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April 12, 1999

Memorandum

To: Frank Young, Director, USAID/Ghana

From: Henry L. Barrett, RIG/Dakar

Subject: Audit of the USAID/Ghana Accounting Station Fiscal Year 1998 Financial Data, Audit Report No. 7-64 1-99-005-F

This memorandum is our audit report on the subject audit. We have considered your comments on the draft audit report and have included them in their entirety in Appendix II.

This audit report has two recommendations. Based upon your comments and actions, USAID/Ghana has made a Management Decision to address both recommendations. In accordance with US AID guidance, the Management Bureau's Office of Management Planning and Innovation (M/MPI/MIC) will be responsible for determining when Final Action has occurred for Recommendation Nos. 1 and 2.

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

Background

Beginning in fiscal year 1996, the Government Management Reform Act (GMRA) requires federal agencies to complete audited financial statements each year covering all accounts and associated activities. These financial statements are to report the financial position and results of operations and provide information allowing Congress and the public to assess management performance and stewardship of agency resources.

USAID's management is required to compile financial statements and supplemental information. Management's ability to develop and maintain adequate internal controls, accounting systems and procedures to generate reliable financial statements will be critical to the success of USAID's annual reporting. The audit of the USAID/Ghana accounting station is part of the audit of USAID fiscal year 1998 financial statements to comply with procedures set forth in Office of Management and Budget (OMB) Bulletin No. 97-01.

USAID/Ghana is the accounting station for the following countries in which USAID conducts programs: Nigeria. Cameroon, Sierra Leone, Ghana. Equatorial Guinea. Sao Tome & Principe, Liberia and the Central African Republic. As of September 30, 1998, accounting records maintained at USAID/Ghana indicated that it had obligated and expended in support of active programs in these countries a total of approximately $235.9 million and X162.7 million. respectively.

Audit Objectives

The Office of Regional Inspector General in Dakar audited the USAID/Ghana accounting station to answer the following questions:

Did the USAID/Ghana accounting station have documentation to support the disbursements made in the fourth quarter of fiscal year 1998 and the balances of accruals and advances at September 30, 1998?

Were the September 30, 1998 balances reported in the USAID/Ghana accounting station's U-101 Report for appropriations 72X102 1 and 72X1095 properly stated and adequately supported'?

Appendix I describes the audit's scope and methodology.

Audit Findings

Did the USAID/Ghana accounting station have documentation to support disbursements made in the fourth quarter of fiscal year 1998 and the balances of accruals and advances at September 30, 1998?

The USAID/Ghana accounting station had documentation to support disbursements made in the fourth quarter of fiscal year 1998 and the balances of accrued expenditures and advances at September 30. 1998: however, some accrued expenditures were underestimated and not adequately supported. In addition, there were two cases in which the oldest funded obligations were not liquidated before newer funded obligations. These issues are discussed below.

Accruals Underestimated and
Not Adequately **Supported**

USAID/Ghana did not accurately estimate its accrued expenditures at September 30. 1998. We found accrued expenditures for six obligations that were underestimated by more than $3 million. USAID guidance requires that financial reports accurately reflect financial transactions and the results of operations. Under-accrued expenditures misstate the results of operations and artificially inflate unliquidated obligations, thereby causing two problems: 1) USAID's reported unliquidated obligations/commitments were larger than actual, and 2) the reported physical progress of programs was less than actual. This misstatement also diminished the statements' usefulness as a management tool. This occurred partially because of problems associated with the consolidation of accounting responsibilities at USAID/Ghana. It also occurred because program officials did not have adequate procedures for estimating accrued expenditures and in one instance, did not understand the mechanics of the procedure.

> Recommendation No. 1: We recommend **USAID/Ghana** develop and implement a plan and training course for program officers to enable them to better calculate and document accrued expenditures.

Accrued expenditures represent costs incurred during a given period for goods received or services rendered, regardless of when cash payments[1] are made or whether invoices have been received. Accrued expenditures are used by management to measure the performance of programs. They are an important part of the accounting process and essential for the presentation of the complete financial position and results of operations. At the USAID/Ghana accounting station, accrued expenditures are particularly important because it has many programs which involve U.S.-based recipients who are paid by USAID/Washington. These disbursements, which are reported to USAID/Ghana by means of an advice of charge (AOC)[2]. take a significant amount of time to arrive. and remain unrecorded until they are entered into the system by USAID/Ghana. Therefore. proper recognition and reporting of substantial accrued expenditures are necessary to accurately reflect both unpaid services and unrecorded disbursements.

Financial Management Bulletin, Part II - Bulletin No. 3 entitled "Project Accounting" requires accruals be computed for each project by commitment at the end of each quarter. The controller, program officer and others directly involved in program implementation are specifically responsible for securing the necessary source data, and developing accrued expenditures each accounting period. The Bulletin states that the development of accurate and reliable accrued expenditures is a management responsibility shared by the controller and the program officer. Also. the program officer has the responsibility to gather the documentation and information

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[1] In USAID's accounting system, cash payments are commonly referred to as disbursements.

[2] An AOC represents an incoming charge from outside the Mission which must be made to an obligation and frequently arrives long after a program is completed; but obligated funding must be available for these incoming charges.

necessary from outside the mission from which the accruals can be calculated. The program officer. with the assistance of the program accountant, will determine the amounts to be accrued.

At September 30. 1998. the USAID/Ghana accounting station had recorded accrued expenditures totalling $19,78 1.784 against 157 obligations/commitments. We selected a sample of thirty of these accruals totalling $15.369,426 and found problems with inadequate supporting documentation and computation errors. In six cases, program officers did not have adequate documentation to support the computation of their accruals. making the audit process difficult and more time consuming for both Mission and OIG personnel. Also. program officers did not always confirm estimated expenditures with recipients, nor did they always use information that was available to them. Consequently, the USAID/Ghana accounting station at fiscal year-end had overstated its unliquidated obligations[3] by $3.4 million as a result of underestimating accrued expenditures. as set forth in the following table.

Obligation No.	Earmark Control No.	Under Accrual
GR-669-G-00-94-00077[4]	?720023[5]	$1.475.877
CA-641-0133-A-00-4028[6]	960055	8 17.408
64 1 -CA-00-97-00 160	P970004	88 1.425
64 1 -C-00-98-00089	P980069	42.266
CO-64 1 -C-00-98-00236	P980022	209.170
64 1 -G-00-98-00032	P980024	20.461
Total		$3,446,607

[3] In this report the term "unliquidated obligations" is defined as obligations less expenditures.

[4] Due to USAID procedures for incrementally funding large programs, his obligation wits analyzed in conjunction with three other obligations that were made under the CO-669-021 O-G-00-4077, GR-669-94-00-00077 and GR-669-02 19-G-00-4077.

[5] This is the actual earmark control number used by the Mission to identify this earmark.

[6] Due to USAID procedures for incrementally funding large programs, this obligation was analyzed in conjunction with earmark control no.P98006 1, which under the same program.

These under-accrued expenditures occurred because of a number of reasons. First. USAID/Ghana had just assumed the responsibility for being the accounting station for several other offices. This. combined with the evacuation of USAID/Liberia. contributed to a temporary breakdown in the control system. Specifically. the accountant for the USAID/Liberia programs was new to USAID/Ghana. and the program officer from USAID/Liberia was on evacuation status. Since then. USAID/Ghana has had time to assimilate its new responsibilities, the accountant for USAID/Liberia has had to familiarize himself with the programs. and the program officer has returned to USAID/Liberia. Therefore, this situation should no longer be a problem.

A second cause was that not all program officials understood how the accrual process functioned. One official stated that he thought that previous quarterly accruals that he had made were still in the system. He did not realize that accruals are reversed at the beginning of each successive reporting period. All program officers need to be thoroughly trained in estimating and inputting accrued expenditures.

A third reason for the condition was that program officials did not seem to use all of the information available to them and did not have standard procedures to use in estimating accruals. They did not routinely contact the recipients who were providing services and who would have had the most accurate estimate of expenditures to date. In one instance in which the program officer underestimated an accrual. we found that the recipient had already expended the entire amount of the grant as of June 30, 1998. three months prior to the fiscal year end. This could have easily been verified with the recipient at the time of year-end accruals and an under-accrual avoided.

A final cause was that program officials did not have a documentation system whereby they could maintain a record of past estimated expenditures and unrecorded disbursements which could then be easily updated for the next quarterly accrual. We found no program officer who maintained an accrual file which could be referenced to support the September 30. 1998 accruals in our sample. Since USAID/Ghana has a large number of unrecorded disbursements due to the large number of U.S.-based recipients, it is extremely, important that program officials maintain comprehensive documentation to support past accruals and to aide in the estimation of future accruals for both unpaid services and unrecorded disbursements.

The result of the above under-accrued expenditures was a material misstatement of year-end accruals and the financial transactions and results of operations of the USAID/Ghana accounting station. This misstatement inflated unliquidated obligations. thereby causing two problems: 1) USAID's reported unliquidated obligations/commitments were larger than actual. and 2) the reported physical progress of projects/programs was less than actual. This diminished the usefulness of USAID/Ghana's financial statements' as a management tool.

Older Obligations Not Always
Liquidated Prior to Newer **Obligations**

In two instances, USAID/Ghana did not liquidate older funded obligations before newer funded obligations. as required by USAID guidance. This occurred because of the disruption in the normal control system due to the transfer of additional accounting responsibilities to USAID/Ghana. As a result, older funds were not liquidated, resulting in poor financial management and increasing the risk of funds passing their expiration date and no longer being available for use.

> Recommendation No. 2: We recommend **USAID/Ghana** develop and implement a plan to ensure that the oldest funded obligations are liquidated first.

Under obligating document CO-669-02 1 S-G-00-4080, USAID/Ghana recorded disbursements against newer funding without first liquidating older funding for two unliquidated obligations totalling $1,806,7 10. Earmark control number ?420005 (actual reference number) with a year-end balance of $1,106,7 10 and earmark control number '~620005 with a year-end balance of $700,000 were obligated from fiscal years 1994 and 1996, respectively. However. on November 4, 1998, the controller's office signed a public voucher for $2,265,000, the disbursement for which liquidated obligations funded from fiscal year 1997,' leaving the fiscal year 1994 and 1996 funding still in the financial system.

USAID guidance requires that older funding be liquidated prior to newer funding for incrementally funded obligations. Financial Management Bulletin - Part II - No. 14A. entitled "Obligation Reviews at Missions," requires that incrementally funded projects be disbursed on a "first-in. first-out" basis. In all cases, payments are to be made from. and liquidate funds from, the oldest funding source for incrementally funded obligations/commitments. This procedure is necessary to avoid the possibility of older funds passing their expiration date and reverting to the U.S. Treasury prior to being used.

Mission officials stated that this control weakness occurred because of a temporary breakdown in the normal accounting internal control system. USAID/Liberia had been evacuated and USAID/Ghana had just assumed responsibility as an accounting station for several other countries in which USAID operated. In addition, the accountant was new to USAID/Ghana. USAID/Ghana should review its accounting operations and develop and implement an appropriate plan to address this weakness.

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[7] Voucher No. 96690014 liquidated earmark control numbers ?720024, L980017 and L980023 from budget plan code GCDX-97-2 1 669-KG 13.

Were the September 30, 1998 balances reported in the USAID/Ghana accounting station's U-101 report for appropriations 72X1021 and 72X1095 properly stated and adequately supported?

The September 30. 1998 balances reported by the USAID/Ghana accounting station in the U-101 report for appropriations 72X 102 1 and 72X 1095 were properly stated and adequately supported. The USAID/Ghana accounting station had U- 101 reports for nineteen different appropriations. We chose two appropriations (72X 102 1 and 72X1095) and verified the mathematical accuracy of their balances and. on a test basis, examined supporting documentation. Finding no errors or deviations. we concluded that the September 30, 1998 balances reported by the USAID/Ghana accounting station in the U-101 report for appropriations 72X 102 1 and 72X 1095 were properly stated and adequately supported.

Management Comments and Our Evaluation

USAID/Ghana concurred with both audit recommendations. Regarding Recommendation No 1. USAID/Ghana plans to complete the development of a training course for program officers to better enable them to prepare and document accrued expenditures by April 30, 1999. The Mission anticipates having trained USAID/Ghana and the six client Mission personnel by no later than July 3 1, 1999.

Regarding Recommendation No 2, USAID/Ghana will develop and implement a plan no later than April 30, 1999. All Project Accountants will be trained to always liquidate the oldest funded obligation by no later than May 3 1. 1999. The entire pipeline for all seven client posts will be reviewed by May 3 1. 1999 to confirm that the oldest funded obligation has been liquidated first.

SCOPE AND METHODOLOGY

Scope

We audited the operations of USAID/Ghana accounting station related to disbursements. advances, accrued expenditures, U-101 reports and related 1221 reconciliations. The audit was performed as part of the financial statement audit of USAID for fiscal year 1998. We conducted the audit, in accordance with generally accepted government auditing standards, at USAID/Ghana's offices in Accra, Ghana from September 1 through December 16, 1998.

Methodology

This audit was performed as part of the financial statement audit of USAID for fiscal year 1998. We performed audit work at USAID/Ghana as one of ten selected sample missions worldwide, to enable OIG/Washington to provide an opinion on the fairness of presentation of USAID's financial statements as required by GMRA. Operating units were selected using a random sample based on statistical sampling techniques.

To accomplish the audit objective, we selected transactions randomly using random number tables. The sample size was determined by statistical sampling techniques based on a confidence level of 90% with a tolerable error rate of Specifically we examined the supporting documentation for:

- fifty disbursements totalling $5,708,784 which represents approximately 68 percent of the total disbursements of $8,558,534 made in the fourth quarter of fiscal year 1998
- twenty advances totalling $248,375 which represents approximately 56 percent of the total advances outstanding of $440,384 as of September 30. 1998
- thirty accruals totalling $15,433,365 which represents approximately 78 percent of the total accruals of $19,78 1.784 as of September 30. 1998
- two of the nineteen U-101 reports as of September 30, 1998

* the reconciliation of the disbursements with the Regional Administrative Management Center (RAMC) in Paris, France for appropriation 72X1021 and 72X1095; commonly referred to as the 122 1 Reconciliation.

In analyzing accrued expenditures we sometimes were required to analyze a sample item in conjunction with other obligations/commitments or earmark control numbers. Since USAID incrementally funds larger projects/programs, some projects/programs may have several earmark control numbers under an obligation/commitment; or they may have several obligation/commitment numbers representing incremental obligations/commitments. Consequently, there were instances when we had to analyze the entire project/program in conjunction with the particular sample item to determine whether the accrued expenditure was accurately estimated and supported.

To obtain an understanding of the internal controls, we interviewed officials at USAID/Ghana and reviewed flow charts, narratives and related source documents regarding the financial reporting processes. Where problems were found. we verified to the extent practical. the causes of the problems.

In addition, we obtained a management representation letter from cognizant Mission officials containing essential assertions related to our audit objective.

APPENDIX II

Memorandum

To: Henry L. Barrett, RIG/Dakar

From: Frank Young, Director, USAID/Ghana

Date: March 25, 1399

Subject: re: Audit, of USAID/Ghana Accounting Station Fiscal Year 1998 Financial Data, Report No 7-641-99-00X-F

Our Mission has reviewed subject Draft Audit Report and our comments arc as follows:

RECOMMENDATION NO. 1: We recommend USAID/Ghana develop and implement it plan and training course for Project Officers to enable Project Officers to better prepare and document accrued expenditures.

COMMENTS: USAID/GHANA concurs with this recommendation. We target completion of development and implementation of the plan and [raining course by April 30, 1999. We anticipate having trained USAID/Ghana and the six client mission personnel by no later than Juiy 31, 1999.

RECOMMENDATION NO:2: We recommend USAID/Ghana develop and implement a plan to ensure that the oldest funded obligations arc liquidated first.

COMMENTS: USAID/Ghana concurs with this recommendation, USAID/Ghana will develop and implement a plan no later than April 30, 1999. All Prqjcct Accountants will be trained to always liquidate the oldest funded obligation by no later than May 31, 1999. The entire pipeline for all seven client posts **will bc reviewed** by May 31, 1999 to confirm that the oldest funded obligation has been liquidated first.

USAID/Ghana appreciates the professional manner in which subject Audit was accomplished.