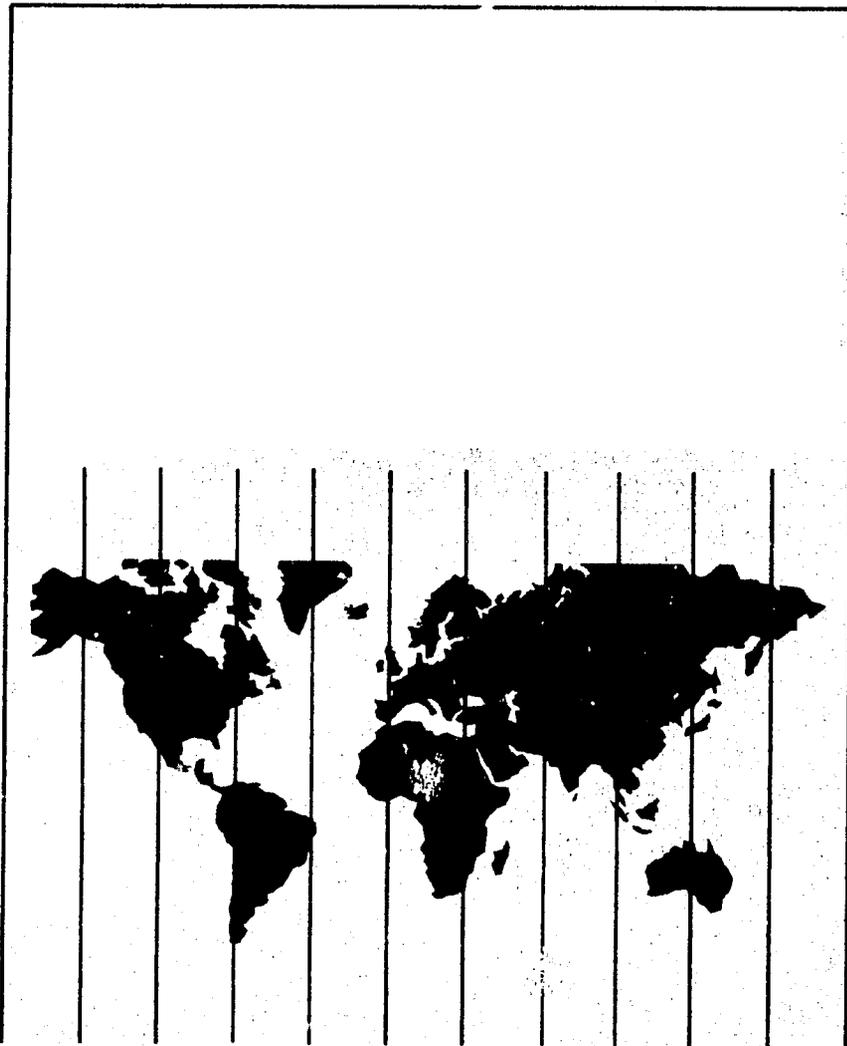


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
NAIROBI

PD-ABC-911

**Audit of
USAID/Botswana's Accounting
for Project Funds**

Audit Report No. 3-633-91-09
June 28, 1991

USAID/Botswana did not account for project funds in accordance with A.I.D. policies and procedures. Therefore, at least \$1,991,864 in unliquidated commitments needed to be reprogrammed or liquidated, the allowability of \$1,223,141 needed to be determined, and \$32,492 in overcommitments needed to be decommitted and reprogrammed.

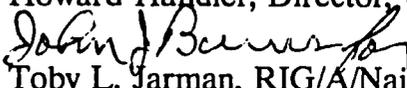
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June 28, 1991

MEMORANDUM

TO : Howard Handler, Director, USAID/Botswana
FROM : 
Toby L. Jarman, RIG/A/Nairobi
SUBJECT: Audit of USAID/Botswana's Accounting for Project Funds

Enclosed are five copies of the subject report. In preparing this report, we reviewed your comments on the draft and included them as an appendix to this report. Based on your comments, recommendation Nos. 1.1, 1.3 and 1.4 are resolved and we will close them when appropriate actions are completed. Recommendation No. 1.2 is closed on issuance of this report. Please respond to this report within 30 days, indicating any actions planned or already taken to implement the open recommendations. We appreciate the cooperation and courtesies extended to our staff during the audit.

Background

During our audit of the Botswana Junior Secondary Education Improvement Project (JSEIP), Audit Report No. 3-633-91-06, we found problems with USAID/Botswana's accounting for project funds. As a result, we expanded our audit into this functional area to determine whether a systemic problem existed.

As of September 30, 1990, USAID/Botswana had a portfolio of 49 active and inactive projects for which \$126 million had been obligated and \$113 million spent.

At the time of audit in November 1990, USAID/Botswana was using a manual system to account for project funds. USAID/Botswana was planning to convert to the Agency's Mission Accounting and Control system (MACS) and this conversion was expected to be completed in fiscal year 1991.

1

Audit Objective

We audited USAID/Botswana's system of accounting for project funds to answer the following objective:

- Did USAID/Botswana account for project funds in accordance with A.I.D. policies and procedures?

In answering this objective, we tested whether USAID/Botswana (1) followed applicable internal control procedures and (2) complied with certain provisions of laws and regulations. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could significantly affect the audit objective. However, we did not continue testing when we found that, for the items tested, USAID/Botswana followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning these positive findings to the items actually tested. But when we found problem areas, we performed additional work to:

- conclusively determine that USAID/Botswana was not following a procedure or not complying with legal requirements,
- identify the causes and effects of the problems, and
- make recommendations to correct the conditions and causes of the problems.

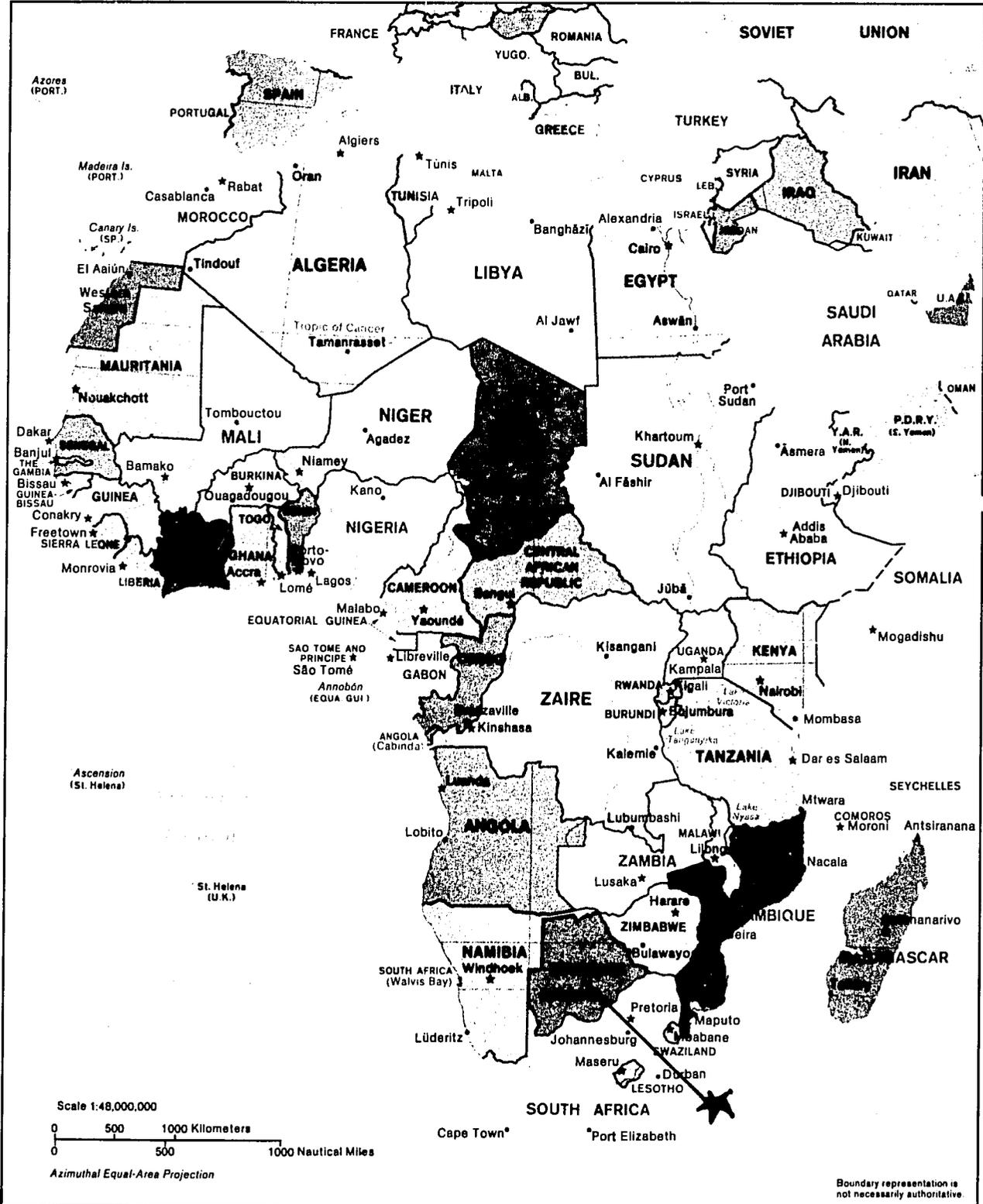
Our discussion of the scope and methodology for this audit is in Appendix I and our reports on internal controls and compliance are in Appendices III and IV respectively.

Audit Findings

Did USAID/Botswana account for project funds in accordance with A.I.D. policies and procedures?

For the items tested, USAID/Botswana did not account for project funds in accordance with A.I.D. policies and procedures.

Africa



Although USAID/Botswana recorded earmarks in budget control sheets and commitments and expenditures in commitment liquidation/control sheets, the project accounting records did not (1) present up-to-date information on earmarks, commitments and expenditures and (2) reconcile with the summary of obligations and expenditures which forms the basis for USAID/Botswana's financial reporting of expenditures against project budgets to AID/W.

Furthermore, USAID/Botswana made expenditures which were not matched with the corresponding commitments.

USAID/Botswana Does Not Have An Effective System to Account For Project Funds

A.I.D. policy requires project funds to be accurately accounted for and reported. However, USAID/Botswana did not adequately account for project funds because it did not have an effective system to provide it with correct and current financial information. As a result (i) at least \$1,991,864 in unliquidated commitments needed to be reprogrammed or liquidated (ii) the allowability of \$1,223,141 needed to be determined and (iii) \$32,492 in overcommitments needed to be decommitted and reprogrammed.

Recommendation No. 1: We recommend that the Director, USAID/Botswana:

- 1.1 Reprogram or liquidate commitments totalling \$1,991,864.**
- 1.2 Determine the allowability of \$1,223,141 in questioned costs for which no commitments were recorded.**
- 1.3 Decommit and reprogram \$32,492 in overcommitments.**
- 1.4 Perform a review of the accounting records of all the Mission's projects for the purpose of (i) reprogramming or liquidating all commitments that are no longer needed, and (ii) determining the allowability of all costs for which no commitments were established.**

The Budget and Accounting Procedures Act of 1950 (Public Law 784) provides the general accounting policies and requirements for U.S. Government agency operations. A.I.D. Handbook 19, which implements this legislation requires, among other things, that A.I.D.'s accounting and reporting systems provide (1) adequate, reliable, and useful financial information, and (2) effective control and accountability of funds. The purpose of these

requirements is to ensure that U.S. Government resources are adequately protected and accounted for.

The A.I.D. Controller's Handbook Chapter 13, Page 13.18 also states that disbursements should be made only when funds have been previously committed. This requirement is to ensure that funds are not spent for unauthorized purposes.

... \$1,991,864 in unliquidated commitments for fiscal years 1981 through 1987 remained in the books although the activities to which they related were completed...

USAID/Botswana used budget control sheets to manually record the amounts budgeted for various components such as construction, technical assistance and commodities. USAID/Botswana prepared commitment liquidation/control record sheets to manually record funds set aside for items such as equipment, salaries for consultants, and training of local participants. At the end of each fiscal year, USAID/Botswana prepared a summary of all expenditures against budgets, and submitted information contained in this summary to AID/W.

USAID/Botswana's project accounting records did not provide correct and current financial information. A total of \$1,991,864 in unliquidated commitments for fiscal years 1981 through 1987 remained in the books although the activities to which they related were completed, as follows:

- The Botswana Junior Secondary Education Improvement Project (JSEIP) had \$353,279 relating to fiscal years 1985, 1986 and 1987 funds.
- The Botswana Workforce and Skills Training Project (BWAST) had \$1,514,310 relating to fiscal years 1981 through 1986.
- The Rural Sector Grant Project had \$47,172 for fiscal years 1983.
- The Gabarone West Housing and Facilities Project had \$77,103 for fiscal year 1983.

Also, project accounting records showed expenditures amounting to \$1,223,141 for which no commitments were indicated in two projects as follows:

- JSEIP had \$228,622 for fiscal years 1986 through 1988; and
- BWAST had \$994,519 for fiscal years 1983 through 1985.

The audit further found that a commitment of \$12,409 was recorded twice while another commitment was overstated by \$20,083.

In addition, for the projects described above, the accounting records did not reconcile with the summary of expenditures by fiscal year. The summary of expenditures by fiscal year is the basis for USAID/Botswana's financial reporting of expenditures against project budgets to AID/Washington. According to USAID/Botswana officials, some expenditures were included in the summary of expenditures by fiscal year but had not been recorded in the project accounting records. Therefore, those officials stated that the summary of expenditures contained the correct information. However, the audit could not independently verify that assertion because there was a lack of documentation within USAID/Botswana to support all expenditures.

At the time of the audit in November 1990, USAID/Botswana had started taking action to address the problems described above. For example, a USAID/Zimbabwe accountant was seconded to USAID/Botswana to help review its records. Also, as required under the Federal Managers' Financial Integrity Act, USAID/Botswana reported these system weaknesses in its latest internal control assessment, to the Assistant Administrator, for the year ended September 30, 1990.

The deficiencies with the project accounting records occurred because USAID/Botswana did not have an effective system to provide it with correct and current financial information. USAID/Botswana's assistant controller stated that, in the past, its project accountant did not properly record earmarks, commitments and expenditures into the project accounting records, and reconcile them with the summary of expenditures. The assistant controller added that the project accountant did not adequately perform these tasks because of lack of proper training to do this job. This accountant left USAID/Botswana in July 1989 and had not been replaced at the time of our audit more than one year later. USAID/Botswana officials also stated that other tasks such as preparing financial reports for AID/W, reviewing vouchers and certifying payments precluded other personnel in the Controller's office from giving priority to the project accounts.

As a result of the deficiencies in its project accounting system, USAID/Botswana was unable to accurately determine how much money was available for various project activities. For example, USAID/Botswana could not determine whether or not funds were available to construct an education center under the JSEIP project.

Based on the above, we concluded that for the four projects we reviewed:

- a total of at least \$1,991,864 needed to be reprogrammed or liquidated;
- the allowability of \$1,223,141 for which no commitments were recorded needed to be determined; and
- Overcommitments of \$32,492 (funds committed but never used) needed to be decommitted and reprogrammed.

In addition, USAID/Botswana needed to perform a review of all the project accounts so it could (1) reprogram or liquidate all commitments which were no longer needed and (2) determine the allowability of all expenditures for which no commitments were established.

Management Comments and Our Evaluation

In responding to the draft report, USAID/Botswana agreed with the finding and the recommendation and had started taking corrective actions. USAID/Botswana officials stated that, in accordance with Recommendation No. 1.1, actions had been taken to liquidate or decommit/deobligate, as appropriate, commitments totalling \$1,991,864. Regarding Recommendation No. 1.2, USAID/Botswana had determined \$1,223,141 in questioned costs to be allowable. Also, in accordance with Recommendation No. 1.3, USAID/Botswana stated that \$32,492 had been decommitted. Further, in accordance with Recommendation No. 1.4, USAID/Botswana officials stated that the Controller's office had reconciled all project accounts through September 30, 1990, and through March 31, 1991, to the control totals that were reported to AID/W. Those officials added that each project was analyzed to establish: (1) the cumulative liquidated commitments by budget plan code, (2) the implementing documents that make up the active pipelines with updated disbursement postings, and (3) a breakdown of implementing documents into various project elements.

RIG/A/N considers Recommendation No. 1.2 closed upon issuance of the report based on USAID/Botswana's determination that \$1,223,141 in questioned costs was allowable.

Recommendation Nos. 1.1, 1.3 and 1.4 are resolved. Recommendation No. 1.1 will be closed when we receive a copy of USAID/Botswana's analysis of the \$1,991,864 in unliquidated commitments showing the amounts that were either liquidated or decommitted/deobligated. Recommendation No. 1.3 will be closed when we receive documents evidencing the decommitment of \$32,492 in overcommitments. Finally, Recommendation No. 1.4 will be

closed when we receive documentary evidence summarizing the results of USAID/Botswana's reconciliation of the project accounts showing the amounts that were liquidated, decommitted or disallowed as a result of that exercise.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Botswana's accounting for project funds in accordance with generally accepted government auditing standards. We conducted the audit from September 12 to November 16, 1990 and covered the systems and procedures relating to the accounting for project funds for the period 1981 through 1990 for four USAID/Botswana projects.

Of the 49 USAID/Botswana projects, we selected a sample of four -- the Botswana Junior Secondary Education Improvement Project (JSEIP); the Botswana Workforce and Skills Training Project (BWAST); the Rural Sector Grant Project; and the Gabarone West Housing and Facilities Project. The four projects were considered to adequately represent how project accounting is being handled because USAID/Botswana used the same accounting procedures for all its active and inactive projects.

We included JSEIP because it was during our audit of this project that we found problems with USAID/Botswana's accounting for project funds. We selected the other three projects because, although inactive, they had large amounts of unused funds that potentially could be used for other purposes. Furthermore, these four projects had obligations of \$33 million and expenditures of \$31 million which, respectively, represented 26 and 27 percent of total obligations and expenditures for USAID/Botswana's active and inactive projects. We conducted our field work in the office of USAID/Botswana located in Gabarone, Botswana.

Methodology

To accomplish the audit objective, we determined whether (1) project accounts presented an up-to-date record of earmarks, commitments and expenditures (2) reliable financial data was provided to the project officers, (3) unliquidated commitments were valid, (4) earmarks and commitments were correctly recorded in the project accounts, (5) expenditures were properly recorded to appropriate commitment liquidation control records, (6) disbursements

were made against previously committed funds, and (7) accounting records were reconciled with the summary of obligations and expenditures.

We examined the (1) project accounting ledgers for each of the four projects audited, (2) earmark control records, (3) commitment liquidation/records, and (4) summary of obligations and expenditures as of September 30, 1990. We listed the unliquidated commitments and expenditures for which no commitments had been established and analyzed them. We discussed the unliquidated commitments and expenditures for which no commitments had been established with responsible USAID/Botswana officials.

MAY 15 '91 13:20 U S A I D-BOTSWANA

UNITED STATES GOVERNMENT

memorandum

DATE: May 7, 1991

REPLY TO
ATTN OF:

HHZ
Howard Handler, Director, USAID/Botswana

SUBJECT: USAID/Botswana's Accounting for Project Funds

TO: Mr. Toby L. Jarman, RIG/A/N

Since the beginning of the calendar year, the Controller's Office has under taken the task of reconciling the project accounts in accordance with prescribed Agency accounting standards. All project accounts through September 30, 1990 and through March 31, 1991, have now been reconciled to the control totals that were reported to AID/W by appropriation and Budget Plan Code. Each of the Missions's projects were further analyzed to establish the following:

1. The cumulative liquidated commitments by Budget Plan Code;
2. The implementing documents, i.e. PIO/Ts, PIO/Cs, PIO/Ps, PILs and Purchase Orders, that make up the active pipeline with updated disbursement postings;
3. A break down of implementing documents into the various project elements in order to facilitate input into the MACS automated system.

This effort required an intensive detailed analysis of each project in order to reconcile project disbursements that were previously reported to AID/W as of September 30, 1990 and as of March 31, 1991. This exercise included reconciling those disbursements that had been cited in the draft audit report for the JSEIP Project in the amount of \$228,622 relating to contract support costs and the BFAST Project in the amount of \$994,519 for participant training. As previously stated in the Mission's comments on the Record of Audit Findings, these disbursements were made through a letter of credit and AOCed to the Mission where they were posted to a suspense account. They have now been cleared and used to liquidate various project implementing documents. This is in compliance with recommendation No. 1.2 to determine the allowability of \$1,223,141 in questioned costs for which no commitments were established.

This reconciliation also included the liquidation of commitments for project 633-0229 in the amount of \$353,279 and project 633-0231 in the amount of \$1,514,310. For each of these projects a summary posting has been performed in order to reconcile the disbursement balances as reported in the previous U-101 Reports as of September 30, 1990 and March 31, 1991.

Action has also been taken to fully decommit and de-obligate from Project 633-0077, the Rural Sector Grant Project, the residual balances that were reflected in the MODs in order to reconcile with the totals reported at the BPC level. Residual balances have also been decommitted from Project 633-0238. The above actions have been taken in compliance with recommendation No. 1.1 to reprogram or clear from the books unliquidated commitments totaling \$1,991,864.

In addition, a decommitment has been recorded for the duplicate posting and an overstated amount in the total amount of \$32,492 under Project 633-0229. This action was taken in compliance with recommendation No. 1.3 to decommit and reprogram \$32,492 in overcommitments.

During the last two weeks in April, the Mission project accounts through September 30, 1991 were entered on the USAID/Zimbabwe MACS accounting system. The MACS U-101 reports were run and were reconciled with what the Mission submitted as of that date. This reconciliation and entry of accounting data on the MACS system is considered a major accomplishment that will serve as a basis for the full implementation of the MACS Accounting System. Current year transactions are in the process of being entered into the MACS system for all activity from October 1, 1990 through March 31, 1991. It is anticipated that the Mission accounting records will be fully converted over to the MACS by June 30, 1991.

As of January 7, 1991, the Controller's Office employed the services of a full time FSN Project Accountant to fill a position that had been vacant since July, 1989. The Project project accounting in accordance with prescribed standards.

It is requested that all recommendations contained in the draft audit report be considered resolved based on the conversion of the project accounting system in accordance with Agency prescribed standards, reconciliation of all accounts as of September 30, 1990 and March 31, 1991, the hiring of an FSN Project Accountant, and the entry of project accounting data into the USAID/Zimbabwe accounting system through September 30, 1990.

Clearances: D.H. Mandel 

Note

1/ This should read as follows:

"The project accountant is being trained in the basic principles of agency project accounting in accordance with prescribed standards."

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we plan and perform the audit work to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer the audit objectives and not to provide assurance on USAID/Botswana's overall internal control structure.

For the purpose of this report, we have classified significant internal control policies and procedures applicable to the audit objective by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation -- and we assessed control risk. We have reported these categories as well as any significant weaknesses for the audit objective.

General Background on Internal Controls

Recognizing the need to re-emphasize the importance of internal controls in the Federal

Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. Under this Act and the Office of Management and Budget's implementing policies, the management of A.I.D., including USAID/Botswana, is responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable -- but not absolute -- assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for the Audit Objective

The audit objective relates to USAID/Botswana's accounting for A.I.D. funds. In planning and performing our audit work, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 19 and the Controller's Handbook. For the purpose of this report, we have classified the relevant policies and procedures into the following categories: the budgetary accounting process, commitment/expenditure recording process, expenditure control process, and the project accounting records reconciliation process. Initially, we reviewed USAID/Botswana's controls relating to these processes for the Botswana Junior Secondary Education Improvement Project (JSEIP) only. Our assessment showed that, with respect to the commitment/expenditure recording process and the project accounting records reconciliation process, the controls were not implemented properly. The project accounts did not present accurate and current financial information and some expenditures were not matched with commitments. Also, the project accounts were not reconciled with the summary of obligations and expenditures. Therefore, we expanded our tests to cover the three other projects which confirmed that a systematic problem, rather than an individual project's problem, existed.

. . .

A material weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that

errors or irregularities in amounts that would be material in relation to the financial reports on projects funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition discussed above is a material weakness.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Botswana's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives) and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Botswana's compliance with certain provisions of the Budget and Accounting Procedures Act of 1950. However, our objective was not to provide an opinion on USAID/Botswana's compliance with such provisions.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not

followed or prohibition violated is statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbook generally does not fit into this definition and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with the Budget and Accounting Procedures Act of 1950 is the overall responsibility of USAID/Botswana's management.

Conclusions on Compliance

The results of our tests of compliance indicated that, with respect to the items tested, USAID/Botswana complied with the requirements of the Budget and Accounting Procedures Act as outlined in A.I.D. Handbook 19 Chapter 1 except that:

- USAID/Botswana's project accounting records did not provide correct and current information on project funds as required in A.I.D. Handbook 19 Chapter 1, which is based on the Budget and Accounting Procedures Act of 1950 (PL 784).

APPENDIX IV

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