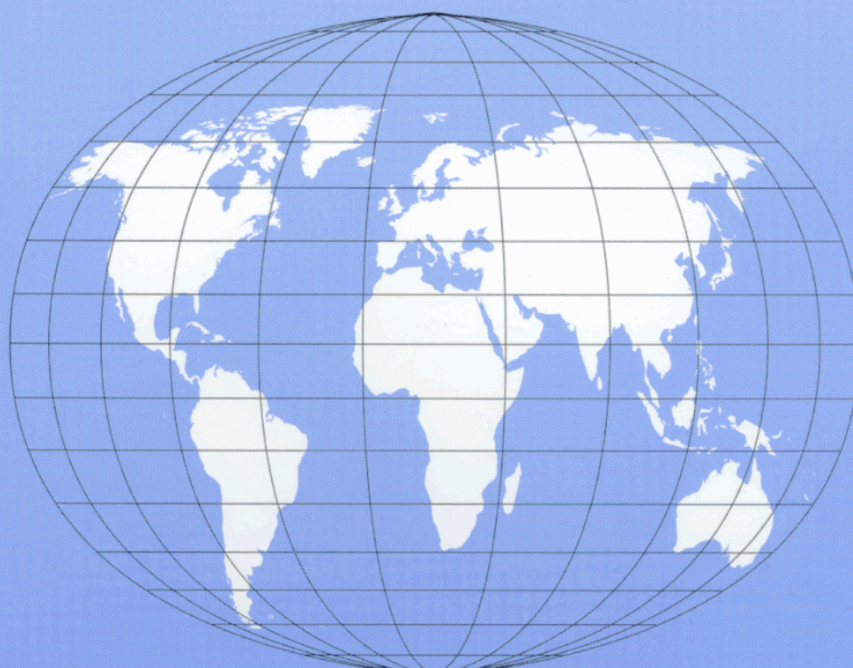
Report of Audit

Audit of USAID/Mozambique's Financial Operations and Controls

Report No. 4-656-01-001-F
February 28, 2001



PRETORIA, SOUTH AFRICA

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

Regional Inspector General
Pretoria

Memorandum

February 28, 2001

MEMORANDUM FOR USAID/MOZAMBIQUE DIRECTOR, Cynthia Rozell

FROM: Regional Inspector General/Pretoria, Joseph Farinella /s/

SUBJECT: Audit of USAID/Mozambique's Financial Operations and Controls, Report No. 4-656-01-001-F

This memorandum is our report on the Audit of USAID/Mozambique's Financial Operations and Controls, Report No. 4-656-01-001-F. We have received your comments on the draft report and have included them in their entirety as an appendix to this report (see Appendix II). The report does not contain any recommendation; therefore, no action is required by the Mission.

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

Background

Since fiscal year 1996, federal agencies have been required under the Government Management Reform Act to prepare annual consolidated financial statements that are to be audited and submitted to the Office of Management and Budget (OMB). These financial statements are intended to not only report the agency's financial position and results of operation, but also provide information to allow Congress and the public to assess management's performance and use of resources. As a result of this legislation, USAID's management is required each year to compile financial statements covering all of its accounts and activities. For fiscal year 2000, these financial statements were to be audited and furnished to OMB by March 1, 2001.

In compiling these financial statements, USAID incorporates financial data transmitted by its 36 overseas accounting centers and relies on the systems in place at each of these centers to ensure that the data is accurate and reliable. Prior OIG audits, however, have identified weaknesses in USAID's existing accounting systems. During an audit of the USAID's fiscal year 1999 financial statements, for example, it was revealed that USAID/Washington (USAID/W) was not properly calculating and reporting its accrued expenditures and related accounts payables. The audit also found that overseas missions were not properly reporting outstanding advances, calculating accrued expenditures and reconciling payments with the U.S. Disbursement Offices (USDOs) and U.S. Treasury.

To better manage its decentralized operations, USAID recently launched a new integrated accounting system, known as Phoenix, which commenced initial operations in USAID/W in December 2000 with plans to have the system later installed at two test missions before being deployed worldwide. In the interim, to prepare for the conversion to Phoenix, missions will need to take steps to ensure that their recorded data is accurate and also reduce the number of pending transactions (e.g., uncleared reconciling items) maintained on the books so as to facilitate the migration of their data into the new system.

This audit was conducted by RIG/Pretoria as part of a USAID-wide audit led by the OIG Office of Financial Audits (IG/A/FA) in Washington covering USAID's fiscal 2000 year end financial statements. As part of this audit, reviews were performed on selected financial controls related to the Mission Accounting and Control System (MACS), which included testing sampled transactions, to ensure that the fiscal year end financial data reported by MACS was accurate and reliable. These reviews were done both at USAID/W and at the following ten randomly selected overseas missions:

1.) USAID/Egypt	6.) USAID/Ghana
2.) RCSA/Botswana	7.) USAID/Indonesia
3.) USAID/Jordan	8.) USAID/Philippines
4.) USAID/El Salvador	9.) USAID/Mozambique
5.) USAID/Russia	10.) USAID/Guinea

Audit Objective

This audit involved a review of USAID/Mozambique's fiscal 2000 year end financial data and was designed to answer the following question:

Was USAID/Mozambique's fiscal 2000 year end financial data relating to its project advances, accrued expenditures and 1221 reconciliation adequately supported and accurately reported?

Appendix I provides a complete discussion of the scope and methodology for this audit.

Audit Findings

USAID/Mozambique's fiscal 2000 year end financial data relating to project cash advances, accrued expenditures and the 1221 reconciliation was generally found to be adequately supported and accurately reported for the items tested.

In reviewing these three areas, we performed tests on a sample of financial transactions. These tests included checking data recorded in the Mission Accounting and Control System (MACS) against appropriate supporting records as well as other tests to ascertain whether procedures and controls were being implemented and whether the Mission's year end data was accurately reported. The results of our review are summarized below.

Project Advances

Mission procedures and controls for processing project advances were determined to be effective in ensuring that advance transactions were reviewed and accurately recorded. Specifically, we verified that the Mission's fiscal 2000 year end project advances were:

- adequately supported with appropriate documentation (SF1034s) contained in the advance payment files authorizing the payment and liquidation of each advance;
- awarded on an "as needed" basis to avoid the accumulation of surplus balances;
- administratively approved and certified for payment;
- accurately recorded in MACS; and
- liquidated in a timely manner.

Although we found several project advances earlier during our survey that had been outstanding over six months, we noted that the Mission cleared these advances later that fiscal year with subsequent advances being liquidated in a much more timely manner, thereby reducing the total unliquidated cash balance as of the end of the fiscal year.

We also verified that the Mission complied with a new provision contained in Section 631 of the USAID Automated Directives System (ADS) requiring the identification of outstanding advances relating to commitments for which fiscal year end accruals had been posted. Per the ADS, this data was compiled as part of the year end closing process and reported to USAID's Office of Financial Management (M/FM) to facilitate the computation of the Agency's fiscal year end net payables.

Accrued Expenditures

Based on tests performed on a sample of the Mission's project accruals for the quarter ending September 30, 2000, we determined that prescribed procedures, for the most part, were being followed and accruals were generally accurately recorded and reported. Specifically, the results of our tests showed that:

- accruals were being jointly reviewed by staff from each of the Mission's Strategic Objective (SO) teams and the project accountants in the controller's office;
- Mission staff generally had a reasonable basis to support their accrual estimates;
- accruals were adjusted prior to being posted to MACS to account for any subsequent disbursements recorded just prior to the end of the quarter; and
- recorded accruals were reviewed and cross-checked to control totals to ensure that all accruals were posted to MACS and reported in the U101 report.

Our review, however, noted one case where an accrual was overstated because it did not take into account all recorded expenditures. In this instance, the accrual estimate was based on a schedule ("cuff" record) maintained by the project officer that tracked the status of all invoices under a contract, including invoices previously paid as well as those still pending. In computing the estimate, the person noted the most recent disbursement indicated in the MACS P09 accrual worksheet and traced this payment to the schedule, totaling the invoices listed subsequent to this payment. The Mission's P04 report (commitment liquidation record), however, showed that several of these invoices had already been recorded as disbursements, under different earmark control numbers, at the time the estimate was made. These payments, therefore, should not have been included in the accrual estimate for that quarter. While we found this to be an isolated incident, we believe the Mission should ensure that staff relying on cuff records as a basis for their accrual estimates reconcile these records to the appropriate MACS reports. This would help ensure that estimates take into account all recorded disbursements to date, particularly if the payments are listed under more than one earmark control number.

In addition, we noted several accruals reported by one SO team that may not have been based on the most current information available. At the time the fourth quarter accruals were being compiled, in early-September 2000, the SO team was awaiting the arrival of its team leader with most of the staff away from the office. In their absence, the office resorted to simply using the same accruals posted for the prior quarter since the staff did not leave estimates for their respective activities. Although the accruals examined for this SO were not found to be materially over or underestimated, offices need to make provisions to ensure that accrual estimates covering each activity are obtained in advance from assigned staff who are planning to be absent during the quarterly accruals process.

1221 Reconciliation

We determined that the Mission was properly performing this monthly reconciliation and that the results were accurately reported in the Mission's fiscal year end U101 report. Specifically, our review verified that:

- the Mission's 1221 reconciliation generated an accurate listing of the outstanding reconciling items under each appropriation;
- net disbursement data reported in the year-end U101 report was accurate, reliable and supported by data contained in Mission (i.e., MACS) and USDO records; and
- cumulative reconciling balances reported in the U101 report were consistent with those reflected in the Mission's reconciliation worksheets.

Our review, however, noted that (1) the Mission maintained a backlog of cumulative reconciling items waiting to be cleared, (2) cumulative reconciling balances per the Mission's records differed substantially from those maintained by M/FM and (3) there were differences still pending between USAID/W and Treasury on several monthly net disbursements representing payments made on the Mission's behalf for Online Payments and Accounting Charges (OPAC). These issues are discussed in the following sections.

Need to Followup on Outstanding Reconciling Items

USAID financial management guidance requires missions to follow up on reconciling items that have been outstanding over two months to ensure accountability over its cash reconciliation. Our review, however, found that the Mission had not been routinely following up and clearing outstanding reconciling items in a timely manner. An official in the controller's office attributed the problem to a heavy workload and other priorities which have prevented staff from devoting time to following up and gathering the necessary documents to clear these items from the books. This has resulted in a backlog of outstanding reconciling items waiting to be cleared. As of September 30, 2000, the Mission had a cumulative total of 181 reconciling items valued at approximately $3.6 million, with 69 per cent of these outstanding over 6 months, broken down as follows:

Age	No. of Items	Dollar Value (Absolute value)	% of Items
Over 2 years	44	$523,361	24%
1 to 2 years	46	$362,699	25%
6 mo. to 1 yr.	36	$1,343,155	20%
2 mo. to 6 mo.	21	$1,174,399	12%
Under 2 mos.	34	$161,558	19%
Totals	**181**	**$3,565,172**	**100%**

The Mission cited this problem as a weakness in its latest Federal Managers' Financial Integrity Act (FMFIA) report for fiscal year 2000 and has since initiated corrective measures to reduce the backlog. These include stepped-up efforts in recent months to clear some of the reconciling items as well as plans to temporarily assign a newly-hired accountant to spend several months working exclusively on clearing items. The Mission's action plan also calls for the Controller to review those items that remain outstanding as of March 31, 2001 and reach a decision as to whether to continue searching for supporting documents or simply write them off against available appropriation balances. Based on these actions, we believe the Mission has already initiated appropriate steps to address the problem. Therefore, we are not making a recommendation on this issue.

Differences Between Mission and USAID/W Cumulative Reconciling Balances

The audit also noted that the Mission was receiving reports from USAID/W showing the net disbursement and cumulative reconciling balances maintained by M/FM (per its G-2 report) and by Treasury (per the 6653 report), but was not reconciling this data to its own records. According to one official, a reconciliation was not done, in part, because these reports were not being furnished by M/FM in a timely manner, often taking up to five months, thereby reducing the usefulness of such a reconciliation. The official also pointed out that if any differences were identified, they would be difficult to reconcile since the G-2 report only provides cumulative reconciling *totals* under each appropriation and does not offer a breakdown listing the individual reconciling items making up these totals, data that would be required before any such reconciliation could be performed.

An analysis comparing the cumulative reconciling balances recorded by the Mission under several appropriations against those reported in M/FM's G-2 report for the month of July 2000 showed that differences did exist as seen in the following examples.

	Cumulative Reconciling Balances		
Appropriation #	Per Mission Records (U101)	Per USAID/W Records (G-2)	Difference
72 x 1000	$17,615	$58,947	$41,332
72 x 1014	$741,891	$363,610	$378,281
72 x 1021	($10,394)	($1,465,553)	$1,455,159
72 x 1095	($728,423)	($242,912)	$485,511

We were unable to perform a similar comparison with the fiscal year end balances since the year end report was not yet available prior to the end of our field work. Nevertheless, it is clear that these differences will remain on the books until USAID/W initiates a thorough review and reconciliation of its own balances. Based on our experiences at other missions, these imbalances appear to represent a systemic problem within USAID's accounting system, and not one specific to this Mission, that needs to be addressed at the agency level. We are, therefore, not making a recommendation on this issue, but suggest the Mission advise M/FM of these discrepancies so that appropriate action can be taken.

Differences Between USAID/W and Treasury Net Disbursement Balances

In addition, there were differences between the monthly totals reported by USAID/W and Treasury relating to disbursements made on the Mission's behalf for OPAC charges. These monthly differences are reported in Treasury's Statement of Differences (6652) Report which is issued to USAID when differences arise between Treasury's monthly disbursement total and that reported by USAID via its SF224 Reports. Although M/FM is responsible for reconciling these differences, the office often relies on missions to do some of the research and assist in getting them cleared. In the case of the Mozambique account, we found that there were reported differences dating back to May 1998 totaling about $6.8 million. In reviewing the status of these differences, however, we found the Mission had already researched the cause of each difference and was currently awaiting further information from M/FM before it could take action to clear these differences. Therefore, we are not making a recommendation to the Mission on this issue either.

Management Comments and Our Evaluation

In its response to our draft audit report, USAID/Mozambique concurred with the findings contained in the report and indicated it would continue in its efforts to resolve its outstanding reconciling items and improve the accuracy of project advances and accruals.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Mozambique's fiscal year end financial data in accordance with generally accepted government auditing standards. This audit was conducted by RIG/Pretoria as part of a USAID-wide audit led by the OIG Office of Financial Audits in Washington to audit USAID's fiscal year 2000 financial statements. In auditing these statements, the OIG reviewed USAID's procedures and controls related to the Mission Accounting and Control System (MACS), which included testing a sample of transactions, to ensure that the year end data reported through MACS was accurate and reliable. This review was performed both at USAID/Washington and at ten randomly selected overseas missions, including USAID/Mozambique. This report deals solely with the results of our audit at USAID/Mozambique.

The scope of this audit specifically focused on reviewing the Mission's fiscal 2000 year end financial data generated under the following three accounting processes:

1.) Project Cash Advances
2.) Accrued Expenditures
3.) 1221 Reconciliation

In auditing these three areas, we initially examined the related procedures and controls in place at the time of our field work. We then selected samples from the Mission's MACS transaction files for testing to determine whether the recorded transactions under each area were adequately supported and accurately reported. Given the limited number of project advances, our testing covered all project advances, excluding travel advances, outstanding as of September 30, 2000. In testing the Mission's project accruals, we selected a stratified statistical sample of 35 accruals, representing 15 per cent of the total universe, that were posted for the fourth quarter of FY 2000. Our review of the 1221 reconciliation, meanwhile, involved tests to verify the accuracy of the net disbursement and reconciliation data reported in the Mission's September 2000 U101 reports, covering the results of the reconciliation performed for the preceding month.

Although the scope of this USAID-wide audit also included a review of U.S. and local currency loans, we learned that USAID/Mozambique did not have any such loans within its portfolio. Therefore, this audit did not include coverage of this area.

The field work for this audit was performed at the USAID/Mozambique Mission in Maputo, Mozambique from July 6, 2000 through November 21, 2000.

Methodology

The objective of this audit was to determine whether USAID/Mozambique's fiscal 2000 year end balances were adequately supported and accurately reported under the following processes: project cash advances, accrued expenditures and the 1221 reconciliation.

To accomplish this audit objective, we conducted interviews with Mission officials, principally in the controller's office, to gain an understanding of the Mission's existing procedures and controls covering each of the processes. Our review also included tests of sampled financial data from the MACS files, as described earlier in the Scope section, which we checked against appropriate supporting records to verify whether the data was adequately supported and accurately recorded and whether procedures were properly implemented. Processes found to have an error rate of 5 percent or less were considered accurate for reporting purposes. Error rates in excess of 5 percent were considered significant. A description of the areas tested under each process is summarized below.

Project Cash Advances
Tests performed on the project advances outstanding as of September 30, 2000 consisted of checking the recorded advances per MACS to supporting documents contained in the advance payment files to verify whether they were accurately recorded, awarded on an "as needed" basis, adequately reviewed, certified and liquidated in a timely manner. In addition, an aging analysis was performed on the sampled advances to ascertain how long they had been outstanding as of the end of the fiscal year. We also checked whether the Mission complied with the provision contained in ADS 631, requiring the identification of outstanding advances relating to commitments for which fiscal year end accruals had been posted and the compilation of this data as part of the fiscal year end closing process.

Accrued Expenditures
In testing our stratified statistical sample of project accruals, posted for the fourth quarter ending September 30, 2000, we conducted interviews with Mission staff responsible for developing the accrual estimates to determine whether these estimates were correctly computed and had a reasonable basis. In addition, we checked for evidence indicating that the estimates were reviewed, both by staff on the strategic objective (SO) teams and the project accountants, to ensure that estimates were reasonably accurate, adjusted for subsequent disbursements and properly posted to MACS.

1221 Reconciliation
In verifying the accuracy of the reconciliation data reported in the September 2000 U101 report, we checked the data under selected appropriations (72x1000, 72x1021, 72x1037) against supporting records (e.g., MACS reports). We also performed a test reconciliation to verify that the Mission was generating a complete listing of the outstanding reconciling items under each appropriation. In addition, an aging analysis was performed on the outstanding reconciling items as of September 30, 2000 to determine the period these items had been outstanding and whether they were being cleared in a timely manner.

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M E M O R A N D U M

To	:	Joseph Farinella Regional Inspector General for Audit, Pretoria
From	:	Cynthia Rozell /s/ Mission Director, USAID/Mozambique
Date	:	February 23, 2001
Reference	:	USAID/074/01/mk
Subject	:	Audit of USAID/Mozambique's Financial Operations and Controls – Report Number 4-656-01-00X-F

Dear Mr. Farinella,

We refer to the above audit and to your e-mail dated January 25, 2001, requesting the Mission's written comments by no later than February 26, 2001.

The Mission concurs with the audit findings. We will continue our efforts to resolve reconciling items and improve the accuracy of project advances and accruals. We appreciate the balanced presentation and we enjoyed working with you and your staff. We have no additional comments to add to the draft audit and look forward to receiving a copy of the final audit report.

Thank you and regards.