and resolving rejection transactions. The responsibilities as described are vague creating confusion between regional centers, Missions, and the Phoenix team, particularly related to resolving rejection transactions and reconciling items. Thereby, creating timeliness issues in performing corrective actions and thus noncompliance. In addition, guidance on this process has not been distributed since process initiation (over 10 years), further adding to the lack of understanding.

Effect: Long outstanding reconciling items represent an area of uncertainty that increases the risk of misstatements in the financial statements. In addition, the longer they remain in suspense, the less likely they are to be resolved.

Criteria: *The GAO Standards for Internal Control in the Federal Government (GAO-14-704G), Section 10.3.* states:

> "*Appropriate documentation of transactions and internal control*. Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

Treasury Financial Management Guidance - Reconciliation Procedures, a Supplement to the Treasury Financial Manual (TFM), Volume I, part 2-5100, states:

> "Agencies should identify and clear differences within 2 months of occurrence. During the reconciliation process, be aware of conditions creating your differences."

The TFM, Volume I, part 2-5135, also states:
"Agencies must reconcile budget clearing account balances on a monthly basis, as suspense and default account balances are subject to scorecard performance standards as outlined in this chapter's Appendix 1… Fiscal Service will process each FPA's request, including the agreement to reclassify transactions/amounts temporarily placed in suspense accounts to the proper TAS, within 60 business days of the transaction."