

Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt's System of
Internal Controls As They Relate to MACS

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April 9, 1992





UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT

April 9, 1992

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/C, *Philip E. Darcy*

SUBJECT: Audit of USAID/Egypt's System of Internal Controls
As They Relate To MACS

The attached report by Price Waterhouse presents the results of an audit of USAID/Egypt's system of internal controls as they relate to the Mission Accounting and Control System (MACS). Price Waterhouse reviewed the Mission's internal controls and tested them by examining transactions processed between October 1, 1989 and September 30, 1990. Delays in issuance of this audit resulted from problems in coordinating audit completion with Price Waterhouse - Egypt, Price Waterhouse - Office of Government Services in Washington, D.C. and USAID/Egypt.

The auditors determined that correcting entries were being posted without supporting documentation or management review. Management agreed with the auditors' recommendation to require that journal vouchers be prepared and authorized for all correcting entries. Price Waterhouse also noted that documentation supporting approved disbursements was not being canceled and that USAID/Egypt was not deobligating identified invalid obligations by fiscal year-end. We agree with the Mission's assertion that its practice of stamping and logging vouchers upon receipt provides reasonable assurance that duplicate payments will not be made. Additionally, USAID/Egypt waits on AID/W guidance before deobligating invalid obligations. In our opinion, the Mission has no capacity to influence the speed with which AID/W responds to USAID/Egypt's request for approval to deobligate funds.

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Recommendation No. 1: We recommend that USAID/Egypt use journal vouchers to document correcting entries posted to MACS.

Recommendation No. 1 will be included in the Inspector General's audit recommendation follow-up system. This procedural recommendation is considered resolved and closed upon issuance as management has issued a policy statement requiring the completion of journal vouchers for all correcting entries.

I appreciate the cooperation and courtesies extended to Price Waterhouse and my staff by USAID/Egypt personnel during the audit.

**AUDIT OF
USAID/EGYPT'S
SYSTEM OF INTERNAL CONTROLS
AS THEY RELATE TO MACS**

SEPTEMBER 30, 1990

This report is a performance - related audit
of the USAID/Egypt's Controller's Office System
of internal control.

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EXECUTIVE SUMMARY



We audited the USAID/Egypt Controller's Office system of internal controls as they relate to the Mission Accounting and Control System (MACS). The Controller's Office carries out the financial management aspects of the Mission's operations. Financial management embraces those elements of management which deal with budgeting, accounting, financial analysis, cash management, internal controls, and financial reporting. One of the USAID Controller's main functions is to operate the Mission Accounting and Control System located at the center of the internal control environment in which the controller, accountants, financial analysts, budget officers and data entry personnel work.

We conducted the audit in accordance with generally accepted government auditing standards. The audit covered transactions processed between October 1, 1989 and September 30, 1990, and included procedures in place at the time of our field work March 31, 1991 through May 6, 1991.

The Controller's Office designed procedures which follow A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal control in the Federal Government for: (1) processing budget allowances, obligations, earmark, and commitments; (2) processing disbursements; (3) performing reconciliations; (4) processing and liquidating advances; and (5) reviewing unliquidated obligations except for procedures in the three areas discussed below.

- Documentation supporting approved disbursement transactions are not being "canceled" or otherwise marked by the Authorized Certifying Officer (pages 5 through 6).
- Adjustments are being recorded on-line in MACS without supporting documentation or management review (pages 6 through 7).
- USAID/Egypt is not deobligating identified invalid obligations by the fiscal year-end (pages 10 through 11).

This report contains three recommendations and presents our assessment of the internal controls of USAID/Egypt (pages 12 through 16).

We appreciate the cooperation and courtesies extended to us by the Acting Controller and his staff.

Rice Waterhouse

INTRODUCTION

Background

Good internal controls are essential to achieving the proper conduct of Government business with full accountability for the resources made available. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers. The U.S General Accounting Office has established twelve standards that constitute the minimum level of internal control to be used by Government agencies.

The Controller's Office carries out the financial management aspects of the mission's operations. Financial management embraces those elements of management which deal with budgeting, accounting, financial analyses, cash management, internal control, and financial reporting. The Controller's Office provides financial data and participates in forecasting future resource requirements and provides financial evaluation of work accomplished for comparison to previous plans and forecasts. The Controller's Office is responsible for keeping mission officials informed of existing control procedures and the financial status of the various projects and programs in effect.

One of the USAID Controller's main functions is to operate the Mission Accounting and Control System (MACS). MACS is a computer-based accounting and financial management system. The system consists of data files, programs, processing control edits, and procedures governing the interface between accounting personnel and the computer system itself. MACS records and summarizes transactions; the results are reported to A.I.D./Washington for inclusion in the Agency's General Ledger.

MACS is located at the center of an environment made up of guidelines, procedures, and conventions for recording, analyzing, and reporting accounting data to the entire Mission. It is in this internal control environment that the accountants, data entry personnel, controllers, financial analysts and budget officers of the Controller's Office work.

USAID/Egypt's Controller's Office obligated \$1,113,135,929, committed \$1,166,894,704, and disbursed \$700,528,510 during Fiscal Year 1990. A strong system of internal controls is needed to ensure that resource use is consistent with A.I.D. policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Audit Objectives

Price Waterhouse conducted the audit of the USAID/Egypt's Controller's Office system of internal controls to answer the following audit objectives.

1. **Did the Controller's Office have and follow procedures for processing budget allowances, obligations, earmarks, and commitments in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?**
2. **Did the Controller's Office have and follow procedures for processing disbursements in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?**
3. **Did the Controller's Office have and follow procedures for performing reconciliations with U.S. Disbursing Offices in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?**
4. **Did the Controller's Office have and follow procedures for processing and liquidating advances in accordance with A.I.D. Handbooks 19 & 22, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?**
5. **Did the Controller's Office have and follow procedures for reviewing unliquidated obligations in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?**

Our review was made in accordance with generally accepted government auditing standards and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances. Our tests were sufficient to provide reasonable--but not absolute--assurance that our answers to the audit objectives are valid.

However, when we found problem areas, we performed additional work to:

- identify the cause and effect of the problem;and
- make recommendations to correct the condition and cause of the problem.

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

REPORT OF AUDIT FINDINGS

Audit Objective One

Did the Controller's Office have and follow procedures for processing budget allowances, obligations, earmarks, and commitments in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

The Controller's Office, had and followed procedures for processing budget allowances, obligations, earmarks, and commitments in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government.

Procedures were established and followed for processing budget allowances in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government. Our review tested a statistically valid sample of 83 transactions from a universe of 294 total budget allowance transactions. Graphical representations of the Controller Officer's procedures for processing budget allowances are presented as flowcharts in Appendix III of this report. These flowcharts clearly show the use of the supervision, documentation and segregation of duties standards for internal controls in the Federal Government. For example, the Advice of Budget cable is reviewed by three layers of supervisors (Deputy Controller, Financial Operations Chief and Financial Specialist) prior to being recorded into the MACS. This process results in ideal check and balance procedures. By using these procedures, the Controller's Office reasonably ensures that: (1) resource use is consistent with A.I.D. policies (2) resources are safeguarded against waste, loss and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports.

Procedures were established and followed for processing obligations in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government. Our review tested statistically valid samples of 112 operating expense transactions from a universe of 5,891 total operating expense obligation transactions and 89 project obligation transactions from a universe of 389 total project obligation transactions. Graphical representations of the Controller Officer's procedures for processing obligations are presented as flowcharts in Appendix III of this report. The flowcharts in Appendix III clearly show the use of the supervision, documentation and segregation of duties standards for internal controls in the Federal Government. For example, obligations recorded in MACS are independently reconciled by an accountant other than the one that entered the original transactions.

The Controller's Office had and followed procedures for processing earmarks in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government. Our review tested a statically valid sample of 107 transactions from a universe of 1,522 total earmark transactions. A graphical representation of the Controller Officer's procedures for processing earmarks is presented as a flowchart in Appendix III of this report. The flowchart in Appendix III clearly shows the use of the supervision, documentation and segregation of duties standards for internal controls in the Federal Government. For example, fund citations are documented on source documents submitted by an independent party, the requesting official.

Procedures were established for processing commitments in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government. Our review tested a statically valid sample of 108 transactions from a universe of 2,104 total commitment transactions. A graphical representation of the Controller Officer's procedures for processing commitments is presented as a flowchart in Appendix III of this report. The flowchart in Appendix III clearly shows the use of the supervision, documentation and segregation of duties standards for internal controls in the Federal Government. For example, copies of the original commitment document are kept in both the project accounting and voucher examination sections.

By using these procedures, the Controller's Office reasonably ensures that: (1) resource use is consistent with A.I.D.'s policies; (2) resources are safeguarded against waste, loss, and misuse, and (3) reliable data are obtained, maintained, and fairly disclosed in reports.

Audit Objective Two

Did the Controller's Office have and follow procedures for processing disbursements in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

The Controller's Office had and followed procedures for processing disbursements in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government, except for the processing of payment documentation supporting disbursement transactions and the recording of adjusting entries into MACS without adequate documentation or management review.

Our audit tested a statistically valid sample of 114 disbursement transactions from a universe of 20,579 total transactions. Graphical representations of the Controller's Office procedures for processing disbursements are presented as flowcharts in appendix IV of this report. Except for the processing of payment documentation supporting disbursement transactions and the recording of adjusting entries into MACS without adequate documentation or management review (see problem areas below), the flowcharts clearly show the use of the documentation, segregation of duties, and the recording and execution of transactions and events standards for internal controls in the Federal Government. For example, the data entry clerk logs each voucher into MACSTRAX, a program that tracks the status and location of each voucher and allows batch voucher posting. After the voucher is logged in, it is returned to the assigned voucher examiner for review. The voucher is then forwarded for review by the administrative approving officer, after which it is returned to the voucher examiner, reviewed and stamped with disbursement information. The voucher examiner then forwards the voucher to the Authorized Certifying Officer for certification. By using these procedures the Controller's Office reasonably ensures that: (1) resource use is consistent with A.I.D. policies; (2) resources are safeguarded against waste, loss and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports. The two problem areas we noted were the processing of payment documentation supporting disbursement transactions and the recording of adjusting entries. A discussion of these areas follows.

At The Conclusion Of The Payment Process, Documentation Supporting Disbursement Transactions Is Filed Without Evidence Of Being Paid.

Currently, it is not evident per review of supporting documentation that an invoice has been paid. Both the Controller's Guidebook Chapter I, Section XVI, and GAO *Title 2, GAO Policy and Procedures Manual for Guidelines of Federal Agencies, Standards for Internal Controls in the Federal Government*, state that an internal control system should reasonably ensure that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

Unless supporting documentation is marked or punched as paid by the ACO, the probability exists that an invoice may be resubmitted for additional payment indicating a breakdown of the Mission's internal control structure.

Recommendation No. 1: We recommend that USAID/Egypt change its policy to include a procedure whereby the Certifying Officer "cancel" or mark all supporting documentation during the certification phase of the Standard Form (SF) 1034 as paid.

When a voucher is received in the Controller's Office it is assigned to a voucher examiner for review and logged into MACSTRAX, a program that tracks the status and location of each voucher and which is subsequently used to update MACS. After completion of the voucher examiner's review, the voucher is forwarded to an Authorized Certifying Officer (ACO) for certification. Once the ACO is satisfied that the vouchers are correct, he signs each voucher. The voucher package is then forwarded to data entry for generation of a payment schedule from MACSTRAX. The payment schedule and vouchers are then sent to the ACO for certification. The ACO checks the amounts and payees on the payment schedule to the supporting vouchers and the payment schedule is certified. After certification of the payment schedule, the ACO releases the vouchers for payment. However, no where in this process are the invoice and supporting documents "canceled" or otherwise marked by the ACO.

In other Federal Agencies, our experience has illustrated that at completion of the payment process all supporting documentation is "canceled" or marked as evidence that the invoice was paid. Generally, this procedure ensures that if an invoice is misfiled or deliberately recirculated through the payment process, a duplicate payment could not be approved by the ACO and subsequently paid.

The second problem area we noted where procedures for processing disbursements should be improved is that adjusting entries should be properly documented and subject to management review. A discussion of this area follows.

Adjusting Entries Are Recorded Into The Mission Accounting And Control System (MACS) Without Adequate Documentation And Supervisory Review.

Accounting entries for correcting data entry errors are processed by the same project accountant responsible for the error. These correcting transactions are not supported by written evidence that facilitates tracing the transactions to their source and therefore does not comply with the GAO's documentation standard of internal controls. This weakness in the design of the internal control system also does not comply with GAO's supervision standards since supervisors are not reviewing and approving the work of their assigned staff.

Recommendation No. 2: We recommend that USAID/Egypt follow the procedures for recording adjusting entries as outlined in Chapter 4 of the Controller's Guidebook:

At a minimum each adjustment should be supported by some type of document that identifies the reason for the adjustment, the accounts affected, the person preparing the adjustment and the person reviewing and approving it.

The GAO's Standards for Internal Controls in the Federal Government states "[a]ssignment, review, and approval of a staff's work requires... [a]pproving work at critical points to ensure that work flows as intended. It also states that "[d]ocumentation of transactions or other significant events should be complete and accurate and should facilitate tracing the transactions or events and related information from before it occurs, while it is in process, to after it is completed." Furthermore, it provides guidance for procedures relating to preparation and review of adjusting journal entries stating that adjusting entries "of a rectifying nature for disbursements and other transactions made or posted in error may be made by using the forms prescribed therein according to the nature of that error made which will provide a clear audit trail of each transaction." The Controller's Office procedures for recording adjusting entries do not achieve these objectives.

When an error is identified, the project accountant enters a correcting entry directly into MACS. This process goes undocumented since no journal voucher (JV) is prepared and, therefore, no audit trail exists explaining the source and purpose of the transaction. The fact that these entries are being made in the accounting records without supervisory review and approval compounds this problem.

From our sample of 114 disbursement transactions the Controller's Office could not provide us with supporting documentation for adjusting entries relating to 4 transactions.

Allowing project accountants to record entries into the MACS without a source document results in providing a means and method for the system data to be corrupted. If all transactions are not documented and authorized by a supervisor, the integrity of the data in the system is suspect. The risk of funds being misused and inaccurate data being maintained and reported can be greatly reduced by recording all adjusting or correcting transactions on journal vouchers prior to posting them into MACS. The Controller's Guidebook definition of the Journal Voucher supports their use for this purpose:

Standard form 1017G "Journal Voucher" is used to adjust accounting records within the same appropriation, and to make accounting entries where journals and registers are not prescribed as posting media. It becomes the historical record of the accounting transaction and should contain a complete summation of facts relative to the entry.

The JV is cross-referenced to all documents affected and posted to the accounting records so it provides the necessary historical record and audit trail. Since this form is required to be reviewed and signed by the Chief Accountant it not only documents the transaction but also ensures supervisory review.

Audit Objective Three

Did the Controller's Office have and follow procedures for performing reconciliations with U.S. Disbursing Offices in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

The Controller's Office had and followed procedures for performing reconciliations with U.S. Disbursing Offices in accordance with A.I.D. Handbook 19, the Controller's Guidebook and the "specific" standards for internal controls in the Federal Government.

Our review tested a judgemental sample of reconciling items from USAID/Egypt's September 30, 1990 reconciliation. Graphical representations of the Controller's Office procedures for performing reconciliations are presented as flowcharts in Appendix V of this report. The flowcharts clearly show the use of the documentation, segregation of duties, supervision, and the recording and execution of transactions and events standards for internal controls in the Federal Government. For example, the financial operations chief receives the Statement of Transactions (SF 1221) from the U.S. Disbursing Office, and assigns the reconciliation project on a rotating basis to an accounting technician who enters summary amounts from the MACS A14 report and SF 1221 into the monthly reconciliation worksheet and calculates the variance for each appropriation.

All of the controls documented in Appendix V result in a system that provides for the use of check and balance procedures. By using these procedures the Controller's Office reasonably ensures that: (1) resource use is consistent with A.I.D. policies; (2) resources are safeguarded against waste, loss, and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports.

Audit Objective Four

Did the Controller's Office have and follow procedures for processing and liquidating advances in accordance with A.I.D. Handbook 19 & 22, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

The Controller's Office had and followed procedures for processing and liquidating advances in accordance with A.I.D. Handbooks 19 and 22, the Controllers' Guidebook and the "specific" standards for internal controls in the Federal Government.

Our review tested a statically valid sample of 109 transactions from a universe of 2,439 total transactions. Graphical representations of the Controller's Office procedures for processing advances are presented as flowcharts in Appendix VI of this report (the Controller's Office procedures for liquidating advances are a component of the flowcharts depicting the disbursement process - Appendix IV). The flowcharts in Appendix VI clearly show the use of the documentation, recording and execution of transactions and events, segregation of duties, and supervision standards for internal controls in the Federal Government. For example, the SF 1034 advance request voucher is collected by the supervisory voucher examiner, logged into MACSTRAX by the data entry clerk, forwarded to the voucher examiner for processing and analysis and then certified by the Authorized Certifying Officer.

All of the controls documented in Appendix VI result in a system that provides for the use of check and balance procedures. By using these procedures the Controller's Office reasonably ensures that: (1) resource use is consistent with A.I.D. policies; (2) resources are safeguarded against waste, loss, and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports.

Audit Objective Five

Did the Controller's Office have and follow procedures for reviewing unliquidated obligations in accordance with AID Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

The Controller's Office had and followed procedures for reviewing unliquidated obligations in accordance with AID Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government, except for not enabling the effective implementation of year-end reviews of unliquidated obligations by not processing identified invalid obligations prior to closing the fiscal year accounts.

Our audit included determining whether the Controller's Office management and staff had conducted intensive reviews at mid-fiscal year and year-end. Graphical representations of the Controller's Office procedures for reviewing unliquidated obligations are presented as flowcharts in Appendix VII of this report. Except for not enabling the effective implementation of year-end reviews of unliquidated obligations by not processing identified invalid obligations prior to closing the fiscal year accounts (see problem area below), the flowcharts clearly show the use of the documentation, recording and execution of transactions and events, segregation of duties, and supervision standards for internal controls in the Federal Government. For example, the accountant prepares the journal voucher to deobligate funds after analyzing appropriate MACS reports and receiving the project officer's recommendation. Additionally, the accountant will deobligate funds only after receiving authority from A.I.D./Washington. Except for not enabling the effective implementation of year-end reviews of unliquidated obligations by not processing identified invalid obligations prior to closing the fiscal year accounts all of the controls documented in appendix VII result in a system that provides for the use of check and balance procedures. By using these procedures the Controller's Office reasonable ensures that: (1) resource use is consistent with A.I.D. policies; (2) resources are safeguarded against waste, loss, and misuse; and (3) reliable data are obtained, maintained, and fairly disclosed in reports.

The problem area we noted where controls should be improved is that the authority from A.I.D./Washington to deobligate funds should be received in a timely manner to enable USAID/Egypt to ensure that recorded obligations are valid for USAID/Egypt Controller Certification and Section 1311 of the Supplemental Appropriation Act. A discussion of this area follows.

All Invalid Obligations Should Be Deobligated Before The Fiscal Year-End.

USAID/Egypt reviews unliquidated obligations on a continuous basis and adequately follows the review procedures as documented in the Controller's Guidebook, Chapter 4. In those cases where their review discloses that all or a portion of the unliquidated balance is invalid and should be deobligated, a memo is sent to A.I.D./Washington requesting authority to deobligate. However, because USAID/Egypt must await authority from A.I.D./Washington to deobligate and this authority is not received in a timely manner, identified invalid obligations are not processed into the accounts prior to closing the accounts and preparing the fiscal year-end reports.

Recommendation No. 3: We recommend that USAID/Egypt in conjunction with A.I.D./Washington devise a system for the control of obligations to ensure that all identified invalid obligations are deobligated prior to closing the accounts and preparing the fiscal year-end reports.

Recorded obligations at fiscal year-end must be valid for USAID/Egypt Controller Certification and Section 1311 of the Supplemental Appropriation Act which requires that all identified invalid obligations be posted to the accounts prior to the fiscal year-end.



REPORT ON INTERNAL CONTROLS

We have audited USAID/Egypt's Controller's Office system of internal controls for the period October 1, 1989 through September 30, 1990, and have issued our report thereon dated May 6, 1991.

We performed our work according to generally accepted government auditing standards which require that we (1) assess the applicable internal controls when necessary to satisfy the audit objectives and (2) report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

Scope of Our Internal Control Assessment

We limited our assessment of internal controls to those controls applicable to the audit's objectives and not to provide assurance on the auditee's overall internal control structure.

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

The categories we used are the six "specific" standards for internal controls as defined by the General Accounting Office (GAO).

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget's (OMB's) implementing policies, A.I.D.'s management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal controls and procedures for Federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and A.I.D. 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.

Predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Explanation of Categories Evaluated

The categories we used are the six "specific" standards for internal control defined by GAO in "Standards For Internal Controls In the Federal Government". The internal control standards define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated.

Specific Standards

A number of techniques are essential to providing the greatest assurance that the internal control objectives will be achieved. These critical techniques are the specific standards discussed below.

1. **Documentation.** Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
2. **Recording of Transactions and Events.** Transactions and other significant events are to be promptly recorded and properly classified.
3. **Execution of Transactions and Events.** Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
4. **Separation of Duties.** Key duties and responsibilities in authorizing, processing, recording and reviewing transactions should be separated among individuals.
5. **Supervision.** Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.
6. **Access to and Accountability for Resources.** Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

Conclusion for Audit Objective 1

Did the Controller's Office have and follow procedures for processing budget allowances, obligations, earmarks, and commitments in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

To answer this objective we assessed the design and operation of the controls in place to address the six specific standards for internal control. Our conclusions are summarized below.

We reviewed the Controller's Office "specific" controls for **documentation, recording of transactions and events, execution of transactions and events, separation of duties, supervision, and access to and accountability for resources** related to processing budget allowances, obligations, earmarks, and commitments. Our tests showed that the internal controls were logically and consistently applied.

Conclusion for Audit Objective 2

Did the Controller's Office have and follow procedures for processing disbursements in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

To answer this objective we assessed the design and operation of the controls in place to address the six specific standards for internal control. Our conclusions are summarized below.

We reviewed the Controller's Office "specific" controls for **documentation, recording of transactions and events, execution of transactions and events, separation of duties, supervision, and access to and accountability for resources** related to processing disbursements. Our tests showed that the internal controls were logically and consistently applied except that:

- At the conclusion of the payment process, documentation supporting disbursement transactions are filed without evidence of being paid.
- Adjusting entries are recorded on-line into MACS without adequate documentation and management review.

These deficiencies in the internal controls may result in (1) invoices being recirculated through the payment process and precessed for duplicate payment, and (2) improper or unauthorized entries being made into MACS which compromises the system's accountability and audit trail.

Conclusion for Audit Objective 3

Did the Controller's Office have and follow procedures for performing reconciliations with U.S. Disbursing Offices in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

To answer this objective we assessed the design and operation of the controls in place to address the six specific standards for internal control. Our conclusions are summarized below.

We reviewed the Controller's Office "specific" controls for documentation, recording of transactions and events, execution of transactions and events, separation of duties, supervision, and access to and accountability for resources related to performing reconciliations with U.S. Disbursing Offices. Our tests showed that the internal controls were logically and consistently applied.

Conclusion for Audit Objective 4

Did the Controller's Office have and follow procedures for processing and liquidating advances in accordance with A.I.D. Handbook 19 & 22, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

To answer this objective we assessed the design and operation of the controls in place to address the six specific standards for internal control. Our conclusions are summarized below.

We reviewed the Controller's Office "specific" controls for documentation, recording of transactions and events, execution of transactions and events, separation of duties, supervision, and access to and accountability for resources related to processing and liquidating advances. Our tests showed that the internal controls were logically and consistently applied.

Conclusion for Audit Objective 5

Did the Controller's Office have and follow procedures for reviewing unliquidated obligations in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

To answer this objective we assessed the design and operation of the controls in place to address the six specific standards for internal control. Our conclusions are summarized below.

We reviewed the Controller's Office "specific" controls for documentation, recording of transactions and events, execution of transactions and events, separation of duties, supervision, and access to and accountability for resources related to reviewing unliquidated obligations. Our tests showed that the internal controls were logically and consistently applied except that:

- **USAID/Egypt is not deobligating identified invalid obligations by the fiscal year-end.**

This deficiency in the internal controls prevents USAID/Egypt from ensuring that recorded obligations are valid for Controller Certification and from complying with Section 1311 of the Supplemental Appropriation Act.

SCOPE AND METHODOLOGY

Scope

We audited the USAID/Egypt Controller's Office system of internal controls as they relate to the Mission Accounting and Control System (MACS). We conducted the audit in accordance with generally accepted government auditing standards for performance audits. The audit covered transactions processed between October 1, 1989 and September 30, 1990, and included procedures in place at the time of our field work. The audit field work was conducted from March 31, 1991 through May 6, 1991 at the Controller's Office in Cairo, Egypt.

The audit did not cover the following areas because they were outside the audit scope:

- management controls outside the USAID/Egypt Controller's Office;
- a systems review of all the general and application controls of the Mission Accounting and Control System;
- the system security controls associated with the Mission Accounting and Control System; and
- transactions made in A.I.D./Washington or other USAID missions for USAID/Egypt.

The audit was limited to identifying and testing internal control procedures and therefore answering our audit objectives did not require testing for compliance with laws and regulations.

Methodology

The methodology for each audit objective follows.

Audit Objective One

To accomplish the first audit objective we interviewed the Controller's office management and responsible staff to obtain a full understanding of the controls for processing budget allowances, obligations, earmarks, and commitments. We prepared flowcharts describing the flow of documents in the Controller's Office. We analyzed the control techniques in place to determine whether they would achieve the control objectives. We also reviewed mission orders and other written guidance that pertained to each of these areas.

Detailed audit steps related to the budget categories were conducted in the following audit areas:

Budget Allowances

We established the audit universe by identifying all of the Advises of Budget (AOB) with a transaction in the fiscal year ending September 30, 1990 from the MACS Budget Allowance Transaction File. The audit universe contained 294 transactions, valued at \$1,393,160,140. From this universe we took a random sample of 83 transactions to give us a confidence level of 95 percent with an error rate of plus or minus 4 percent.

We reviewed the source document for each transaction in our sample to verify that:

- the amounts obligated did not exceed the budget allowance; and
- the data was accurately recorded into the Mission Accounting and Control System (MACS).

Obligations

We established the audit universe by identifying all of the obligation transactions with a transaction date in the fiscal year ending September 30, 1990 from the MACS Reservation/Obligation Transaction file. The audit universe contained 6,280 transactions, valued at \$1,113,135,929. We stratified this audit universe into two strata: obligations for operating expense funds and obligations for project funds. From the 5,891 obligation transactions for operating expenses, we randomly selected 112 items which gave us a 95 percent confidence level with a plus or minus error rate of 4 percent that the attributes found

in our sample will be true of the universe. From the 389 obligation transactions for project funds, we randomly selected 89 items which also gave us a 95 percent confidence level with a plus or minus error rate of 4 percent.

We reviewed the source document for each transaction in our samples to verify that:

- they were annotated to show "Funds Available";
- they were signed by the authorizing individual;
- the amounts obligated did not exceed the budget allowance; and
- the data was accurately recorded into the Mission Accounting and Control System (MACS).

Earmarks

We established the audit universe by identifying all of the commitment transactions with a transaction date in the fiscal year ending September 30, 1990 from the MACS Commitment Transaction file. The same universe and sample were used in for reviewing earmarks and commitments. The audit universe contained 1,522 transactions, valued at \$1,147,113,398. From this universe of 1,522 transactions, we randomly selected 107 items which gave us a 95 percent confidence level with a plus or minus error rate of 4 percent that the attributes found in our sample are true of the universe.

We reviewed the source document for each transaction in our samples to verify that:

- documents were validated by the Controller for funds availability prior to releasing such documents to the host country for endorsement;
- verify that funds had been reserved by the Controller prior to making the earmarks; and
- the data was accurately recorded into the Mission Accounting and Control System (MACS).

Commitments

We established the audit universe by identifying all of the obligation transaction with a transaction date in the fiscal year ending September 30, 1990 from the MACS Commitment Transaction file. The audit universe contained 2,104 transactions, valued at \$1,166,894,704. From this universe of 2,104 transactions we randomly selected 108 items which gave us a

95 percent confidence level with a plus or minus error rate of 4 percent that the attributes found in our sample are true of the universe.

We reviewed the source document for each transaction in our samples to verify that:

- funds were documented or reserved by Controller's Office prior to making the commitment;
- they were signed by the authorizing individual;
- amounts committed did not exceed the amounts earmarked for that category; and
- the data was accurately recorded into the Mission Accounting and Control System (MACS).

Audit Objective Two

To accomplish the second audit objective, we interviewed the controller and responsible staff to obtain a full understanding of the procedures for processing disbursements. We prepared flowcharts describing the flow of documents, operating procedures, and the internal control techniques. We analyzed the control techniques to determine whether they would achieve the control objectives. We also reviewed mission orders and other written guidance that pertained to processing disbursements.

We established the audit universe by identifying all of the disbursement transactions with a transaction date in the fiscal year ending September 30, 1990 from the MACS Disbursement Transaction file. From this universe of 20,579 transactions, we randomly selected 114 items which gave us a 95 percent confidence level with a plus or minus error rate of 4 percent that the attributes found in our sample are true of the universe.

We reviewed the source document for each transaction in our samples to verify that:

- disbursements were made in accordance with the Prompt Payment Act;
- vouchers were adequately supported by appropriate documentation;
- vouchers were mathematically accurate;
- vouchers agreed with commitment documents;
- vouchers contained all required vendor certifications; and
- the data was accurately recorded into the Mission Accounting and Control System (MACS).

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Audit Objective Three

To accomplish the third audit objective, we interviewed the Controller's Office management and responsible staff to obtain a full understanding of the procedures for performing reconciliations of disbursements with the Regional Administrative and Management Center. We also obtained and reviewed mission orders and other written mission guidance that pertained to these reconciliations.

We reviewed the reconciliation performed by the Controller's Office for September 30, 1990 and traced a judgmental sample of reconciling items back through July and August 1990 reconciliations and forward through the February 1991 reconciliation to determine if they were resolved. All items that were not resolved were identified and discussed with the Controller's staff to determine their current status.

We discussed the follow-up procedures for outstanding reconciling items with Controller Office managers.

Audit Objective Four

To accomplish the fourth audit objective, we interviewed the Controller's Office management and staff to obtain a full understanding of the procedures for processing and liquidating advances. We prepared flowcharts describing the flow of documents, operational procedures, and the internal control techniques. We analyzed the control techniques in place to determine whether they would achieve the control objectives. We also obtained and reviewed mission orders and other written mission guidance that pertained to advances.

The following detailed audit steps related to procedures for processing liquidating advances were completed in response to the audit objectives.

Advances

From the Controller's Office "Details of Aged Analysis of Accounts Receivable" as of September 30, 1990, we identified 2,439 outstanding advances, 358 of which were operating expenses advances totaling \$9,104 and 2,081 were outstanding project advances totaling \$12,131,255. From these advances we randomly selected 109 advances for review.

We reviewed the source document for each operating expense advance transaction in our samples to verify that:

- advances were supported by a properly authorized travel authorization;
- advances were supported by a properly authorized request for advance form;

- request for advance forms were signed by the recipient of the advance; and
- advances were promptly liquidated or returned.

We reviewed the source document for each project advance transaction in our samples to verify that:

- the advances was properly authorized;
- detailed vouchers were submitted explaining the use of the advance;
- no advances were made to profit making companies with out AID/Washington approval;
- advances did not exceed ninety day cash requirements of recipient; and
- the advances were promptly liquidated or returned.

Audit Objective Five

The fifth audit objective consisted of gathering and verifying information to evaluate whether the Controller's Office has control procedures for reviewing unliquidated obligations in accordance with A.I.D. Handbook 19 and the USAID Controller's Guidebook.

In accomplishing this objective, we interviewed the Controller's Office management and staff to obtain a full understanding of the procedures for reviewing unliquidated obligations. We prepared flowcharts describing the flow of documents, operational procedures, and the internal control techniques. We analyzed the control techniques in place to determine whether they would achieve the control objectives. We also reviewed mission orders and other written mission guidance that pertained to reviewing unliquidated obligations.

We verified that the Controller's staff conducted intensive reviews of all unliquidated obligations at each mid-fiscal year and that the Section 1311 certification was made on the last fiscal year report. In those cases where the reviews disclosed that all or a portion of the unliquidated balance was invalid and should be deobligated, we verified that a journal voucher or other accounting document was prepared, approved, and processed.

MANAGEMENT COMMENTS



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

RECEIVED
22 MAR 1992

MAR 22 1992

MEMORANDUM

TO: Phillippe Darcy, RIG/A/C

FROM: George Wachtenheim, D/DIR

SUBJECT: Draft Audit of USAID/Egypt's Controller's Office System of Internal Controls as they Relate to MACS Dated September 30, 1990

Following is the Mission's response to Price Waterhouse Egypt's draft Audit of USAID/Egypt's Controller's Office system of internal controls as they relate to MACS:

Recommendation No. 1:

We recommend that USAID/Egypt require that budget allowances be reviewed for proper authorizations and supported by source documents.

Mission Response:

The Mission understands that Recommendation 1 is to be withdrawn.

Recommendation No. 2:

We recommend that USAID/Egypt change its policy to include a procedure whereby the Certifying Officer "cancel" or mark all supporting documentation during the certification phase of the Standard Form (SF) 1034 as paid.

Mission Response:

The Mission has reviewed its internal control systems, the MACS and MACSTRAX systems and related procedures, and believes that these systems provide reasonable cost effective safeguards against double payments. These procedures include stamps placed on all vouchers by the Data Control staff. We request that this recommendation be withdrawn.

A brief description of the Mission control system follows:

The obligation/commitment recording and payment functions are properly segregated, and adequate description is provided for all transactions in the accounting fields. Original documentation is routinely attached to operating expense vouchers, which accounted for a minor share of disbursements in Fiscal Year (FY) 1990. Original documentation is not customarily attached to project vouchers. Sequentially numbered invoices are usually supported by summary disbursement statements (a result of the Paper Reduction Act) and the vendor/contractor is required to maintain the original for subsequent audit. As such, in our view, the vulnerability to duplicate payments mainly applies to Operating Expenses (OE). (The system to be described also applies to project vouchers.)

A brief synopsis of key controls provided by MACSTRAX and the payment procedures are presented below:

STEP 1: All vouchers are received by the Secretary who stamps the receiving date on the voucher and forwards it to the Data Control staff for entering into MACSTRAX.

STEP 2: MACSTRAX assigns each voucher a unique voucher number. The Data Controller writes this number on the voucher and enters the amount of the voucher into MACSTRAX. The voucher is then sent to cognizant Mission personnel for required documented administrative approval prior to voucher examination.

STEP 3: Funds availability has to be verified prior to processing a voucher. MACSTRAX provides the Voucher Examiner a record that shows all payments processed under the obligation/commitment. Furthermore, MACSTRAX precludes further processing of a voucher if funds are not available.

OE Vouchers: The nature of OE obligations, and the inability of Voucher Examiners to record obligations makes this a significant safeguard against duplicate payments on OE vouchers. A duplicate payment on an OE voucher will generally result in insufficient funds under the obligation.

Project Vouchers: A duplicate payment on a project voucher will not usually result in funds not being available. However, the following provide additional safeguards against duplicate payments:

The Voucher Examiner:

- (1) reviews the payment record for the period covered by the invoice.
- (II) reviews sequential numbers of invoices.
- (ii) reconciles total expenses reflected on the contractors' summary disbursement statement with that reflected in MACS.

These controls exercised during the payment process, in addition to the controls provided by the Project Officer's periodic review of the Commitment Liquidation Reports, we believe, provide adequate safeguards against duplicate payments. As such, we request that this recommendation be withdrawn.

COMMENT: Page 9 Para 1: "In other Federal Agencies, our experience haspaid." All Federal Agencies are not the same. AID's internal control structure, is based on each USAID Management's assessment of cost benefits given its size, complexity, its activities, organizational structure, etc. Similarly, other Federal Agencies would have made the same determinations for themselves. As no comparative study was conducted, we do not believe that this kind of statement is warranted. Accordingly, we believe that this statement must be deleted from the report or appropriately clarified so as not to mislead a reader.

Recommendation No. 3:

We recommend that USAID/Egypt follow the procedures for recording adjusting entries as outlined in Chapter 4 of the Controllers Guidebook:

At a minimum each adjustment should be supported by some type of document that identifies the reason for the adjustment, the accounts affected, the person preparing the adjustment and the person reviewing and approving it.

Mission Response

USAID agrees with Recommendation No. 3 and has already instituted procedures to ensure that adjustments, when cost beneficial, are properly authorized and documented. We request that RIG/A/C review a sample of JVs issued recently and close this recommendation upon issuance.

Comment: Page 10 "The risk of funds being misused and
.....MACS." we request that " of funds being misused"
be stricken from that statement, as the internal
control procedures, particularly the segregation of
duties and functions provides reasonable assurance that
funds will not be misused.

Recommendation No. 4

We recommend that USAID/Egypt in conjunction with
A.I.D./Washington devise a system for the control of obligations
to ensure that the all identified invalid obligations are
deobligated prior to closing the accounts and preparing the
fiscal year-end reports.

Mission Comments

OPERATING EXPENSE FUNDS: We believe this recommendation refers
to the frequent need to obtain Washington concurrence or action
on various obligation actions prior to deobligating funds. Such
situations occur on invalid Washington obligations of Mission
funds identified towards the end of the fiscal year. This
situation occurs for all Federal Foreign Affairs Agencies, not
just USAID.

PROJECT FUNDS: For Bilateral GOE/USAID Obligations, we believe
this recommendation may result either from situations described
above or from a misunderstanding of the broad concept of project
obligations. Project obligations are Bilateral Agreements, and
neither party can unilaterally deobligate funds

until such time as the Project Agreement Completion Date (PACD), agreed to by the parties in the Grant Agreement has passed. Given the requirement to perform the 1311 Reviews in September of each fiscal year and the requirement to file a Congressional Notification prior to deobligating project funds, if we wish to preserve the funds for Mission use, it is simply impossible to obtain these concurrences in time to effect a deobligation in September.

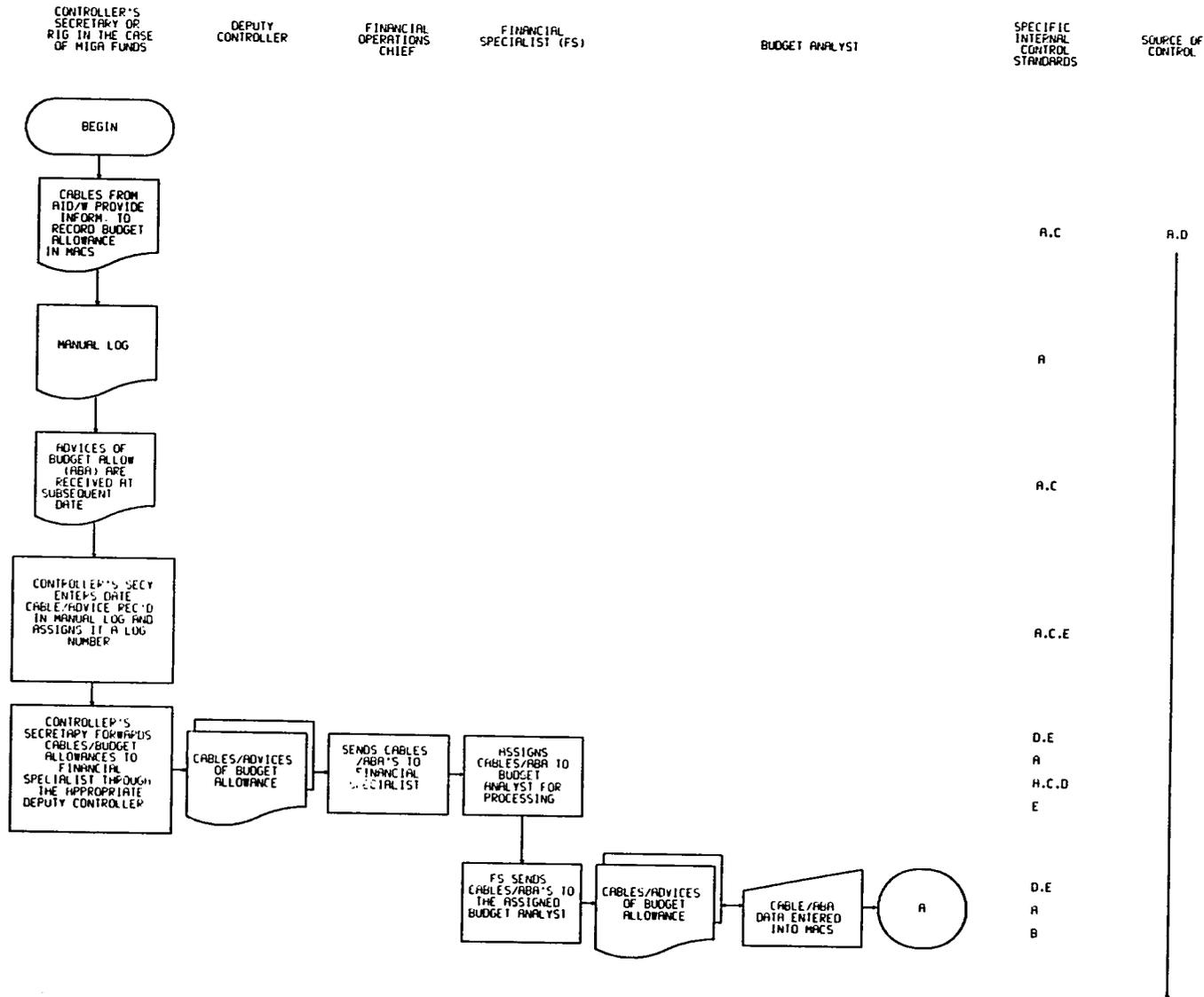
We want also to point out that U.S. Law provides somewhat contradictory legislation in the form of the Section 1311 of the Supplemental Appropriations Act of 1955, and the Deobligation/Reobligation legislation. This results primarily from the Congressional calendar and the 15 day notification required under the deobligation/reobligation legislation. In any event, this legislative issue is an Agency issue, best addressed by Washington and the Congress, not USAID/Egypt. We are also confused by the recommendation. As stated earlier, AID/W is the accounting station and all deobligations and budget deallowances are identified in the Mission's September 30, U101 Report, for inclusion in that of the Agency.

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FLOWCHARTS AND NARRATIVES FOR AUDIT OBJECTIVE NO. 1

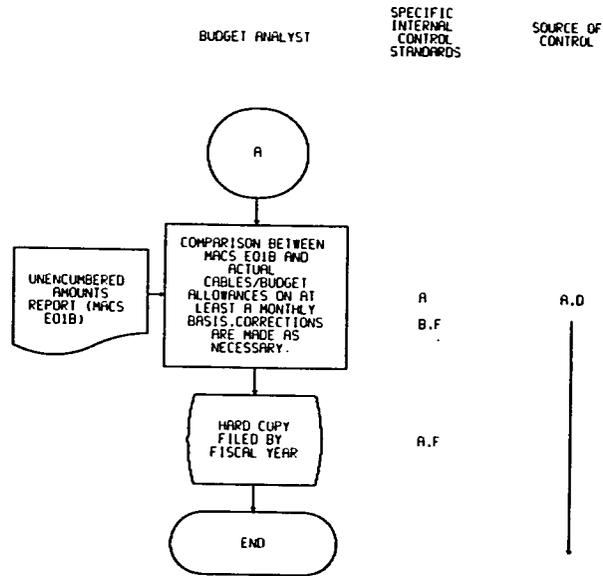
Did the Controller's Office have and follow procedures for processing budget allowances, obligations, earmarks, and commitments in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

USAID/EGYPT OPERATING EXPENSE BUDGET ALLOWANCE CONTROL PROCEDURES



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USAID/EGYPT OPERATING EXPENSE BUDGET ALLOWANCE CONTROL PROCEDURES

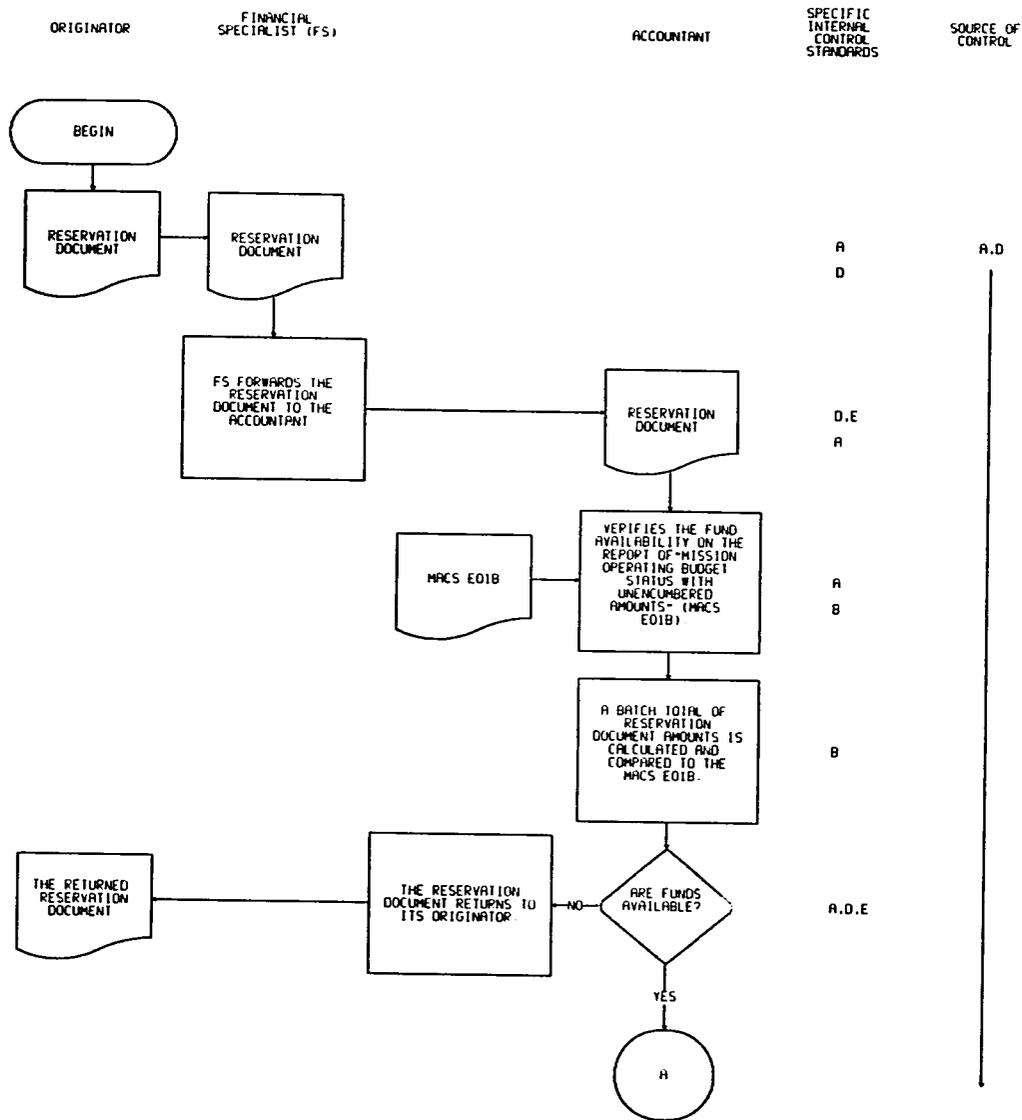


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CYCLE OF EVENTS FOR PROCESSING OPERATING EXPENSE BUDGET ALLOWANCES

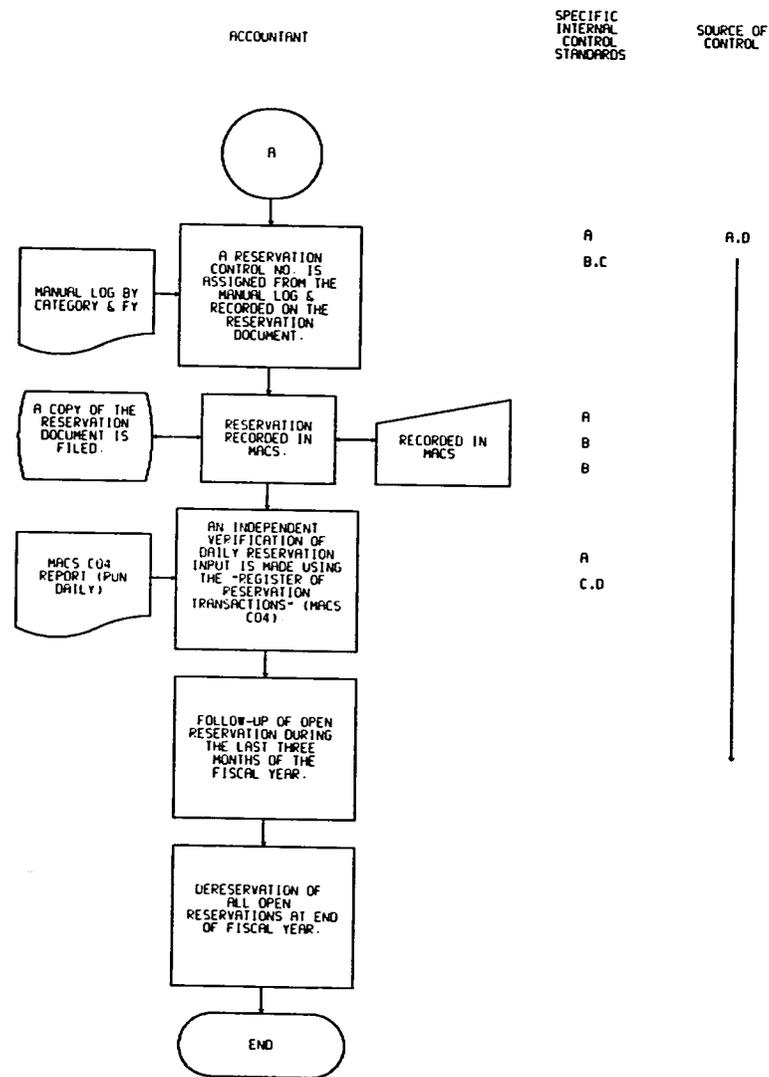
1. A new budget allowance is initiated by a cable received by the Controller (or, in the case of MIGA funds, the RIG, who then forwards them to the Controller) from AID/W providing the budget plan code, allotment, and amount to record the budget allowance in MACS. The advice of budget allowance is received at a subsequent date.
2. The Controller's secretary registers the cable/advice in the manual log by date received and assigns it a log number. She then forwards it to the Financial Specialist (formerly Chief Accountant - OE) through the appropriate Deputy Controller and the Financial Operations Chief. The Financial Specialist sends the cable/advice to the assigned budget analyst for processing.
3. The budget analyst enters the cable/advice information into MACS and files the hardcopy by fiscal year.
4. A comparison is performed between the Mission Operating Budget Status with Unencumbered Amounts report (MACS EO1B) and actual cables/advises on a monthly basis, with corrections made as necessary. This is to provide assurance that all budget allowances received have been entered in MACS and that all budget allowances in MACS are supported.

USAID/EGYPT OPERATING EXPENSE OBLIGATION RESERVATION CONTROL PROCEDURES



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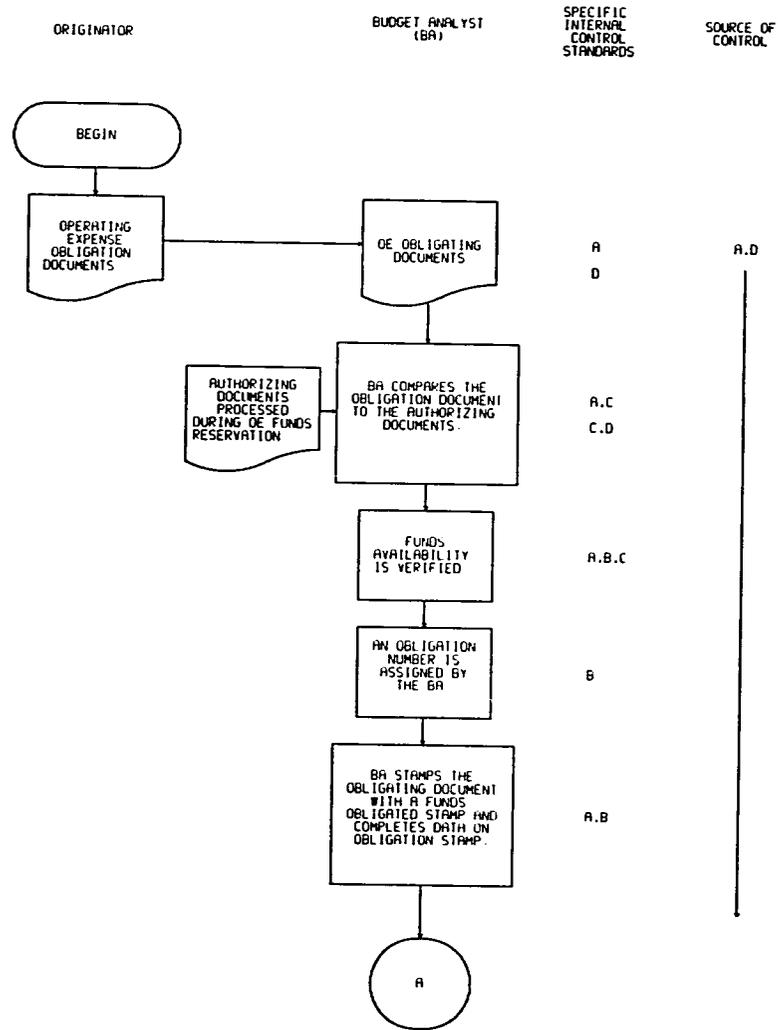
USAID/EGYPT OPERATING EXPENSE OBLIGATION RESERVATION CONTROL PROCEDURES



CYCLE OF EVENTS FOR PROCESSING OPERATING EXPENSE OBLIGATION RESERVATIONS

1. Documents typically used for obligation reservations include training request forms, computer equipment purchased through AID/W via cable, and new leases. No reservations are usually made for procurement through purchase orders or for travel.
2. The Financial Specialist forwards the reservation document to the accountant who verifies the fund availability on the MACS EO1B report. A batch total of reservation document amounts is calculated and compared to the unencumbered budget allowance reflected on the MACS EO1B. If funds are available, a Reservation Control No. is assigned from a manual log maintained in the O.E. accounting section. This number is also recorded on the reservation document.
3. When funds are not available, the reservation document is returned to its originator.
4. If funds are available, the reservation is recorded in MACS and a copy of the document filed.
5. A MACS CO4 report (Register of Reservation Transactions) is run daily and used for independent verification of reservation input.
6. A copy of the reservation document is placed in the Open Reservation file.
7. The recording of the related obligation amount automatically clears an equivalent amount from the reservation. Any excess of the reservation over the obligation amount must be dereserved by a manual MACS entry.
8. A concerted follow-up of open reservations is made by the accountant during the last three months of the fiscal year. All open reservations are dereserved at the end of fiscal year.

USAID/EGYPT OPERATING EXPENSE OBLIGATION CONTROL PROCEDURES



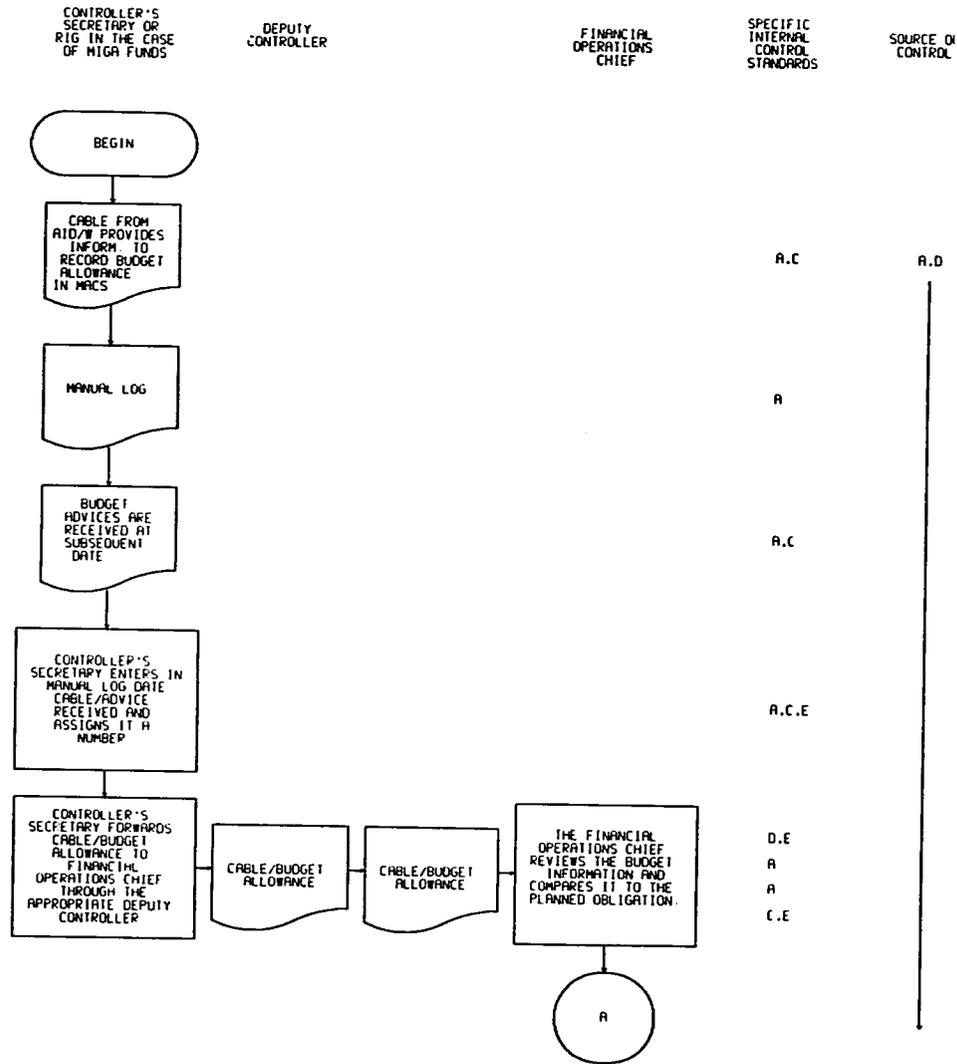
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**CYCLE OF EVENTS FOR
PROCESSING OPERATING EXPENSE OBLIGATIONS**

1. Operating expense obligating documents (i.e. purchase orders, contracts, leases, etc.) come directly to the Budget Analyst.
2. The Budget Analyst compares the obligating document to authorizing documents that were processed at the time operating expense funds were reserved. For example, a travel authorization would be compared to the travel request and travel budget. Funds availability is also verified and notated on the document.
3. An obligation number is assigned by the Budget Analyst. Note that a travel authorization log is kept for assigning travel obligation numbers.
4. The Budget Analyst stamps the obligating document with a Funds obligated stamp and completes the following blanks:
 - Reservation No.
 - Obligation Document No.
 - Obligation Start Date
 - Obligation End Date
 - Agent Code
 - Amount
 - By (for initials of Budget Analyst)
 - B&A (for initials of Budget & Accounting Officer)
 - MACS (for initials of MACS data entry)
 - Date (of MACS entry)
5. The stamped obligating document is reviewed and initialed by the Budget Analyst, Financial Specialist, and Budget & Accounting Officer.
6. After approval, the original is returned to the Budget Analyst and a copy is forwarded to the voucher examination section.
7. The Budget Analyst enters the obligation information into MACS.
8. A transaction register of obligations posted to MACS, MACS CO5, is run on a periodic basis. Another Budget Analyst compares transactions on this register to source obligation documents (independent verification).
9. Each obligation is filed individually.
10. A modification to an obligation is processed in the same manner as the original obligation.

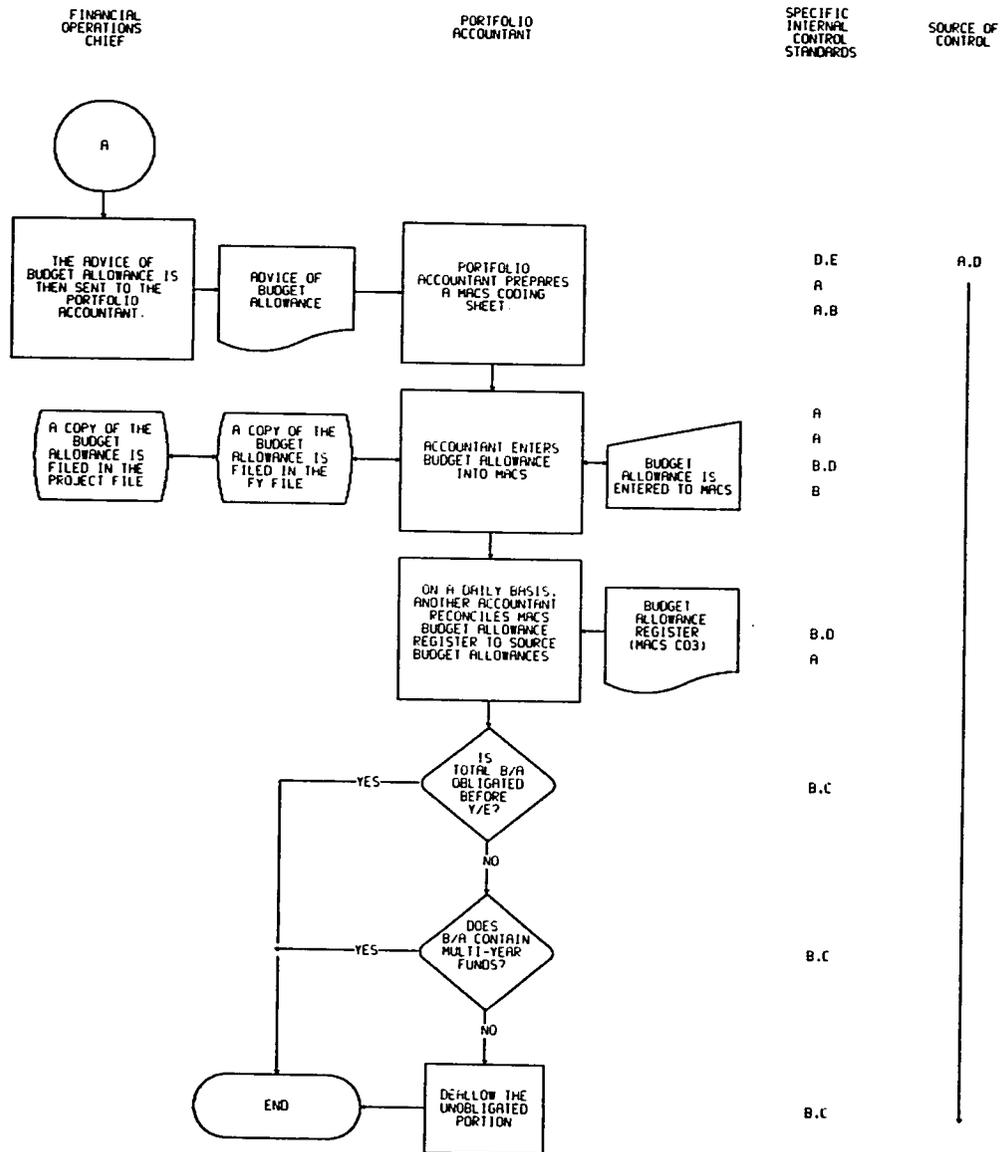
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USAID/EGYPT PROJECT BUDGET ALLOWANCE CONTROL PROCEDURES



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USAID/EGYPT PROJECT BUDGET ALLOWANCE CONTROL PROCEDURES

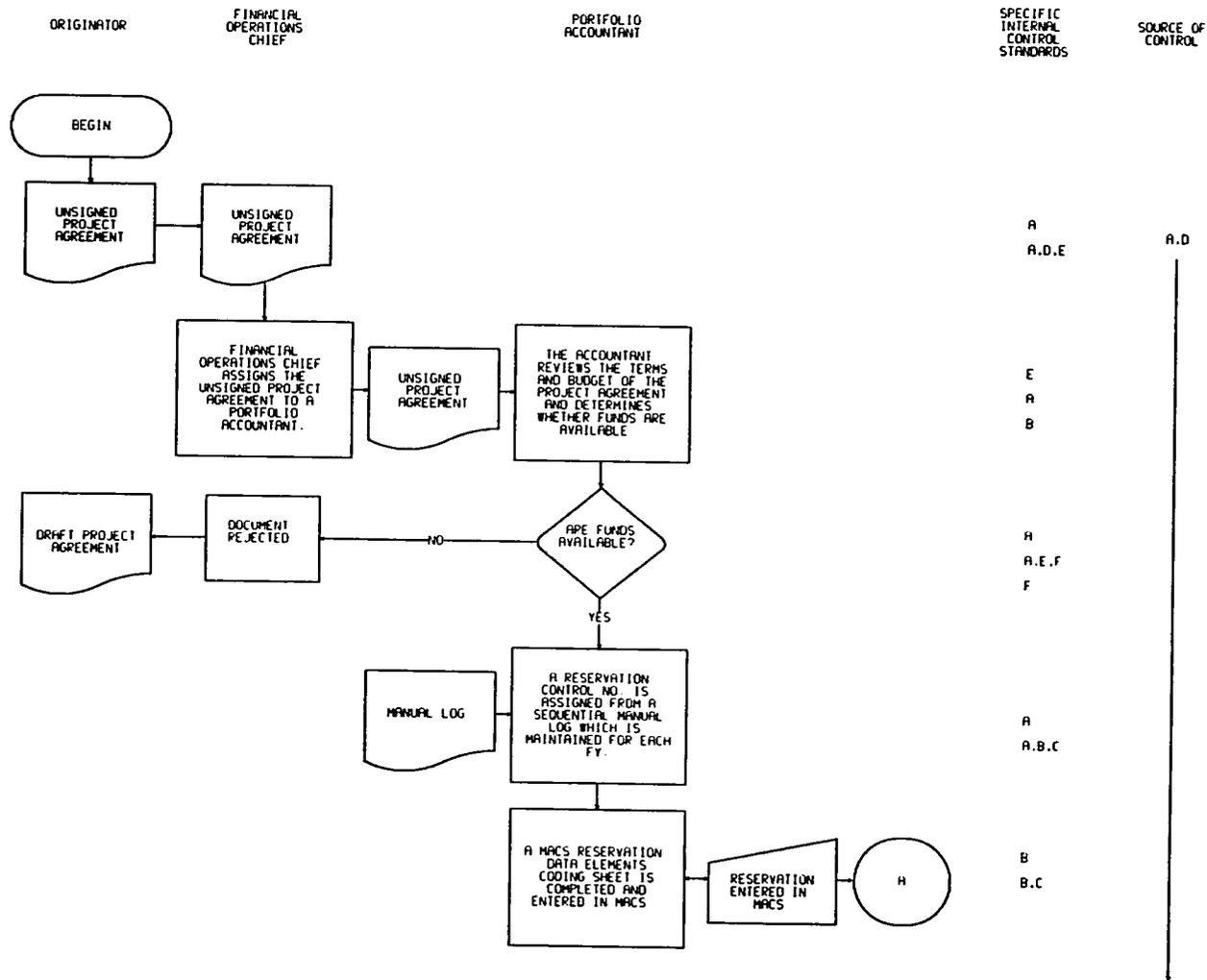


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CYCLE OF EVENTS FOR PROCESSING PROJECT BUDGET ALLOWANCES

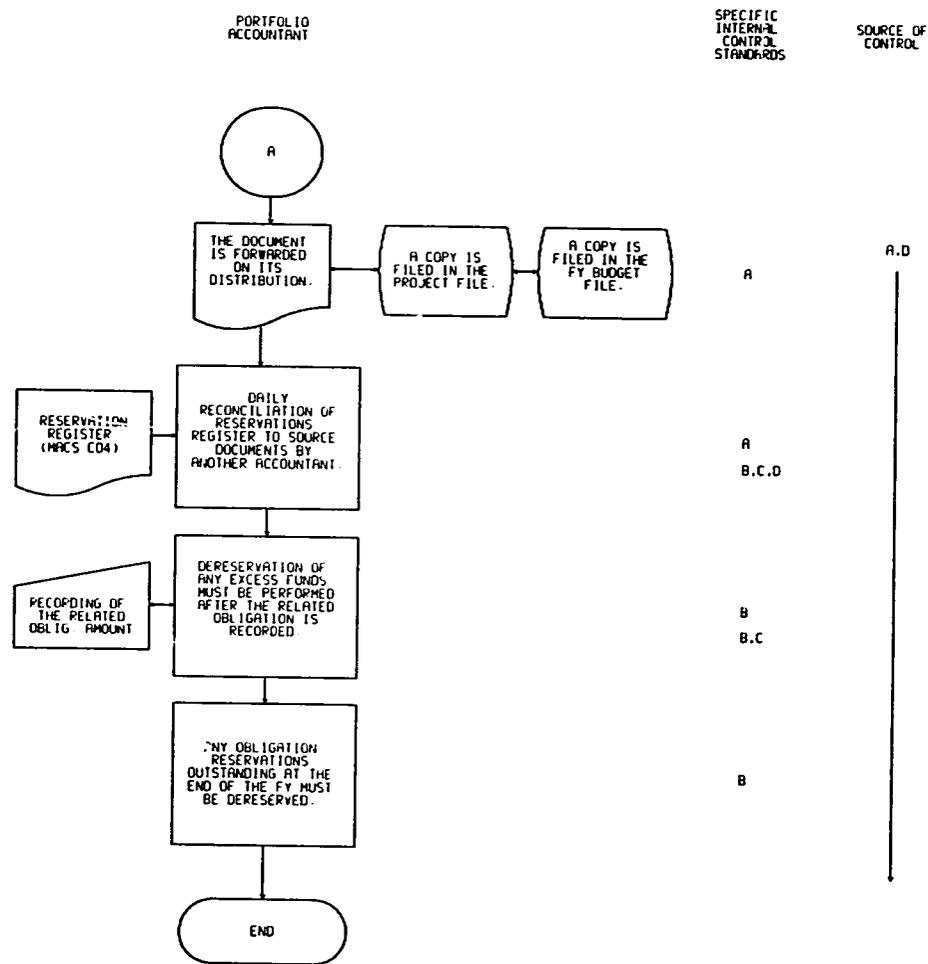
1. A new budget allowance is initiated by a cable received by the Controller (or, in the case of MIGA funds, the RIG, who then forwards them to the Controller) from AID/W providing the budget plan code, allotment, and amount to record the budget allocation in MACS. The budget allowance advice is received at a subsequent date.
2. The Controller's secretary registers the cable/advice in the manual log by date received and assigns it a log number. She then forwards it to the Financial Operations Chief through the appropriate Deputy Controller.
3. The Financial Operations Chief reviews the allowance information and compares it to the planned obligation. The advice of budget allowance is then sent to the Portfolio Accountant.
4. The Portfolio Accountant prepares a MACS coding sheet and enters the budget allowance into MACS. A copy of the budget allowance is filed in the project file and another is placed in a file that holds all the budget allowances for a given fiscal year.
5. On a daily basis another accountant reconciles MACS C03 (Budget Allowance Register) to source budget allowance.
6. If the total budget allowance is not obligated before the end of the fiscal year, the unobligated portion must be deallocated unless the budget allowance contains multi-year funds.

USAID/EGYPT PROJECT OBLIGATION RESERVATION CONTROL PROCEDURES



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USAID/EGYPT PROJECT OBLIGATION RESERVATION CONTROL PROCEDURES

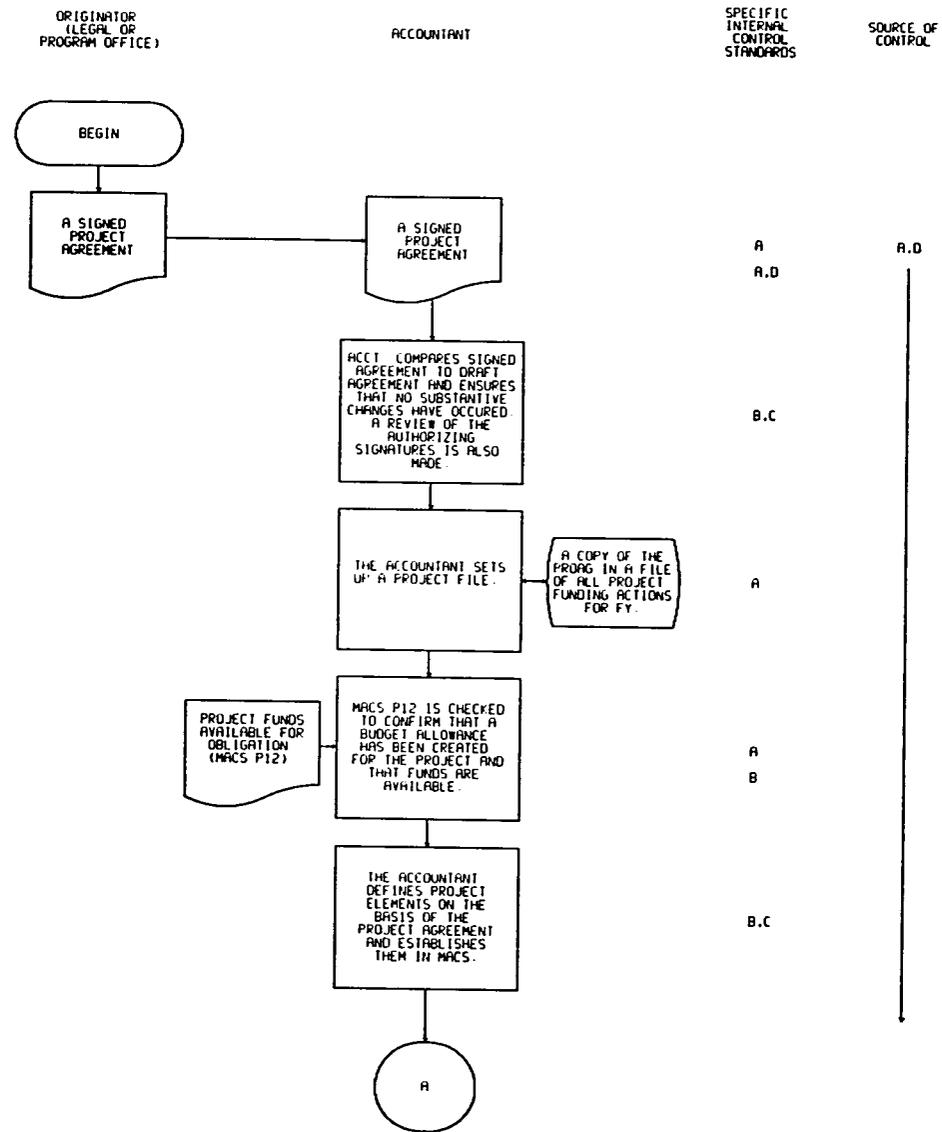


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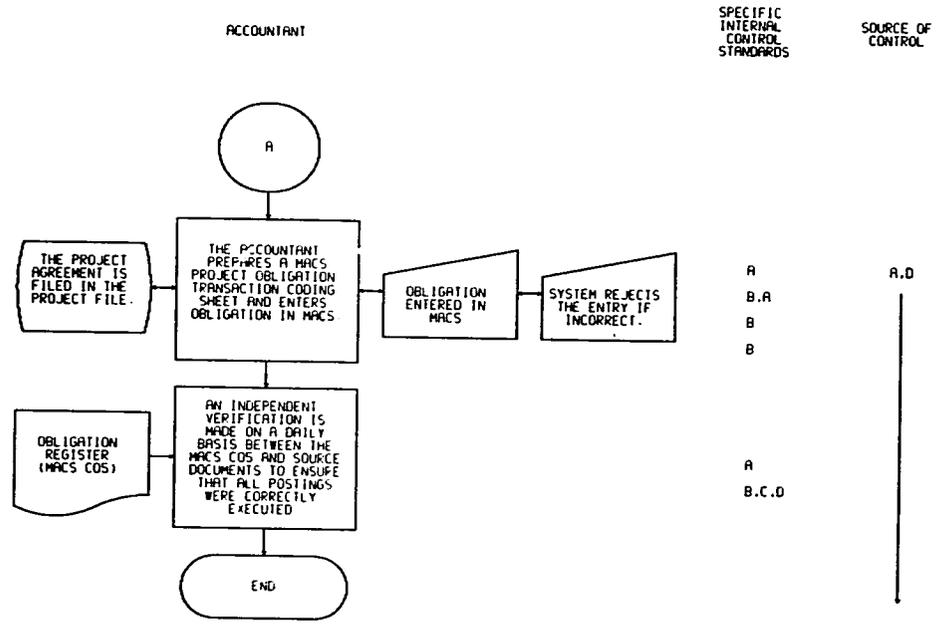
CYCLE OF EVENTS FOR PROCESSING PROJECT OBLIGATION RESERVATIONS

1. An unsigned Project Agreement (ProAg) is received by FM. It is assigned to a Portfolio Accountant by the Financial Operations Chief.
2. The accountant reviews the terms and budget of the ProAg and determines whether funds are available. If funds are not available, the draft ProAg is returned to the originator.
3. If funds are available, a Reservation Control No. is assigned from a sequential manual log maintained for each fiscal year.
4. A MACS Reservation Data Elements coding sheet is completed and entered in MACS.
5. A copy of the obligation reservation document is placed in the project and fiscal year budget files.
6. The document is forwarded for distribution.
7. When the related obligation is executed, MACS automatically clears the reservation up to the amount of the obligation. If the initial reservation was greater than the subsequent obligation, the excess amount of the reservation must be dereserved with a manual entry to MACS.
8. Any obligation reservations outstanding at the end of the fiscal year must be dereserved.

USAID/EGYPT PROJECT OBLIGATION CONTROL PROCEDURES



USAID/EGYPT PROJECT OBLIGATION CONTROL PROCEDURES

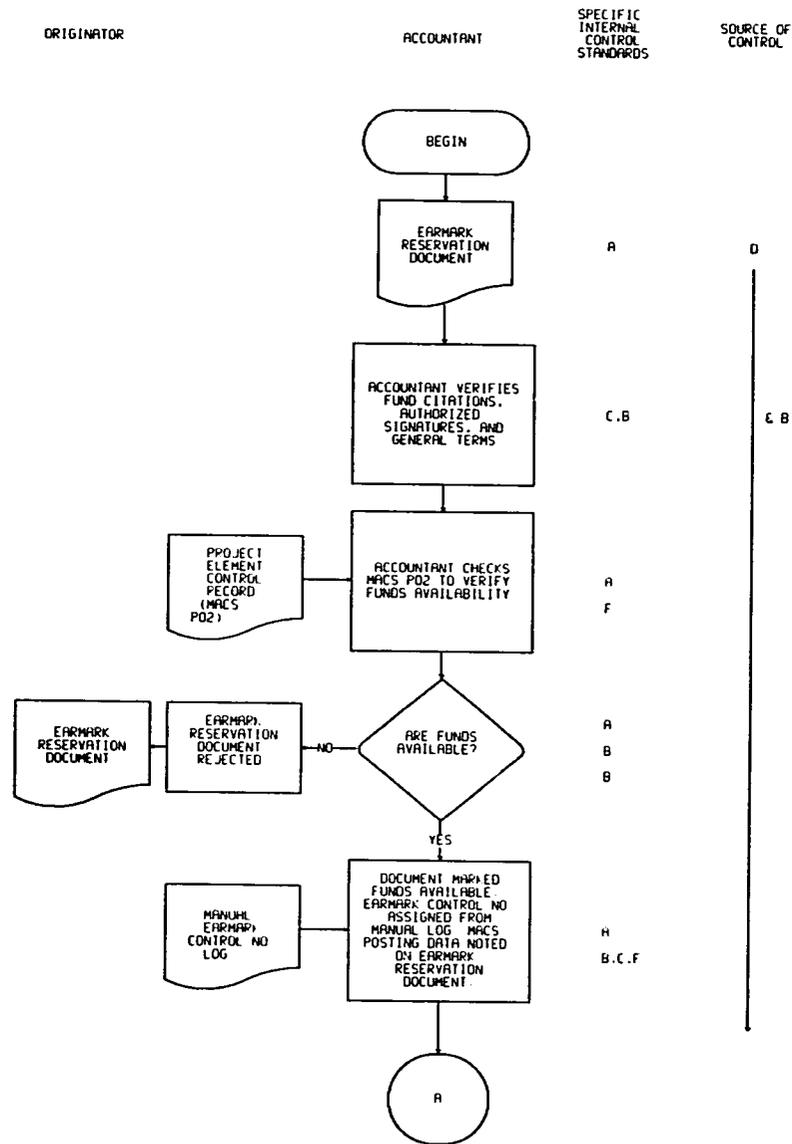


CYCLE OF EVENTS FOR PROCESSING PROJECT OBLIGATIONS

1. A signed Grant/Project Agreement is received by the Portfolio Accountant. The accountant compares the signed agreement to the draft agreement (cleared by the Controller for funds availability) and ensures that no substantive changes have occurred. A review of the authorizing signature is also made.
2. The accountant sets up a project file in which the agreement is retained. A copy of the agreement is also placed in a file of all project funding actions for the fiscal year.
3. MACS P12 report (Project Funds Available for Obligation) is checked to confirm that a budget allowance has been created for the project and that funds are available.
4. The accountant defines project elements on the basis of the project agreement then establishes them in MACS.
5. A MACS Project Obligation Transaction coding sheet is prepared by the accountant and the obligation is entered into MACS.
6. An independent verification is made on a daily basis between the MACS C05 (Obligation Register) and the source agreements to ensure that all postings were correctly executed.
7. A modification to an obligation is processed in the same manner as the original obligation.

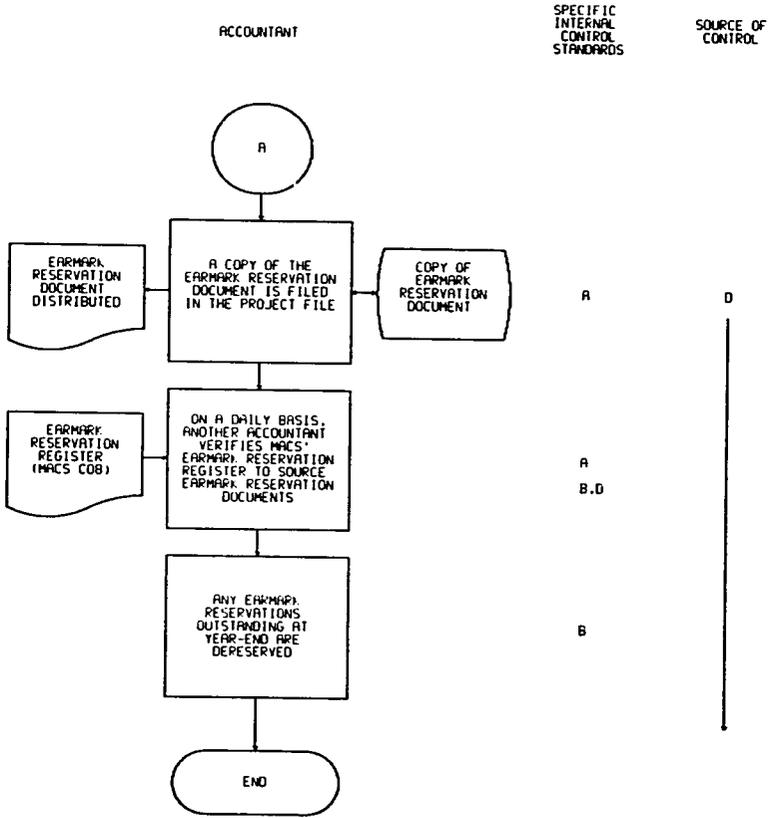
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USAID/EGYPT EARMARK RESERVATION CONTROL PROCEDURES



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USAID/EGYPT EARMARK RESERVATION CONTROL PROCEDURES

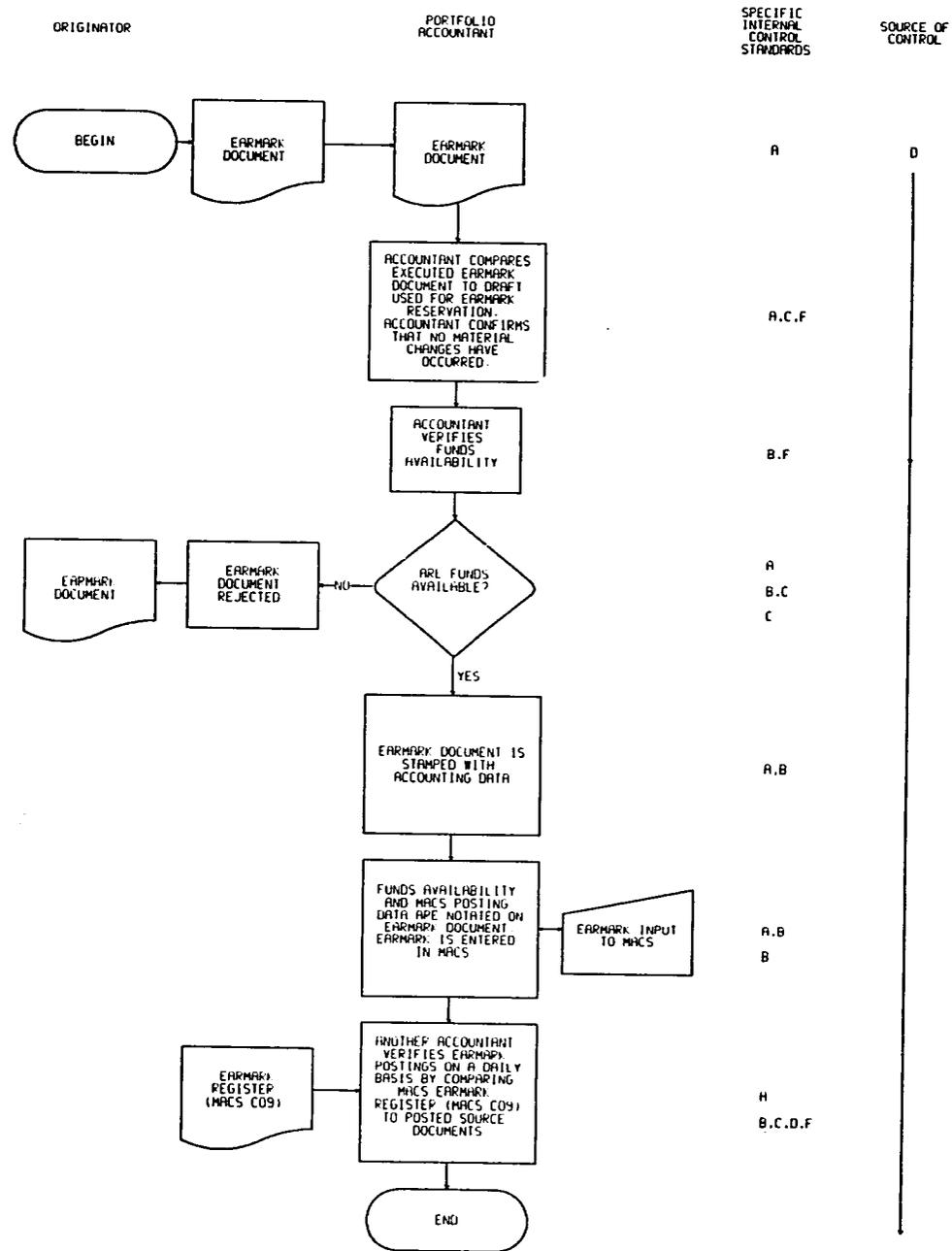


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CYCLE OF EVENTS FOR PROCESSING PROJECT EARMARK RESERVATIONS

1. An earmark reservation document, typically an uncleared PIO/T, is received directly by the accountant.
2. The accountant checks the funds citation, authorized signatures, and general terms. If no problems are identified, the document is stamped with the earmark reservation stamp. This stamp collects the following information:
 - Earmark Control No.
 - Reservation Control No.
 - Disbursement Authority/Direct Reimbursement Authority
 - Project Element
 - Earmark Document
 - Earmark Amount
 - Transaction Amount
 - Processed
 - Cleared
 - Posted
 - Verified
3. The accountant checks the MACS PO2 report (Project Element Control Record) for funds availability. If funds are available, the document is stamped accordingly and the earmark reservation information is entered in MACS. If none are available, it is rejected and returned to its originator.
4. An Earmark Control No. is assigned from a manual log maintained in FM. Separate logs are maintained for PIO/T's, PIO/P's and Project related Travel Authorizations.
5. A copy of the earmark reservation document is placed in the project and fiscal year budget files.
6. The document is sent on distribution.
7. Another accountant verifies the MACS C08 Earmark Reservation Register to source reservation documents on a daily basis.
8. When the related earmark is executed, MACS automatically clears the reservation up to the amount of the earmark. If the initial reservation was greater than the subsequent earmark, the excess amount of the reservation must be dereserved with a manual entry to MACS.
9. Any earmark reservations outstanding at the end of the fiscal year must be dereserved.

USAID/EGYPT EARMARK CONTROL PROCEDURES

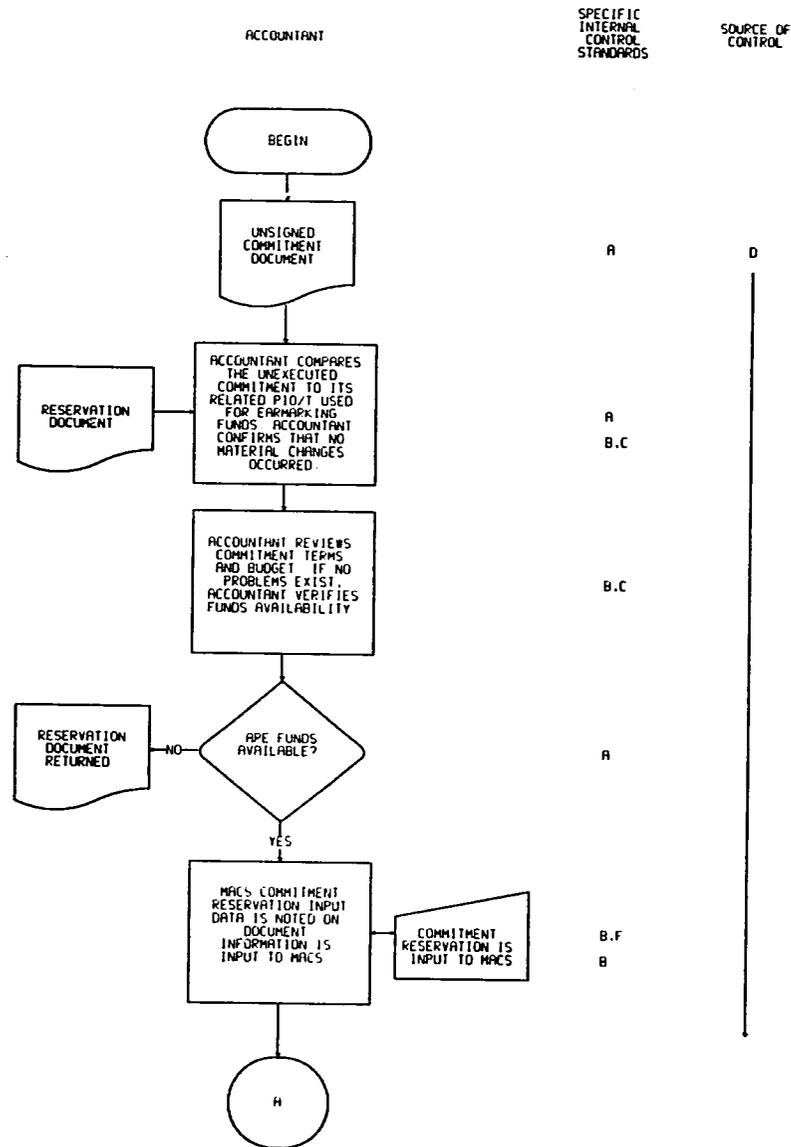


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CYCLE OF EVENTS FOR PROCESSING PROJECT EARMARKS

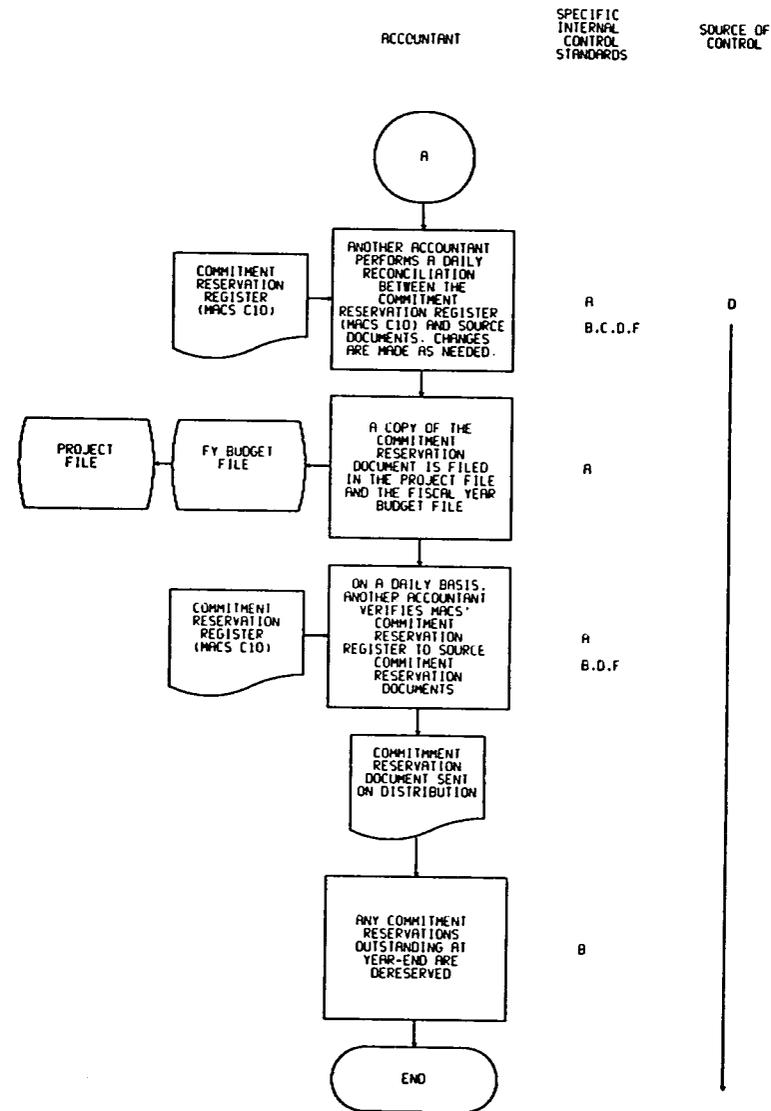
1. An executed earmarking document (i.e. PIO/T) is received by the Portfolio Accountant. The accountant compares the signed document to the draft (cleared by the Controller for funds availability), ensures that no substantive changes have occurred and verifies funds availability.
2. The document is stamped with an "Earmark" stamp for which the accountant completes the following information:
 - Earmark Control No.
 - Reservation Control No.
 - Disbursement Authority/Direct Reimbursement Authority
 - Project Element
 - Earmark Document
 - Earmark Amount
 - Transaction Amount
 - Processed
 - Cleared
 - Posted
 - Verified
3. The earmark is entered into MACS and filed in the project file.
4. An independent verification is made on a daily basis between the MACS C09 (Earmark Register) and the source documents to ensure that all postings were correctly executed.

USAID/EGYPT COMMITMENT RESERVATION CONTROL PROCEDURES



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USAID/EGYPT COMMITMENT RESERVATION CONTROL PROCEDURES

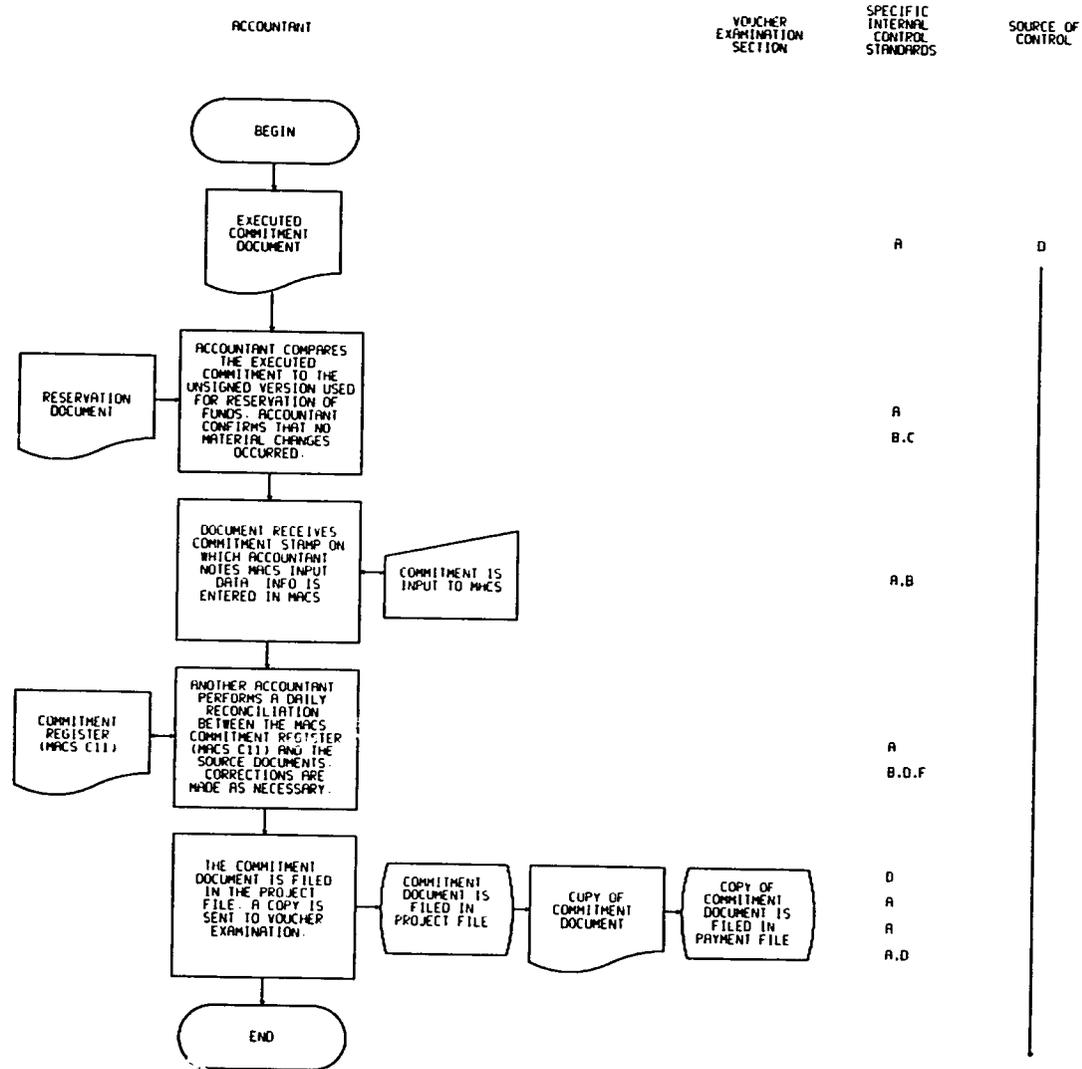


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CYCLE OF EVENTS FOR PROCESSING PROJECT COMMITMENT RESERVATIONS

1. A commitment reservation document, typically an unsigned contract or grant, is received directly by the accountant.
2. The accountant compares the commitment reservation document and its related PIO/T to check for significant changes. Commitment terms and budget are also reviewed. If no problems are identified, the accountant verifies funds availability and stamps the document with the commitment reservation stamp. This stamp collects the following information:
 - Earmark Control No.
 - Commitment Document No.
 - Commitment Start Date
 - Commitment End Date
 - Agent Code
 - Commitment Document
 - Transaction Amount
 - Amendment
 - Processed
 - Cleared
 - Posted
 - Verified
3. The commitment reservation information is input to MACS.
4. Another accountant performs a daily reconciliation between the commitment reservation register (MACS C10) and the source documents. Changes are made as needed.
5. A copy of the commitment reservation document is placed in the project and fiscal year budget files.
6. Another accountant compares and verifies MACS commitment reservation register to source commitment reservation documents on a daily basis.
7. The document is sent on distribution.
8. When the related commitment is executed, MACS automatically clears the reservation up to the amount of the commitment. If the initial reservation was greater than the subsequent commitment, the excess amount of the reservation is dereserved with a manual entry to MACS.
9. Any commitment reservations outstanding at the end of the fiscal year must be dereserved.

USAID/EGYPT COMMITMENT CONTROL PROCEDURES



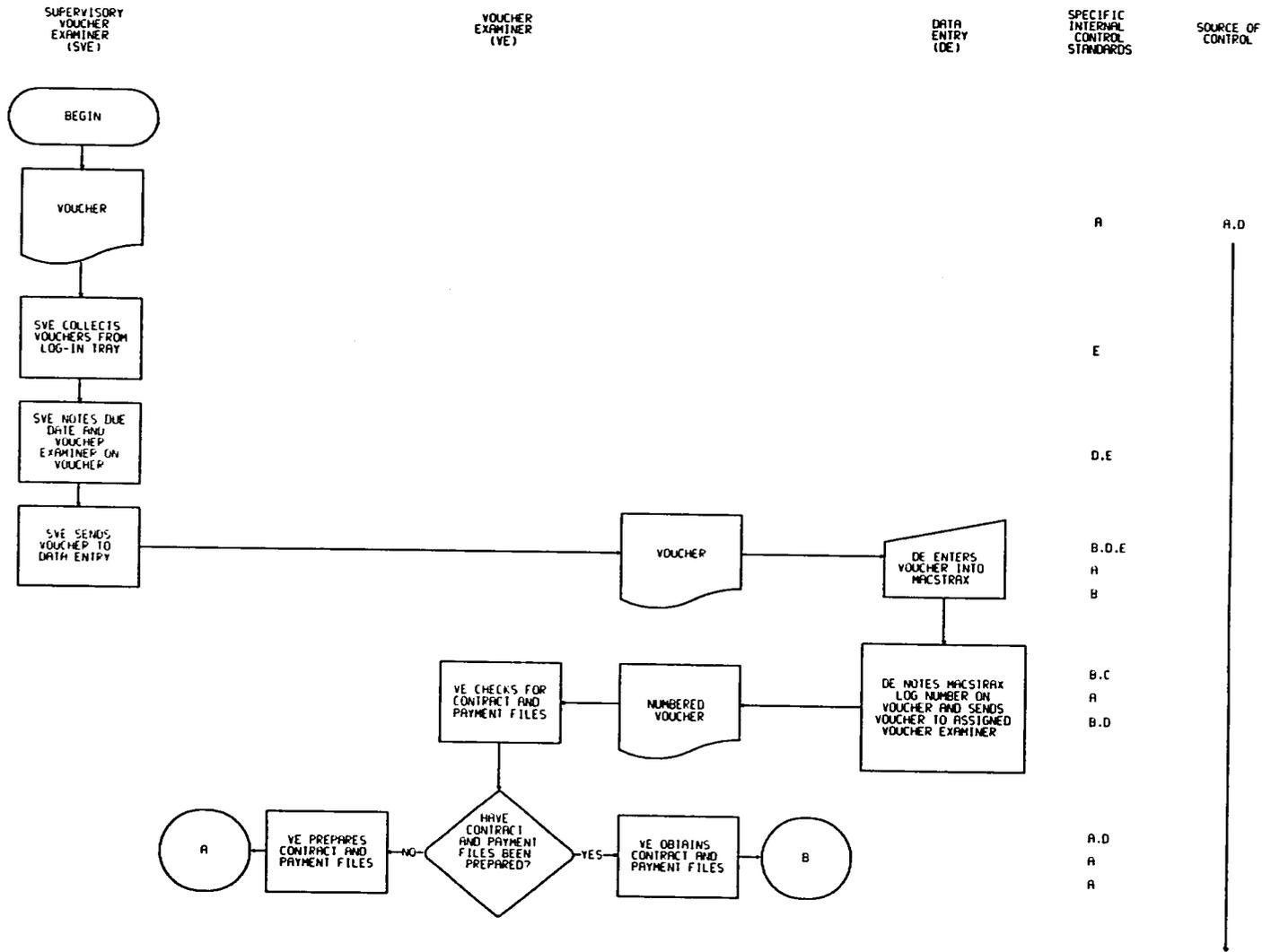
CYCLE OF EVENTS FOR PROCESSING PROJECT COMMITMENTS

1. An executed commitment document (i.e. contract) is received by the Portfolio Accountant. The accountant compares the signed document to the draft and ensures that no substantive changes have occurred.
2. The document is stamped with a "Commitment" stamp for which the accountant completes the following information:
 - Earmark Control No.
 - Commitment Document No.
 - Commitment Start Date
 - Commitment End Date
 - Agent Code
 - Commitment Document
 - Transaction Amount
 - Amendment
 - Processed
 - Cleared
 - Posted
 - Verified
3. An independent verification is made on a daily basis between the MACS C11 (Commitment Register) and the source documents to ensure that all postings were correctly executed.
4. A copy is filed in the project file and another is forwarded to the voucher examination section for establishment of a payment file.

FLOWCHARTS AND NARRATIVES FOR AUDIT OBJECTIVE NO. 2

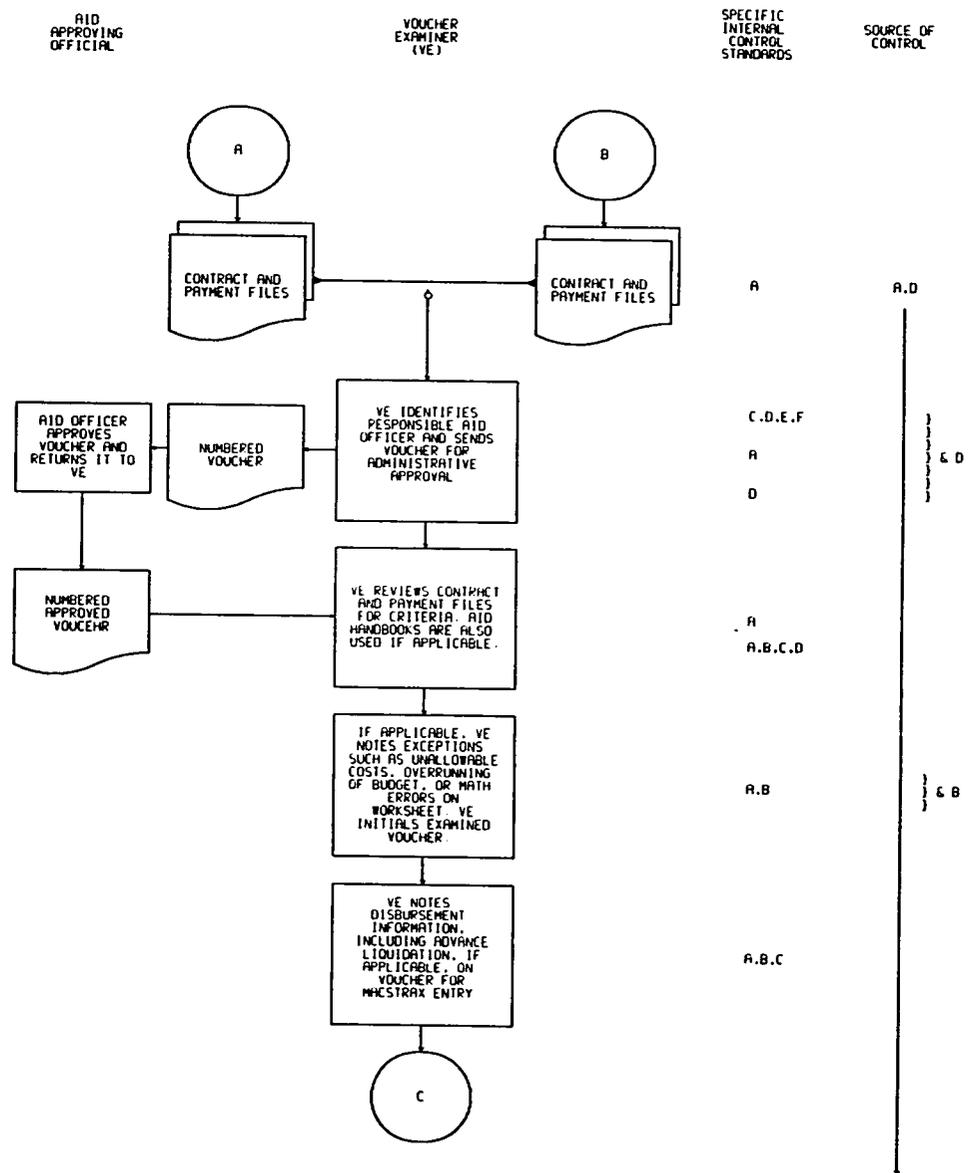
Did the Controller's Office have and follow procedures for processing disbursements in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

USAID/EGYPT VOUCHER DISBURSEMENT CONTROL PROCEDURES



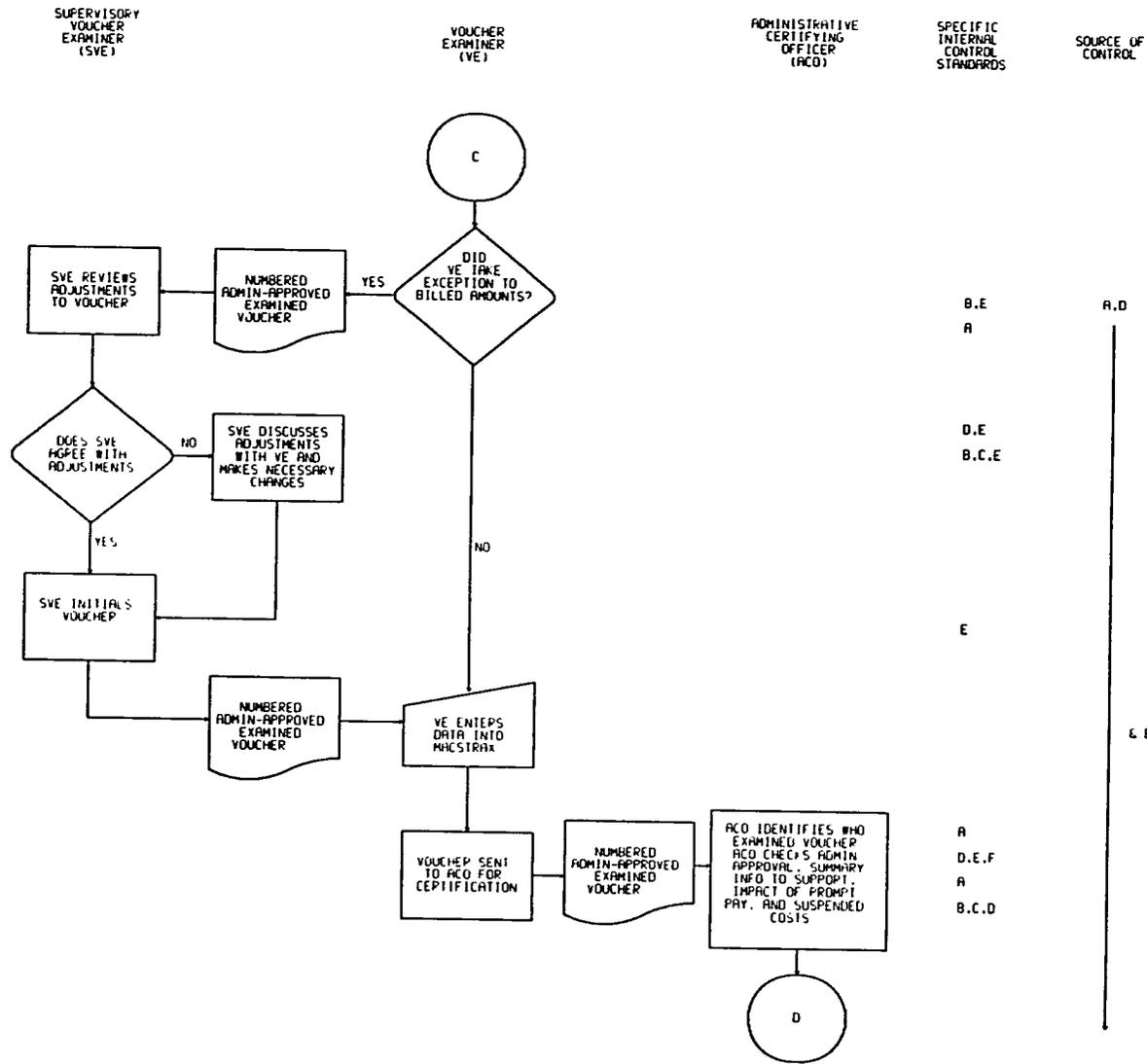
64

USAID/EYGPT VOUCHER DISBURSEMENT CONTROL PROCEDURES



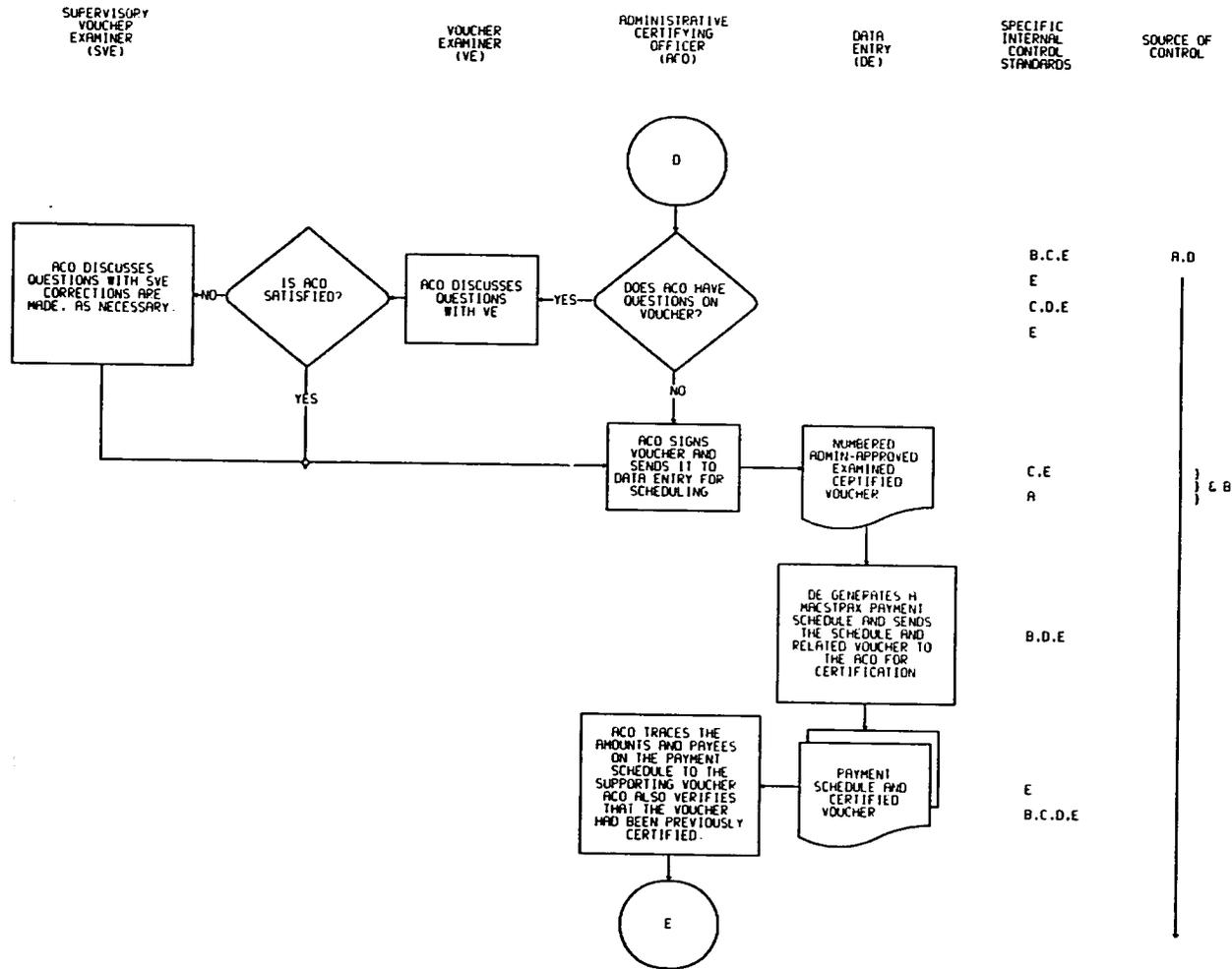
65-

USAID/EGYPT VOUCHER DISBURSEMENT CONTROL PROCEDURES



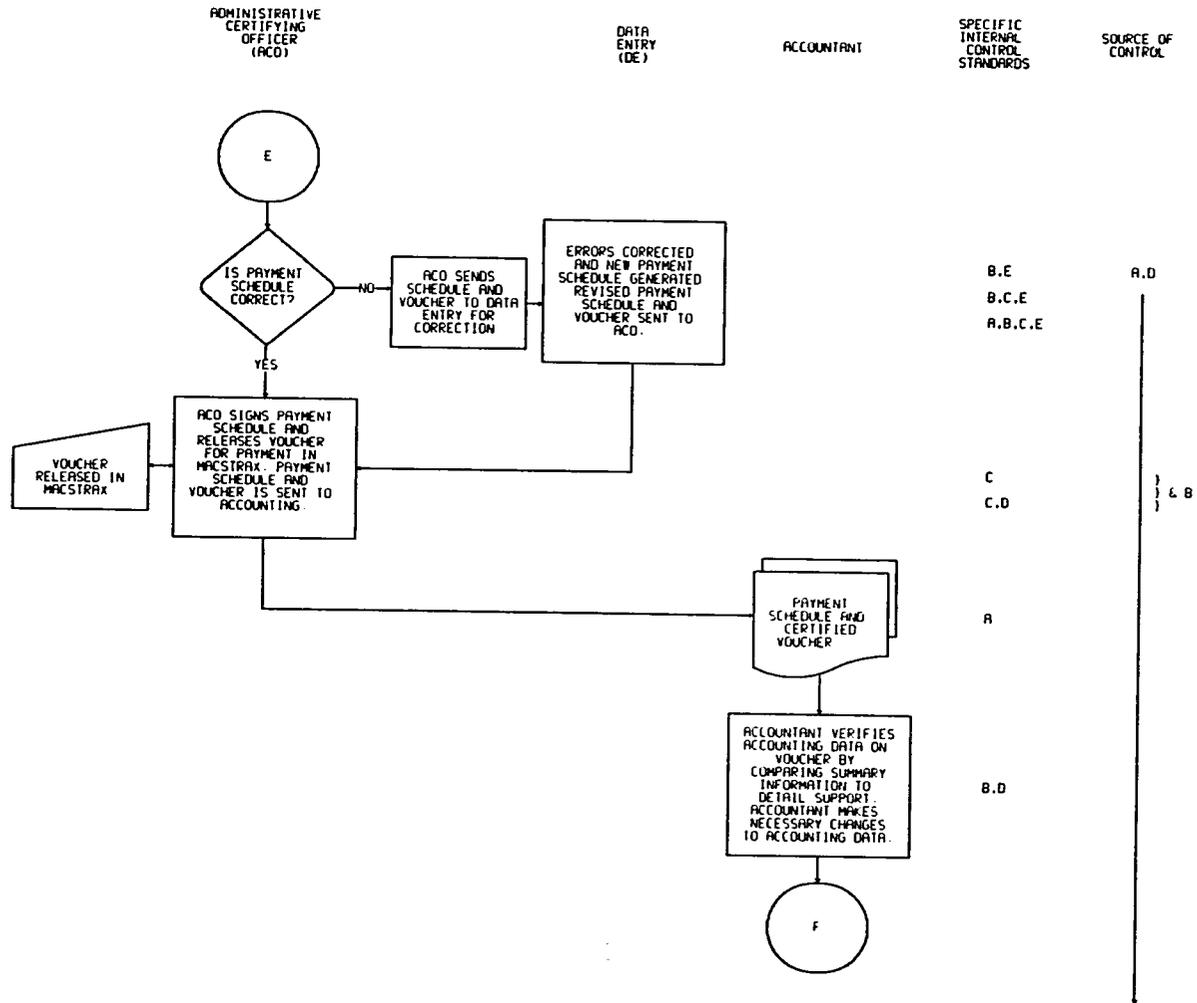
19

USAID/EGYPT VOUCHER DISBURSEMENT CONTROL PROCEDURES



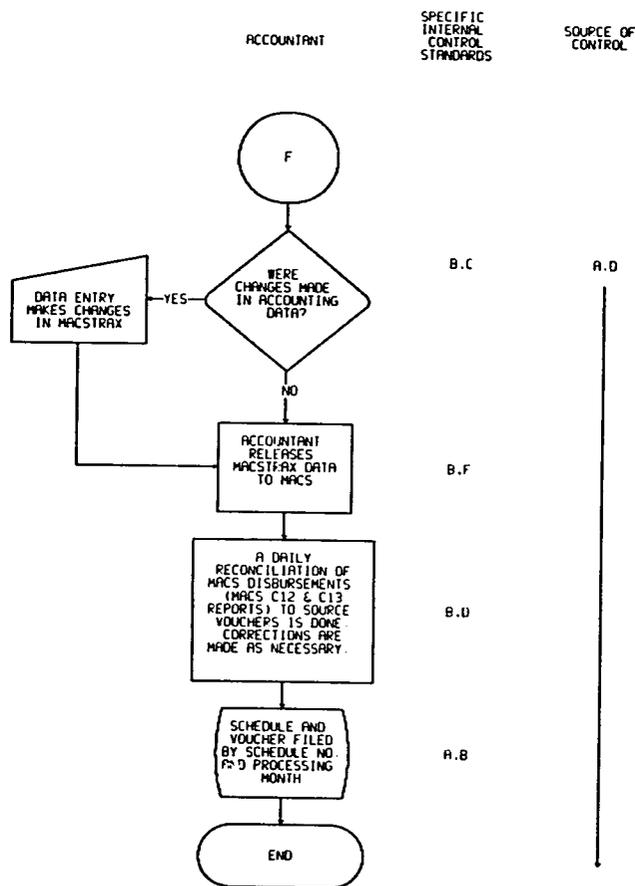
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USAID/EGYPT VOUCHER DISBURSEMENT CONTROL PROCEDURES



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USAID/EGYPT VOUCHER DISBURSEMENT CONTROL PROCEDURES



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CYCLE OF EVENTS FOR PROCESSING DISBURSEMENTS

1. When vouchers enter FM, they are deposited in the log-in tray located in the voucher examination section. The Supervisory Voucher Examiner (SVE) collects and assigns the vouchers among the Voucher Examiners (VE) and sends the batch of vouchers to the data entry section.
2. In the data entry section, the Data Entry Clerk logs each voucher into MACSTRAX, a program that tracks the status and location of each voucher and allows batch voucher posting which is subsequently used to update the MACS and embassy payment system. MACSTRAX assigns a serial voucher log number which is noted on each voucher.
3. Once a voucher has been logged-in, it is returned to the assigned voucher examiner for review.
4. The voucher examiner identifies the commitment document number of the voucher and obtains the relevant contract and payment files.
5. If contract and payment files are not prepared for the commitment, the voucher examiner constructs them. A typical contract file includes:

- the contract
- any amendments thereto
- the contract abstract (face sheet)
- letters of authorization
- powers of attorney
- any special instructions
- PILs, as applicable
- special instructions from Project Officer or Contracting Officer

The payment file would typically contain:

- copies of all processed payment vouchers
- special instructions (i.e. change of mailing address,...)
- control sheet (summary of transactions)
- budget amendments
- life of project amendments beginning and ending dates
- outstanding advances and expenditures

6. After identifying the A.I.D. approving official, the VE forwards the voucher to that person for administrative approval. Thereafter, the numbered and approved voucher is returned to the VE for processing.

7. The VE reviews the contract and payment file for criteria relevant to examining the voucher. Depending on the type of voucher, the examiner may also review Handbook 22 (travel), standardized regulations (allowances), and miscellaneous documents (ie. purchase orders, receiving reports...). The examiner also verifies that enough funds remain in the commitment to allow payment of the voucher.
8. Based on his/her review, the voucher examiner may take the following action:

unallowable costs are rejected - the voucher examiner prepares an analysis (attached to the voucher) that explains the deduction and reduces the amount payable

if a line item budgeted amount is exceeded, the voucher examiner calls the project officer for authorization. If approved, the voucher is paid, if not, the voucher is rejected

Correction of mathematical errors

9. The VE initials the voucher as evidence of its having been examined and in case of any problem or adjustment, refers the voucher to the SVE
10. A worksheet is attached to the voucher detailing the adjustment to be reviewed and initialed by the SVE and ACO.
11. After completing the examination, the voucher examiner stamps the voucher with a "Disbursement" stamp and completes the following information:

| | |
|-------------------------|-----------------------------|
| Advance or Disbursement | Disbursement Amount (\$/LE) |
| Project No. | Advance Liquidation (\$/LE) |
| Earmark No. | Advance Amount (\$/LE) |
| Commitment No. | Appropriation No. |
| Advance No. | Budget Plan Code |
| Accountability Date | Expense Period |
| Type | |

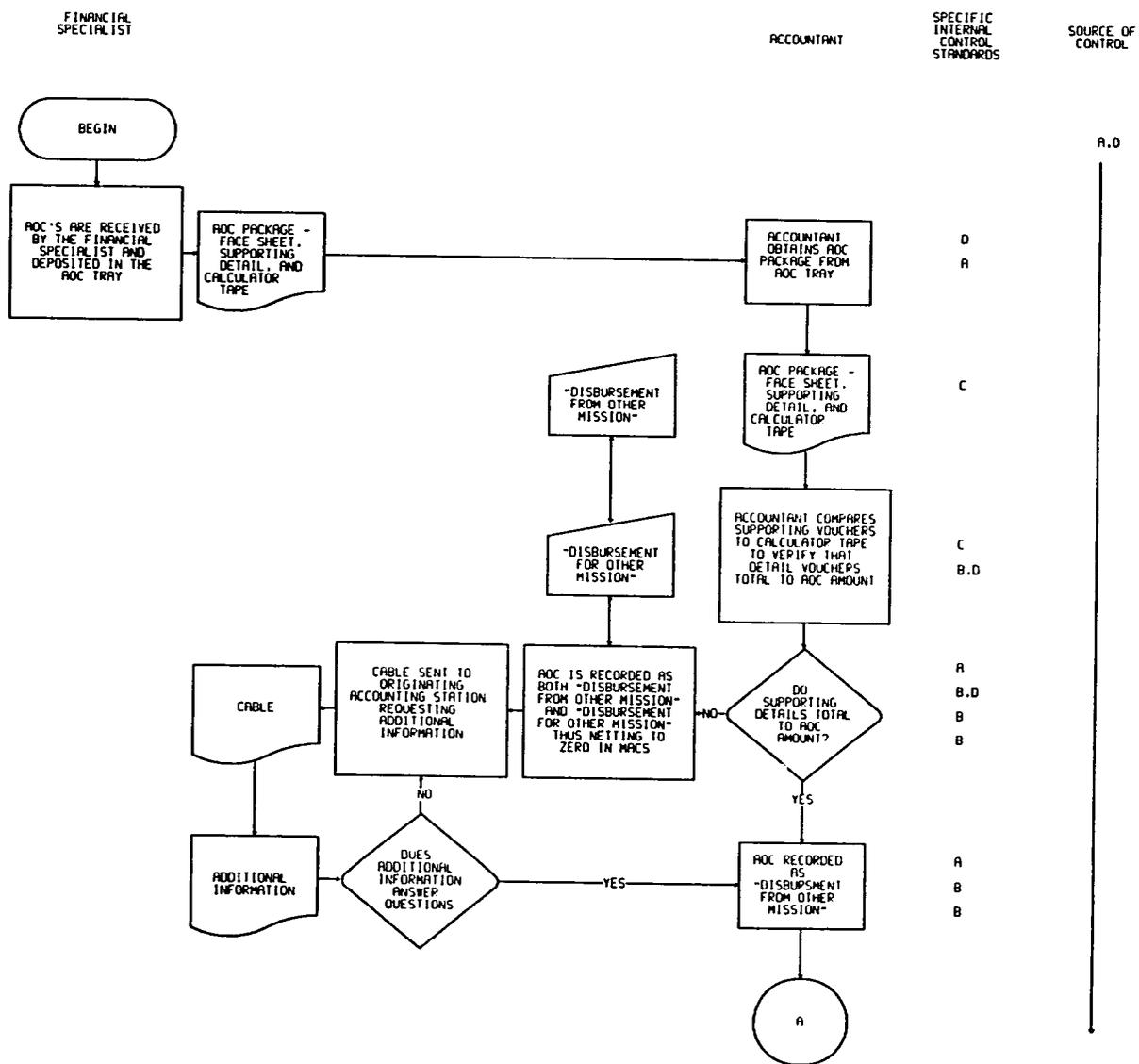
This information will reflect whether the voucher is partially or completely liquidating an advance.

12. Vouchers of approximately \$1 million or more are reviewed by the Supervisory Voucher Examiner (SVE) before coming to the ACO. Voucher examiners can request the SVE to review any voucher for which the examiner has special concerns.
13. The voucher is then posted to MACSTRAX and forwarded to the ACO for certification.
14. Vouchers are forwarded to the ACO.

15. The ACO receives vouchers for certification and review. The thoroughness of this review is based on the ACO's knowledge of the capabilities and experience of the voucher examiner who screened the voucher.
16. After identifying who examined the voucher, the ACO checks the following:
 - completion of administrative approval
 - consistency of data between voucher face sheet and supporting documentation
 - whether the voucher is subject to prompt pay provisions - either late or early payment has to be authorized by the ACO under Prompt Pay guidelines.
 - costs suspended, if any, in voucher examiner review.
17. If the ACO has questions regarding a voucher, he discusses his concerns with either the voucher examiner or the SVE, depending on the nature of the problem and the particular voucher examiner involved.
18. Once satisfied that the vouchers are correct, the ACO signs each voucher. The package of vouchers is then forwarded to the data entry section for generation of a payment schedule from MACSTRAX. Once generated, the payment schedule and the associated vouchers are sent to the ACO for certification.
19. The ACO checks the amounts and payees on the payment schedule to the supporting vouchers. If a discrepancy exists, the schedule and vouchers are returned to the data entry section for correction and then returned to the ACO. Each voucher is also checked to verify that it has been previously certified by the ACO. The ACO certifies the payment schedule with his signature. After certification of the payment schedule, the ACO enters MACSTRAX and releases the vouchers for payment.
20. Subsequent to ACO certification of the payment schedule, the vouchers and schedule are forwarded to accounting. The accountant's review of the voucher includes verifying the accounting citations by comparing the voucher face sheet (completed by the voucher examiner) to voucher detail and comparing accounting/MACS information stamped on the voucher (by voucher examination) to voucher detail. If any changes must be made, the accountant executes the appropriate corrections. After completing his review the accountant transfers the accounting data from MACSTRAX to MACS.
21. MACS C12 & C13 reports (Registers of Disbursement and Advance Transactions) are run on a daily basis and verified against the source vouchers. Errors are identified and corrected.

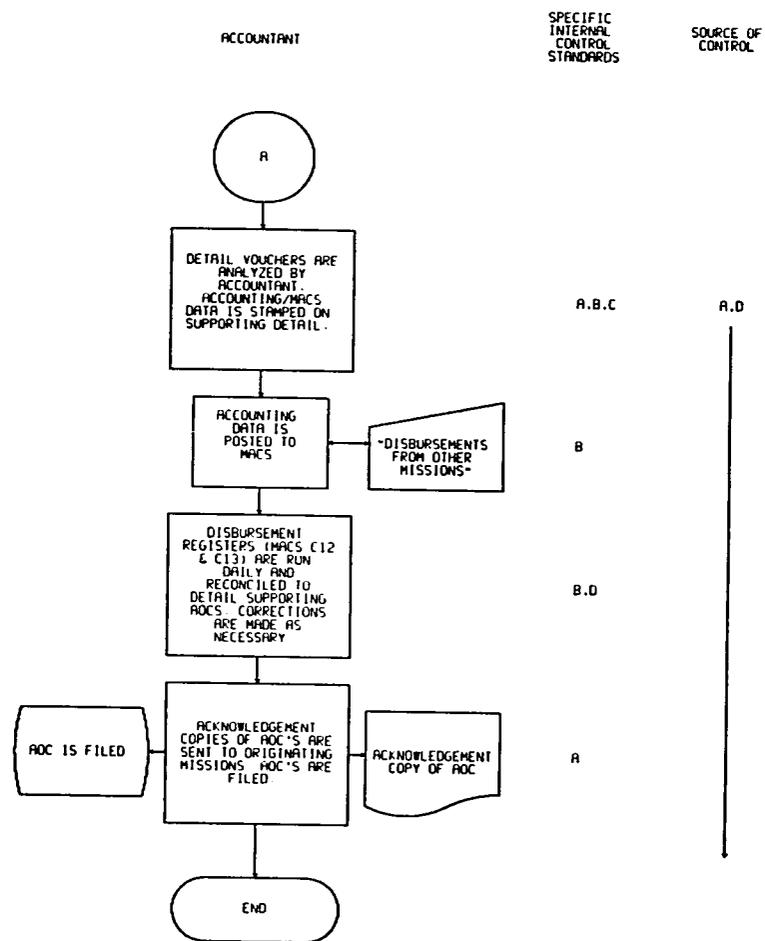
22. A copy is made of the certified payment schedule and sent to the Disbursing Office. The original and the supporting vouchers are filed in FM by schedule number and month of processing.

USAID/EGYPT OPERATING EXPENSE AOC DISBURSEMENT CONTROL PROCEDURES



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USAID/EGYPT OPERATING EXPENSE AOC DISBURSEMENT CONTROL PROCEDURES



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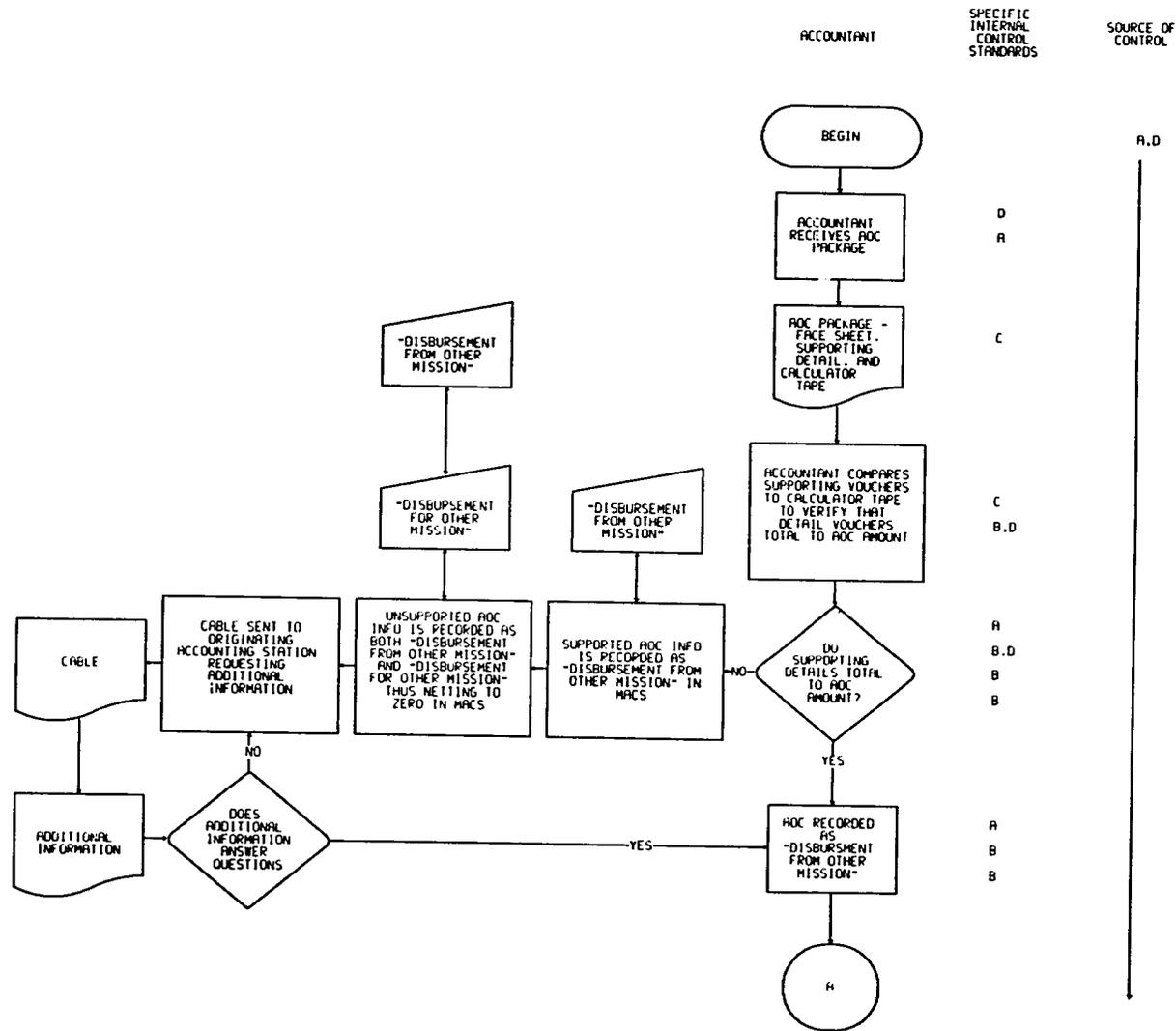
CYCLE OF EVENTS FOR PROCESSING OPERATING EXPENSE ADVISES OF CHARGE

1. AOC's are received by the Financial Specialist and deposited in the AOC tray.
2. A complete AOC consists of an AOC face sheet, supporting vouchers, and a calculator tape totaling the supporting vouchers. The accountant assigned AOC duty for the day compares the supporting vouchers to the calculator tape to verify that the detail vouchers foot to the amount on the AOC face sheet.
3. If the supporting detail matches the AOC face sheet, the AOC is recorded as a "Disbursement from Other Mission" in MACS ("acceptance" of AOC). If the supporting detail does not match the AOC face sheet, the AOC is recorded as a "Disbursement from Other Mission" in MACS (AOC "accepted") and also recorded as a "Disbursement for Other Mission" ("rejection" of AOC) thus netting to a zero disbursement. In this case, a cable is sent to the originating accounting station requesting additional information.
4. The detail vouchers are analyzed and stamped with MACS posting data as follows:

Earmark Control No.
Commitment Document No.
Period Covered
Transaction Amount
Processed
Cleared
Posted
Verified

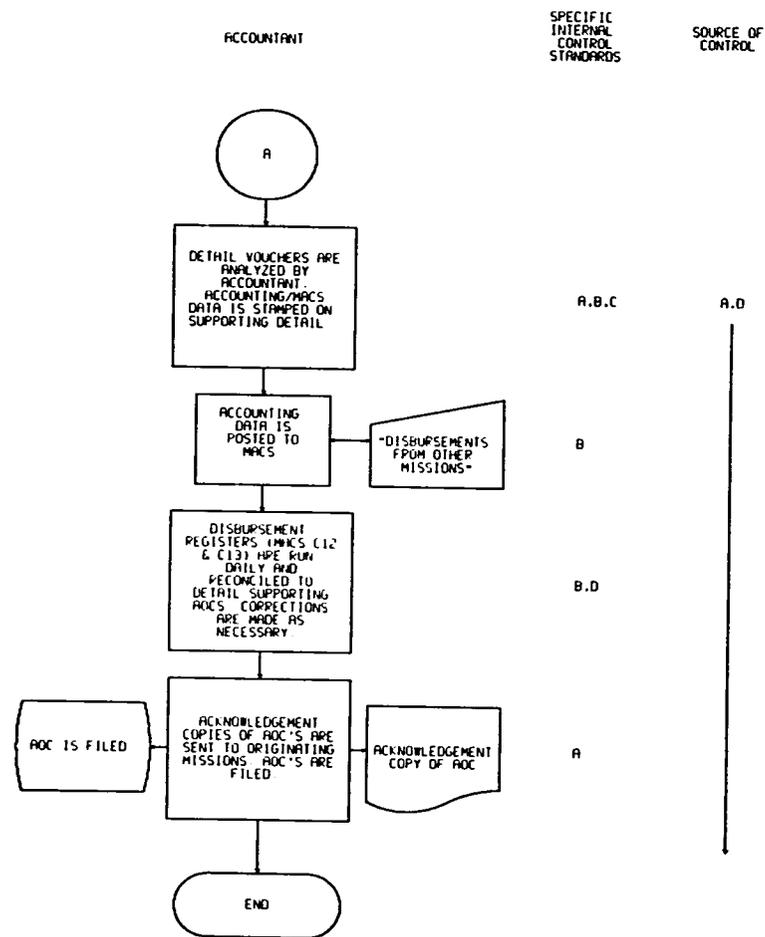
This data is entered in MACS as "Disbursement from Other Missions".
5. MACS C12 & C13 reports (Registers of Disbursement and Advance Transactions) are run on a daily basis and verified against the source vouchers by an accountant other than the one who performed the posting. Errors are identified and corrected.
6. AOC's are filed in the AOC file and an acknowledgement copy is forwarded to the originating Mission.

USAID/EGYPT PROJECT AOC DISBURSEMENT CONTROL PROCEDURES



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USAID/EGYPT PROJECT AOC DISBURSEMENT CONTROL PROCEDURES



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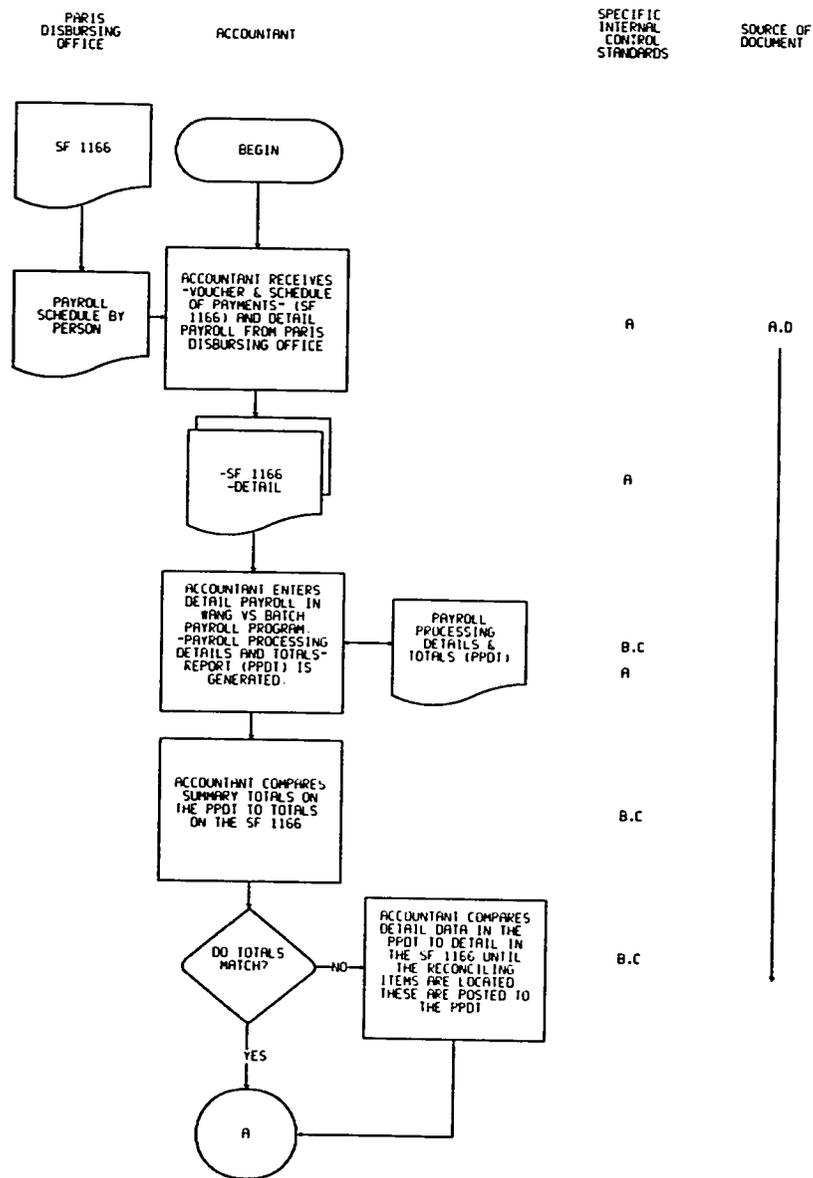
**CYCLE OF EVENTS FOR
PROCESSING PROJECT ADVISES OF CHARGE**

1. AOC's are received by the accountant handling that project.
2. A complete AOC consists of an AOC face sheet, supporting vouchers, and a calculator tape totaling the supporting vouchers. The accountant assigned AOC duty for the day compares the supporting vouchers to the calculator tape to verify that the detail vouchers foot to the amount on the AOC face sheet.
3. If the supporting detail matches the AOC face sheet, the AOC is recorded as a "Disbursement from Other Mission" in MACS ("acceptance" of AOC). If the supporting detail does not match the AOC face sheet, the AOC is recorded as a "Disbursement from Other Mission" in MACS (AOC "accepted") and the missing or erroneous documents are also recorded as a "Disbursement for Other Mission" ("rejection" of AOC). In this case, a cable is sent to the originating accounting station requesting additional information.
4. The detail vouchers are analyzed and stamped with MACS posting data as follows:

Earmark Control No.
Commitment Document No.
Period Covered
Transaction Amount
Processed
Cleared
Posted
Verified

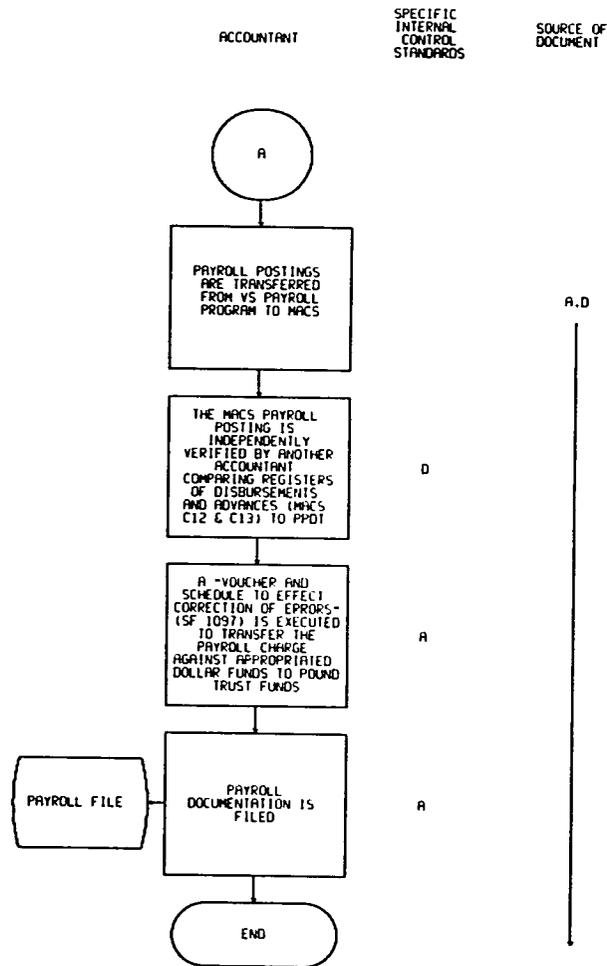
This data is entered in MACS as "Disbursement from Other Missions".
5. MACS C12 & C13 reports (Registers of Disbursement and Advance Transactions) are run on a daily basis and verified against the source vouchers by an accountant other than the one who performed the posting. Errors are identified and corrected.
6. Acknowledgement copies of AOC's processed are sent to the Missions that forwarded the AOC.
7. AOC's are filed in the AOC file.
8. At the end of each month, the assigned accountant verifies that the AOC's processed in that month appear on the U101 report.

USAID/EGYPT FSN PAYROLL CONTROL PROCEDURES



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USAID/EGYPT FSN PAYROLL CONTROL PROCEDURES



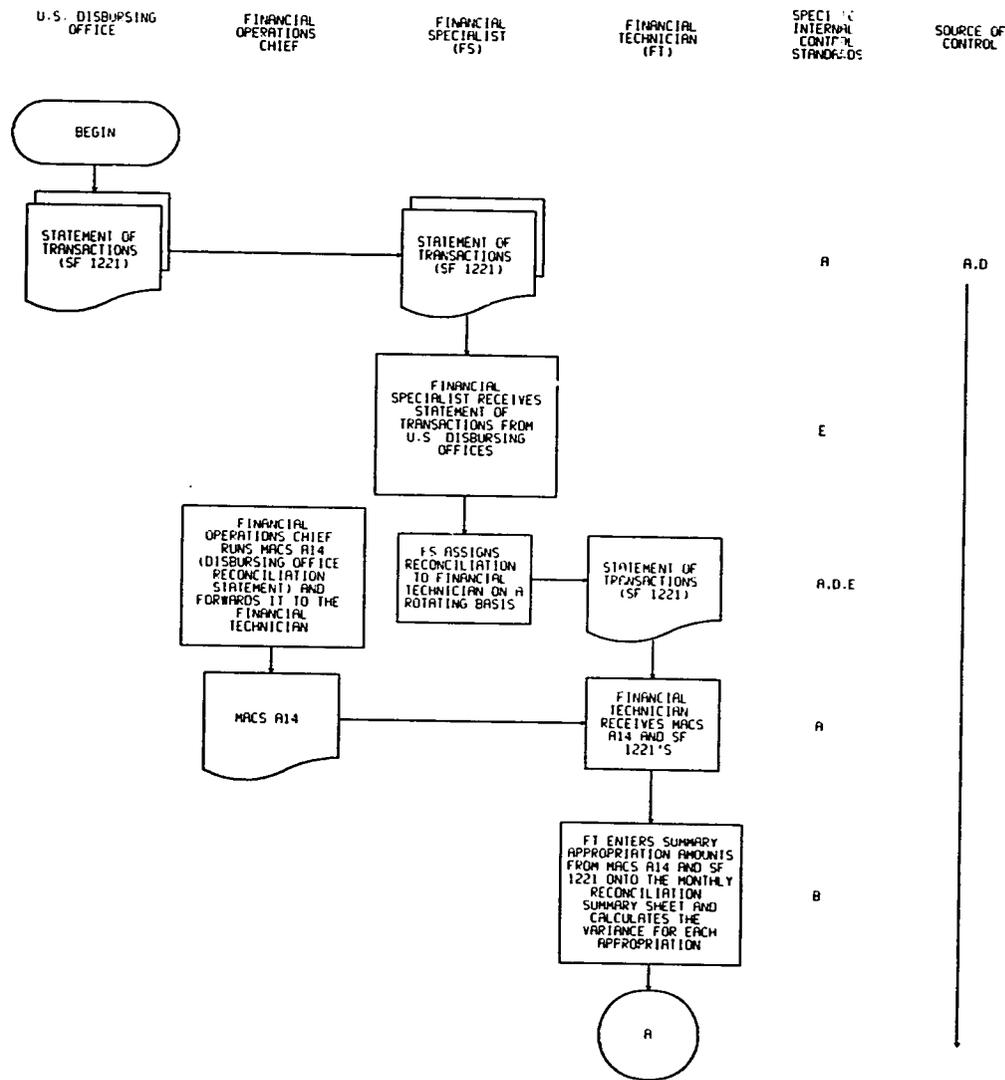
CYCLE OF EVENTS FOR PROCESSING FOREIGN SERVICE NATIONAL PAYROLL

1. FSN payroll data is received from the Paris financial center (Disbursing Office). This data consists of a schedule of payroll information by person and a Voucher & Schedule of Payments summary sheet (SF1166).
2. Detail payroll data is entered in a VS batch payroll program by individual. The Payroll Processing Details and Totals report is printed and used to verify totals listed on the SF1166.
3. If the detail payroll information does not match the SF1166 summary amounts, the detail information is reviewed until the error is located. When the detail information reconciles to the SF1166, the individual postings are automatically transferred to MACS.
4. The MACS posting is independently verified by comparing the MACS C12 & C13 reports (Registers of Disbursement and Advance Transactions) to the supporting detail.
5. An SF1097 (Voucher and Schedule to Effect Correction of Errors) is executed to transfer the charge against appropriated dollars recorded by the Disbursing Office to the Trust Fund account.
6. Payroll documentation is filed when posting is complete.

FLOWCHARTS AND NARRATIVES FOR AUDIT OBJECTIVE NO. 3

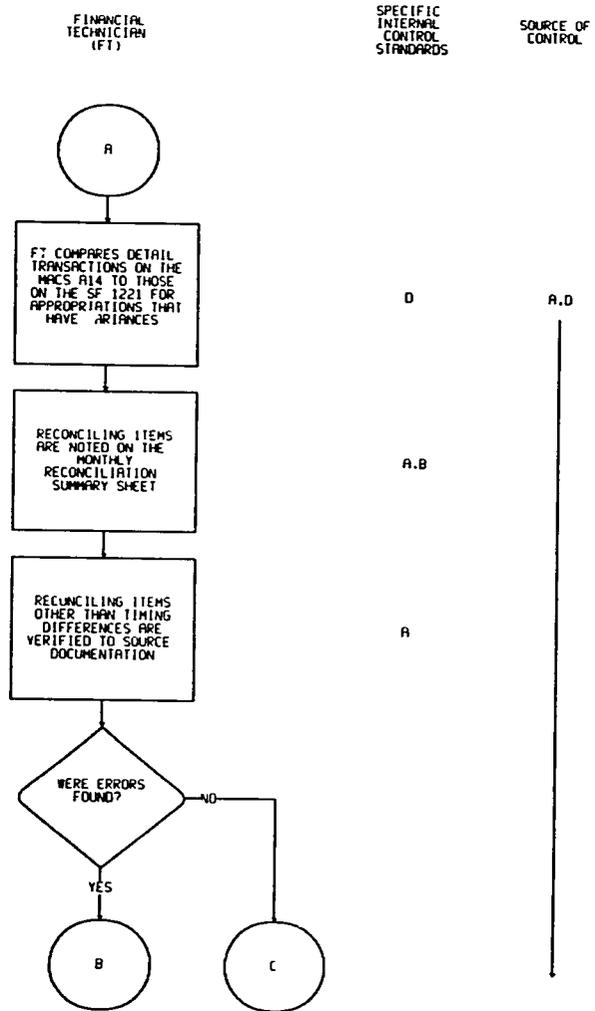
Did the Controller's Office have and follow procedures for performing reconciliations with U.S. Disbursing Offices in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

USAID/EGYPT OPERATING EXPENSE DISBURSING OFFICE RECONCILIATION CONTROL PROCEDURES

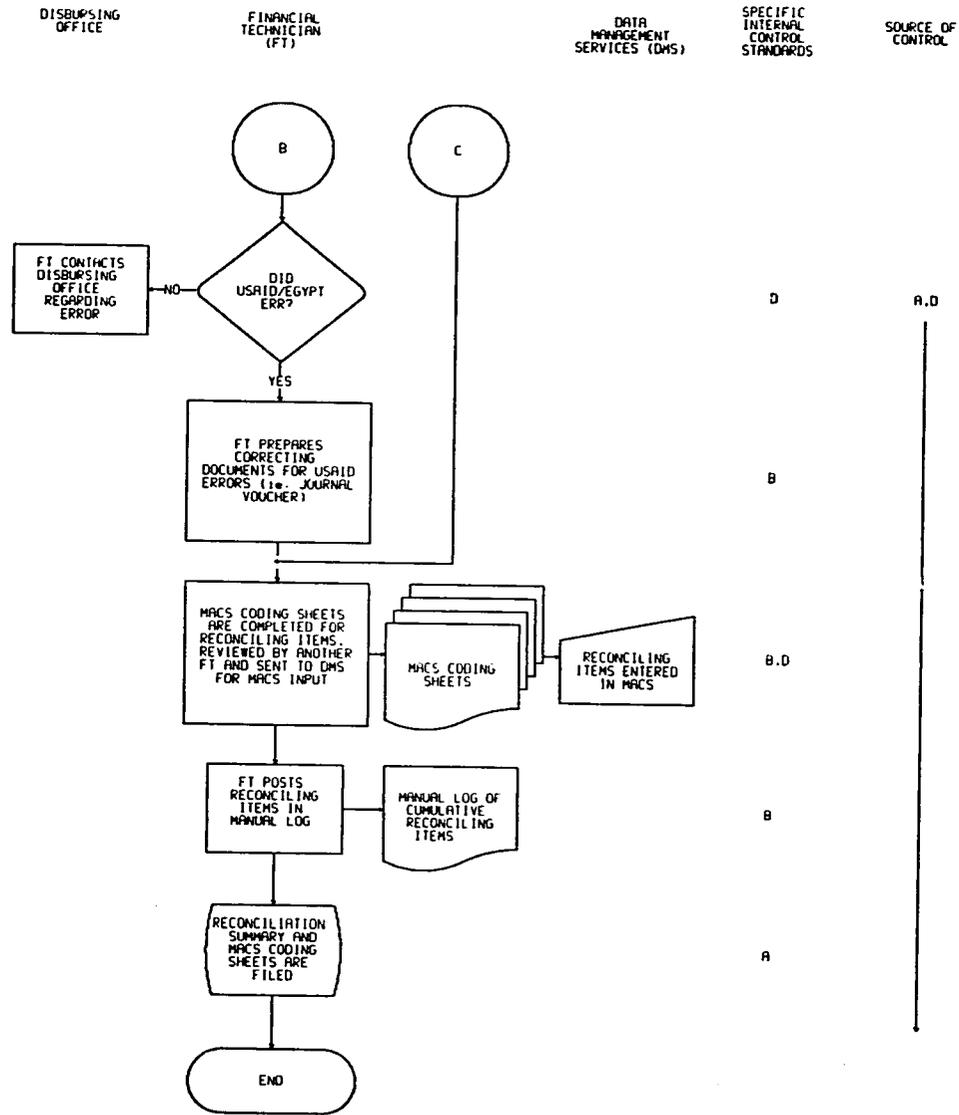


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USAID/EGYPT OPERATING EXPENSE DISBURSING OFFICE RECONCILIATION CONTROL PROCEDURES



USAID/EGYPT OPERATING EXPENSE DISBURSING OFFICE RECONCILIATION CONTROL PROCEDURES



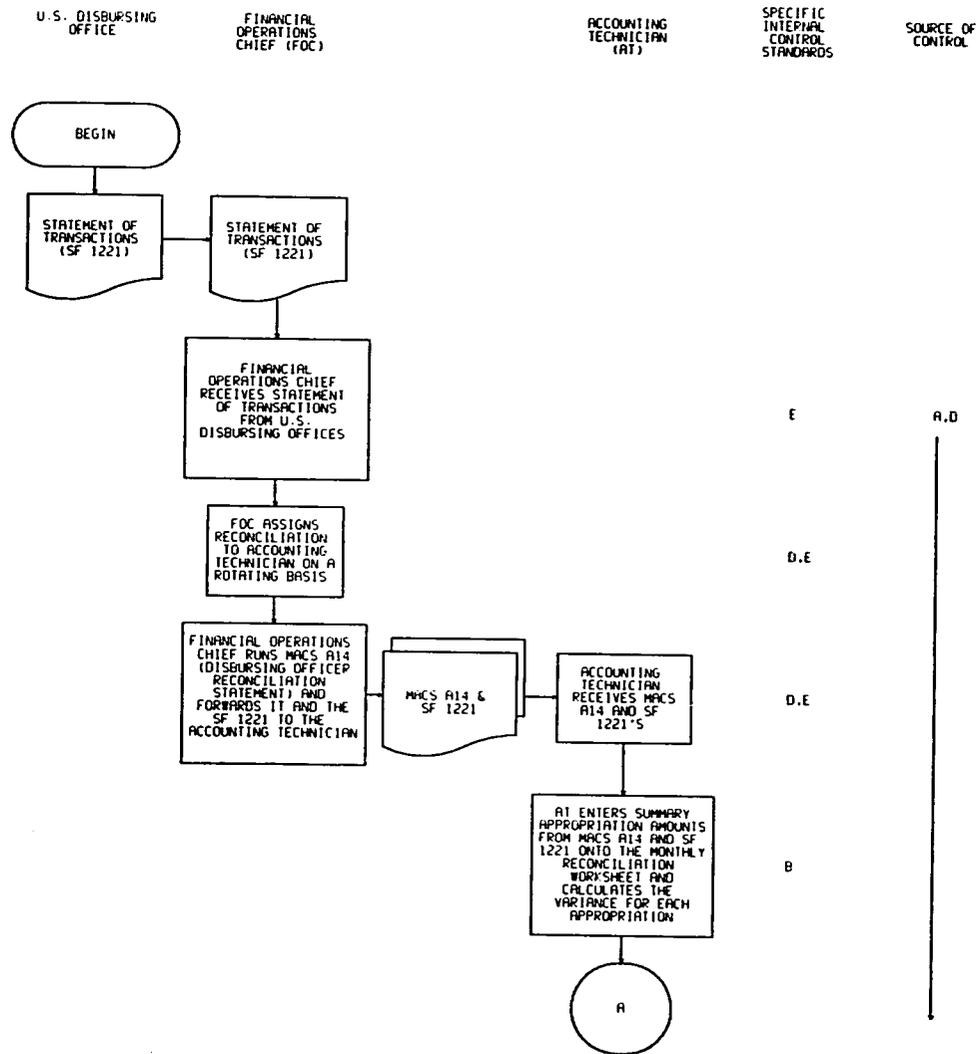
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CYCLE OF EVENTS FOR
RECONCILING OPERATING EXPENSE DISBURSEMENTS
WITH U.S. DISBURSING OFFICES

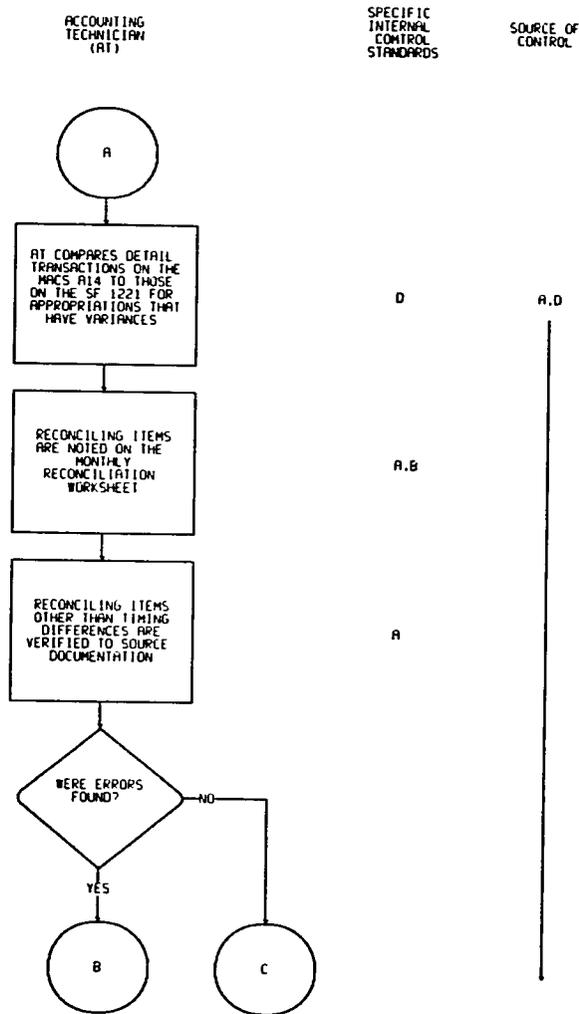
1. Financial Specialist receives 2 copies of Form 1221, Statement of Transactions from U.S. Disbursing Office. The particular Disbursing Office is identified by the following codes:

| | | |
|------|-------|---------------|
| 6207 | Paris | 8487 Brussels |
| 8464 | Cairo | 8486 London |
| 8462 | Bonn | |
2. The Financial Specialist assigns the reconciliation task to a Financial Technician. This assignment alternates between technicians based on a closing schedule established for each year.
3. The Financial Specialist, runs a MACS A14 report for the target month and forwards it to the Financial Technician.
4. The Financial Technician enters summary appropriation amounts from the MACS A14 and the Form 1221 onto a Monthly Reconciliation Summary Sheet. The variance between these summary amounts is the total of reconciling items for each appropriation.
5. For appropriations that have variances - the Financial Technician compares the detail transactions on the MACS A14 to those on the 1221 report. Any reconciling items are noted on the Monthly Reconciliation Summary Sheet. Discrepancies other than timing differences are traced to the source accounting document. If the Disbursing Office erred, they are informed of the error via telephone (i.e. a wrong appropriation is charged). If the discrepancy is a USAID error, a journal voucher is prepared.
6. MACS coding sheets are prepared for each reconciling item. Another Financial Technician verifies the reconciliation performed by "the Technician of the Month".
7. Coding sheets are forwarded to DMS. DMS post reconciling items to MACS.
8. Reconciling items are posted to a manual log that tracks cumulative reconciling items.
9. The Monthly Reconciliation Summary Sheet is filed with copies of the MACS coding sheets.

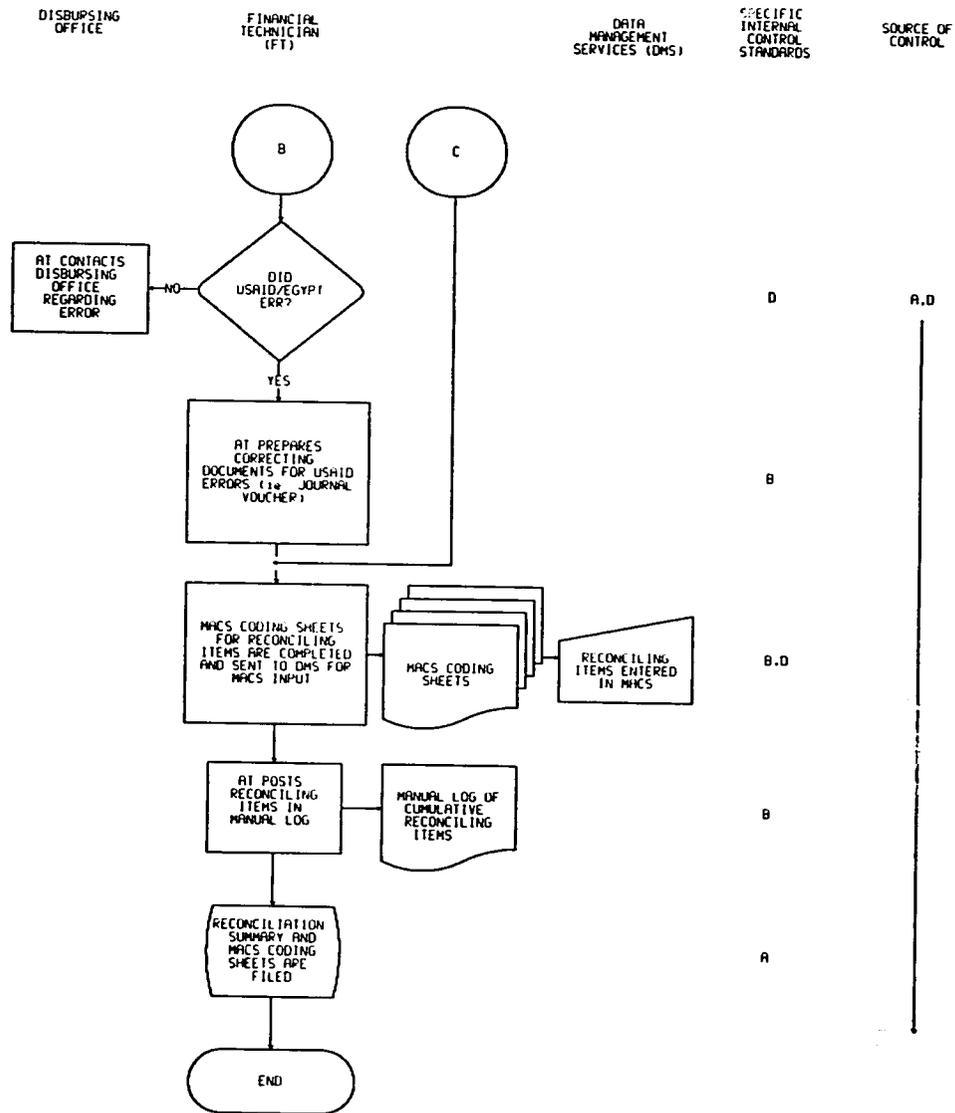
USAID/EGYPT PROJECT DISBURSING OFFICE RECONCILIATION CONTROL PROCEDURES



USAID/EGYPT PROJECT DISBURSING OFFICE RECONCILIATION CONTROL PROCEDURES



USAID/EGYPT PROJECT DISBURSING OFFICE RECONCILIATION CONTROL PROCEDURES



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**CYCLE OF EVENTS FOR
RECONCILING PROJECT DISBURSEMENTS
WITH U.S. DISBURSING OFFICES**

1. The Financial Operations Chief receives SF 1221, Statement of Transactions, from the U.S. Disbursing Office. The particular Disbursing Office is identified by the following codes:

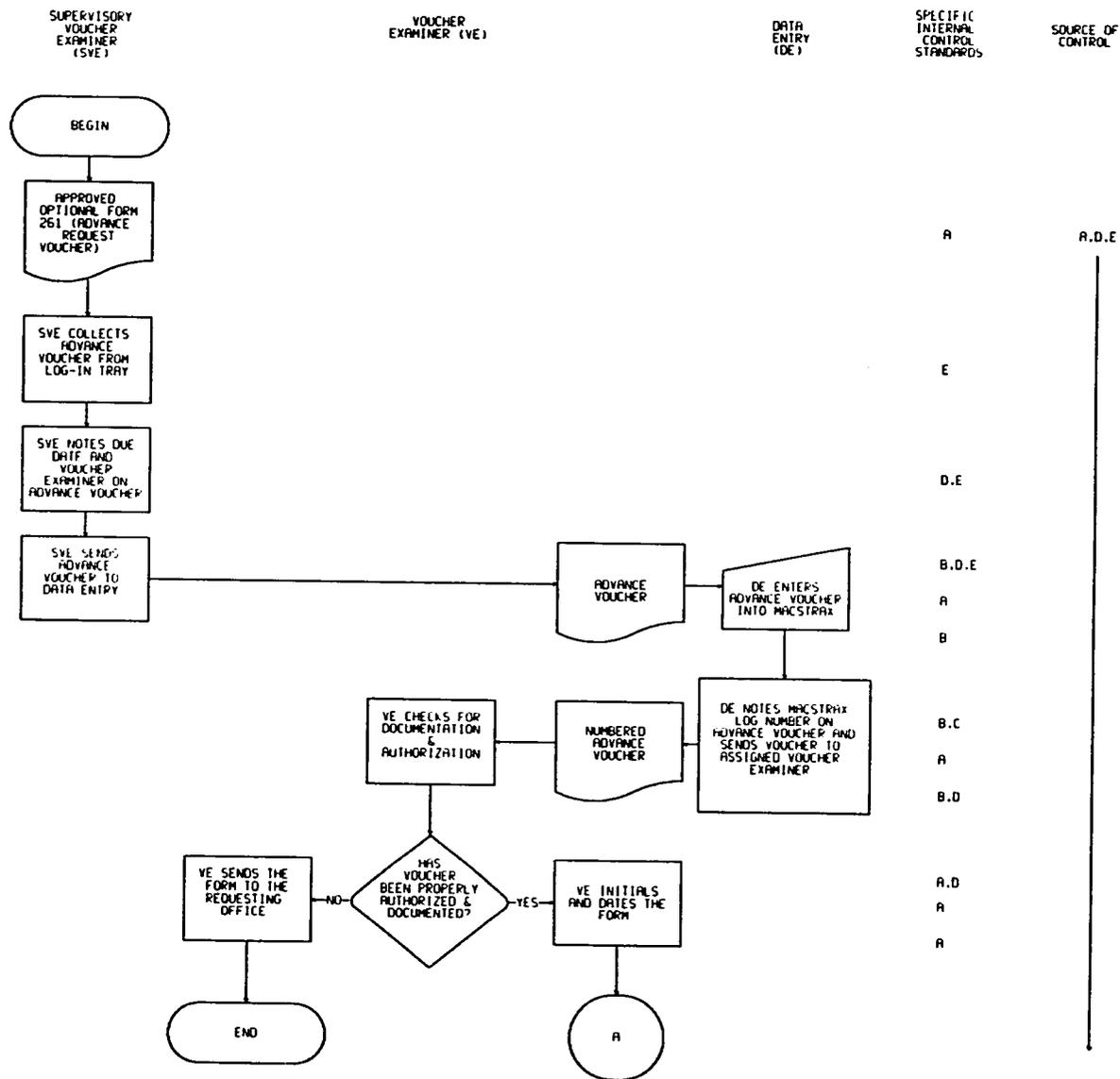
| | | |
|------|-------|---------------|
| 6207 | Paris | 8487 Brussels |
| 8464 | Cairo | 8486 London |
| 8462 | Bonn | |
2. The Financial Operations Chief assigns the reconciliation project to one of four accounting technicians. Responsibility for performing the reconciliation rotates between technicians on a monthly basis.
3. The Financial Operations Chief runs a MACS A14 report for the target month. MACS A14 identifies all disbursements entered into MACS in three sorts: by schedule number, voucher number, or appropriation.
4. The Accounting Technician compares the 1221 report to the MACS A14. This is done by appropriation and schedule number. Several entries on the A14 may represent one check on the 1221. Any reconciling items are noted on a Monthly Reconciliation Worksheet which denotes whether the item is posted in MACS or the Disbursing Office. The Monthly Reconciliation Worksheet also consolidates the information from various disbursing offices into one worksheet.
5. Exchange rate variances can be corrected by the Accounting Technician via a journal voucher. No supervisory approval is required for this entry.
6. If an erroneous check is prepared by the Disbursing Office, a SF 1098 is completed to cancel the check. A correct check request is then prepared and forwarded to the Disbursing Office.
7. In the event unusual problems arise, such as a MACS failure resulting in the loss of data concerning significant cash payments, USAID/Egypt personnel discuss the problem with the Disbursing Office staff.
8. Disbursement input cut-off is dictated by a schedule produced by the Budget and Accounting Officer. This schedule contains tentative closing dates for the fiscal year which are then finalized on a monthly basis depending on the Cairo U.S. Disbursing Office cut-off date.

9. If USAID/Egypt errors are identified, the Accounting Technician prepares the necessary correcting documents which are forwarded to DMS, if necessary. If Disbursing Office errors are identified, the Accounting Technician contacts the appropriate disbursing office.
10. The Accounting Technician posts the reconciling items in a manual log and files the monthly reconciliation summary and MACS coding sheets.

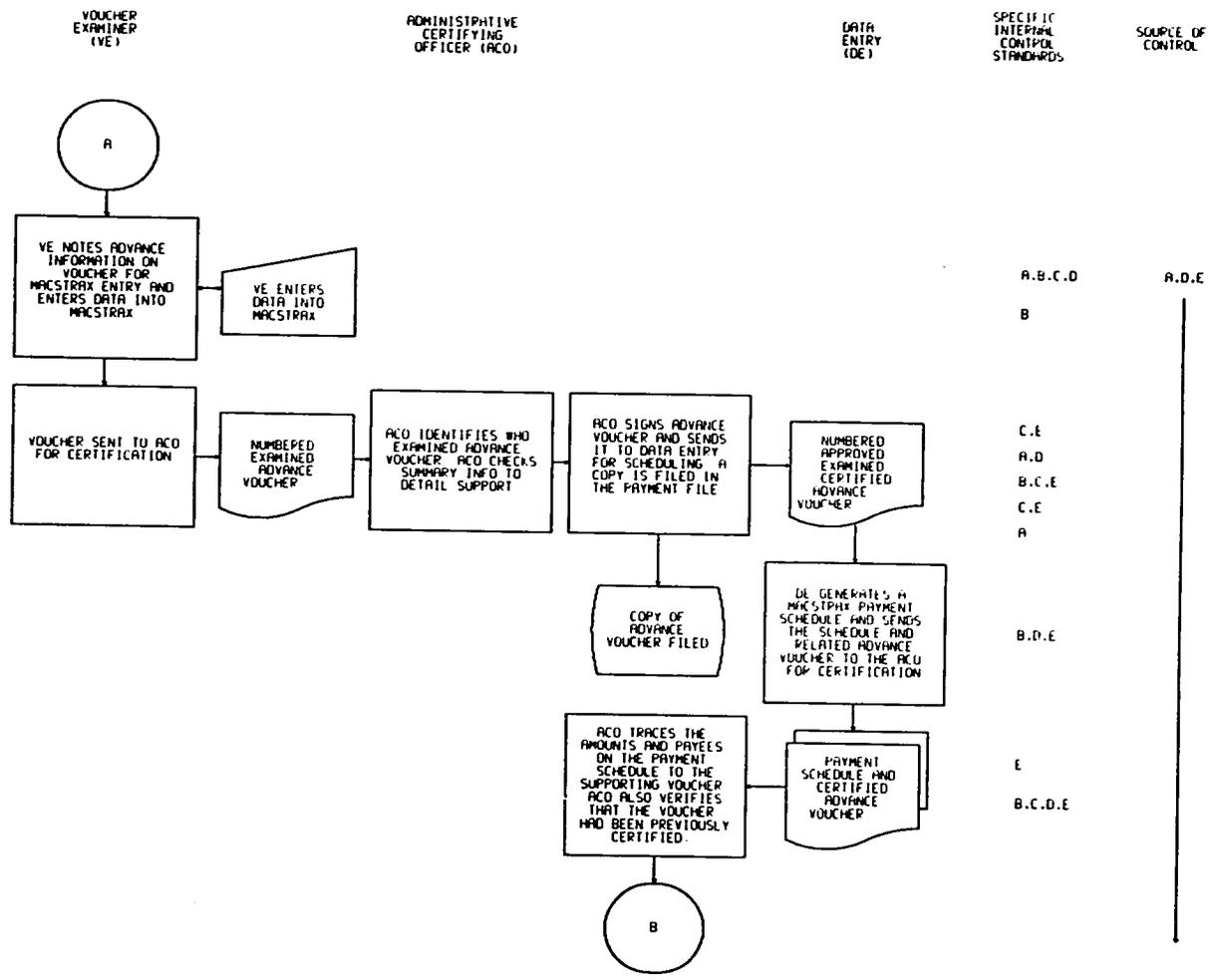
FLOWCHARTS AND NARRATIVES FOR AUDIT OBJECTIVE NO. 4

Did the Controller's Office have and follow procedures for processing and liquidating advances in accordance with A.I.D. Handbooks 19 & 22, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

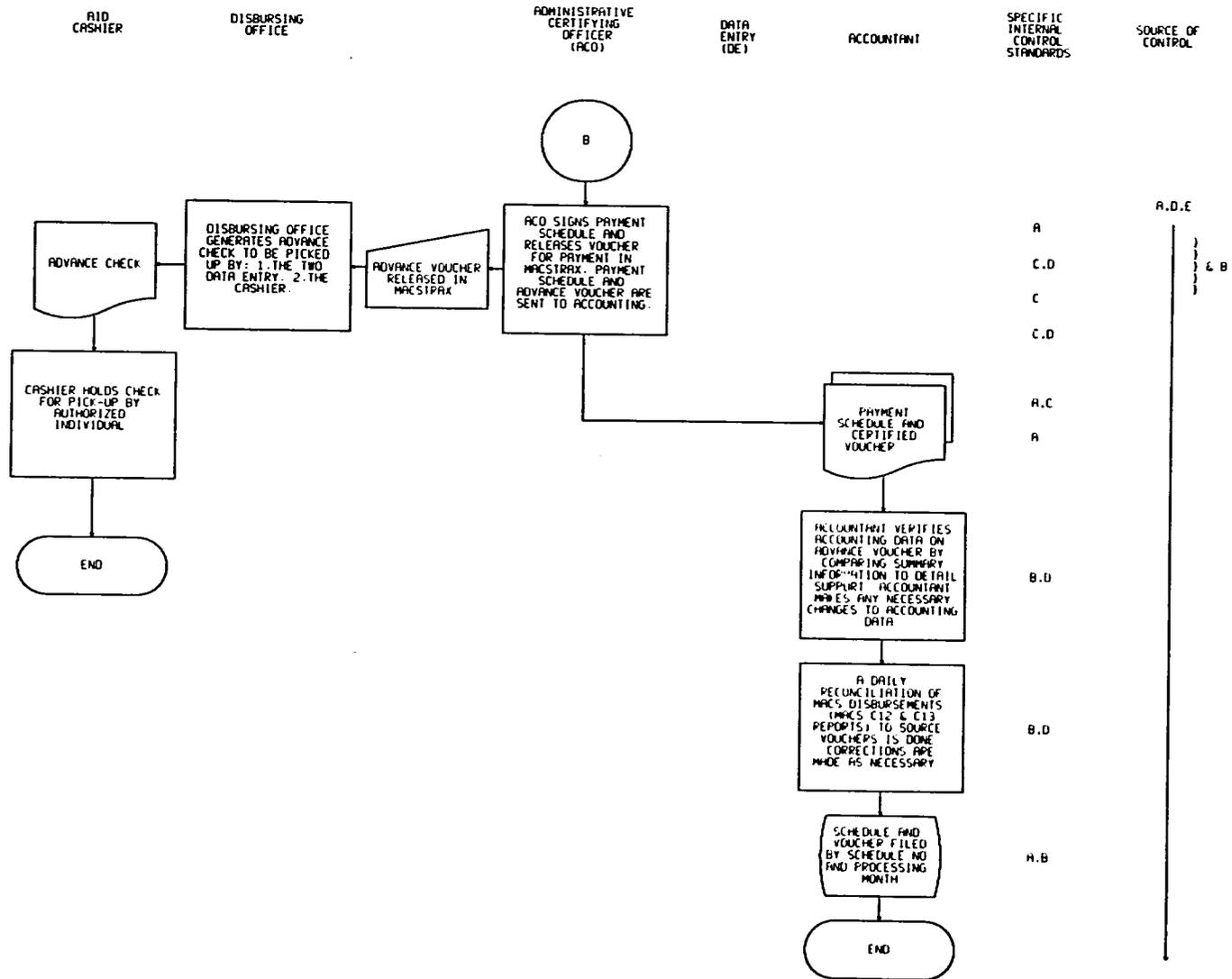
USAID/EGYPT OPERATING EXPENSE ADVANCE CONTROL PROCEDURES



USAID/EGYPT OPERATING EXPENSE ADVANCE CONTROL PROCEDURES



USAID/EGYPT OPERATING EXPENSE ADVANCE CONTROL PROCEDURES



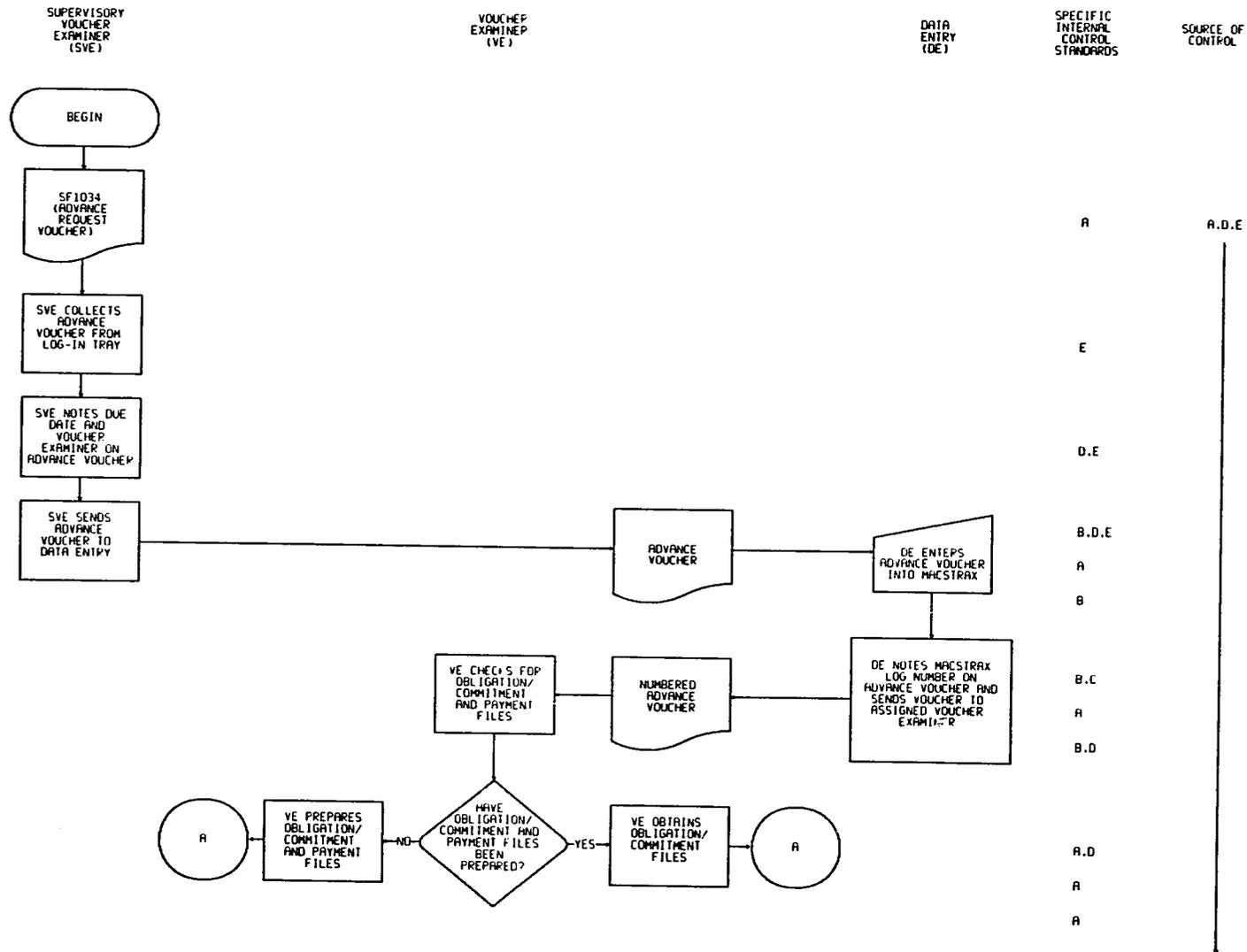
CYCLE OF EVENTS FOR PROCESSING OPERATING EXPENSE CASH ADVANCES

1. Travel advances are granted for in-country travel in excess of five days. Any international travel is eligible for advances.
2. FM/FO receives an employee's travel advance application (Optional Form 261)¹ that has been approved by a U.S. supervisor.
3. The advance application is forwarded to either the FM/FO "log-in tray" or the Supervisory Voucher Examiner. The log-in tray is checked by the Supervisory Voucher Examiner several times each day.
4. The Supervisory Voucher Examiner assigns the advance application and the voucher due date to a voucher examiner according to work load.
5. The Supervisory Voucher Examiner forwards the advance application to data entry section. In the data entry section, the Data Entry Clerk logs each voucher into MACSTRAX, a program that tracks the status and location of each voucher and allows batch voucher posting which is subsequently used to update the MACS and embassy payment system. MACSTRAX assigns a serial voucher log number which is noted on each voucher.
6. Once a voucher has been logged-in, it is returned to the assigned voucher examiner for review.
7. The voucher examiner reviews the application for documentation and authorization, initials and dates the form in the stamp provided.
8. The voucher examiner then posts the advance accounting data into MACSTRAX.
9. The examined advance approval application is sent to the Authorized Certifying Officer (ACO). The ACO reviews and signs the advance application as evidence of certification.
10. After voucher examination and ACO certification, a copy of the certified advance application is placed in the payment file. The original and one copy is forwarded to the data entry section. The voucher examiner generates a payment schedule from MACSTRAX. The payment schedule and related vouchers are forwarded to the ACO for certification of the schedule.

¹Office Directors and Associate Directors do not need supervisory approval.

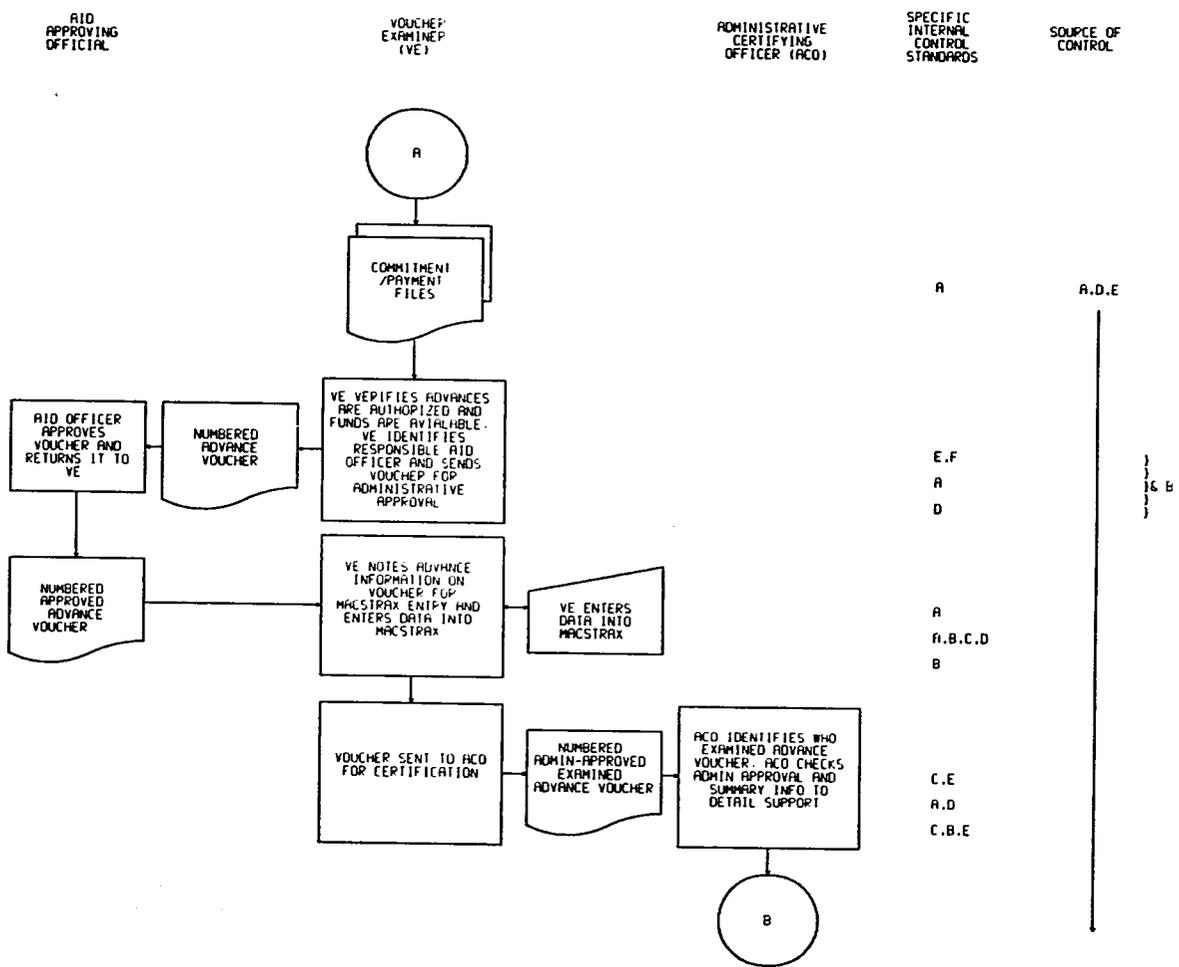
11. The ACO traces the amounts and payees on payment schedule to the supporting voucher as well as verifying that the voucher was previously certified. The ACO then signs the payment schedule and releases the voucher for payment in MACSTRAX.
12. After certification of the payment schedule, the voucher package is forwarded to either O.E. or Project Accounting, as appropriate, for reconciliation. MACS C12 & C13 reports (Registers of Disbursement and Advance Transactions) are run on a daily basis and verified against the source vouchers. Errors are identified and corrected.
13. Checks to be held for pick-up are forwarded to the A.I.D. cashier by the Embassy Disbursing Office. Only three A.I.D. employees are authorized to collect the checks from the embassy: the two data entry clerks and the cashier.

USAID/EGYPT PROJECT ADVANCE CONTROL PROCEDURES

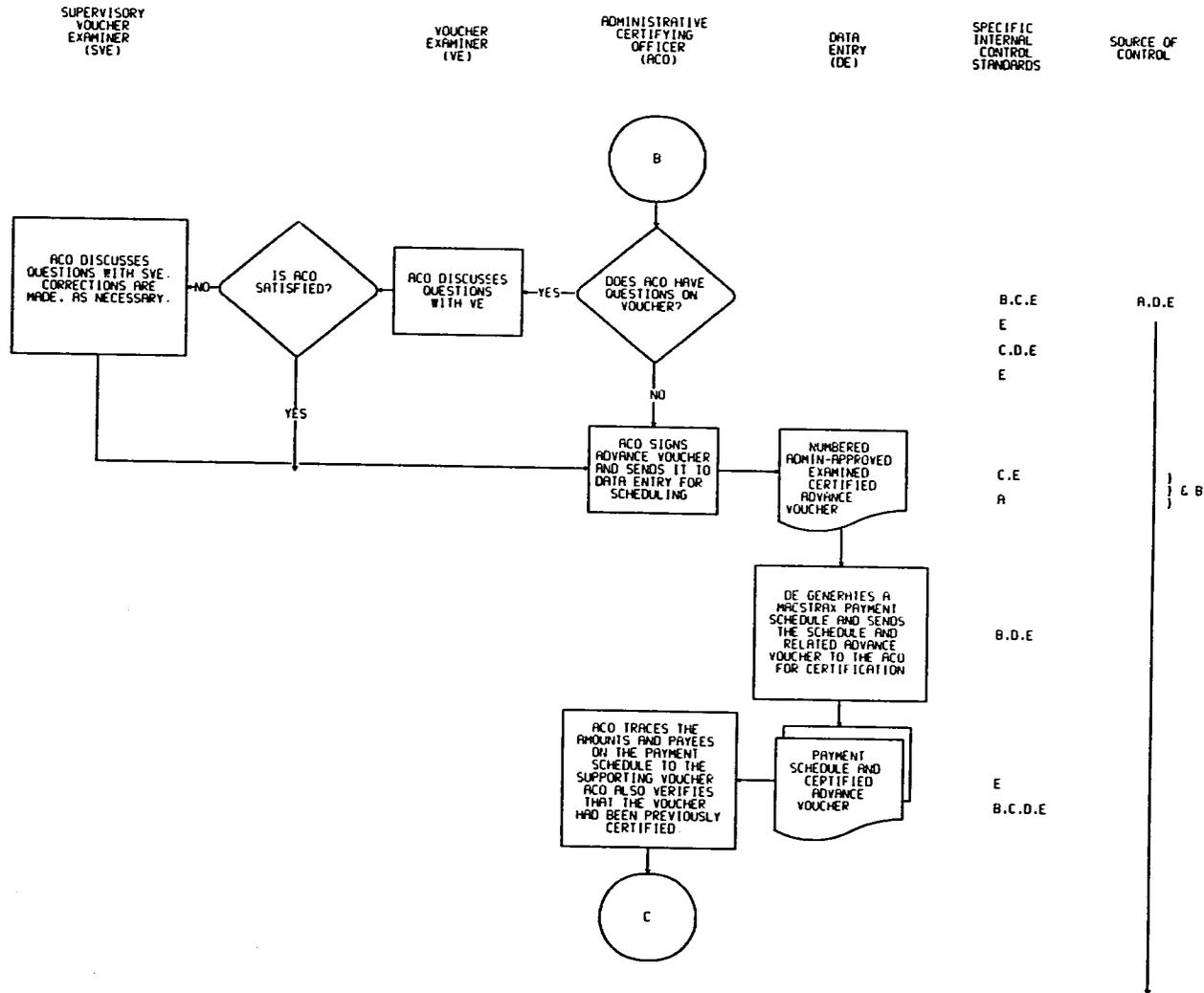


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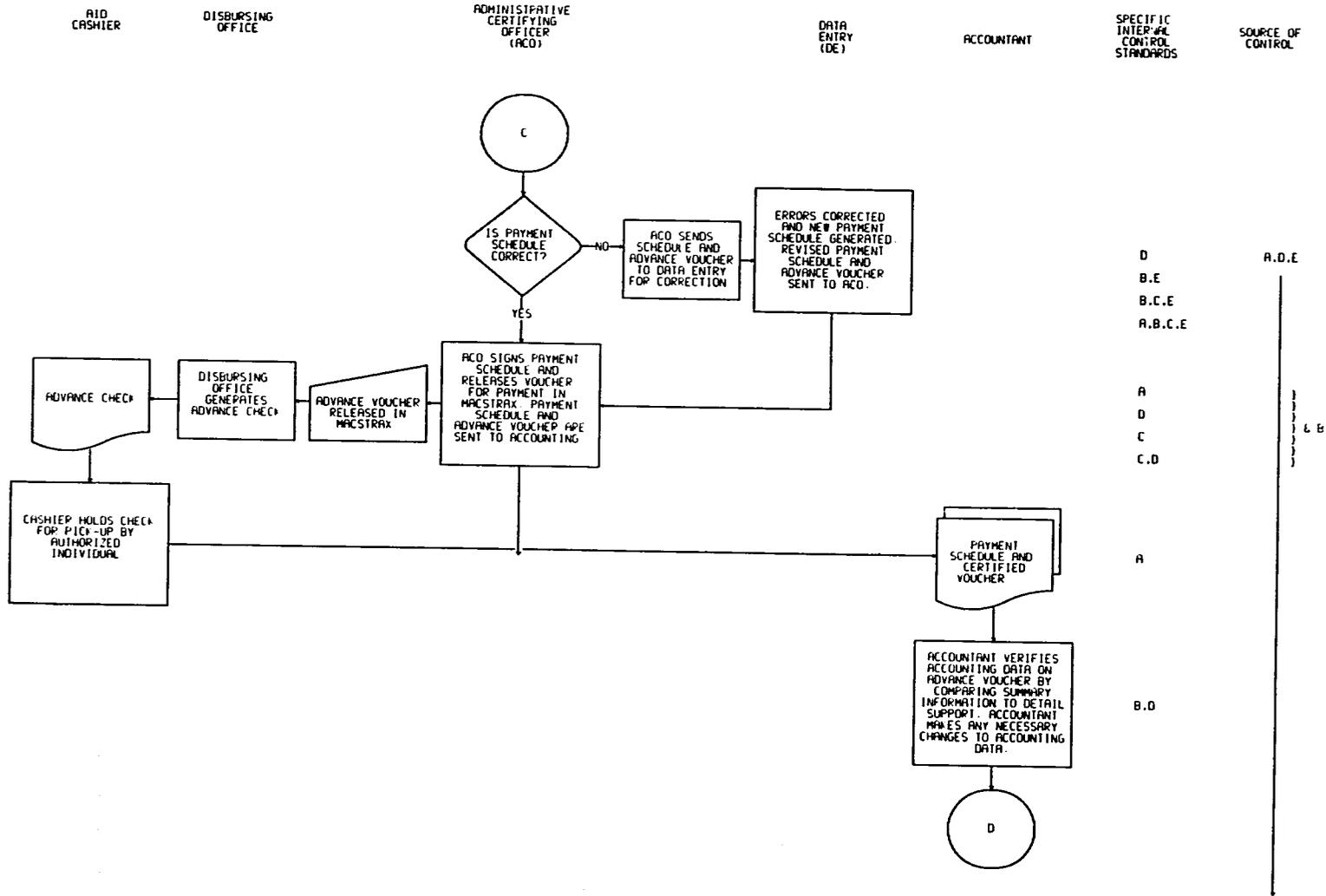
USAID/EGYPT PROJECT ADVANCE CONTROL PROCEDURES



USAID/EGYPT PROJECT ADVANCE CONTROL PROCEDURES



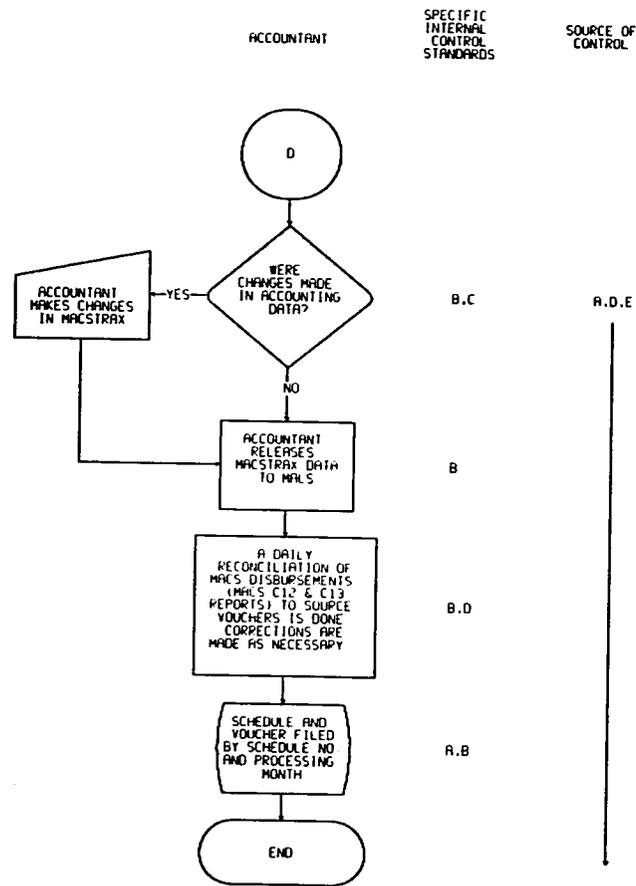
USAID/EGYPT PROJECT ADVANCE CONTROL PROCEDURES



| | | |
|------|------------|---------|
| | D | A, D, E |
| | B, E | |
| | B, C, E | |
| | A, B, C, E | |
| A | } | } |
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| C | } | } |
| C, D | } | } |
| A | } | |
| B, D | } | |

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USAID/EGYPT PROJECT ADVANCE CONTROL PROCEDURES



CYCLE OF EVENTS FOR PROCESSING PROJECT CASH ADVANCES

1. The commitment document determines whether cash advances are authorized.
 2. Periodic revolving advances are granted for a period of three months (90 days).
 3. All advances (i.e. grantee advances, letter of commitment advances...) are requested by the submission of a SF1034 (Advance Request Voucher) to FM. The SF1034 is placed in a log-in tray which is checked by the Supervisory Voucher Examiner (SVE) several times each day. After obtaining an advance request, the SVE assigns a due date, based on the following classification of the voucher:
 - PP - prompt payment (30 days from the voucher receiving date)
 - HP - host payment against letter of commitment (between 15-30 days)
 - XP - exempt payment according to case (amount of cash-on-hand with grantee)
 - DP - demand payment (7 days - defined by contract terms; SVE maintains list)
- The voucher is then assigned to a voucher examiner according to work load and the number of unprocessed vouchers as shown on the unprocessed vouchers listing (the system has recently been changed and each pair of voucher examiners is assigned to perform voucher examination for specific projects). After noting the examiner assignment on the voucher, the SVE forwards the vouchers to the data clerks for logging onto MACSTRAX. MACSTRAX assigns each voucher a serial number which is noted on the voucher.
4. The data clerks send the SF1034 and a "Complete List of Unprocessed Vouchers by Agent Name" (MACSTRAX report) to the assigned voucher examiner. If the SF1034 concerns a new client and/or a new commitment, a payment file and a commitment file are opened by the voucher examiner. If the SF1034 concerns a client already dealing with USAID/Egypt, the payment and commitment files are obtained.
 5. The voucher examiner sends the advance request to the cognizant Project Officer for administrative approval. After administrative approval, the advance request is returned to the voucher examiner.

6. The voucher examiner reviews the SF1034 as well as the supporting documents for compliance with commitment terms as well as funds availability and the status of funds previously advanced. If the SF1034 is acceptable, it is stamped with fund data from the commitment and payment files, and an accountability date according to the due date on the voucher. The voucher examiner identifies payee name, method of payment, stamps the voucher with the disbursement stamp and completes the following information:

| | |
|-------------------------|-----------------------------|
| Advance or Disbursement | Disbursement Amount (\$/LE) |
| Project No. | Advance Liquidation (\$/LE) |
| Earmark No. | Advance Amount (\$/LE) |
| Commitment No. | Appropriation No. |
| Advance No. | Budget Plan Code |
| Accountability Date | Expense Period |
| Type | |

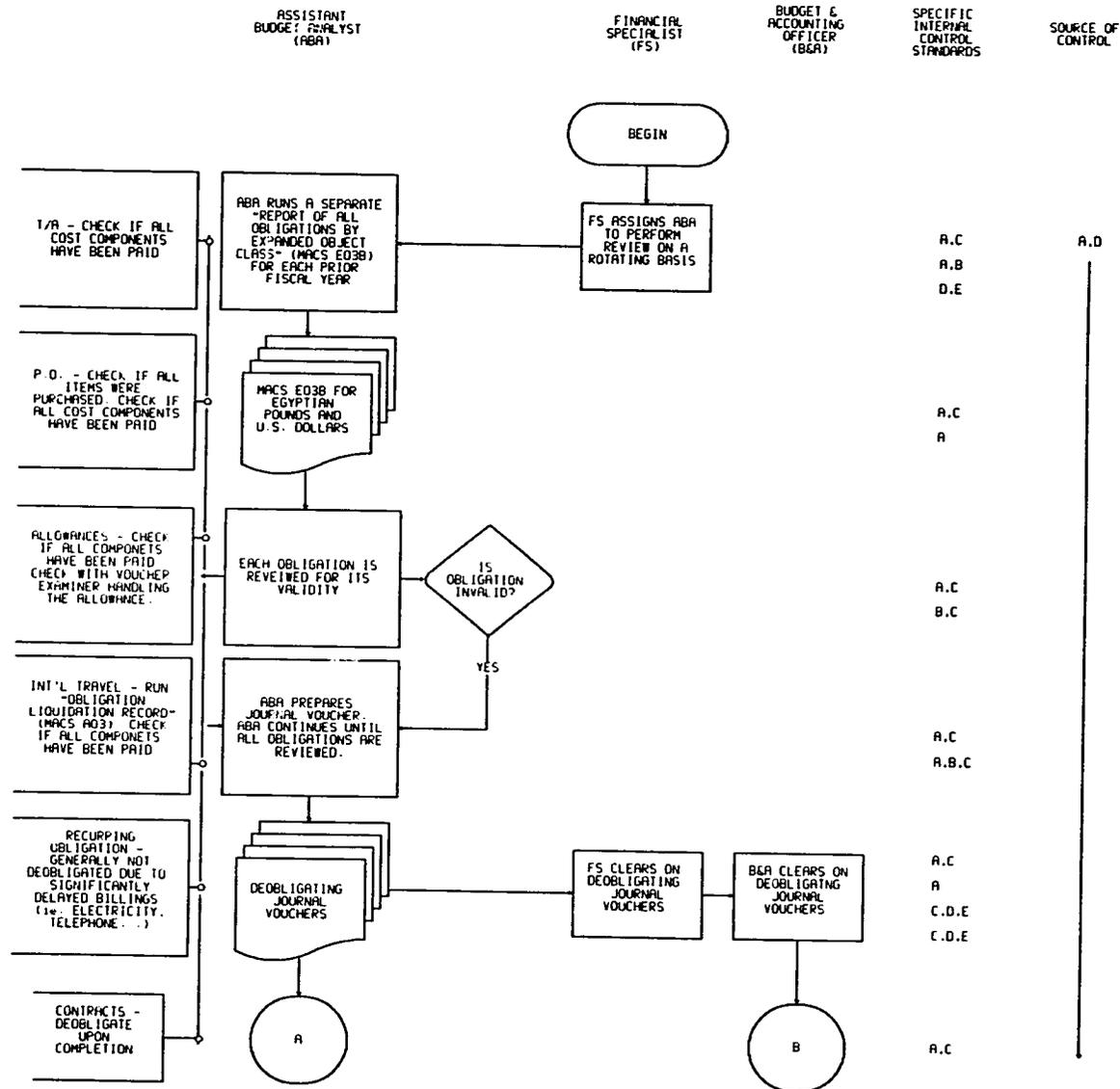
The voucher examiner then posts the voucher to MACSTRAX.

7. Any voucher examiner adjustments to the voucher are referred to the SVE for review. After review, or directly from the voucher examiner if review was not necessary, the SF1034 is forwarded to the Authorized Certifying Officer (ACO) for approval.
8. After ACO certification, the vouchers are forwarded to the data entry section for the preparation of a payment schedule. This schedule and supporting vouchers are returned to the ACO for certification of the schedule and release of the vouchers in MACSTRAX for payment (the old FMS system is occasionally used when correcting errors, issuing emergency checks...)
9. The release of the voucher in MACSTRAX results in the disbursing office generating a check to be picked-up thereafter from the A.I.D. Cashier.
10. Subsequent to certification of the payment schedule, the voucher package is forwarded to the accountant, whose review of the voucher includes verifying the accounting citations by comparing the voucher face sheet (completed by the voucher examiner) to voucher detail and comparing accounting/MACS information stamped on the voucher (by voucher examination) to voucher detail. If any changes must be made, the accountant executes the appropriate corrections.
11. MACS C12 & C13 reports (Registers of Disbursement and Advance Transactions) are run on a daily basis and verified against the source vouchers. Errors are identified and corrected.
12. Paid vouchers are filed serially by transmittal number (schedule number) and month of processing.

FLOWCHARTS AND NARRATIVES FOR AUDIT OBJECTIVE NO. 5

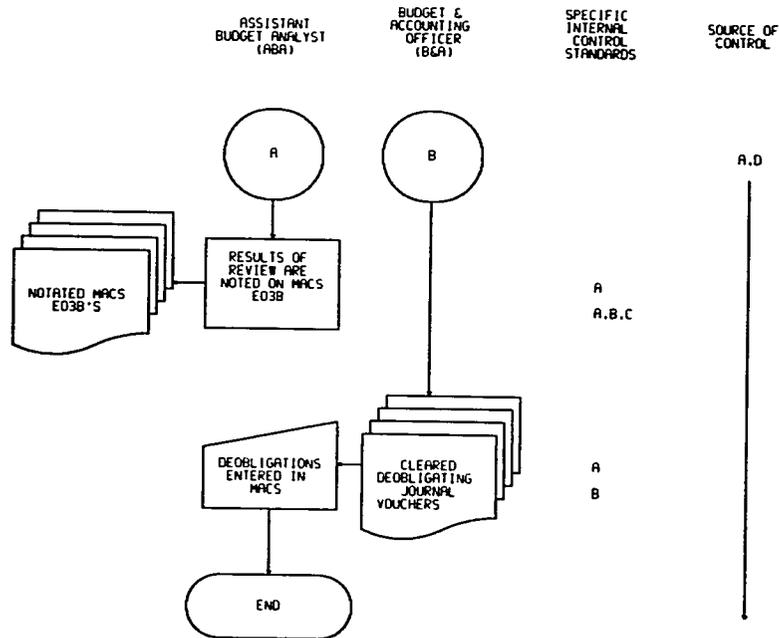
Did the Controller's Office have and follow procedures for reviewing unliquidated obligations in accordance with A.I.D. Handbook 19, the Controller's Guidebook, and the "specific" standards for internal controls in the Federal Government?

USAID/EGYPT OPERATING EXPENSE UNLIQUIDATED OBLIGATION REVIEW CONTROL PROCEDURES



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USAID/EGYPT OPERATING EXPENSE UNLIQUIDATED OBLIGATION REVIEW CONTROL PROCEDURES

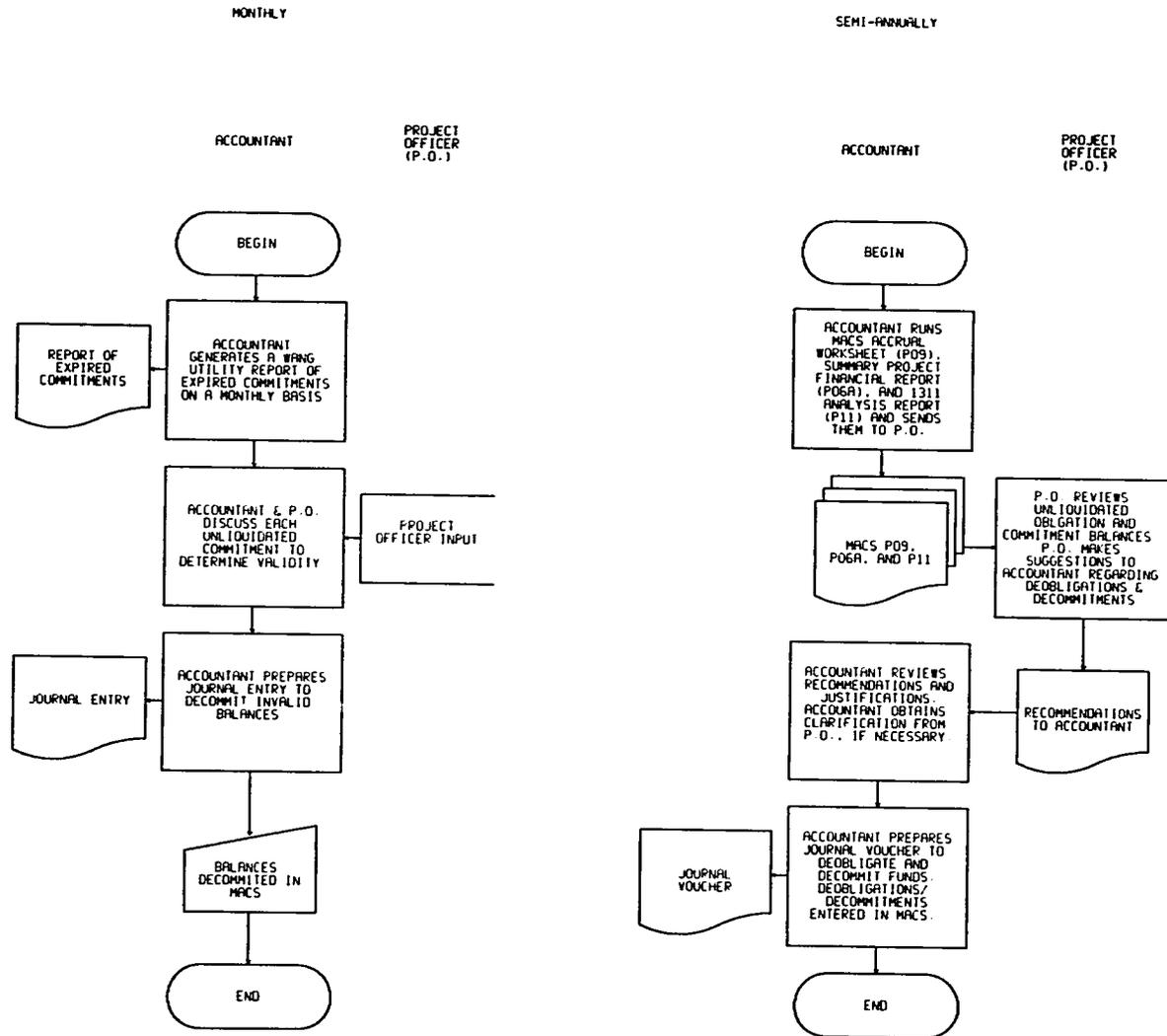


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CYCLE OF EVENTS FOR REVIEWING UNLIQUIDATED OPERATING EXPENSE OBLIGATIONS

1. The Financial Specialist assigns an Assistant Budget Analyst, on a rotating basis, to perform a quarterly review of unliquidated operating expense obligations. Their work is supervised and reviewed by the Budget Analyst.
2. The Assistant Budget Analyst runs a report of "All Obligations by Expanded Object Class" (MACS E03B) for each prior fiscal year. Separate reports are run for Egyptian Pound (shown in actual LE, not U.S.\$ equivalents) and U.S. Dollar funds.
3. Each obligation is reviewed for its validity. The following examples demonstrate the approaches taken to various expanded object class categories.
 - Travel Authorizations - have all components been paid (i.e. airfare, shipment, per diem...)? Check documentation in file if MACS description is inadequate.
 - Purchase Orders - were all items actually purchased (check purchase order file)? Have all components been paid?
 - Allowances - have all components been paid? Analyst checks with the voucher examiner handling the allowance to verify the particular case.
 - International Travel - Analyst runs MACS A03 report which indicates transaction detail. If all components have been paid, unliquidated amount can be deobligated without checking with traveler.
 - Recurring Obligations - are generally not deobligated, since the billings for these costs often are significantly delayed (i.e. telephone and electricity bills arriving eight months after occurrence).
 - Contracts - typically cannot be deobligated until completion.
4. Notations reflecting the unliquidated obligation review are made on the MACS E03B report. Journal vouchers are prepared for deobligations.
5. The Financial Specialist, Operating Expenses, clears on deobligating journal vouchers. These journal vouchers are then approved by the Budget and Accounting Officer.
6. The deobligating vouchers are then entered into MACS.

USAID/EGYPT PROJECT ACCOUNTING UNLIQUIDATED OBLIGATION REVIEW CONTROL PROCEDURES



CYCLE OF EVENTS FOR REVIEWING UNLIQUIDATED PROJECT OBLIGATIONS

1. The accountants keep a file for each project that tracks the history of obligations and deobligations.
2. To initiate the monthly unliquidated obligation/commitment review process, the Portfolio Accountant runs a Report of Expired Commitments (a Wang utility report).
3. The accountant and Project Officer (PO) discuss each unliquidated commitment to ascertain whether the unliquidated balance is still valid. If the decision is made to decommit money, a journal voucher is prepared.
4. At mid-year and year-end, MACS P09 (Accrual Worksheet), P06A (Cum. Project Data), and P011 (Open Commitment) reports are generated. These are forwarded to the Project Officer with a cover memo requesting his decisions as to deobligating or decommitting unliquidated balances. PO decisions should be justified.
5. T/A's and PIO/P's can be decommitted by the accountant without supervisory approval, although PO concurrence is required. Other types of decommitment, such as contracts or PIL's, require the approval of the Financial Operations Chief.

KEY TO ABBREVIATIONS USED IN INTERNAL CONTROL FLOWCHARTS

The following classifications are related to the flowchart columns entitled "Specific Internal Control Standards" and "Source of Control".

"Specific" Internal Control Standards

- A. **Documentation.** Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
- B. **Recording of Transactions and Events.** Transactions and other significant events are to be promptly recorded and properly classified.
- C. **Execution of Transactions and Events.** Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
- D. **Separation of Duties.** Key duties and responsibilities in authorizing, processing, recording and reviewing transactions should be separated among individuals.
- E. **Supervision.** Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.
- F. **Access to and Accountability for Resources.** Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

Source of Control

- A. A.I.D. Handbook 19
- B. Mission Order
- C. Mission Director or Controller Directive
- D. Controller's Guidebook
- E. A.I.D. Handbook 22

RIG/A/C'S EVALUATION OF MANAGEMENT'S COMMENTS

Recommendation No. 1

This recommendation has been withdrawn as a result of additional information provided by Mission management.

Recommendation No. 2

Price Waterhouse did not accept management's assertion that its internal control system provides reasonable safeguards against double payments. However, in our opinion, the stamping and logging of each voucher, upon receipt, by the Data Control Staff does provide reasonable assurance that an erroneous duplicate payment would not occur. Accordingly, we are not forwarding this recommendation for USAID/Egypt action.

Recommendation No. 3

The Deputy Controller has issued a policy statement that requires Journal Vouchers be prepared, and subjected to supervisory review, for all correcting entries.

Recommendation No. 4

This recommendation addresses an A.I.D. system weakness which is outside the cognizance of USAID/Egypt. Accordingly, we are not forwarding this recommendation for USAID/Egypt action.

APPENDIX X**REPORT DISTRIBUTION**

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