



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Assistant *Inspector General*
for Audit

MAR 31 1999

MEMORANDUM FOR AA/PPC, Thomas H. Fox
M/CFO, Michael T. Smokovich

FROM: A-AIG/A, Toby L. Jarman

SUBJECT: Report to USAID Managers on Selected USAID
Internal Controls, Audit Report No. 0-000-99-002-F

This is our Report to USAID Managers on Selected USAID Internal Controls. It is a companion report to the previously issued Report on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998 (Audit Report No. 0-000-99-001-F, March 1, 1999). The purpose of this report is to provide more technical detail on the internal control issues identified in the March 1, 1999 report. Recommendation Nos. 8, 9 and 10 are made to the Bureau for Policy and Program Coordination (see pages 18-29). Recommendation Nos. 1 to 7 and 11 are directed to Office of Financial Management (see pages 7-17 and 29).

While the report's 11 recommendations are focused on problems with existing systems and procedures, they need to be considered in the greater context of improving USAID's overall financial management environment. When successful, improved financial management systems that comply with the requirements of the Federal Financial Management Improvement Act will help ensure that USAID can produce complete, reliable, timely, and consistent financial information and statements. In turn, these information and statements can be audited and receive an opinion from the Office of Inspector General.

We received and considered your comments provided to the draft report. This report contains 11 recommendations to improve USAID's internal controls for the preparation of its annual financial statements required under the 'Chief Financial Officers' Act. Based on your comments to the draft report, we acknowledge your agreement with the conclusions contained in the report. We look forward to

conclusions contained in the report. We look forward to receiving your 30-day response to the draft report that will contain your detailed plans to address the recommendations.

I would like to express my sincere appreciation for the courtesies extended by your staffs to the auditors over the past year. The collaborative approach used by our staffs this year, together with the systems improvements you indicate have been made, may ensure a successful audit next year. The Office of Inspector General is looking forward to working with you on the audit of the Fiscal Year 1999 financial statements.

Attachment: a/s

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**REPORT TO USAID MANAGERS ON SELECTED
USAID INTERNAL CONTROLS**

Report No. 0-000-99-002-Fp
March **31, 1999**

Financial Audit

. EXECUTIVE SUMMARY

The Office of the Inspector General is providing this management report to you to communicate detailed information about the issues reported in our Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998.¹ As stated in that report, the Government Management and Reform Act of 1994 requires the U.S. Agency for International Development (USAID) to prepare consolidated financial statements and have them audited for inclusion in the government-wide financial statements. This law and other applicable auditing standards require the Office of Inspector General to:

- express an opinion on the financial statements including performance overview information;
- report related internal controls weaknesses; and
- report noncompliance with applicable laws and regulations.

As stated in our audit report, we could not express an opinion on USAID financial statements because our audit was impaired. Deficiencies in USAID's financial, accounting, and performance measurement systems and other previously reported material internal control weaknesses caused this impairment. These deficiencies in USAID's accounting and financial management systems² created consequential risks that the financial statements, including the performance overview information, could contain material misstatements. The amount of substantive testing required to express an opinion on the fairness of the presentation of USAID's financial statements would have been prohibitive and unattainable by the statutory deadline of March 1, 1999, for submitting the audited financial statements to the Office of Management and Budget (OMB). Accordingly, we have not made an opinion on the fairness of the financial statements. Among the most significant impairments were (1) the weak internal controls in the accounting and financial management systems and (2) the lack of complete, reliable, timely and consistent financial information.

With respect to USAID's internal controls, the accounting and financial management systems did not meet Federal standards. USAID's existing financial management systems have experienced significant internal control problems which, when combined with the challenges

¹ Reoorts on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998 (Audit Report No. 0-000-99-001-F, March 1, 1998).

² According to OMB Circular A-127 and the Chief Financial Officers' Act, a financial management system includes supporting systems that contain the information needed to carry out financial management functions, manage financial operations, and report financial status information. The systems provide the information managers need to (1) carry out their fiduciary responsibilities, (2) deter fraud, waste, and abuse; and (3) relate financial consequences to agency program performance. Thus, in addition to basic accounting functions, USAID's financial management system includes supporting systems that perform performance measurement, budget, and procurement functions.

associated with developing a new core accounting system, call into question USAID's ability to implement an effective Agency-wide financial management system. USAID needs to address the internal control problems noted below as part of its overall strategy to improve its financial management systems as it brings the new core accounting into use.

This report provides information on several significant internal control weaknesses that hinder USAID management's ability to develop accurate financial statements and provide us with reasonable assurance about the completeness, reliability, and consistency of financial information with existing systems. Six of the more significant internal controls problems included:

Reporting Information to Oversight Agencies - The Office of Financial Management reported questionable financial data in its budget reports³ to federal oversight agencies. This occurred because of inaccuracies in preparing the reports and the use of inconsistent and unreliable sources. Further, USAID did not submit all required reports to the OMB. As a result, USAID continues to report unreliable and unsupported financial data to federal oversight agencies. (See report page 5 - 7).

Reconciling Information with U.S Treasury - The Fund Balance with Treasury reported on USAID's Fiscal Year 1998 financial statements may be less than reliable. USAID did not properly reconcile differences identified between its general ledger and the U.S. Treasury records. Instead, USAID posted unreconciled adjustments of about \$590 million into its' general ledger to match the U.S. Treasury records. This occurred because USAID did not properly research and reconcile differences identified between its general ledger balances and the U.S. Treasury balances throughout the fiscal year. As a result, USAID's fund balance with Treasury line item in the financial statements may be misstated. (See report page 8 - 11).

Rescheduling and Valuation Direct Loan Portfolio - Our review of payments received and recorded against individual loans did not reveal any material errors or irregularities. However, we did identify areas for improvements. The primary areas were the loan rescheduling process, the reporting of direct loan assets at net present value, and the recording of accrued interest.

As of September 30, 1998, the Loan Management Division had a backlog of loans for about 10 countries to be rescheduled. Information necessary to determine the number of loans and their value was not available at the time of our review. This backlog resulted because rescheduling was completed on an as-time-permits basis.

Regarding the valuation of assets at net present value, USAID calculated and recorded the allowance for doubtful accounts for its direct loan program according to instructions received from OMB. However, those instructions did not allow USAID to recognize the direct loan assets at their net present values according to Federal

³ The budget reports are the Office of Management and Budget's Standard Form 133, Report on Budget Execution, which reports budgetary resources, status of budgetary resources and relation of obligation to outlays. These reports are due to Office of Management and Budget quarterly.

Accounting Standards Advisory Board (FASAB). If the controls over the rescheduling and allowance process were strengthened, USAID would be able to recognize the necessary increases or decreases to its asset values resulting from capitalized interest on rescheduling loans, where necessary, and record direct loans at their net present values. (See report pages 11 - 15).

Disbursing Under Letters of Credit Policy Causes Problems on the Financial Statement - USAID did not properly identify, record, and report advances made to grantees through the letter of credit system—approximately \$1.7 billion annually. In accordance with USAID’s Office of Financial Management policy, these advances were not recorded against the proper obligation. Instead, the advances were recorded at the grantee level, without regard to the corresponding grant obligation. USAID’s systems did not provide reliable information to Program Managers and Project Officers. As a result, program managers cannot determine fund availability for their projects or identify funds that could be put to better use. To compensate for this deficiency, some managers contacted the recipients and obtained necessary financial status information.

This material weakness also impacts USAID’s ability to prepare auditable financial statements. Specifically, this material weakness hinders USAID’s ability to:

- provide Program Managers timely information;
- estimate the incurred expenses against the outstanding advances; and
- report the status of their budgetary resources.

Further, no management oversight audit trail exists to trace a specific disbursement through liquidation at the appropriate obligation level. Despite the fact that we reported this deficiency in our previous Government Management Reform Audit Reports, USAID did not address this matter as directed by a June 22, 1998, OMB memo. In this memo, the OMB directed that each agency submit a plan, including milestones, for resolving financial reporting deficiencies identified by auditors on or before September 30, 1998. (See page 15 - 16).

Calculating Accrued Expenses and Accounts Payable – USAID’s current methodology for calculating accrued expenses and related accounts payable does not meet the requirements of the federal accounting standards. This methodology computes accrued expenses on a straight-line basis for all unliquidated obligations, unless other means are established at the time of the obligation, and utilizes the schedule completion date. This occurred because USAID/Washington did not perform a year-end review of all unliquidated obligations to ensure that the outstanding unliquidated obligations were needed during fiscal years 1997 and 1998. According to USAID/FM officials, the schedule completion dates maintained in the New Management System are not properly updated. Additionally, we found that

USAID overseas missions reported accrued expenses and related account payables after the payments were made by other USAID locations. As a result, USAID may have overstated their liabilities for fiscal year 1998. (See page 16 - 17).

Reporting Performance Information - USAID needs to improve its internal controls to better ensure that operating units report program results that were objectively verifiable, supported, accurate, complete and/or validated. In addition, improved internal controls should be developed so that USAID consistently and reliably measures and reports achievements at the operating unit and USAID-wide levels that were attributable to USAID-funded activities. Also, USAID needs to report accurate and complete funding data in its Congressional Presentation pertaining to the level of funding from host governments and other donors which supports activities contributing to the achievement of USAID's strategic objectives at the operating unit level. (See page 18 - 29).

For our audit of USAID's 1998 financial statements, we statistically selected and reviewed the financial transactions at 10 missions. This report includes examples of some of the problems noted. Specific details on all conditions found have been reported by the individual Regional Inspectors General reports to the responsible mission management officials.

This report provides 11 recommendations to assist USAID's management in improving internal controls and compliance with laws and regulations.

Office of Inspector General

Office of Inspector General
March 29, 1999

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INTRODUCTION

Background

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in 60 countries; 42 of which have fully operational and formal USAID missions. In fiscal year 1998, USAID had total obligation authority of \$6.6 billion, supported by \$500 million in operating expenses.

Under the Government Management Reform Act of 1994, USAID is required to submit audited financial statements to the Office of Management and Budget and appropriate Congressional Committees. Pursuant to this Act, USAID has prepared statements of financial position, operations, changes in net position, and related footnotes for the 1998 fiscal year.

Audit Objectives

OMB Bulletin No. 98-08 (dated August 24, 1998) established the audit requirements for Federal financial statements. For fiscal year 1998, this Bulletin required the USAID Office of Inspector General to:

- Determine whether USAID's Principal Statements present fairly-in all material respects-in conformity with Federal accounting standards, the (1) assets, liabilities, and net position, (2) net cost, (3) changes in net position, (4) budgetary resources, (5) reconciliation of net costs to budgetary obligations, and, if applicable, (6) custodial activity.
- Obtain an understanding of the components of internal control and assess the level of control risk relevant to the assertions embodied in the class of transactions, account balances, and disclosure components of the financial statements.
- Perform tests of compliance with laws and regulations that could have a direct and material effect on the Principal Statements and Required Supplementary Stewardship Information, and any other laws, regulations, and government-wide policies identified by OMB.

Assess whether the Principal Statements and Required Supplementary Stewardship Information and manner of its presentation in the Overview of the Reporting Entity and other accompanying information is materially consistent with the information in the Principal Statements and Required Supplementary Stewardship Information.

See Appendix I for the Scope and Methodology

REPORT OF AUDIT FINDING

We attempted to audit the financial statements of USAID as of September 30, 1998. However, our report⁴ on these statements disclaims an opinion on whether they are presented fairly because the scope of our work was impaired.

In planning and performing our work to report on these financial statements, we obtained an understanding of the internal control structure. In this regard, we:

- obtained an understanding of the design of relevant policies and procedures;
- determined whether they have been placed in operation; and
- assessed control risk.

We obtained an understanding of the internal control structure to determine our audit procedures for reporting on the financial statements. not to express an opinion on the internal control structure. Accordingly, we do not express an opinion on this structure.

Nevertheless, we noted certain matters involving the internal control structure and its operation that we considered reportable conditions? Some of these conditions are considered to be material weaknesses? This report identifies these conditions and provides recommendations for their correction.

⁴ Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998 (Audit Report No. 0-000-99-001-F, March 1, 1998).

⁵ A reportable condition is a condition that, in our judgement, represents a significant deficiency in the design of operation of an internal control which could adversely affect USAID's ability to record, process, summarize, and report information on its financial statements.

⁶ A material weakness is a reportable condition in which the design of operation of the internal control does not reduce to a relatively low level the risk that a material misstatement-material to the financial statements--could occur and go undetected over a period of time by employees in the normal course of performing their functions. An error or a fraud could cause the misstatement.

Background on Internal Controls

Under the Accounting and Auditing Act of 1950, the Federal Managers' Financial Integrity Act of 1982 and implementing policies established by OMB, USAID's management is responsible for establishing and maintaining effective systems of internal controls. To fulfill this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The General Accounting Office issued Standards for Internal Controls in the Federal Government that executive agencies must follow in establishing and maintaining the effective internal control structure required by the laws and executive branch policies.

The internal control objectives, according to OMB Bulletin No. 98-08, are to provide management with reasonable-but not absolute-assurance that:

- transactions were properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;
- funds, property, and other assets were safeguarded against waste, loss, unauthorized use, or disposition;
- transactions, including those related to obligations and costs, were executed in compliance with (1) laws and regulations that could have a direct and material effect on the financial statements, and (2) any other significant laws and regulations for which compliance can be objectively measured and evaluated; and
- data that support reported performance measures was properly recorded and accounted for to permit the preparation of reliable and complete performance information.

Because of inherent limitations in any internal control structure, errors or irregularities may occur without detection. Also, predicting whether the internal controls will be effective in the future is risky because changes in conditions may require additional controls or because the effectiveness of the design and operation of policies and procedures may deteriorate.

The following section presents our findings and recommendations for those matters that we considered as reportable conditions and material weaknesses.

Findings

Deficiencies in Financial Management Systems Cause Unreliable Information

USAID's core financial, performance measurement, managerial cost accounting, and budget systems have widespread deficiencies. These systems do not meet federal standards that establish the minimum requirements needed to perform effectively. USAID disclosed many of the systems' deficiencies as material internal control weaknesses in its fiscal year 1998 Accountability Report. USAID also properly reported deficiencies in these systems to Office of Management and Budget and developed a plan to integrate its financial management systems as required by the Federal Financial Management Improvement Act.

During the review of the 1998 financial statements, a number of reportable conditions were identified. The two most significant conditions-failure to meet minimum federal system standards and inadequate computer security measures-were reported in the Report on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998.⁷ This report discusses, in more technical detail, aspects of these conditions. The detailed areas being discussed in this report are:

- Reporting information to oversight agencies;
- Reconciling information with U.S. Treasury;
- Rescheduling and valuing direct loan portfolio;
- Recording disbursements and accounts payable;
- Reporting accurate performance information; and
- Complying with OMB Bulletin 97-01.

We consider all of the above six areas to be reportable conditions that are material weaknesses in USAID's internal control structure. Any of these six conditions could result in a material misstatement occurring in the financial statements that could go undetected by USAID's financial management staff in the normal course of performing their functions.

Reporting Information to Oversight Agencies

The Office of Financial Management submitted inaccurate and unsupported budgetary data in its budget reports* to federal oversight agencies. Further, USAID did not always submit

⁷ Reports on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998. (Audit Report No. 0-000-99-001-F, March 1, 1998).

⁸ The budget reports are the Office of Management and Budget's Standard Form 133, Report on Budget Execution, which reports budgetary resources, status of budgetary resources, and relation of obligation to outlays. These reports are due to Office of Management and Budget quarterly.

the required budgetary reports. This occurred because the Office of Financial Management used inconsistent and unreliable sources to prepare these reports. Additionally, delays in consolidating mission data through the accounting system resulted in information not being available for submission. As a result, future USAID appropriations may be adversely affected because unreliable and unsupported financial data is being reported to federal regulatory agencies that make decisions about USAID appropriations.

The federal policy governing reporting by federal agencies to OMB and the U.S. Treasury is contained in the GAO's Policy and Procedures Manual.⁹ This policy states that:

Accounting systems must provide full and prompt financial information to meet external reporting requirements and internal management needs. The reports, statements, and related disclosures that the system produces must be accurate, useful, complete, timely, and consistent to fairly present information needed by management for external reporting and for (1) planning and programming, (2) budget formulation, (3) budget execution and accounting (including controlling assets, liabilities, and operations and managing activities), and (4) audit and evaluation of program and management effectiveness.

The policy provides that (1) both internal and external reports should be prepared from the same source data and should be in agreement; (2) all financial data presented in the reports must be accurate; and (3) financial data reported should be derived from accounts that are maintained on a consistent basis from period to period. The policy further states that when reports are manually prepared, they should result directly from financial data coming from the system and should be prepared by designated individuals knowledgeable of the reporting requirements and be reviewed and approved by supervisory personnel. It also states that a system that consistently produces inaccurate data will result in users establishing alternative sources of information or carrying out their activities with inaccurate information.

Based on our review, we found the following problems with reporting of information to oversight agencies:

- The Office of Financial Management did not submit the required SF- 133 reports for the first quarter of fiscal year 1998. In addition, the Office of Financial Management did not file 59 of 107 budget reports for the second and third quarters of fiscal year 1998. The Office of Financial Management attributed these conditions to the lack of overseas Missions closing of their accounting records and problems with the U.S. Treasury's Government On-line Accounting Link system.

⁹ GAO's Policy and Procedures Manual 'Chapter 3, Financial Reporting

- For several line items on selected budget reports for March 31, 1998, the Office of Financial Management did not report information that was consistent with information for the same items in USAID's general ledger. The Office of Financial Management could not provide adequate supporting documentation to substantiate the balances reported. Office of Financial Management staff stated that unsupported amounts were posted in the reports to force a balancing of the two sections of the report-the budgetary resources and the status of budgetary resources.
- As of June 30, 1998, a difference of approximately \$5.9 million was identified between the unobligated balances on the budget reports submitted to the U.S. Treasury and the general ledger. The personnel attributed the differences to human errors in preparing the budget reports and errors identified in the prior year's Year-End Closing Statement. In fiscal year 1997, USAID's reports contained material differences of \$143 million in its year-end closing statement. As a result, the budget reports for June 30, 1998, as well as future budget reports, contained inaccurate information.
- The Office of Financial Management may have transferred unobligated funds between USAID's expired accounts and no-year accounts. These transactions may not be in accordance with the governing appropriation legislation. According to Section 511 of the appropriation legislation," only funds that have been obligated can be deobligated, if not needed, and be available for re-obligation at a later date. We found that there was no support that the funds transferred were originally obligated and/or deobligated. According to Office of Financial Management staff, the amounts transferred from the expired accounts to the no-year account were obtained from the unobligated balance column in the prior year's year-end closing statement. According to Office of Financial Management personnel, these amounts were obligated during their period of availability.

We found that most of these problems can be attributed to financial systems problems and the lack of adequate internal procedures and second party reviews.

Recommendation No. 1: We recommend that USAID Office of Financial Management:

1.1 Identify and resolve deficiencies in its general ledger to ensure that accurate information can be produced and consolidated at the

¹⁰ Section 511 of P.L. 105-118, Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1998, states that...any funds made available for the purposes of chapter 1 of part I and chapter 4 of part II of the Foreign Assistance Act of 1961, which are allocated or obligated for cash disbursements in order to address balance of payments or economic policy reform objectives, shall remain available until expended.

appropriation level to enable reporting accurate data to federal oversight agencies.

- 1.2 Develop and implement procedures requiring second party reviews be performed on key external reports to ensure that financial data is accurately reported, properly supported by the general ledger, and filed within the prescribed timeframes.**

Reconciling Information with U.S Treasury

The Fund Balance with Treasury line item in USAID's financial statements may be less than reliable. This occurred because USAID posted unreconciled adjustments of a net \$60 million (\$590 million in absolute dollar value) to force its fund balance to agree with the U.S. Treasury records and avoided submitting materially inconsistent financial information to OMB and the U.S. Treasury. In addition, we noted that USAID Missions had similar problems with reconciling their fund balance differences with the U.S. Treasury. These reconciliation problems occurred because USAID did not properly complete its reconciliations throughout the fiscal year. Additionally, USAID did not research and resolve the differences identified between USAID's general ledger and the U.S. Treasury's records.

All federal agencies must, as a matter of policy and requirement," reconcile, in a timely manner. their records with the U.S. Treasury's records. Based on guidance to USAID, the U.S. Treasury considers 3 months to be a reasonable standard of timeliness. The reconciliation process contains two steps. The first step is to identify the differences between USAID's and the U.S. Treasury's records. The second step is to research and resolve these differences. Some of the differences are timing differences that will be eliminated with the passage of time, while other differences are errors that must be corrected.

Our review found that USAID consistently completed the first step. However, USAID did not effectively and consistently complete the second step. As a result, USAID's fund balance with Treasury line item in the financial statements was potentially misstated. Additionally, unresolved differences provide a window for waste, fraud, and abuse of the Government's cash assets and is an indication that USAID is not properly managing the budget authority granted by Congress, thus, may increase the U.S Treasury's need to borrow from the public. Therefore, the U.S. Treasury had a need to borrow from the public. The following are examples of USAID's reconciliation problems we identified:

- USAID did not reconcile its disbursements, Statement of Transactions¹² report (SF 224), and deposit records to its general ledger account balance in a timely manner.

¹¹ General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies, (Title 2, Appendix III, Chapter 2, August 1987) and U.S. Treasury Financial Manual, Bulletin No. 98-07, Volume 1

¹² The Statement of Transactions report (SF-224) is a monthly statement of payments and collections for

This occurred because USAID did not research and clear differences monthly. Instead, USAID adjusted the cash differences in its account by \$353 million to bring its fund balance in agreement with the U.S. Treasury's balances. Additionally, USAID did not perform second-party reviews on the Statement of Transactions to ensure that transactions were properly recorded.

- USAID did not resolve, in a timely manner, its differences with the U.S. Treasury on the Statements of Differences¹³ report (SF 6652). In fiscal year 1998, the Office of Financial Management did not resolve, in a timely manner, the differences reported on the SF-6652, Statement of Differences. Good financial management practices indicate that as a federal agency, USAID should clear reconciling differences within 2-3 months. Our analysis of the SF-6652, Statement of Differences, revealed that, in some instances, differences were outstanding for periods exceeding 10 months for cash disbursements.
- USAID continued to have a large volume of fiscal year 1997 payment records that were not entered into the accounting records. This occurred because USAID initially entered the records into the old accounting system. USAID personnel identified approximately \$20 to \$32 million in 1997 payments that had not been entered in the New Management System as of September 30, 1998. The payments were made on fiscal year 1997 payment schedules and should have been entered into the accounting records by September 30, 1997.
- IJSAID adjusted its overseas missions' books by about \$237.5 million in the sub-account to bring the missions' cash ledger and U.S. Disbursing Officers' statements in agreement with the U.S. Treasury's records. This occurred because the missions had not cleared differences in a timely manner.
- The G-2 report, "*Mission Disbursement Reconciliation Listing*," was not being used effectively by the missions to identify and resolve errors found in USAID/Washington's data. We found that missions were not reporting the reconciling items on line G-2 of the U 101 report to USAID/Washington; and some missions were not performing the G-2 reconciliation at all. Last year, USAID adjusted its missions' books each month to force them to balance with the U.S. Treasury balances. This was a direct result of the missions not reconciling timely and reporting incomplete data to USAID/Washington on the U 10 1 report.

that agency to the U.S. Treasury. The SF-224 is due by the 5th working day of the month.

¹³ The Statement of Differences report (SF-6652) is a report that reflects the monthly differences between USAID's SF-224, Statement of Transactions, and U.S. Treasury's records. This report is required to be reconciled with differences being identified and resolved within 3 months.

¹⁴ The G-2 report, Mission Disbursement Reconciliation Listing, is sent to the missions monthly by the USAID/Washington's Central Accounting and Reporting division.

- Missions did not receive or review the Mission Disbursement Reconciliation Listing, also known as the G2 report, and follow up on the individual differences to detect the errors and correct the balances in the Missions' monthly summary report to USAID headquarters.¹⁵ Missions did not include or resolve the G2 reconciling items in a timely manner. At September 30, 1998, there were approximately \$110 million¹⁶ in cash differences in the missions' U101 reports and the U.S. Treasury's balances. According to a financial management staff member, missions are responsible for clearing G2 differences. For example, USAID/El Salvador could not reconcile its records to the G-2 report for the total cumulative reconciling item amounts. In August 1998, one appropriation, 72X 102 1, showed a cumulative unreconciled balance of \$580,104, whereas USAID/El Salvador's U101 report showed (\$2,022,374). This resulted in a net unexplained difference of \$2,602,478. According to USAID/El Salvador's personnel, additional detail information regarding the cumulative reconciling items was requested from USAID/W, but no information has been provided. Without the requested detailed information, USAID/El Salvador was unable to identify the causes for the differences in the cumulative reconciling items.

USAID attributes its delay in clearing differences to problems encountered with the processes related to the On-line Payment and Collections System. Other factors that we noted that may have contributed to the Office of Financial Management's inability to timely reconcile the differences were:

- The Office of Financial Management does not have standard written procedures in place for performing monthly reconciliations and resolving clearing differences.
- Office of Financial Management staff may not be adequately trained to perform the reconciliations. For example, before the departure of an employee whose primary responsibility was to prepare and reconcile the Statement of Transactions, the Office of Financial Management efforts had just begun to train other employees in these responsibilities. Subsequent to the staff member's unexpected death, the report preparation and reconciliation function has not been effectively continued. In August 1998, the Statement of Transactions report was not submitted and in September 1998, the report contained a \$22 million error.

According to Office of Financial Management personnel, there are no internal written procedures in place. Office of Financial Management personnel further stated that they would prepare written procedures in the future, but with the many changes being done with

¹⁵ Monthly, overseas missions prepare a summary report that provides the status of their financial activities recorded in the Mission Accounting and Control System (MACS). This report is known as the U-101 report.

¹⁶ \$ 110 millions represent the absolute value-\$33 millions in debit adjustments and \$77 in credit adjustments. The net value of differences was \$44 million.

the New Management System (NMS), it would not be cost-effective to produce them at this time. We also found that there is limited follow-up on the mission reconciliation process.

As seen above, the fair presentation of USAID's Fund Balance with Treasury line item on the financial statement is dependent on a number of reconciliations. Without an effective and timely reconciliation process, the Fund Balance with Treasury line item may be misstated. In addition, the absence of an effective reconciliation process increases the risk for waste, fraud, and abuse of USAID's cash assets.

Recommendation No. 2: We recommend that USAID's Office of Financial Management develop and implement procedures to:

- 2.1 Conduct, on a timely basis, accurate and complete reconciliation processes.**
- 2.2 Identify fiscal year 1997 manual payment schedules and supporting documentation to facilitate the recording of proper accounting entries into USAID's accounting records.**
- 2.3 Provide training to Mission comptroller and chief accountants on the reconciliation process to emphasize the importance of this practice and its impact on the financial statements.**
- 2.4 Provide closer monitoring over the Missions' reconciliation process to ensure reconciling items is being resolved.**

**Rescheduling and Valuing
Direct Loan Portfolio**

Material weaknesses in USAID direct loan program resulted in backlogs in the loan rescheduling process, significant departures from federal accounting standards for calculating allowances for bad loans, and calculation of accrued interest amounts. Information about the number of loans, their value, and accrued interest was not available at the time of our review. These weaknesses are further discussed below:

Backlogs in the Loan Rescheduling Process - USAID did not complete rescheduling on its related direct loans in a timely manner. Currently, there is a backlog of loans for about 10 countries for which rescheduling needs to be completed. According to Loan Management Division officials, this delay in the completion of rescheduling occurred because rescheduling was a time consuming, manual process that was done on an as-time-permits basis. The officials also said that USAID's General Counsel was not involved in the rescheduling process.

As a result of the delays, the USAID financial statement did not recognize increases or decreases to its asset from capitalized interest-a byproduct of rescheduling some direct loans. USAID needs to complete all rescheduling for its direct loan portfolio and recognize increases or decreases to its assets where necessary.

On May 11, 1994, USAID approved its Loan Management Division Policy and Procedures Manual for rescheduling loans. The procedure manual states that the Deputy Chief, Loan Management Division, is responsible for the rescheduling program. USAID needs to update the procedure manual and ensure that its requirements are clearly understood and implemented by the staff.

Recommendation No. 3: We recommend that Director, Loan Management Division:

- 3.1 Eliminate the backlog of loan rescheduling and recognize, where necessary, increases or decreases to the related asset values.**
- 3.2 Update the current rescheduling policy procedure manual dated May 11, 1994 to include procedures that would prevent the recurrence of a backlog.**

Determining the Allowance for Doubtful Accounts - The Federal Credit Reform Act of 1990 requires that:

...direct loans disbursed and outstanding are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as subsidy cost allowance.

Under the federal accounting standard for loans, all loans must take into account payment histories when calculating any allowances for losses.

The Loan Management Division computed the fiscal year 1998 Allowance for Doubtful Accounts on its direct loan receivable using the Interagency Country Risk Assessment System Rating model mandated by OMB. This rating is calculated by the Export and Import Bank and is based on its risk analysis of each country's credit worthiness. Factors such as countries' political stability, economic stability, and ability to pay back loans were considered by the Export and Import Bank to assess the credit risk of a country. The model does not take the loan payment histories into consideration. The alphabetic rate code is assigned to each country based on the outcome of such analysis. The Export and Import Bank established a present value factor for loans based on the numerical rating for each country.

During fiscal year 1998, USAID used this methodology to determine the allowance for uncollectible direct loans. In complying with the Export and Import Bank model, USAID calculated an allowance for uncollectible direct loans that did not fully reflect the true potential for losses in the 1998 financial statements. USAID recorded about \$5.6 billion in allowances for uncollectible direct loans. The amount of the direct loans associated with this allowance was about \$11.4 billion. As a result of reliance on OMB's model, USAID's Direct Loans Allowance for Doubtful Accounts was understated and the related asset overstated in nine countries in violation of Section 620 (q) of the Brooke Amendment by about \$428 million. The following table lists adjustments that we believed should be made to accurately reflect the correct allowance for doubtful account balances for the nine countries.¹⁷

Country	FY 1998 USAID Allowance for Doubtful Account Balance for Loan Receivables	Recommended Allowance Balance	Recommended Adjustment Amount
A	\$29,900,311	\$58,103,680	\$28,203,369
B	600,018,252	871,540,145	271,521,893
C	38,003,197	86,038,413	48,035,216
D	5,451,903	12,055,666	6,603,763
E	6,129,656	10,511,044	4,381,388
F	169,789,104	183,714,677	13,925,573
G	57,784,680	103,824,852	46,040,172
H	848,767	0-	(848,767)
I	72,679,620	82,930,084	10,250,464
Total	\$980,605,490	\$1,408,718,561	\$428,113,071

Table 1

Recommendation No. 4: We recommend that the Director, Loan Management Division:

- 4.1 Perform an annual risk analysis on delinquent countries to determine the collectibility of their direct loans. Where necessary, USAID Loan Management Division should footnote their financial statements to show the impact of the additional allowance for the doubtful direct loans.**
- 4.2 Develop and implement written allowance procedures to include full disclosure for 100 percent of the principal and interest amount for delinquent loans when countries/borrowers are in violation of the 620Q,**

¹⁷ APPENDIX IV provides the adjusting journal entry. (Listed as Adjustment No. 1).

Brooke Amendment. Additionally, the procedure should require a disclosure of the maximum allowance for direct loans covered by waivers when necessary.

Calculating Accrued Interest on Direct Loans - USAID understated its assets related to direct loan accrued interest. USAID Loans Management Division did not record accrued interest for some direct loans, while for other loans, the accrued interest was recorded at amounts lower than the interest earned for the period. This occurred because Loan Analysts either did not compute interest for certain direct loans or used the incorrect number of days since the last payment was received on the related direct loans, in the calculation of accrued interest. Therefore, direct loans accrued interest, as reported in USAID's 1998 financial statements, was understated by about \$55 million.

The following is an example of one of the Brazil's direct loans reviewed, we found that the Loan Management Division did not consider interest in arrears when recording accrued interest. As a result, the accrued interest for this Brazilian was understated by about \$4.5 million. We also found that one of Egypt's direct loans, an incorrect payment date of July 10th was recorded in the Loan Accounting and Information System. The authorized and agreed to date was July 1st. The effect of this error on the September 30, 1998 financial statements was that interest was understated by about \$1.8 million.

Additionally, when calculating accrued interest, the program used by the Loan Management Division only calculated interest up through September 29, 1998. The program's logic did not use September 30th as the last day of the period. For the system to calculate interest through September 30, the system algorithm should be changed to calculate interest on direct loans up to October 1.

We forwarded an adjustment of about \$55 million to USAID to correct the understated direct loan accrued interest. On February 4, 1999, we received confirmation from USAID's Office of Financial Management that the adjustment was recorded and would be reflected in the revised financial statements.¹⁸ Therefore, this report does not contain a recommendation for USAID to correct the above understatement.

Recommendation No. 5: We recommend that USAID Loan Management Division correct the program logic for calculating accrued interest to ensure that September 30th is included in the calculation.

¹⁸ APPENDIX IV provides the adjusting journal entry. (Listed as Adjustment No. 3).

Disbursing Under Letters of Credit Policy Causes Problems on the Financial Statement

USAID did not properly identify, record, and report advances made to grantees through the letter of credit system—approximately \$1.7 billion in fiscal year 1998. Under its interpretation of the U.S. Treasury’s “pooling” concept¹⁹ for advances, the Office of Financial Management adopted a policy of recording advances at the grantee level and not at the obligating document level. Application of this policy has caused problems with accurately (1) providing program managers timely information, (2) estimating the incurred expenses against the outstanding advances, and (3) reporting the status of their budgetary resources. These problems effect several material line items on the financial statements. Further, no audit trail exists to trace specific disbursements through the liquidation of the appropriate obligation. USAID did not address this matter as directed by OMB. OMB directed USAID to submit a plan for resolving material financial and management deficiencies identified by the agency’s auditors.

This policy impedes USAID’s ability to provide accurate information to program managers. This occurred because advances are not posted against the proper obligation at the time of the disbursement. The obligation only reflects the actual expenditures incurred once the advances are liquidated. To compensate for this effect, some managers have resorted to contacting grant recipients to obtain information about the financial status of their respective grants. As a result, program managers frequently cannot determine the availability of funds for their projects or identify funds that could be put to better use.

USAID does not have any means to accurately estimate the incurred expenses against these outstanding advances. Because the Office of Financial Management does not identify the specific obligation or agreement at the time advance is disbursed, there is no means to determine the status of the funds advanced through the letter of credit system. Furthermore, USAID has not established an alternative methodology for estimating the incurred expenses.

USAID cannot accurately report the status of their budgetary resources. USAID did not promptly charge the letter of credit advances to the proper funding appropriations during fiscal year 1998. Instead, USAID charged letter of credit disbursements as advances to the 1997/ 1998 Development Assistance appropriation (known as carrier appropriation) on the Statement of Transactions during fiscal year 1998. The value of these advances was about \$1.6 billion. As a result, USAID understated its post-closing balances in the carrier appropriation and overstated its post-closing balances in other funding appropriations on the September 30, 1998 statement.²⁰ As a result, while the reported balances are correct at the USAID-level, individual appropriation balances are not correctly stated.

¹⁹ Pooling is the consolidation of funding to the same recipient organization under one letter of credit whereby the single accounting procedure within a single Federal Program Agency combines all advance funding.

²⁰ APPENDIX IV provides the adjusting journal entry. (Listed as Adjustment No. 3).

Recommendation No. 6: Because USAID does not properly identify and record the letter of credit disbursements, we recommend the Office of Financial Management:

- 6.1 Require all requests for advances through the letter-of-credit system include the specific obligation number and amount of the advance requested.**
- 6.2 Identify the record that the advances disbursed through the letter-of-credit system against the proper obligation at the time of the disbursement.**
- 6.3 Report this as a material internal control weakness in its fiscal year 1999 Accountability Report.**
- 6.4 Establish a methodology for estimating the amount of incurred expenses that should be reported against the outstanding advances disbursed through the letter-of-credit system.**

**Calculating Accrued Expenses
and Accounts Payable**

USAID's current methodology for calculating accrued expenses and related accounts payable does not meet the requirements of the federal accounting standards. According to the Statement of Federal Financial Accounting Standards No. 1,

When an entity accepts title to goods, whether the goods are delivered or in-transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

The basic accounting principle behind accruing expenses and accounts payable at the end of an accounting period is to match revenues against the expenses incurred during that accounting period.

USAID/Washington's current methodology for calculating accrued expenses and related accounts payable at the end of an accounting period is based on using unliquidated obligation and scheduled completion dates as major factors. For fiscal year 1998, a total of about \$2.6 billion was accrued within the accounting records as expenses and accounts payable using this methodology. However, USAID did not review the unliquidated obligations to determine whether these obligations continue to be valid and thereby relevant to be used in

the methodology. USAID also did not validate the scheduled completion dates recorded in the accounting records. Office of Financial Management officials said that the scheduled completion dates contained in the accounting records were not reliable. Without a continuing need for unliquidated obligations or reliable scheduled completion date information, the resulting accrued expenses and accounts payable calculated by the existing methodology are questionable.

As seen in the table below, about \$660.8 millions (29 percent) of the \$2.6 billion in accrued expenses and related accounts payable were based on 13,051 unliquidated obligations that were 121 to 730 days or more past their scheduled completion date.

<i>Days Past Scheduled Completion Date</i>	<i>Number of Transactions</i>	<i>Unliquidated Amounts</i>	<i>Accrued Amounts</i>	<i>Percent of Total Accrued Expenses</i>
Over 730	2,824	\$180,427,570	\$173,848,086	97%
366 to 730	7,037	\$289,489,454	\$251,904,902	87 %
181 to 365	2,711	\$1,795,411,358	\$213,135,660	12%
121 to 180	479	\$21,623,344	\$21,935,810	102%
Total	13,051	\$2,286,951,726	\$660,824,459	29 %

Table 2

USAID’s methodology for estimating accrued expenditures and accounts payable on grants being funded under advances and letters of credit does not accurately reflect correct amounts on the financial statements. For grants that received advances under a letter of credit, the Office of Financial Management was including the entire advance as an accrued expense—regardless of the actual status of any advance liquidations. We found that the Office of Financial Management accrued expenses and related accounts payable on letter-of-credit funded grants in the amount of \$1.2 billion at September 30, 1998. We found that at September 30, 1998, there were 1,636 in liquidating vouchers for the period that had not been posted in the records. The value of these liquidating vouchers was in excess of \$400 million. Based on the information provided to the Office of Financial Management, an appropriate adjustment was made to the financial statements.”

USAID’s methodology for including missions’ accrual and accounts payable on the financial statements does not always reflect the correct amounts when advice of charge is involved. We found that a number of Missions incorrectly calculated and reported to the Office of Financial Management accrued expenses and related accounts payable on obligations that had been paid by another accounting office. For these items, the Mission was unaware of the

²¹ APPENDIX IV provides the adjusting journal entry. (Listed as No. 4).

payment status because the advice of charge had not been received or recorded at the Mission at September 30, 1998. For example, USAID/Ukraine overstated accruals by approximately \$9.5 million. This occurred because nine advices of charge received by the Mission represented invoices already paid by USAID/Washington before September 30, 1998. As a result, USAID/Ukraine's accrued expenses and accounts payable were overstated by the same amount.

Recommendation No. 7: We recommend that USAID's Office of Financial Management develop and implement a methodology for calculating their accrued expenses at year end in accordance with the Federal Financial Accounting Standards established by the Federal Accounting Standards Advisory Board.

Reporting Performance Information

USAID did not have effective internal controls to ensure that operating units report program results that were objectively verifiable, supported, accurate, complete and/or validated. Such controls are required by Federal laws and regulations which require federal agencies to develop and implement internal management control systems that: (1) compare actual program results against those anticipated; (2) provide for complete, reliable, and consistent performance data; and (3) ensure that performance information is clearly documented and that the documentation is readily available for examination.

Our audit of the quality of performance data reported by operating units, which was based on a statistical sample of 18 USAID operating units, found that the operating units did not report 1996 results data (in their annual Results Review and Resource Requests (R4) reports prepared in 1997) which were objectively verifiable, supported, accurate, complete and/or validated.²² In fact, we found problems with 252 of the 302 results reviewed-or 83 percent. Based on our statistical sample, we are 94 percent confident that the number of results data reported in the R4s, which were not objectively verifiable, supported, accurate, complete, and/or validated ranges between 1,580 and 1,658 results reported for 1996 out of a universe of 1,940. Examples of the problems include:

- Ninety indicators and reported results were not objectively verifiable. For example, one indicator and related unit of measure in one mission's R4 was the percentage of "Development and implementation of a long-term self-sufficient financial strategy." The R4 reported that the actual result for 1996 was 20 percent. However, this result was not objectively verifiable because specific criteria had not been established to objectively measure progress in implementing the anticipated self-sufficient financial strategy.

²² Audit on the Quality of Results Reported in USAID Operating Units' Results Review and Resource Reuest (R4) Reports Prepared in 1997 (Audit report No. 9-000-99-006-P, March 5, 1999).

- Seventy-seven reported results were not sufficiently supported. For example, one indicator in a mission's R4 was the "Length of time from opening of a preliminary investigation to achieving an investigative result." The R4 reported 60 days. However, mission officials did not have supporting documentation for this data.
- Seventy reported results were not sufficiently accurate or complete (other than the results that were not objectively verifiable or supported). For example, one indicator in a USAID/Washington operating unit's R4 was "Primary school achievement" and the unit of measure was the "5th Grade completion rate." The R4 reported that the rate for 1996 was 64.2 percent. However, documentation provided by the operating units showed that this was the percentage for 1991—not fiscal year 1996. In addition, the documentation showed that this was the percentage of children reaching grade five, not completing that grade.

The above problems existed because of deficiencies or weaknesses in the implementation of internal controls. For example, operating units did not consistently follow, or were not successful in following prescribed USAID policies and procedures. Also, USAID/Washington did not provide sufficient direction/support and oversight that required operating units to follow those policies and procedures-and federal requirements-for measuring and reporting on program performance.

Moreover, the Office of Inspector General (OIG) and others have previously reported problems with USAID's ability to report on program results, including inadequate USAID/Washington direction and oversight. For example:

- A joint USAID-OMB "SWAT Team" report issued in July 1992 stated: "There is no uniform guidance for oversight of field activities." The report stated that the Washington office that should have played a major role in setting standards and defining responsibility for field activity monitoring failed to do so. As a result, there was no central guidance to Mission Directors to assure consistent and adequate field activity monitoring. The report concluded that a lack of uniform guidance and standards, compounded by inconsistent bureau requirements, creates confusion and weakens oversight. The SWAT Team report also concluded that without clearly articulated responsibilities and standards, neither Washington managers nor Mission Directors could be held accountable for oversight of field activities.
- Also, a 1995 OIG audit report²³ identified that USAID/Washington needed to provide direction and oversight to ensure operating units establish objectively verifiable indicators to measure program performance and report reliable performance data. The recommendations in that audit report to help correct the problems were closed

²³ Audit Report on USAID Systems for Measuring Program Results (Audit Report No. 1-000-95-006; June 30, 1995).

based on the Bureau of Policy and Program Coordination and the Regional and Central bureaus being assigned the responsibilities to ensure that operating units follow prescribed guidance for monitoring program performance. Unfortunately, the USAID/Washington bureaus have not effectively implemented their assigned responsibilities.

In its fiscal year 1998 Accountability Report, USAID reported weaknesses in its performance measurement system. Specifically, they reported that its performance reporting does not (1) adequately link its performance goals with programs, (2) ensure sufficiently current results, or (3) adequate quality of indicators which thereby limits the utility of these systems as a management tool. They further noted that this material weakness impaired USAID's ability to obtain, maintain, report and use reliable and timely performance information for decision making.

In our opinion, without reliable performance data, decision makers have little assurance whether an operating unit met, exceeded or fell short in achieving their program objectives and related targets. The problems with performance indicators and reporting on performance also impair operating units' and USAID management's abilities to (1) measure progress toward achieving the operating units' program objectives and (2) use performance information in budget allocation decisions. The problems also impair USAID's ability to comply with laws and regulations; e.g., to have internal controls that ensure that reliable information was obtained, maintained, reported and used for decision making. We are not making a recommendation in this audit report to improve reporting by operating units because such recommendations were made in an earlier audit report.²⁴

Reported Program Results Were Not Attributable to USAID-Funded Activities -

USAID does not have an effective internal control system to ensure that it consistently and reliably measures and reports achievements at the USAID operating unit and USAID-wide levels that were attributable to USAID-funded activities. As a result, operating units and USAID/Washington report country-level results in their annual reports (e.g., USAID Annual Performance Report, Congressional Presentation and the performance overview section of the Financial Statement Report) with little assurance that USAID activities had a clear and measurable impact toward achieving the results

Various laws and the OMB implementing policies require federal agencies to establish management control systems to measure and report on program performance. Examples of those requirements include the following:

- The Chief Financial Officers Act requires agencies to develop a management system that provides for (1) complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial needs of agency

²⁴ Audit on the Quality of Results Reported in USAID Operating Units' Results Review and Resource Request (R4) Reports Prepared in 1997 (Audit Report No. 9-000-99-006-P, March 5, 1999).

management: (2) the development and reporting of cost information; and (3) the systematic measurement of performance.

- OMB Circular No. A-123, which is the executive branch's implementing policy for compliance with the Federal Managers' Financial Integrity Act, requires agencies to have management internal controls to ensure that (1) programs achieve their intended results; and (2) reliable and timely information is obtained, maintained, reported and used for decision making.
- OMB Bulletin No. 97-01 provides the form and content of annual financial statements (including the performance overview section) required under the Government Management Reform Act. This Bulletin states that the entity's program and financial results should be expressed in terms of objective, relevant measures that disclose the "extent to which its programs are achieving their intended objectives". This Bulletin also stipulates that agencies should strive to develop and report objective measures that, to the extent possible, provide information about the cost effectiveness of programs.

Over the past several years, the OIG and other (e.g., OMB, the General Accounting Office (GAO), and Congressional staffs) reports have identified problems with USAID's practice of reporting greater results than it was actually achieving-both at the operating unit and USAID-wide levels. For example:

- An OIG status report (Report No. 9-000-97-002-S dated March 31, 1997) on USAID progress in implementing the Government Performance and Results Act (the Results Act) identified that, in most cases, USAID's goals and objectives go beyond its span of influence. Therefore, it is extremely difficult for USAID to take credit for improving country-level results, even though it may be able to influence indicators such as per capita income in certain targeted areas (e.g., regions, cities, districts). The status report also noted that several recent OIG audits of strategic planning and reporting by USAID missions noted that missions had been reporting greater results than what they were actually accomplishing.

The 1997 status report recommended that, unless USAID can clearly demonstrate the causal relationship of its activities to country-level results, USAID should (1) clearly demonstrate and describe how these relationships are reasonable, plausible and logical; and (2) review its definition in the Automated Systems Directives of "strategic objectives" to include parameters to ensure that USAID does not claim more results than it can reasonably attribute to its activities.

In response to the findings and recommendations related to attribution, USAID management agreed that individual operating units as well as USAID overall need to consider carefully the degree to which they can influence results, and, if there is no plausible relationship between the result and USAID activities, credit should not be

claimed. However, USAID management believed that, because the audit report findings were based on a small sample and the number of “false positive results” were relatively small within the total number of results reported, the attribution problem may be less significant than implied and would certainly be reduced as missions become more skilled at reporting results and as bureaus become more skilled at interpreting such results.

- The Chairman of the House Committee on International Relations sent a letter to the USAID Administrator in April 1998 which identified areas of concern with USAID’s fiscal year 1999 Annual Performance Plan, which is required under the Results Act. Specifically, this concern related to misleading attribution of results - USAID claiming country-level results that were not attributed solely to its activities. For example, the letter identified that throughout the plan, USAID proposed to measure the results of its programs using macroeconomic and other nationwide indicators compiled by the World Bank, United Nations, and other international organizations. The Chairman noted that he did not believe Congress (or USAID) could measure the success or failure of, for example, a sanitation project in Accra, Ghana, by reviewing Ghana’s national infant mortality rate. The Chairman stated that Congress needs specific measures of the actual project results, not nationwide indicators that are influenced by host government policies, other donor activities and external factors. The Chairman stated that the key is to determine what USAID projects do, not what is generally happening in the target government.

In response to the Congressman’s letter, USAID/Washington management (in a letter dated August 27, 1998) stated that USAID agrees with the Congressman that USAID must use appropriate results measurement. In the Accra, Ghana, sanitation project example, management also stated that it would not be appropriate to use national infant mortality data to assess results for a project if the project affected only a limited geographical area. Management added that USAID has struggled, and is likely to continue to struggle for some time, with the issue of attribution. Also, they added that USAID does not generally have a methodology that allows it to identify the extent to which USAID activities contributed toward achieving the strategic objectives, intermediate results, and indicators.

As part of the fiscal year 1998 financial statement audit, we reviewed 39 performance indicators in the R4 documents for five overseas missions²⁵ to determine whether the missions could support that USAID's activities had a measurable impact on achieving the reported results for those indicators. The purpose of the audit was to reconfirm the previously reported findings that USAID was claiming greater results than it was actually achieving and to convince USAID management on the need for them to take more timely and focused action to correct the problems. We selected 39 indicators, which were chosen because they appeared to be country-level indicators.

²⁵ Countries selected were Peru, Ukraine, Jordan, India, and Ghana.

The audit found that the operating units could not support that USAID programs had a clear and measurable contribution toward achieving the country-level results-for-37 of the 39 indicators we reviewed. Examples of these cases included the following:

- One mission's indicator was the "Value of Expenditures per Capita of the Poor" to measure performance results under the strategic objective "Increased Incomes for the Poor." The reported 1994 baseline and 1997 results were \$447 and \$507, respectively. However, mission officials could not provide any documents supporting to what extent USAID activities had a clear and measurable impact on achieving the 1997 results. Furthermore, according to mission officials, during 1996 and 1997 USAID spent about \$130 million for achieving results under the strategic objective. During this same two-year period, the host government provided \$6.9 billion in support of this strategic objective (according to the R4 and other documents provided by mission officials). The documents also show that other donors' funding in support of this strategic objective totaled approximately \$2.9 billion, but the documents did not identify the period of funding for these activities.
- Another mission indicator was the "Increase in Value of Horticultural Exports" which was under a special strategic objective for "Increased investment in agribusiness by private firms". The reported 1997 result was \$6 15 million for the indicator which represents national horticultural exports from April 1, 1996 to March 31, 1997, exports that included fresh/processed fruits and vegetables, spices, and floriculture products. However, mission officials could not provide any documents supporting the extent to which USAID activities had a clear and measurable impact on achieving this result. Furthermore, USAID obligations and expenditures in support of this strategic objective from fiscal years 1995 - 1997 totaled \$4.5 million and \$6.4 million, respectively. This pales in comparison to more than \$2 billion reportedly provided by private investments and other donors since 1992 in support of this strategic objective.

We recognize that the amount of funding is not the only factor used to determine the extent to which USAID's activities contribute towards achieving country-level results. However, in our opinion, when USAID's funding was relatively low in comparison to funds provided by the host country, private investment, or other donors in support of results reported for country-level indicators, it is difficult, if not impossible, to make a convincing argument that USAID's activities had a major impact. Without documents specifically showing the impact that USAID's activities had on achieving the reported results, we are unable to determine whether USAID's activities contributed toward achieving results reported for country-level indicators.

We could not perform a comprehensive review of the overview section in the fiscal year 1998 financial statements related to the attribution problem. This occurred because USAID management did not provide us with a copy of the final overview section until

February 2, 1999—not by December 9, 1998 as stipulated in the audit “engagement letter” agreed to by the Acting USAID Chief Financial Officer and our office. However, our review did identify essentially the same problems as reported in our audit report last year on the financial statements-i.e., the overview section reported high-level results that were difficult, if not impossible, to attribute to USAID activities. Thus, the overview section did not meet the requirements that an agency’s results should be expressed “... in terms of objective, relevant measures that disclose the extent to which its programs are achieving their intended objectives.”

In November 1998, USAID management sent our office a memorandum acknowledging that USAID internal controls were not adequate to ensure that reported results at the operating unit and overall USAID levels can be attributed to USAID-funded activities. As a result of that memorandum, which requested that we cancel or revise our ongoing audit related to the “attribution” issue, we curtailed our audit to only include five missions. Moreover, USAID acknowledged in the overview that its “...performance reporting does not adequately link USAID’s performance goals with its programs nor does it ensure current data results.”

Notwithstanding the curtailment of the audit, we identified the following three specific areas where better direction and oversight are needed to ensure that USAID operational units and USAID/Washington report specific performance measures of actual USAID activities-not country-wide results that were achieved by activities also funded by the host countries and other donors.

- IJSAID policies and procedures do not require USAID operating units to clearly identify to what extent USAID activities contributed toward achieving strategic objectives, intermediate results, and related performance indicators. Instead, USAID policies instruct operating units to establish strategic objectives which “USAID operating units, along with its partners, can materially affect and for which it is willing to be held responsible.”
- USAID policies and procedures did not require that funding by other donors and host countries were appropriately identified and considered when USAID and its operating units (1) develop the country-level performance indicators and (2) claim or indicate that USAID-funded activities had an impact on achieving results under those indicators. In fact, USAID has not developed any criteria or internal controls for discussing host country and other donor funding in the R4 reports.
- USAID/Washington has not provided specific direction or guidance to its operating units that they should evaluate USAID activities specifically to determine whether those activities were clearly having an impact on achieving results reported for the indicators. TIPS No. 3, which is supplemental guidance under the Automated Directives System (ADS), does state that an evaluation might (1) test the validity of the hypotheses and assumptions underlying a results framework, and (2) identify and analyze unintended consequences and effects of assistance activities.

Therefore. USAID needs to take timely action to develop criteria and internal controls to ensure that it consistently and reliably measures and reports achievements, both at the USAID operating unit and USAID-wide level, that were attributable to USAID-funded activities. Without such criteria and controls, USAID will continue to have problems trying to convince Congress and others (e.g., OMB and GAO) that its programs were making a significant contribution toward achieving country-level results, and continue to be in noncompliance with various laws and federal policies.

Recommendation No. 8: We recommend that USAID’s Bureau for Policy and Program Coordination develops and implements internal controls to:

- 8.1 Ensure that funding from other donors and host countries are identified to the extent possible and considered in developing country-wide indicators at both the operating unit and USAID-wide levels;**
- 8.2 Ensure USAID/Washington’s review of operating units’ R4s and USAID’s Annual Performance Report provide reasonable assurance that the country-level indicators and related reported results are clearly and significantly attributed to USAID-funded activities or clearly identify the extent that USAID’s activities and other donors’ or host countries’ activities contributed to achieving the reported results; and**
- 8.3 Ensure that accurate and complete information on USAID partners’ funding in support of operating units’ strategic objectives and indicators are identified in the R4s.**

Inaccurate and Incomplete Funding Data in Its Congressional Presentation - For Fiscal Year 1999, USAID reported incorrect and incomplete data in its Congressional Presentation pertaining to the level of funding from host governments and other donors which supports activities contributing to the achievement of USAID’s strategic objectives at the operating unit level. Policy guidance for the preparation of the Congressional Presentation is shared by the Bureau for Legislative and Public Affairs, Bureau for Policy and Program Coordination, and Bureau for Management. USAID guidance requires that it include:

- Activity data sheets for each objective that identified (1) what donors were involved with the activity and how much the donors and host government were providing and (2) major result indicators with specific targets to be achieved.

However, the requirement for funding data was not enforced for the 356 Activity Data Sheets included in the USAID Congressional Presentation for Fiscal Year 1999. The OIG found

that the data was not accurate or complete for at least 350 activities-98 percent-as noted below:

- funding data per other donors and recipients was not reported for 260 activities (73 percent) even though the Presentation identified that other donors or the host country participated in the activity:
- funding data was not complete for 90 activities (25 percent); and
- funding data may have been complete for 6 activities (2 percent).

Examples of specific problems based on our audit of five operating units included the following:

- The Presentation identified an activity at one mission to “Increase Incomes of the Poor.” The Presentation stated that the European Union, Japan, Germany, Canada, the Swiss and the Dutch are also providing considerable resources. The Presentation did not identify what activities were supported by other donors, how much funding was being provided by these other donors, or to what extent the activities funded by other donors were to increase incomes of the poor. Although the Presentation did not identify how much funding was being provided by these entities, other documents provided by mission officials showed that these entities provided, or would provide, \$1.3 billion in support of this activity.
- The Presentation identified an activity at another mission that was for “Increased Investment in Agribusiness by Private Firms”. The Presentation stated that one international organization had invested over \$80 million from its own resources in agribusiness activities similar to USAID’s activities. The Presentation also stated that other donors such as the European Union, United Nations organizations, and the World Bank have drawn on USAID experience to replicate some of the activities. However, the only funding identified for these other donors was that the World Bank “is designing” a similar \$300 million activity. Moreover, the missions’ R4 prepared in April 1998 identified that host countries’ food processing business, which is covered under this activity, had attracted nearly \$2 billion in private investments since 1992. Mission officials said that they were not aware of the \$2 billion in private investments at the time the Congressional Presentation was prepared.

Inaccurate attributions occurred because USAID management did not provide adequate directions to operating units to prepare the Congressional Presentation as required. Further, USAID did not have adequate internal controls to ensure that accurate data on funding provided by host countries and other donors in support of USAID strategic objectives are reported in Congressional Presentations. For example, some operating unit officials noted that; (1) they did not receive the request to provide the funding data until late December 1997 but were to submit the data to USAID/Washington by early January 1998 and (2) the

requests for funding data did not stipulate the period of funding to be identified or what type of data (e.g., obligations, commitments, or expenditures) were to be provided.

In our opinion, the lack of reasonably accurate data in USAID's Congressional Presentation on other funding in support of USAID strategic objectives (and related country-wide performance indicators) impairs Congress' and OMB's ability to objectively assess the cost effectiveness of USAID's programs and the need for additional funding to accomplish anticipated results. For example, the Presentation for one operating unit identified one activity for proposed obligations of \$20.8 million as well as major result indicators such as reducing infant mortality from 57 (per 1,000 births) in 1991 to 39 in the year 2001. It also identified estimated host country and other donor contributions for the life of this strategic objective as "over \$100 million". However, documents provided by the operating unit's officials showed that contributions from these partners for just the three-year period 1995-1997 in support of this strategic objective totaled approximately \$1.7 billion.

Therefore, USAID needs to develop better direction and internal controls to ensure that reasonably accurate and complete data on host country and other donor funding in support of USAID programs are presented in the Congressional Presentations.

Recommendation No. 9: We recommend that USAID's Bureau for Policy and Program Coordination in working with the Bureau for Legislative and Public Affairs and the Bureau for Management develop internal controls to ensure accurate and complete information on USAID partners' funding in support of USAID strategic objectives are identified in Congressional Presentations.

USAID Cannot Identify the Full Costs of Its Programs, Activities, and Outputs -

USAID does not have a system to report on the full costs of its programs, activities and outputs as required by federal accounting standards. According to these standards, such cost information is needed by various parties for the following reasons:

- Government managers need to ensure that resources are spent to achieve expected results and outputs, and to alert managers about waste and inefficiency.

Congress and federal executives, including the President, need to make policy decisions on program priorities and allocate resources among programs. Cost information will assist them in comparing alternative courses of action and in making program authorization decisions through the assessment of costs and benefits. They also need cost information to evaluate program performance.

Citizens, including news media and interest groups, need to judge whether resources are allocated to programs rationally and if the programs operate efficiently and effectively.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 4 requires "... the reporting of performance information of federal programs and the changes over time in that performance in relation to the costs." The cost assignment should be performed using the following methods listed in the order of preference: (1) directly tracing costs wherever feasible and economically practicable, (2) assigning costs on a cause-and-effect basis, or (3) allocating costs on a reasonable and consistent basis. The definition of full cost is:

"Reporting entities should report the full costs of outputs in general purpose financial reports. The full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the cost of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities."

- USAID has a system that allows its missions to identify their program expenditures in support of their strategic objectives and activities (e.g., projects), but the system does not account for program funding at the output level. The system also does not provide for aggregation of costs at the operating-unit level that would permit USAID to identify the costs of its overall programs, activities and outputs. In fact, USAID has not yet defined what is meant by the terms "programs," "activities," and "outputs" to meet the requirements of SFFAS No. 4. The system also does not account for (1) operating and administrative costs; (2) USAID/Washington funding in support of the missions' strategic objectives, activities, and outputs; or (3) funding from other donors and host countries in support of USAID's programs, activities and outputs.

USAID officials pointed out that SFFAS No. 4 became effective for the fiscal year 1998 financial statements and that USAID was taking action to meet the requirements such as having training courses on the subject, with the first training course starting in September 1998. The officials also said they were developing a system to allocate operating and administrative costs to programs. However, the officials believed it would take some time to resolve certain problems. For example, the officials stated that the terms used in the standards for program and activity were probably not consistent with USAID's historical use of those terms.

We recognize that SFFAS No. 4 became effective for the fiscal year 1998 financial statements. However, similar requirements have existed since 1968 under the Foreign Assistance Act that requires USAID to establish a management system that:

... should provide information to USAID and to Congress that relates agency resources, expenditures, and budget projections to such [program] objectives and results in order to assist in the evaluation of program performance, the review of budgetary requests, and the setting of program priorities."

Therefore, USAID needs to take timely action to meet the requirements of the SFFAS No. 4 and the Foreign Assistance 'Act. Not meeting the requirements for this cost information impairs (1) USAID managers' ability to make decisions in managing for results and (2) USAID managers' and others' (e.g., Congress and taxpayers) abilities to assess the efficiency and effectiveness of USAID programs.

Recommendation No. 10: We recommend that USAID's Bureau for Policy and Program Coordination:

- 10.1 Develop definitions of what is meant by "programs," "activities," and "outputs" as discussed in the Statement of Federal Financial Accounting Standards No. 4; and**
- 10.2 Develop internal controls for identifying the full costs (USAID program and operating expenses and funding by other donors and host countries) of USAID programs, activities, and outputs.**

Complying with OMB Bulletin 97-01

Our review of the final financial statements indicated that USAID did not disclose and report the required information for fiscal year 1998 final financial statements in order to comply with the OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*. In addition, USAID reported inconsistent information in USAID's final financial statements. The following illustrates the problems noted in the 1998 financial statements.

- For the Statement of Net Cost, USAID did not develop responsibility segments, accumulate the costs, and report the full cost assigned to each responsibility segment as required by OMB. The methodology used by the Office of Financial Management in preparing the financial statement referred to above was not fully developed because the Office of Financial Management could not obtain the programs, activities, and output data needed from the Bureau for Policy and Program Coordination.
- IJSAID did not disclose the required items relating to the Balance Sheet, the Statement of Net Cost, the Statement of Budgetary Resources, and the Statement of Financing. For example, USAID did not disclose the Note for Statement of Budgetary Resources (7 items), the Note for Unexpended Appropriations, and the Note for Leases. Additionally, USAID did not adequately disclose information related to the Note for Fund Balance with Treasury and the Note for Interest and Penalties, Non-Federal- this footnote was reported separately from the Note for Credit Program Receivables and Liabilities for Loan Guarantees.
- USAID did not report deferred maintenance on the Statement of Net Cost, net transfers prior-year balance, actual on the Statement of Budgetary Resources, and the

Statement of Supplemental Information by Major Appropriation. These financial statement lines should be made public. USAID did not properly label the captions, namely, "Governmental" and did not change the required captions in the financial (statements).

- USAID did not report consistent financial statement information and had differences totaling \$1.3 billion (absolute value). For instance, USAID reported \$176 million in financial sources to be provided on the Statement of Financing and \$417 in liabilities not covered by budgetary resources on the Balance Sheet and did not disclose the difference of the similar information, as required by the OMB Bulletin 97-01.

Recommendation No. 11: We recommend that the Office of Financial Management:

- 11.1 Resolve the inconsistent information reported in its final financial statements for fiscal year 1998.**
 - 11.2 Prepare a checklist to ensure that future financial statements are prepared in accordance with the requirements of OMB Bulletin No. 97-01.**
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SCOPE AND METHODOLOGY

Scope of Our Consideration of USAID's Internal Controls

We obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation to meet the objectives of the internal control structure noted above. Further, we assessed the risks associated with USAID's internal control structure.

Our audit work included reviews of the financial related activities at 10 USAID missions²⁶. The results of our reviews are included below.

USAID's financial management system does not have adequate internal controls. This lack of adequate controls prevented us from obtaining sufficient evidential matter to conduct our audit. These weaknesses in USAID's internal accounting controls caused significant errors in the recording of transactions during fiscal year 1998.²⁷ Many of the weaknesses have existed for years, as identified in prior audit reports and USAID reports on internal controls. USAID disclosed many of these weaknesses in its fiscal year 1998 report under the Federal Managers' Financial Integrity Act, and new weaknesses identified during our fiscal year 1998 work

Methodology

In accomplishing our audit objectives, we reviewed significant line items related to USAID's financial statements. These line items included: accounts payable, fund balance with Treasury, direct loans, compliance with laws and regulations, and financial reporting. At the ten missions, we reviewed advances, accruals, disbursements, and U.S. Treasury reconciliations. Further, we contracted with an independent public accounting firm to review and report on Office of Personnel Management's (OPM) agreed-upon procedures relating to USAID's payroll.

²⁶ The ten missions selected for review were USAID's Jordan, El Salvador, Peru, Kiev, India, Pretoria, Morocco, Ghana, Bangladesh, and Cairo. USAID/Bangladesh was not reviewed because of political unrest in that country. Cairo was not reviewed because our office received a request from the mission Administrator not to include that site during our 1998 audit work. The G-2 report, Mission Disbursement Reconciliation Listing is sent to the missions monthly by the USAID/Washington's Central Accounting and Reporting division.

²⁷ Although the Office of Financial Management made adjusting entries after the close of the fiscal year, we were not able to review the entries because the office was late in closing its books and submitting the financial statements to us for audit.

For the purpose of this report, we have classified USAID's significant internal control policies and procedures into the following categories:

U.S. Treasury Reporting - This category consists of the policies and procedures for the receipt of annual apportionment, the distribution of funds to allowance holders, the commitment and obligation during spending actions, and the issuance of budgetary reports to OMB and the U.S. Treasury.

Accounts Receivable - This category consists of the policies and procedures associated with establishing, recording, collecting, and maintaining records of miscellaneous receipts.

Credit Programs Receivable - This category consists of the policies and procedures associated with establishing, recording, collecting, and maintaining records of loans disbursed and the repayment of those loans.

Fixed Assets - This category consists of policies and procedures associated with the receipt, storage, record keeping, and inventories of non-expendable assets.

Grants Disbursements/Accounts Payable - This category consists of the policies and procedures associated with identifying, assembling, classifying, and recording transactions to report the grant operating/program expenditures, unliquidated obligations, and accrued expenditures. The amount of accrued expenditures establishes the accounts payable balance at year-end.

Payroll - This category consists of the policies and procedures associated with the accounting for payroll costs processed through the payroll systems. Also included are policies and procedures for reporting payroll-related information to the Office of Personnel Management.

Financial Reporting - This category consists of the policies and procedures associated with the culmination of the previous internal control cycles after financial transactions have been summarized and posted to the general ledger.

Compliance with Laws and Regulations - This category consists of the policies and procedures associated with ensuring compliance with laws and regulations for transactions and events that may have a material effect on the financial statements, including the requirements of the Federal Financial Management Improvement Act of 1996.

Performance Measuring - This category consists of the policies and procedures to ensure that the data which support reported measures of program performance were properly recorded and accounted for to permit the preparation of reliable and complete information on program performance.

Performance Reporting - This category consists of the policies and procedures to ensure that the information on program performance and manner of its presentation in the overview section were materially consistent with the information in the principal financial statements.

We do not express an opinion on USAID's internal control structure because the purpose of our work was to determine auditing procedures for reporting on the financial statements, not to express an opinion on this structure. We assessed control risk and performed limited tests of the internal control structure. In assessing risks, we considered reports issued by USAID management under the Federal Managers' Financial Integrity Act of 1982, a 1994 USAID Self-Assessment Audit, as well as our prior and current audit efforts on financial and internal control matters.

To accomplish our requirements with OMB 98-08, Section 9, "Agreed-Upon-Procedures" and to determine USAID's compliance with the U.S. Office of Personnel Management Agreed-Upon Procedures for Retirement, Health, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Head Count, we contracted with an independent contractor. Under the supervision of the OIG, the contractor performed the Agreed-Upon Procedures as prescribed by Office of Personnel Management. The contractor found that USAID reasonably reported Retirement, Health, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Head-Count information to Office of Personnel Management.²⁸ Therefore, this report contains no recommendations requiring USAID to take corrective actions.

²⁸ USAID's Compliance with the U.S. Office of Personnel Management Agreed-Upon Procedures for Retirement, Health, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Head Count (Audit Report No. 0-000-99-001-N, December 9, 1998).

USAID MANAGEMENT COMMENTS



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 25, 1999

MEMORANDUM

TO: AIG/A (Acting), Paul E. Armstrong

FROM: AA/PPC (Acting), Larry A. Garber
M/CFO (Acting), Tony L. Cully

SUBJECT: Draft Audit Report to USAID Managers on Selected USAID
Internal Controls

This memorandum provides the Agency's formal response to the draft companion report to the previously issued report on USAID's financial statements, internal controls, and compliance for Fiscal Year 1998.

We appreciate the considerable work that the report represents and it will be helpful to us in improving our internal controls. As you know, we have had numerous discussions with the OIG, OMB, and the public accounting firm that assisted us in preparing our financial statements. We look forward to continuing those discussions (as early as next week) and in determining the best means of strengthening our internal controls.

We further note that the draft audit report does not reflect the in-depth discussions we have had with regard to GPRA considerations, nor does the draft report mention the discussions that we have had over the last several weeks regarding managerial cost accounting. We look forward to continuing to address these topics, as well as the others raised in your report.

OIG EVALUATION OF USAID MANAGEMENT COMMENTS

USAID's management officials commented that the report's content would be helpful in improving USAID's internal controls. These officials pointed out that the report did not reflect discussions recently held with the OIG concerning the Agency's implementation of the Government Performance and Results Act and the new cost accounting standard which is required under the Federal Financial Management Improvement Act.

We believe that the report will be helpful in solving several longstanding internal control problems. We also recognize that the report does not provide any details on discussion held with the Bureau for Policy and Program Coordination. We believe that the recent discussions—held after the end of fiscal year 1998— provided good background information, but were very general in nature. These discussions have offered the OIG an insight to what is being planned for the Agency's future implementation of the Government Performance and Results and the new cost accounting standard. However, these discussions yielded little specific information on the problems noted during the audit of the 12-month period that ended September 30, 1998.

Although USAID's comments did not address specific recommendations contained in the report, they did not express any disagreement with the problems presented. This is a starting point from which agreement can be reached on the specific recommendations contained in the report. We look forward to meeting with USAID's financial and program managers to discuss solutions to the internal control problems.

SCHEDULE OF PROPOSED AUDIT ADJUSTMENTS

Financial Statement Adjustments Proposed by Auditors

The following table shows the proposed financial statement adjustments, which resulted from our analysis of USAID's direct loan program and the accounts payable line item. Management concurred with and recorded three of the four proposed adjustments.

Summary of Proposed Adjustments

Account	Debit Amount	Credit Amount	Likely Misstatement	Corrected By USAID
1. Bad Debt Expense	\$428,113,080		N/A	Known - No
Allowance for Loss		\$428,113,080		
Purpose:	To reflect increases to the allowance account for uncollectible direct loans resulting from consideration of loan payment history. (See pages 12- 13)			
2. Accrued Interest	\$55,545,725		N/A	Known - Yes
Interest Income		\$55,545,725		
Purpose:	To correct accrued interest calculation earned on direct loans as of September 30, 1998. (See page 14)			
3. Accounts Payable	\$1,687,770,730		N/A	Known - Yes
Expenses		\$1,687,770,730		
Purpose:	To reverse original accounts payable entry. (See pages 14-15)			
4. Expenses	\$400,217,016		N/A	Known- Yes
Advance		\$400,217,016		
Purpose:	To reduce advances by the amount of "no-pay" voucher received but not processed for services rendered as of September 30,1998. (See pages 16 - 17)			