PD-ABE-586

Programs and Systems Audits

AUDIT OF THE MASTER DISBURSING ACCOUNT

Report No. 9-000-92-010
September 2, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AUDIT OF THE MASTER DISBURSING ACCOUNT

Audit Report No. 9-000-92-010
September 2, 1992

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

ASSISTANT INSPECTOR GENERAL
FOR AUDIT

SEP - 2 1992

MEMORANDUM FOR FA/FM/CONT, Michael G. Usnick

FROM: AIG/A, John P. Competello

SUBJECT: Audit of the Master Disbursing Account

This memorandum transmits our final report on the audit of the master disbursing account. We have considered your comments on the draft report and have included them as Appendix VI to the report.

The report contains 15 recommendations for your action. Recommendations 5.1, 5.3, and 5.4 are closed upon issuance of the report. Recommendations 5.2, 6, 8, 9, 10, and 11 are resolved and may be closed once planned corrective actions have been completed. Recommendations 2.1, 2.2, 2.3, 4.1, 4.2, and 7 are unresolved. Recommendations 2.2 and 2.3 are unresolved because management does not plan to take any corrective action in response to these recommendations and does not agree with our position that expenditures in excess of commitment amounts constitute administrative fund control violations. With respect to Recommendations 2.1, 4.1, and 7, management's proposal to replace the master disbursing account with a revolving fund will take at least two years to implement. We are classifying these recommendations as unresolved because we believe that appropriate corrective measures are needed in the interim. With respect to Recommendation 4.2, I believe we are in basic agreement on the course of action to be taken. However, your comments on the draft report did not make reference to consultation with the Office of General Counsel, which is one element of this recommendation. Also, because this is a monetary recommendation, we need to reach an agreement on an estimate of the amount to be deobligated in order to classify the recommendation as resolved. Pending your Office's consultation with the Office of General Counsel and our agreement on an estimate of the amount to be deobligated, we must classify the recommendation as unresolved.

Please notify this office within 30 days of any actions planned or taken to implement the recommendations that are resolved and any additional information you would like us to consider regarding the recommendations that are unresolved.

I would like to thank you and your staff for the cooperation and assistance provided to the auditors on this assignment. I hope that the report will assist you in correcting the problems which led you to request this audit.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT INSPECTOR GENERAL
FOR AUDIT

SEP - 2 199?

MEMORANDUM FOR R&D/OIT, James M. Anderson

FROM: AIG/A, John P. Competello

SUBJECT: Audit of the Master Disbursing Account

This memorandum transmits our final report on the audit of the master disbursing account. We have considered your comments on the draft report and have included them as Appendix VI to the report.

The report contains three recommendations for your action. Recommendation 3 is resolved and may be closed when corrective actions have been implemented. Recommendation 1 is unresolved because management does not agree that sponsoring offices must receive final budgets and commit sufficient funds before participants begin training. Recommendation 12 is unresolved because the Office of International Training has not decided whether to report the master disbursing account as a material weakness in its next report under the Federal Managers' Financial Integrity Act.

Please notify this office within 30 days of any actions planned or taken to implement Recommendation 3 and any additional information you would like us to consider regarding Recommendations 1 and 12.

I would like to thank you and your staff for the cooperation and assistance provided to the auditors on this assignment. I hope that the report will assist you in correcting the problems affecting the master disbursing account.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

SEP - 2 1992

ASSISTANT INSPECTOR GENERAL
FOR AUDIT

MEMORANDUM FOR FA/MC, John W. Koehring

FROM: AIG/A, John P. Competello

SUBJECT: Audit of the Master Disbursing Account

This memorandum transmits our final report on the audit of the master disbursing account. We have considered your comments on the draft report and have included them as Appendix VI to the report.

Report recommendation 13 is for your action. This recommendation is resolved and may be closed when corrective actions have been implemented. Please notify this office within 30 days of any actions planned or already taken to implement recommendation 13.

I appreciate the cooperation and assistance provided to the auditors on this assignment.

EXECUTIVE SUMMARY

Background

The master disbursing account (MDA) was established by A.I.D. in the early 1970s. Overseas missions and A.I.D./Washington offices who sponsor participant training programs transfer funds into the MDA, and the Office of Financial Management uses these funds to pay contractors hired by the Office of International Training. Only those contractors hired by the Office of International Training are paid through this account. Contractors hired directly by sponsoring offices are paid directly by those offices. According to Office of Financial Management reports, transfers into the MDA totaled $66.3 million and disbursements from the MDA totaled $56.8 million during the year ended March 31, 1991. The reported cash balance in the MDA, which includes amounts accumulated from prior years, was $17.5 million as of March 31, 1991. (See page 1.)

Audit Objectives

This audit was requested by the Office of Financial Management, which was concerned about several problems affecting the MDA. We audited the MDA to determine whether (1) budgets were prepared accurately and timely and were revised when necessary, (2) credit transfers were made and recorded accurately and timely, (3) disbursements were recorded accurately and timely, (4) funds were correctly certified to be available, (5) unliquidated obligations were reviewed and accrual accounting information was maintained, and (6) the accounting system for the MDA was adequately documented. (See page 2.)

We conducted the field work from July 16, 1991 through April 10, 1992. We provided a draft report to management on May 1, 1992 and received formal comments on the report on July 31, 1992. We performed the audit in accordance with generally accepted government auditing standards except that we did not design the audit to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect our objective to determine whether disbursements were recorded promptly and accurately. Appendix II contains a complete discussion of the scope and methodology of the audit. (See page 72.)

Summary of Audit

In brief, the results of the audit were that:

- The Office of International Training and the Office of Financial Management ensured that budgets were prepared accurately but did not ensure that budgets were prepared in a timely manner or were revised when necessary. Because budgets were not revised when necessary, hundreds of administrative fund control violations occurred. (See page 4.)

- The Office of Financial Management did not ensure that credit transfers were made on time and in the correct amount or that credit transfers were recorded promptly and accurately. As a result, credit transfers exceeded or fell short of disbursing needs for thousands of individual training programs, and accurate information on credit transfers could not be obtained from A.I.D.'s official accounting records. (See page 10.)

- The Office of Financial Management did not always record disbursements promptly and accurately. Therefore, accurate information on disbursements could not be obtained from the official accounting records. (See page 18.)

- The Office of Financial Management frequently certified that funds were available for obligation when in fact they were not available. As a result, obligations were partially unfunded and had to be subsidized with funds transferred to the MDA for other purposes. (See page 22.)

- The Office of Financial Management has not made reviews of unliquidated obligations in the MDA and does not keep the accounting records on an accrual basis. Therefore, excess funds remained in the MDA and accrual information needed to monitor the financial status of the MDA was not available. (See page 27.)

- The Office of Financial Management has not adequately documented the accounting system for the MDA. The lack of documentation has contributed to errors and makes it difficult for the Office to perform self-evaluations of its operations. (See page 31.)

Audit Findings

Budgets Were Accurate But Were Not Processed in a Timely Manner or Revised When Necessary

For the budget worksheets we reviewed, the Office of International Training ensured that the budget worksheets were prepared accurately using the standard budget factors in A.I.D. Handbook 10. However, for the cases we examined, the Office of International Training and the Office of Financial Management did not ensure that budget worksheets were prepared timely or that offices sponsoring participant training were notified of the amount to be committed in a timely manner in accordance with A.I.D. policies and procedures. As a result, it was difficult for sponsoring offices to ensure that costs were reasonable, and sponsoring offices may not commit sufficient funds before participants begin training. Also, the Office of International Training and the Office of Financial Management did not ensure that budgets were revised when necessary in accordance with A.I.D. policies and procedures. As a result, hundreds of administrative fund control violations occurred. Finally, the Office of Inspector General's Legal Counsel believes that, because expenditures routinely exceeded or fell short of commitments and no accounting for these expenditures was provided to the sponsoring offices, the MDA was being operated as a revolving fund even though A.I.D. lacked the necessary legal authority to operate the MDA as a revolving fund. (See page 4.)

Credit Transfers Were Not Always Made or Recorded Correctly

The Office of Financial Management did not ensure that credit transfers were made on time and in the correct amount in accordance with A.I.D. policies and procedures. The errors we found occurred because no procedures had been implemented to monitor credit transfers and follow up with the sponsoring offices when errors were detected. As a result, credit transfers exceeded or fell short of disbursing needs for thousands of individual training programs. For instance, Office of Financial Management records indicate that, for 1,837 training programs ending on March 31, 1991 or earlier, an unspent balance of $16.9 million remained because more funds were transferred to the MDA than were actually spent. Also, for the transactions we tested, the Office of Financial Management did not record credit transfers promptly and accurately in accordance with binding U.S. Government policies in three of the five financial management systems used to record credit transfers. The errors we found occurred mainly because reconciliations between source documents and accounting entries were not consistently performed and because, in the opinion of the accountant in charge of the MDA, sufficient staff have not been assigned to record credit transfers. As a result, reliable information on credit transfers could not be obtained from the official accounting records. (See page 10.)

Disbursements Were Not Always
<u>Recorded Promptly and Accurately</u>

For the sample we reviewed, the Office of Financial Management did not record disbursements promptly and accurately in accordance with binding U.S. Government policies and A.I.D. policies and procedures in three of the four systems used to record disbursements from the MDA. The errors we found occurred mainly because suitable internal controls had not been implemented. As a result, reliable information on disbursements could not be obtained from the official accounting records. (See page 18.)

Existing Procedures Did Not
<u>Ensure That Funds Were Available</u>

To ensure that obligations and expenditures do not exceed appropriations and lower-level funding limitations, binding U.S. Government policies and A.I.D.'s own policies and procedures prescribe a system of positive controls. However, the Office of Financial Management did not have positive knowledge that funds were available and the Office has in some cases overstated the funds available by several million dollars. Errors in certifying fund availability occurred primarily because the Office cites the MDA, not individual project implementation orders/participant training (PIO/Ps), as the source of funds for obligation actions. This procedure is not satisfactory because the MDA has no permanent funding independent of PIO/Ps. The funds budgeted through PIO/Ps are not transferred immediately to the MDA and may not be transferred at all if a participant is unable to begin training. (See page 22.)

Reviews of Unliquidated Obligations Were Not Performed
<u>and Accounting Records Were Not Kept on an Accrual Basis</u>

The Office of Financial Management has not made reviews of the unliquidated obligations in the MDA in accordance with binding U.S. Government policies and A.I.D. policies and procedures. Responsible officials stated that the MDA was not designed to require reviews of unliquidated obligations for individual training programs. As a result, according to Office of Financial Management records, sponsoring offices transferred more funds to the MDA than were needed for 1,837 PIO/Ps ending on or before March 31, 1991, so a balance of $16.9 million remained to be deobligated or returned to the sponsoring offices. (See page 27.)

Another problem is that the Office of Financial Management does not keep the accounting records for the MDA on an accrual basis in accordance with applicable laws, binding U.S. Government policies, and A.I.D. policies and procedures. Office of Financial Management staff have been preoccupied with more pressing problems such as delays and errors in recording credit transfers and payments. As a result, the Office of Financial Management did not have information it needed to monitor the MDA's financial status. (See page 29.)

Accounting System Is Not Adequately Documented

The Office of Financial Management has not complied with binding U.S. Government policies which require that the MDA's accounting system be documented in sufficient detail to provide management and users with an understanding of how the system operates. The Office has not prepared adequate documentation because of other higher-priority demands on staff time. This lack of acceptable documentation has led to processing errors and delays and makes it difficult for the Office of Financial Management to conduct self-evaluations of its operations. (See page 31.)

Summary of Recommendations

The principal report recommendations are that:

- the Office of International Training, in conjunction with the Office of Financial Management, implement procedures to ensure that sponsoring offices receive final budgets and commit sufficient funds before participants begin training (see page 5);
- the Office of Financial Management implement procedures to ensure that budgets are revised when necessary and that disbursements do not exceed budgeted amounts (see page 8);
- the Office of International Training require its contractors to report when it is first known that expenditures will exceed or fall short of approved budgets (see page 8);
- the Office of Financial Management ensure that sponsoring offices transfer correct amounts on time to the MDA (see page 11);
- the Office of Financial Management, in consultation with the Office of General Counsel, deobligate or return to sponsoring offices those funds that are no longer needed for authorized purposes (see pages 11 and 12);
- the Office of Financial Management perform reconciliations, assign sufficient staff, and implement other controls to ensure that credit transfers and disbursements are recorded correctly (see pages 14 and 19);
- the Office of Financial Management implement a system that will provide positive knowledge that funds are available before obligating documents are signed (see page 23);
- the Office of Financial Management conduct reviews of the unliquidated obligations in the MDA (see page 27);

- the Office of Financial Management prepare information on accrued credit transfers and expenditures on a quarterly basis (see page 29);

- the Office of Financial Management prepare complete procedures for operating the MDA (see page 31);

- the Office of International Training and the Office of Financial Management prepare comprehensive internal control assessments and report the material weaknesses (see page 40); and

- the Management Control Review Committee include the accountability problems affecting the MDA as a material weakness in its next annual report to the Administrator (see page 40).

Management Comments and Our Evaluation

The Office of Financial Management and the Office of International Training agreed with most of the recommendations in this report and have already taken several corrective actions. However, several recommendations are unresolved because management does not agree with the recommendations or because we believe that management's planned corrective actions do not fully respond to the intent of the recommendations. The major areas of disagreement are that:

- Management believes that participants may properly begin training before the sponsoring offices have approved the final budgets, unless the training programs are "grossly under-funded."

- Management does not agree that the past operations of the MDA have resulted in fund control violations and does not plan to report these violations.

- Management plans to replace the MDA with a revolving fund, but estimates that it will take at least two years to implement the revolving fund. Management has not planned appropriate steps to prevent additional fund control violations from occurring in the interim.

- Management plans to deobligate excess funding from the MDA. However, management's response did not include any reference to consultations with the Office of General Counsel and did not include an estimate of the amount to be deobligated.

Management's response to the draft report is included in Appendix VI (page 89).

Office of the Inspector General

Office of the Inspector General
September 2, 1992

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INTRODUCTION

Background

The master disbursing account (MDA) was established by A.I.D. in the early 1970s. Overseas missions and A.I.D./Washington offices who sponsor participant training programs transfer funds into the MDA, and the Office of Financial Management uses these funds to pay contractors hired by the Office of International Training. Only those contractors hired by the Office of International Training are paid through this account. Contractors hired directly by sponsoring offices are paid directly by those offices.

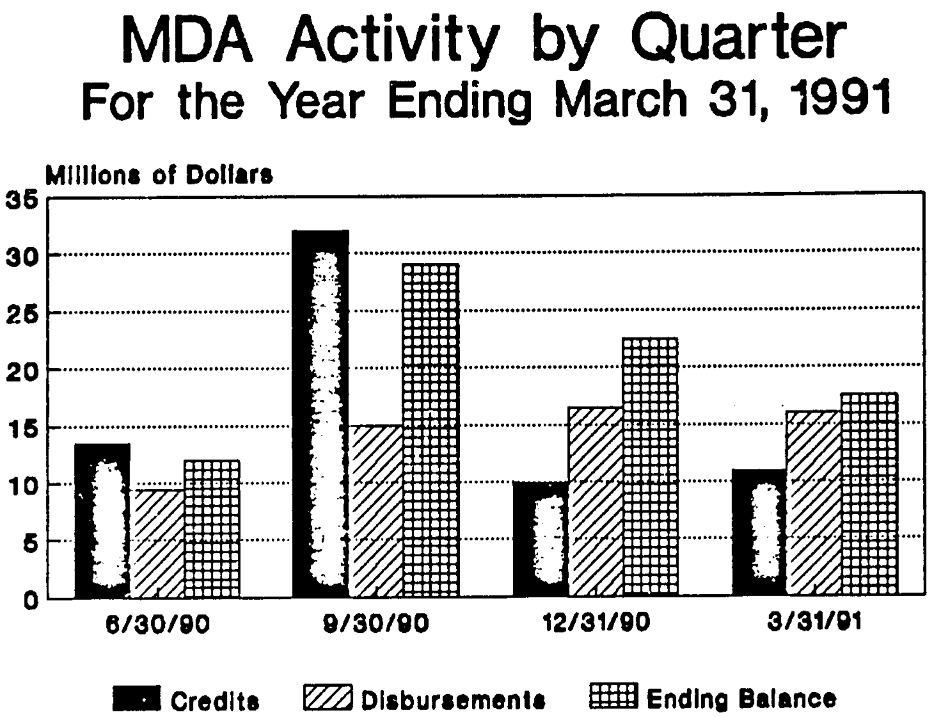
The sponsoring offices, the Office of International Training, and the Office of Financial Management have the following responsibilities with respect to the MDA:

- The sponsoring offices (of which at the time of our review there were 72) select participants, send project implementation orders/participant training (PIO/Ps) to the Office of International Training requesting the placement of participants, approve training implementation plans prepared by Office of International Training contractors, commit the funds needed for the training, and transfer funds to the MDA in accordance with instructions issued by the Office of Financial Management.

- The Office of International Training places PIO/Ps with its contractors, approves budget worksheets prepared by the contractors, and administratively approves payments to the contractors.

- The Office of Financial Management prepares confirmation cables which instruct the sponsoring office to transfer a specific amount of money over a specific period of time into the MDA. The Office of Financial Management also records transfers into the MDA, processes and records disbursements, and prepares reports on the financial status of the MDA.

According to Office of Financial Management reports, transfers into the MDA totaled $66.3 million and disbursements from the MDA totaled $56.8 million during the year ended March 31, 1991. The reported cash balance in the MDA, which includes amounts accumulated from prior years, was $17.5 million as of March 31, 1991. The credit transfers, disbursements, and cash balance in the MDA for the year ending March 31, 1991 are shown in the following graph.



Additional background information on the MDA is found in Appendix I. This information includes a narrative description of how the MDA operates and flow charts illustrating the budget process, the credit transfer process, and the payment process.

Audit Objectives

This audit was requested by the Office of Financial Management, which was concerned about several problems affecting the MDA. The Office of Inspector General/Programs and Systems Audits audited A.I.D.'s management of the MDA to answer the following audit objectives:

1. Did the Office of International Training and the Office of Financial Management ensure that (a) budget worksheets were prepared accurately and timely and offices sponsoring participant training were notified of the amount to be committed in a timely manner in accordance with A.I.D. policies and procedures and that (b) budgets were revised when necessary in accordance with A.I.D. policies and procedures?

2. Did the Office of Financial Management ensure that (a) credit transfers were made on time and in the correct amount and (b) credit transfers were recorded promptly and accurately in accordance with binding U.S. Government policies and A.I.D. policies and procedures?

3. Did the Office of Financial Management record disbursements promptly and accurately in accordance with binding U.S. Government policies and A.I.D. policies and procedures?

4. Did the Office of Financial Management certify fund availability in accordance with binding U.S. Government policies and A.I.D. policies and procedures?

5. Did the Office of Financial Management (a) review unliquidated obligations and (b) maintain accounting records for the master disbursing account on an accrual basis in accordance with applicable laws, binding U.S. Government policies and A.I.D. policies and procedures?

6. Has the Office of Financial Management documented its accounting system for the master disbursing account in accordance with binding U.S. Government policies?

In answering these audit objectives, we tested whether the Office of International Training and the Office of Financial Management followed applicable internal control procedures and complied with certain provisions of laws and binding U.S. Government policies. For the majority of the audit objectives (1.b., 2.a., 4, 5.a., 5.b., and 6), our tests were sufficient to provide reasonable -- but not absolute -- assurance that our conclusions are correct for all items during the period covered by the audit. For the remaining audit objectives (1.a., 2.b., and 3), we limited our conclusions to the items we specifically tested. When we found problem areas, we identified the cause and effect of the problems and made recommendations to correct the problems.

Appendix II contains a complete discussion of the scope and methodology for this audit including several significant scope limitations.

REPORT OF AUDIT FINDINGS

Did the Office of International Training and the Office of Financial Management ensure that (a) budget worksheets were prepared accurately and timely and offices sponsoring participant training were notified of the amount to be committed in a timely manner in accordance with A.I.D. policies and procedures and that (b) budgets were revised when necessary in accordance with A.I.D. policies and procedures?

For the cases we examined, the Office of International Training ensured that budget worksheets were prepared accurately in accordance with A.I.D. policies and procedures. However, for the cases we examined, the Office of International Training and the Office of Financial Management did not ensure that budget worksheets were prepared timely or that offices sponsoring participant training were notified of the amount to be committed in a timely manner in accordance with A.I.D. policies and procedures. Moreover, neither Office ensured that budgets were revised when necessary in accordance with A.I.D. policies and procedures.

One step in the budget process is for the Office of International Training to ensure budget worksheets prepared by contractors are prepared accurately in accordance with A.I.D. policies and procedures. For the judgmental sample of five budget worksheets we examined, the Office ensured that budget worksheets were prepared accurately and used the standard budget factors prescribed by A.I.D. Handbook 10. We also reviewed a random sample of nine revised budget worksheets to determine why the revisions were necessary. In our opinion, the revisions were due, for the most part, to factors that the Office of International Training and its contractors could not have anticipated when the original budget worksheets were prepared. Therefore, for the cases we examined, we concluded that the Office ensured that budget worksheets were prepared accurately in accordance with A.I.D. Handbook 10.

However, as discussed below, the Office of International Training and the Office of Financial Management did not always ensure (1) that budget worksheets were prepared in a timely manner or that the sponsoring offices were notified of the amount to be committed before participants began training or (2) that budgets and commitments were revised when funding requirements changed.

Budget Worksheets and Confirmation Cables Were Not Always Processed Before Participants Began Training

A.I.D. policy requires that the Office of International Training approve budget worksheets before participants begin training and that the sponsoring office carefully review the estimated costs prior to approving the final budget to ensure that the costs are appropriate. However, 9 of 14 budget worksheets we reviewed were not approved until, according to information reported by a contractor, the participants had already begun training. None of the 13 confirmation cables for which dates were available were sent to the sponsoring offices until the participants had reportedly begun training. These problems occurred because the Office of International Training and the Office of Financial Management have not implemented several controls needed to ensure that budgets are approved and sufficient funds are committed before participants begin training. As a result of these problems, it was difficult for the sponsoring offices to ensure that estimated training costs were appropriate, and sufficient funds may not be committed before participants begin training.

> Recommendation No. 1 **We recommend that the Office of International Training, in conjunction with the Office of Financial Management, establish and implement procedures to ensure that sponsoring offices receive final budgets (confirmation cables) and commit sufficient funds before participants begin training. These procedures should include timeliness standards for each step in the budget process, a tracking system to identify delays in the process, and periodic verification that timeliness standards are being met.**

A.I.D. policy requires that the Office of International Training approve budget worksheets before participants begin training. This policy is reflected in the contracts with the Office of International Training's contractors, which state that budget worksheets must be approved by the Office in advance of any expenditures. A.I.D. policy in Handbook 10 (Chapter 6) states that the sponsoring office should carefully review the confirmation cable to ensure that proposed costs are appropriate. Obviously, to be meaningful, this review must be made before the participant begins training.

However, the Office of International Training and the Office of Financial Management did not ensure that the above requirements were met. Our review of a judgment sample of 14 PIO/Ps assigned to the Office of International Training's largest contractor showed that:

- In 9 of the 14 cases reviewed (64 percent), the Office of International Training did not approve the budget worksheets until, according to a report prepared by the contractor, the participants had already begun training. According to the information we reviewed, the budget worksheets for the nine cases were approved from 1 to 531 days after the participants began training.

- For all 13 of the PIO/Ps for which dates were available, the Office of Financial Management did not send the confirmation cable to the sponsoring office until the participants had reportedly already begun training. According to the information we reviewed, the participants began training from 6 to 535 days before the confirmation cable was sent. In 5 of the 13 cases, the participants had completed their training before the confirmation cable was sent.

These delays were allowed to occur because the Office of International Training has not established timeliness standards for key steps in the budget process such as approving training implementation plans or preparing and approving budget worksheets. These delays also occurred because the Office of International Training and the Office of Financial Management did not routinely monitor how long each step in the budget process actually took or verify that timeliness standards were met. Our findings with respect to each step in the budget process are presented in Appendix III and Appendix IV.

When budget worksheets are not approved or confirmation cables containing final budgets are not sent until after the training begins, the sponsoring office may not commit sufficient funds for the training before costs are incurred. Moreover, when confirmation cables are not timely, it is difficult for the sponsoring office to ensure that costs are appropriate in accordance with A.I.D. Handbook 10. When the training has already begun, the sponsoring office's review of the final budget becomes more of a formality than a substantive decision-making process. This is an important point since, for a random sample of 32 PIO/Ps we reviewed, the final budgets varied on average by 10 percent -- ranging from a negative 61 percent to a positive 60 percent -- from the original amount committed by the sponsoring offices for the training. For example:

- The original commitment for PIO/P 615-90068 was $7,000 compared to the final budget in the confirmation cable of $11,198, an increase of 60 percent.

- The original commitment for PIO/P 263-88360 was $12,000 compared to the final budget in the confirmation cable of $4,707, or a decrease of 61 percent.

- The original commitment for PIO/P 675-80076 was $10,750 compared to the final budget of $12,525, or an increase of 17 percent.

In conclusion, the sponsoring offices need to have the final budgets and confirmation cables before any costs are incurred so that they can make decisions based on accurate budget information and can commit sufficient funds to carry out the training. Therefore, the Office of International Training and the Office of Financial Management should develop procedures to ensure that budget information is received by sponsoring offices in a timely manner and that those offices commit sufficient funding before the training begins. These procedures should include timeliness standards for each step in the budget process, a system to monitor how long each step actually takes, and periodic verification that timeliness standards are being met.

Management Comments and Our Evaluation

The Office of International Training and the Office of Financial Management agreed with most of the recommendation. These Offices planned to establish timeliness standards for each step in the budget process, establish a tracking system, and monitor compliance with timeliness standards. However, they did not agree that it was necessary for sponsoring offices to receive final budgets (confirmation cables) before participants begin training. Instead, they believed that this should be required only when participant programs were grossly under-funded. The Office of International Training planned to work with sponsoring offices to determine what margin of error would require notification to the sponsoring office.

We continue to believe that sponsoring offices need to review final budgets and commit sufficient funds for each participant program before the participants begin training. This is certainly required when the amount of the final budget exceeds the amount committed by the sponsoring office. Timely notification to the sponsoring office is also highly desirable when the final budget is less than the original commitment amount, since this permits the sponsoring office to make plans for using the funds elsewhere. We believe that our position is consistent with A.I.D. Handbook 10 requirements and basic fund control requirements. Accordingly, Recommendation 1 is unresolved.

Budgets and Commitments Were Not Adjusted When Costs Changed

A.I.D. policy requires that funds be used efficiently and that expenditures not exceed the amounts authorized for specific purposes, requirements that were not met because expenditures from the MDA frequently exceeded authorized amounts and funds were frequently either used for unauthorized purposes or allowed to remain unspent in the MDA. These fund control problems occurred because the Office of Financial Management and the Office of International Training have not developed procedures to ensure that budgets are revised when funding requirements for individual training programs change. As a result, the Office of Financial Management committed numerous administrative fund control violations, and there were no controls to prevent these violations from causing statutory fund control violations. Also, because expenditures routinely exceeded or fell short of commitments and no accounting for these expenditures was provided to the sponsoring offices, the Office of Inspector General's Legal Counsel believes that the MDA was being operated as a revolving fund even though A.I.D. lacked the necessary legal authority to operate the MDA as a revolving fund.

Recommendation No. 2: We recommend that the Office of Financial Management:

2.1 in conjunction with the Office of International Training, design and implement a system to ensure that no funds are spent in excess of the amounts committed and that commitment amounts are reduced whenever it becomes evident that fewer funds than anticipated will be needed;

2.2 in consultation with the A.I.D. Office of General Counsel, determine what action is needed, if any, to resolve the fund control violations discussed in this finding; and

2.3 report to the Administrator the administrative fund control violations that have occurred in the master disbursing account.

Recommendation No. 3: We recommend that the Office of International Training establish and implement procedures requiring its contractors to report when it is first known when expenditures will exceed or be short of the approved budget for which funds have been committed by the sponsoring office.

A.I.D. Handbook 19 (Appendix 1.A.) describes requirements for fund control, which include ensuring that: (1) funds are used only for authorized purposes, (2) funds are used economically and efficiently, (3) obligations and expenditures do not exceed the amounts authorized, and (4) the obligation or expenditure of amounts authorized is not reserved or otherwise deferred without Congressional approval. The Handbook specifically prohibits expenditures in excess of funding limitations imposed by the Congress, the Office of Management and Budget, or A.I.D. itself. Expenditures in excess of appropriations, apportionments, or allotments are statutory violations and must be reported to the President and the Congress. Expenditures in excess of lower-level funding limitations such as budget allowances, obligations, or commitments are administrative violations and must be reported to A.I.D.'s Administrator.

The Office of Financial Management has not complied with these requirements because it did not provide sponsoring offices with a final accounting of the costs under each training program. Nor did the Office of Financial Management request additional funds or return funds to the sponsoring offices when actual expenses either exceeded or fell short of the budget approved by the sponsoring office. Our review of Office of Financial Management's records for the 1,762 PIO/Ps that ended during the year ended March 31, 1991 showed the following:[1]

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[1] The information in this section is taken from the Office of Financial Management's participant payment system, which is the best information available. However, our tests of the data in the system showed that the data is not reliable (see pages 14 and 19).

- Expenditures exceeded commitments by a total of $1.7 million for 588 PIO/Ps of the 1,762 PIO/Ps reviewed (33 percent). For example, PIO/P 263-10567, which ended in September 1990, had a budget of $60,892 but disbursements from the MDA for this PIO/P totaled $100,659. To meet expenses in cases like these, the Office of Financial Management used funds that were transferred to the MDA for other PIO/Ps. In other words, the Office of Financial Management used funds for purposes that were not authorized by the sponsoring offices.

- Budgets exceeded expenditures by a total of $10 million for 1,079 of the 1,762 PIO/Ps reviewed (61 percent). These funds were either spent for unauthorized purposes in support of expenses under other PIO/Ps or remained unspent in the MDA instead of being returned to the sponsoring office or deobligated and returned to the U.S. Treasury.

These fund control problems occurred because the Office of Financial Management and the Office of International Training have not established procedures to ensure that no funds are spent in excess of the amounts committed and that commitment amounts are reduced whenever it becomes evident that fewer funds than anticipated will be needed. For example, neither the Office of Financial Management nor the Office of International Training periodically monitor expenditures against commitments/budgets for individual PIO/Ps. Also, while the Office of International Training's contracts require the contractors to advise sponsoring offices when a change in the budget is needed, the Office had an informal understanding with the contractors that budget changes would only be requested if costs changed by more than $1,000. Even this informal understanding was not consistently complied with.

The cases discussed above where expenditures exceeded commitments constitute administrative fund control violations, according to A.I.D.'s fund control regulation and the Office of Inspector General's Legal Counsel. In addition, there were no internal controls that would preclude expenditures in excess of PIO/Ps from leading to statutory fund control violations (i.e., expenditures in excess of allotments, apportionments, or appropriations). Finally, the Office of Inspector General's Legal Counsel believes that, because expenditures routinely exceeded or fell short of commitments and no accounting for these expenditures was provided to the sponsoring offices, the MDA was being operated as a revolving fund even though A.I.D. lacked the necessary legal authority to operate the MDA as a revolving fund. Implementing our Recommendation 2.1 should resolve this problem.

In conclusion, our audit identified hundreds of cases where expenditures exceeded commitment amounts and where committed funds were not used for authorized purposes. Therefore, the Office of Financial Management, in conjunction with the Office of International Training, needs to develop and implement a better system for controlling funds in the MDA. The system should ensure that funds are not spent in excess of the amounts authorized in PIO/Ps. The Office of Financial Management, in consultation with the Office of General Counsel, should also determine what actions should be taken to resolve the administrative fund control violations identified in this finding. In addition, the Office of Financial Management needs to report to the Administrator the administrative fund control violations discussed in this finding. Finally, the Office of International Training should require its contractors to report as soon as it is known that expenditures will exceed or fall short of the budgets for individual PIO/Ps.

Management Comments and Our Evaluation

With respect to Recommendation 2.1, management planned to seek Congressional authority to establish the MDA as a revolving fund. The revolving fund concept would include billing each sponsoring office for the exact costs incurred under each PIO/P. Management took the position that expenditures in excess of commitment amounts are not fund control violations and therefore did not plan to implement Recommendations 2.2 and 2.3. The Office of International Training planned to implement Recommendation 3 within 90 days.

Management's plan to replace the MDA with a revolving fund is responsive to Recommendation 2.1, but will take at least two years to implement. We believe that appropriate action must be taken in the interim to prevent further fund control violations. This could be accomplished, for example, by requiring sponsoring offices to transfer additional funds to the MDA whenever budgets are increased and returning funds to sponsoring offices whenever budgets are reduced. In the absence of a management commitment to undertake appropriate interim measures to prevent fund control violations, Recommendation 2.1 is unresolved. Recommendations 2.2 and 2.3 are also unresolved because management does not believe that expenditures in excess of commitment amounts constitute fund control violations. Recommendation 3 is resolved and can be closed when planned actions have been fully implemented.

Did the Office of Financial Management ensure that (a) credit transfers were made on time and in the correct amount and (b) credit transfers were recorded promptly and accurately in accordance with binding U.S. Government policies and A.I.D. policies and procedures?

The Office of Financial Management did not ensure that credit transfers were made on time and in the correct amount in accordance with A.I.D. policies and procedures. For the transactions we tested, the Office of Financial Management did not ensure that credit transfers were recorded promptly and accurately in accordance with U.S. Government policies in three of the five financial management systems reviewed.

To assess whether the Office of Financial Management recorded credit transfers promptly and accurately, we reviewed a judgment sample of 40 credit transfers made by sponsoring offices. We found that these credit transfers were recorded promptly and accurately in two of the five systems used by the Office of Financial Management to manage the MDA. One of the two is the general ledger, which is used to accumulate financial information from all of A.I.D.'s overseas and domestic operations and prepare reports for the Office of Management and Budget and the U.S. Treasury Department. The second is a spreadsheet program, which, while not part of A.I.D.'s official accounting system, is used by the Office of Financial Management to monitor the financial status of the MDA.

However, we project that credit transfers were not made in the correct amount and/or were not made on time for approximately 39 percent of all PIO/Ps for which confirmation cables were issued during the year ended March 31, 1991. Also, the credit transfers we reviewed were not recorded promptly and accurately in three financial management systems used by the Office of Financial Management to manage and report on the MDA. These problems are discussed below.

Credit Transfers Were Not Always Made in the Correct Amount or on Time

A.I.D. Handbook 19 states that the final budgets included in confirmation cables issued by the Office of Financial Management serve as the basis for the transfer of funds to the MDA. The confirmation cables specify the amounts to be transferred to the MDA by the sponsoring office and the timing of these transfers. We project that credit transfers are not made in the correct amount and/or are not made on time for approximately 39 percent of all PIO/Ps for which confirmation cables were issued during the year ended March 31, 1991. These errors occurred because the Office of Financial Management did not have monitoring procedures to ensure that credit transfers are made on time and in the correct amount. As a result, amounts transferred to the MDA in many cases exceeded or fell short of the disbursing needs for the individual training programs for which the funds were transferred. For instance, Office of Financial Management reports indicate that expenditures have exceeded the authorized amounts for 2,005 individual PIO/Ps by a total of $26.7 million.

Recommendation No. 4: **We recommend that the Office of Financial Management:**

4.1 **establish and implement procedures to ensure that offices sponsoring participant training through the master disbursement account transfer correct amounts on time to the account and**

4.2 **in consultation with the Office of General Counsel, reconcile its records and take action to appropriately resolve those instances where expenditures exceeded or fell short of credit transfers into the master disbursing account. This should include deobligating or returning to sponsoring offices those funds that are no longer needed for authorized purposes under individual training programs.**

A.I.D. Handbook 19 (Section 10.J.2) states that the Office of Financial Management is required to send to the sponsoring offices a confirmation cable which identifies the estimated cost for the training and is the basis for the transfer of funds to the MDA for a specific training program (i.e., PIO/P). The Handbook (Section 10.J.1.) also states that the transfers to the MDA should be made quarterly.

However, although the confirmation cables issued by the Office of Financial Management state how much should be transferred to the MDA for each PIO/P and specify when the transfers should begin and over what period of time they should be made, the sponsoring offices did not transfer the correct amounts and/or did not transfer the funds on time for 16 of the 41 PIO/Ps included in our sample (39 percent).[2] More specifically, we found that:

- The sponsoring offices did not transfer the correct amount for 14 (or 34 percent) of the 41 PIO/Ps reviewed.[3] The total difference between the amount that should have been transferred and the amount that was transferred for the 14 PIO/Ps was $54,565, or 9 percent of the $582,952 required by the confirmation cables.

- Credit transfers for 6 (or 15 percent) of the 41 PIO/Ps we reviewed were not made according to the schedule prescribed in the confirmation cables.[4]

These conditions existed because the Office of Financial Management had not established procedures to compare the transfers that should be made with the transfers that are actually made. As discussed in the following section (page 14), the Office of Financial Management lacked the accurate information needed to operate such a monitoring system because credit transfers are not recorded promptly and accurately in the participant payment system.

Incorrect credit transfers lead to inaccuracies in the participant training costs recorded for mission and office projects and cause the amounts in the MDA to either exceed or fall short

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[2] There is a 95 percent probability that this is the case for between 24 and 55 percent of all PIO/Ps for which confirmation cables were issued during the year ended March 31, 1991.

[3] There is a 95 percent probability that the sponsoring offices do not transfer the correct amount for between 20 and 50 percent of all PIO/Ps for which confirmation cables were issued during the year ended March 31, 1991.

[4] There is a 95 percent probability that credit transfers were not made on time for between 6 and 29 percent of all PIO/Ps for which confirmation cables were issued during the year ended March 31, 1991.

of disbursing needs for individual training programs. Office of Financial Management records[5] show the following for the 4,116 PIO/Ps that ended on or before March 31, 1991:

- For 1,837 PIO/Ps, more funds were transferred to the MDA than were disbursed, so an unspent balance of $16.9 million remained.

- For 2,005 PIO/Ps, fewer funds were transferred than were disbursed, resulting in a deficit of $26.7 million.

In conclusion, amounts transferred to the MDA in many cases exceeded or fell short of the disbursing needs for the individual training programs for which the funds were transferred. Therefore, the Office of Financial Management needs to (1) develop and implement procedures to compare the amounts that are supposed to be transferred with the amounts that are actually transferred to the MDA and, (2) in consultation with the Office of General Counsel, review the records for each completed training program and take action to resolve those cases where expenditures exceeded or fell short of the amounts transferred for individual training programs. Office of Financial Management records indicate that $16.9 million in the MDA can be deobligated or returned to sponsoring offices. However, this figure is not reliable and the actual amount may be more or less than $16.9 million.

Management Comments and Our Evaluation

In response to Recommendations 4.1 and 4.2, management plans to replace the MDA with a revolving fund. In addition, the Office of Financial Managment has begun submitting monthly reports to each sponsoring office showing the status of credit transfers for each PIO/P. Since it will take at least two years to establish the revolving fund, as an interim step, the Office plans to perform quarterly reviews to identify excess funds in the MDA and return those funds to the U.S. Treasury.

The steps the Office of Financial Management has taken and plans to take to implement Recommendation 4.1 are responsive but do not go far enough, in our opinion. For example, the monthly reports being sent to missions show the total budget and the total amount transferred for each PIO/P. However, the reports do not show when the amounts are

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[5] This information is taken from the participant payment system, which is the only source of information on credit transfers and disbursements for individual PIO/Ps. However, our tests showed that the information in this system is not reliable (see the following report section and the section beginning on page 19). For example, the figures cited above would indicate that there was a deficit of $9.8 million in the MDA on March 31, 1991 ($16.9 million minus $26.7 million). In fact, the spreadsheet program maintained by the Cash Management and Payment Division, which was accurate for the credit transfers and disbursements we reviewed, showed a positive cash balance of $17.5 million in the MDA as of March 31, 1991.

supposed to be transferred. Therefore, the reports may help ensure that correct amounts are transferred to the MDA, but they will not ensure that these amounts are transferred on time. The Office of Financial Management also plans to replace the MDA with a revolving fund but it will take at least two years to establish such a fund. In our opinion, the Office of Financial Management cannot wait this long to establish a system to ensure that credit transfers are made on time and in the correct amount. Accordingly, Recommendation 4.1 is classified as unresolved.

The Office of Financial Management's plans are also generally responsive to Recommendation 4.2. However, the response does not make reference to any planned consultation with the Office of General Counsel. Also, in order to classify this monetary recommendation as resolved, we need to reach agreement with the Office of Financial Management on an estimate of the amount to be deobligated. The Office of Financial Management has not yet made such an estimate or commented on the $16.9 million figure cited in the finding. Pending the Office of Financial Management's consultation with the Office of General Counsel and our agreement on the estimated amount to be deobligated, Recommendation 4.2 must be classified as unresolved.

Credit Transfers Were Not Always
Recorded Promptly and Accurately

Internal control standards issued by the U.S. General Accounting Office state that financial transactions are to be recorded promptly and classified correctly. The Office of Financial Management did not always meet these requirements for three major systems it uses to manage and report on the MDA: the participant payment system, the cash journal, and the U101/country financial reporting system. Credit transfers were not recorded promptly and accurately primarily because (1) reconciliations between source documents and accounting entries were not consistently performed, (2) complete and current procedures have not been developed, and (3) sufficient numbers of staff may not have been assigned to record credit transfers and perform reconciliations. As a result, the official A.I.D. accounting records for the MDA cannot be used to obtain and report reliable information which is needed to effectively manage the master disbursing account.

Recommendation No. 5: We recommend that the Office of Financial Management:

5.1 bring credit transfer postings up to date,

5.2 bring reconciliations between the source documents and entries to the participant payment system and the U101/country financial reporting system up to date,

5.3 assign the staff needed to record credit transfers promptly and accurately, and

5.4 **include the master disbursing account in its new integrated accounting system.**

Offices sponsoring participant training through the MDA make credit transfers to the MDA on a quarterly basis. The Office of Financial Management records these credit transfers in five financial management systems. We found that credit transfers were not recorded correctly in three of these systems, which are briefly described below:

- The participant payment system is used to monitor the financial status of individual PIO/Ps. This is the only Office of Financial Management system that shows the budgeted amount, credit transfers, and disbursements for each PIO/P.

- The cash journal is used to record all domestic accounting transactions. Entries in the cash journal are used as the basis for entries in the general ledger (which in turn is used to prepare reports for the Office of Management and Budget and the Treasury Department).

- The U101/country financial reporting system records transactions reported by field missions on U101 reports. This system also produces the W-211A report, which shows the balance of funds in the MDA according to A.I.D.'s official accounting records.

The General Accounting Office's Standards for Internal Controls in the Federal Government states that "Transactions and other significant events are to be promptly recorded and properly classified." Prompt recording and proper classification of transactions are needed so that sound decisions can be made based on the accounting records.

The results of our review to determine whether credit transfers were recorded correctly are described in the following paragraphs and in the tables on pages 16 and 17.

The Office of Financial Management periodically prepares reports showing the status of credit transfer postings to the participant payment system. These reports show, and our review of 40 credit transfer transactions confirms, that credit transfers are not recorded promptly in the participant payment system. The latest status report, dated March 31, 1992, indicates that credit transfers had been recorded for the period from December 1990 through December 1991 for only 34 of the 69 countries with credit transfers shown on the report (49 percent). Credit transfer postings for the other 35 countries (51 percent) were at least six months out of date.

To test whether credit transfers were recorded accurately in the participant payment system, we reviewed a judgment sample of 40 credit transfers made during the period from April 1, 1990 through March 31, 1991. Seven of the credit transfers (17 percent) were either recorded incorrectly or not recorded at all in the participant payment system. The amount of error was $139,213, or 37 percent of the $377,612 in credit transfers we reviewed.

To determine whether credit transfers were recorded accurately in the cash journal, we reviewed 24 credit transfer appropriation totals (i.e., the total credit transfers made by all missions under a given appropriation). Twenty-three of the 24 appropriation totals (96 percent) were not recorded in the cash journal. The amount of error was $28.7 million, or 98 percent of the $29.3 million in credit transfer appropriation totals we reviewed. These errors did not result in a misstatement of A.I.D.'s official accounting records, since the 23 credit transfer appropriation totals not recorded in the cash journal were entered directly into the general ledger. However, according to an official in the Central Accounting and Reporting Division, all credit transfers should be entered first in the cash journal and then the general ledger should be posted from the cash journal. If the Office of Financial Management followed consistent procedures, the likelihood of errors in recording credit transfers would be reduced.

To assess whether credit transfers were recorded accurately in the U101/country financial reporting system, we reviewed 38 country credit transfer appropriation totals (i.e., the total credit transfers made by one mission under a given appropriation). While 37 of the country appropriation totals were recorded promptly and accurately, one (3 percent) was not. The difference of $77,325 represented 2 percent of the $3.2 million in country credit transfer appropriation totals we reviewed.

Summary by Dollar Value - Recording of Credit Transfers

System	Reviewed		Recorded Correctly		Recorded Incorrectly	
Participant Payment System	$377,612	100%	$288,399	63%	$139,213	37%
Cash Journal	$29,329,326	100%	$652,735	2%	$28,676,591	98%
U101/Country Financial Reporting System	$3,156,286	100%	$3,078,961	98%	$77,235	2%

Summary by Number of Transactions - Recording of Credit Transfers

System	Reviewed		Recorded Correctly		Recorded Incorrectly	
Participant Payment System	40	100%	33	83%	7	17%
Cash Journal	24	100%	1	4%	23	96%
U101/Country Financial Reporting System	38	100%	37	97%	1	3%

Credit transfers were not always recorded promptly and accurately because:

- Sufficient numbers of staff may not have been assigned. At the beginning of our audit, one direct-hire operating accountant and three contractors were assigned to manage the MDA. At the end of our audit, a fourth contractor was temporarily assigned to assist in processing MDA transactions. According to the operating accountant in charge of the MDA, if a fourth contractor were permanently assigned, he would have the staff needed to manage the MDA effectively.

- Reconciliations between source documents and accounting entries in the participant payment system and the U101/country financial reporting system, while sometimes performed, are not performed consistently or in a timely manner. For example, according to an Office of Financial Management status report dated March 31, 1992, reconciliations between mission U101 reports and the credit transfers recorded in the participant payment system had only been completed for 12 of 69 countries shown on the report (17 percent).

- Complete and current procedures for recording credit transfers have not been established or adhered to. (The need for better procedures is discussed in the section beginning on page 31.)

- The design of the accounting system for the MDA requires information on credit transfers to be entered manually into five separate financial management systems. The volume of manual entries required makes the process inherently vulnerable to error. This problem should be corrected when the Office of Financial Management implements a new integrated accounting system for the Agency. Also, in our opinion, having sponsoring offices make transfers on a yearly basis or for the entire amount of the PIO/P, rather than on a quarterly basis as is done now, would considerably reduce the volume of entries required.

As a result of untimely and inaccurate accounting entries, reliable information on credit transfers could not be obtained from the Office of Financial Management's official accounting records. Instead of consulting the official accounting records, management relied on a simple spreadsheet program maintained by the Office of Financial Management's Cash Management and Payment Division. While the spreadsheet was accurate for the 40 credit transfers we tested, it is not part of A.I.D.'s official accounting system and is not subject to a system of internal controls which would ensure its accuracy in the future.

In conclusion, the Office of Financial Management needs to bring the credit transfer postings up to date, complete reconciliations between source documents and the credit transfers posted to the participant payment system and the U101/country financial reporting system, and secure the staff needed to record credit transfers promptly and accurately.

Management Comments and Our Evaluation

In response to Recommendation 5.1, the Office of Financial Management provided evidence showing that posting of credit transfers is substantially up to date. With respect to Recommendation 5.2, the Office plans to complete reconciliations between source documents and entries to the participant payment system and the U101/country financial reporting system by December 1993. In response to Recommendation 5.3, the Office stated that credit transfers have been brought up to date with current staffing levels and therefore requested that this recommendation be closed upon issuance of the audit report. The Office has made a decision to include the MDA in its new integrated accounting system in response to Recommendation 5.4.

Recommendations 5.1, 5.3, and 5.4 are closed upon issuance of this report. Recommendation 5.2 is resolved and may be closed when reconciliations between source documents and entries to the participant payment system and the U101/country financial reporting system have been completed.

Did the Office of Financial Management record disbursements promptly and accurately in accordance with binding U.S. Government policies and A.I.D. policies and procedures?

For the sample we reviewed, the Office of Financial Management did not record disbursements promptly and accurately in three of the four systems used to record disbursements from the master disbursing account.

To assess whether the Office of Financial Management recorded disbursements promptly and accurately to the spreadsheet program maintained by the Cash Management and Payment Division, we reviewed the supporting documents for all 366 of the disbursements posted to the spreadsheet program from April 1, 1990 through March 31, 1991. The disbursements we examined were recorded promptly and accurately to the spreadsheet program. Although our audit procedures were not sufficient to definitively state that all disbursements from the MDA were recorded in the spreadsheet program, nothing came to our attention to indicate that any disbursements from the MDA were not recorded in the spreadsheet program.

On the other hand, we found that 10 percent of the disbursements we reviewed were not recorded in the participant payment system and 55 percent of the disbursements were not recorded at all or not recorded accurately in the cash journal or the general ledger. These problems are discussed in the following section.

Disbursements Were Not Always
Recorded Promptly and Accurately

Internal control standards issued by the U.S. General Accounting Office and included in A.I.D. Handbook 19 state that transactions are to be recorded accurately and promptly. However, 10 percent of the disbursements we examined were not recorded in the participant payment system, and 55 percent of the disbursements we examined were not recorded at all or were not recorded accurately in the cash journal and the general ledger. Disbursements were not recorded in the participant payment system because no means of allocating administrative expenses to individual PIO/Ps had been devised. Errors in recording disbursements in the cash journal and the general ledger occurred because suitable internal controls were not established. As a result, the official accounting records were misstated and could not be used to obtain reliable information on disbursements.

> Recommendation No. 6 **We recommend that the Office of Financial Management establish control procedures to ensure that disbursements from the master disbursing account are promptly and accurately entered into the participant payment system, the cash journal, and the general ledger.**

The Office of Financial Management records information on MDA disbursements in four financial management systems. We found that disbursements were not recorded correctly in three of these systems, which are described below:

- The participant payment system is used to monitor the financial status of individual PIO/Ps. This is the only system that shows the budgeted amount, credit transfers, and disbursements for each PIO/P.

- The cash journal is used to record all domestic accounting transactions. Entries in the cash journal are used as the basis for entries in the general ledger. In addition, disbursements recorded in the cash journal are entered into the U101/country financial reporting system. This system produces the W-211A report, which shows the balance of funds in the MDA according to A.I.D.'s official accounting records.

- The general ledger is used to accumulate financial information from all of A.I.D.'s overseas and domestic operations. Information from the general ledger is included in reports to the Office of Management and Budget and the Treasury Department.

The General Accounting Office's Standards for Internal Controls in the Federal Government states that "Transactions and other significant events are to be promptly recorded and properly classified." A.I.D. Handbook 19 (Appendix 1.E., Section D.1.) states that financial management data should be recorded as soon as practicable after the occurrence of the event and are to be reasonably complete and accurate. Prompt recording and proper classification of transactions is needed so that sound decisions can be made based on the accounting records.

The results of our review to determine whether disbursements were recorded correctly are described in the paragraphs below and the tables on page 21.

We reviewed a judgment sample of 40 disbursements to see if they were recorded promptly and accurately in the participant payment system. Four of the 40 payments (10 percent), which were for administrative expenses incurred before January 1, 1990, were not recorded at all because no means for allocating administrative expenses to individual PIO/Ps had been devised. The amount of error was $1,172,374, or 82 percent of the $1,432,551 in disbursements we reviewed. A mechanism for allocating administrative expenses has since been developed and current disbursements for administrative expenses are being recorded in the participant payment system. However, the participant payment system still does not reflect administrative expenses incurred before January 1, 1990. (The reconciliation of records we are recommending on pages 11 and 12 should address this problem.)

To determine whether disbursements were recorded accurately and promptly in the cash journal and the general ledger, we reviewed the same 40 payments. Twenty-two of the 40 payments (55 percent) were either not recorded at all or recorded incorrectly in the cash journal and the general ledger. The amount of error was $1,327,865, or 93 percent of the $1,432,581 in disbursements we reviewed. Ten of the 40 disbursements we reviewed (25 percent) were not recorded in the budgetary accounts in either the cash journal or the general ledger. For another 12 of the 40 disbursements reviewed (30 percent), we did not find any entries at all in either the cash journal or the general ledger.

Summary by Dollar Value - Recording of Disbursements

System	Reviewed		Recorded Correctly		Recorded Incorrectly	
Participant Payment System	$1,432,551	100%	$260,177	18%	$1,172,374	82%
Cash Journal	$1,432,551	100%	$104,686	7%	$1,327,865	93%
General Ledger	$1,432,551	100%	$104,686	7%	$1,327,865	93%

Summary by Number of Transactions - Recording of Disbursements

System	Reviewed		Recorded Correctly		Recorded Incorrectly	
Participant Payment System	40	100%	36	90%	4	10%
Cash Journal	40	100%	18	45%	22	55%
General Ledger	40	100%	18	45%	22	55%

Disbursements were not always recorded promptly and accurately in the cash journal and general ledger for several reasons:

- The Office of Financial Management has not established any controls to ensure that all MDA disbursements are recorded accurately in the cash journal and the general ledger.

- No reconciliations were performed to ensure that disbursement data are entered consistently in the spreadsheet program, the participant payment system, the cash journal, and the general ledger.

- Because clear and comprehensive procedures have not been established, responsible officials sometimes did not understand how transactions were supposed to be processed. (The need for better procedures is discussed in the section beginning on page 31.)

- The design of the accounting system requires that disbursement data be entered manually into four different financial management systems. The number of manual entries required makes the process inherently vulnerable to errors and omissions. (Our Recommendation 5.4 on page 14 should correct this problem.)

As a result of untimely and inaccurate accounting entries, reliable information on disbursements could not be obtained from the Office of Financial Management's official accounting records. For example, as of March 31, 1991, the Cash Management and Payment Division's spreadsheet program showed that the balance in the MDA was $17,452,649. According to the W-211A report produced by the Central Accounting and Reporting Division, which we were told is compiled from information on disbursements from the cash journal, the balance was $82,420,501 -- a difference of $64,967,852. This difference existed mainly because of errors in recording disbursements in the cash journal and to a lesser extent because of errors in recording credit transfers. Instead of using the official accounting records, management relied on a simple spreadsheet program maintained by the Cash Management and Payment Division for accurate information on disbursements from the MDA. While the spreadsheet was accurate for the 40 disbursements we tested, it is not part of A.I.D.'s official accounting system and is not subject to a system of internal controls which would ensure that disbursements will be recorded accurately in the future.

The Office of Financial Management needs to establish control procedures to ensure that disbursements are recorded promptly and accurately in the cash journal and the general ledger. Such controls should include reconciliations between source documents and the amounts recorded, as well as reconciliations between disbursements recorded in the spreadsheet program, the participant payment system, the cash journal, and the general ledger.

Management Comments and Our Evaluation

The Office of Financial Management has begun implementing procedures to ensure that disbursements from the master disbursing account are recorded correctly. Recommendation 6 is resolved and can be closed when the planned procedures have been fully implemented and planned reconciliations have been completed.

Did the Office of Financial Management certify fund availability in accordance with binding U.S. Government policies and A.I.D. policies and procedures?

The Office of Financial Management did not certify fund availability in accordance with binding U.S. Government policies and A.I.D. policies and procedures. This problem is discussed in the following section.

Existing Procedures Did Not
Ensure That Funds Were Available

Binding U.S. Government policies and A.I.D.'s own policies and procedures prescribe a system of positive controls to ensure that obligations and expenditures do not exceed appropriations and lower-level funding limitations. However, the Office of Financial Management did not have positive knowledge that funds were available and the Office overstated the funds available by several million dollars for at least five of the six actions we reviewed. As a result, the obligations were partially unfunded and had to be subsidized with funds budgeted for other purposes. Errors in certifying fund availability occurred primarily because the Office cites the MDA, not individual PIO/Ps, as the source of funds for obligation actions. This procedure is not satisfactory because the MDA has no permanent funding independent of PIO/Ps. The funds budgeted through PIO/Ps are not transferred immediately to the MDA and may not be transferred at all.

> Recommendation No. 7 **We recommend that the Office of Financial Management develop and implement a system that will provide positive knowledge that funds are available before obligating documents are signed.**

Participant training funds that are eventually transferred to the MDA must first be budgeted by A.I.D. missions and offices through PIO/Ps which are for specific training programs. When the Office of Financial Management certifies that funds are available in the MDA for obligation actions such as contracts for participant training, it must ensure that total obligations do not exceed the total amount budgeted by the offices sponsoring the participants' training. This requires that the Office of Financial Management ensure that no obligation exceeds the amount budgeted for the specific purpose of that obligation.

The General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies states that:

> The term 'fund control' refers to control over use and management of fund appropriations to ensure that (1) funds are used only for authorized purposes, (2) they are economically and efficiently used, (3) obligations and expenditures do not exceed the amounts authorized and available, and (4) the obligation or disbursement of funds is not reserved or otherwise withheld without congressional knowledge and approval. * * *
>
> To control funds adequately, there must be an effective verification of available funds (positive knowledge) before creating an obligation, and obligation information must be accumulated and reported promptly and accurately.

A.I.D. Handbook 19 (Appendix 1.A.) prohibits obligations or expenditures in excess of any funding limitations imposed by the Congress, Office of Management and Budget, or the Agency. The intent of this requirement is to ensure that funds are obligated and spent only for authorized purposes. Handbook 19 (Chapter 2) also states that all documents representing obligation transactions must be directed to the Office of Financial Management in AID/Washington or the overseas mission accounting office for prevalidation of availability of funds and recording in the accounting records prior to the release of the obligating document to a contractor, recipient, or other third party.

To assess the procedures used by the Office of Financial Management to certify availability of funds for obligation actions funded from the MDA, we examined the procedures followed for 6 of the 12 obligation actions signed during the year ending March 31, 1991. The six actions we reviewed included obligations of $47.8 million, or 91 percent of the $52.3 million obligated during the year ending March 31, 1991.

Our audit showed that the Office of Financial Management's procedures were not adequate to ensure that funds were available for any of the six obligation actions examined because:

- In three of the cases reviewed, the Office of Financial Management aggregated the amounts budgeted in hundreds of PIO/Ps to arrive at the total amount available for obligations to a particular contractor. However, the Office's certification that funds were available, and the obligation documents themselves, cited the MDA -- not each individual PIO/P -- as the source of funds. Thus, the Office was assuming that the funds in each PIO/P would be available in the MDA when in fact, PIO/Ps are often amended to reduce the amount of funds available and the sponsoring offices frequently do not transfer the correct amount.

- In five of the cases reviewed, the funds required to fund the obligation actions had not been transferred to the MDA at the time the Office of Financial Management certified that the funds were available in the MDA and the obligation documents were signed. Therefore, the obligations were partially unfunded.

- In two cases, the Office of Financial Management certified that funds were available for obligation even though the amount of the obligations exceeded the cash balance in the MDA. As of March 31, 1990, the cash balance in the MDA was $8 million. Nevertheless, from April 19, 1990 through June 20, 1990, three new obligating documents totaling $17.4 million were signed. One obligation made on May 2, 1990 exceeded the cash balance in the MDA by $7.2 million and, when a subsequent obligation was made on June 20, 1990, the cash balance was exceeded by a total of $9.4 million.

- In two cases, the Office relied on estimates of the numbers of participants that would be trained and on estimates of the amounts that would be budgeted for each participant. In these cases, there was no positive assurance that the estimated number of participants would actually be trained. If the actual number of participants fell short of estimates, the obligation would be partially unfunded

- In three cases, there were errors in the Office of Financial Management's analysis of amounts budgeted for participant training expenses. In two of the three cases, the errors overstated the amount of funds available by $22,248, or 4 percent of the amounts we reviewed.

Our detailed findings with respect to each of the six obligation actions we reviewed are discussed in Appendix V.

Because the Office of Financial Management's procedures for certifying fund availability are not fully effective, obligations funded from the MDA are often, if not always, partially unfunded. This means that obligations must be partially funded from the excess cash balance in the MDA. The excess cash balance consists of funds that missions and offices have budgeted and transferred to the MDA for specific training programs but which were not used for those training programs. In effect, then, funds are obligated and spent for purposes other than those for which they were provided by missions and offices.

To understand why these problems occurred, we must look at how the Office of Financial Management has designed the MDA and its procedures for certifying fund availability. The Office cites the MDA -- not the individual PIO/Ps -- as the source of funds for obligation actions. However, the MDA has no permanent funding independent of PIO/Ps and the funds budgeted through PIO/Ps are not transferred immediately to the MDA. As discussed in the section beginning on page 11, sponsoring offices do not transfer correct amounts or do not transfer the funds on time about 39 percent of the time. The funds may not be transferred at all if a participant is unable to begin training. These factors necessarily result in overstating the amount of funds available for obligation actions.

In addition, the procedures used to certify fund availability are often very labor-intensive and vulnerable to error. The procedures for certifying availability of funding for the contract with Partners for International Education and Training are the most time consuming. The operating accountant in charge of the MDA estimates that it takes one staff member three weeks to verify the hundreds of line items in each of Partners' Consolidated New PIO/P Authorization and Budget Change Reports. The sheer volume of information that needs to be verified makes it likely that errors will occur and makes it difficult to adequately supervise the verification process. A simpler system would probably reduce the likelihood of errors.

Several alternatives are available to provide a more defensible basis for certifying that funds are available for obligation. Four possible alternatives (not an exhaustive list) are discussed below:

- Retain the present structure for the MDA but establish and implement procedures to ensure that funds are in fact available prior to certifying that they are available.

- As proposed by the Office of Financial Management in October 1990, obtain Congressional authorization to establish the MDA as a revolving fund. As a revolving fund, the MDA would have a permanent body of funding which would be available to fund obligation actions and make disbursements under these obligations. Disbursements would be charged back to the missions and offices which sponsor participant training, and they would reimburse the MDA to restore its funding to the original level.

- As proposed by the Office of Financial Management, arrange for sponsoring offices to specify what services they require from OIT's contractors using delivery orders or some similar mechanism. Under this alternative, the contractors would bill the sponsoring offices directly for the services rendered. Billing the sponsoring offices directly would eliminate the need for the MDA.

- Allot participant training funds to the Office of International Training rather than to individual missions and offices. The amount allotted to the Office of International Training would be based on requirements identified by each mission and office. This allotment would be used as the source of funds for funding contracts and making payments to the Office of International Training's contractors. Under this alternative, sponsoring offices would be involved in establishing training requirements and selecting participants, but would not be involved in financing the training programs managed by the Office of International Training's contractors.

In conclusion, the current design of the MDA does not permit the Office of Financial to certify that funds are available for obligation in accordance with A.I.D.'s fund control regulation. Current procedures often, if not always, result in overstating the amount of funds available. To solve this problem, the Office of Financial Management needs to develop and implement a system that will provide positive knowledge that funds are available before contracts are signed.

Management Comments and Our Evaluation

The Office of Financial Management has maintained since at least 1990 that the MDA does not provide a methodology to permit positive knowledge of fund availability. The Office cited this specific concern as the primary reason for the Agency's plan to replace the MDA with a revolving fund. The Office requested that this recommendation be closed based on the Agency's plan to establish a revolving fund.

While the plan to establish a revolving fund is generally responsive to the intent of Recommendation 7, it will take at least two years to establish the revolving fund. We believe that appropriate interim measures are needed to provide positive knowledge of fund availability in the interim. We believe that the Office of Financial Management should investigate whether any of the alternatives discussed in the finding (or other alternatives) can be implemented in the near term to provide positive knowledge that funds are available for contracts funded under the MDA. Pending such a determination, Recommendation 7 is unresolved.

Did the Office of Financial Management (a) review unliquidated obligations and (b) maintain accounting records for the master disbursing account on an accrual basis in accordance with applicable laws, binding U.S. Government policies, and A.I.D. policies and procedures?

The Office of Financial Management has not reviewed unliquidated obligations or maintained accounting records for the MDA on an accrual basis in accordance with applicable laws, binding U.S. Government policies and A.I.D. policies and procedures. These problem areas are discussed in the following sections.

Reviews of Unliquidated
Obligations Were Not Performed

Binding U.S. Government policies and A.I.D.'s own policies and procedures require reviews of unliquidated obligations to verify that recorded obligations are valid, accurate, and necessary for the purpose for which the obligations were made. However, Office of Financial Management staff had not made reviews of the unliquidated obligations in the MDA because the MDA was not designed to require reviews of unliquidated obligations at the PIO/P level. According to Office of Financial Management records, $16.9 million had been transferred to the MDA but not disbursed for specific PIO/Ps which ended on or before March 31, 1991. These unliquidated obligations were no longer needed since the PIO/Ps had ended.

> Recommendation No. 8 **We recommend that the Office of Financial Management implement A.I.D.'s procedures for conducting semi-annual reviews of the unliquidated obligations in the master disbursing account.**

Title 7, Chapter 3, of the General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies prescribes that:

> * * * each agency shall review its unliquidated obligations at least once a year, not necessarily at the fiscal year-end, to reasonably assure itself that only those transactions meeting the criteria of legally valid obligations * * * have been included.

The working papers and records on which such verifications are based shall be retained in the agency in a form that will facilitate audit.

A.I.D. Handbook 19 (Section 2.M. and Appendix 1.A.) requires that each accounting station review the status of its obligated funds semi-annually. The purpose of these reviews is to ensure that amounts kept on A.I.D.'s books are accurate, valid, and necessary for the purpose for which the obligation was made, and to provide the basis for deobligating funds that are no longer needed.

However, the Office of Financial Management has not made any reviews of the unliquidated obligations in the MDA because the MDA was not designed to require reviews of unliquidated obligations at the PIO/P level. That is, funds transferred into the MDA for a specific PIO/P but not used were not normally deobligated or returned to the sponsoring office. Instead, the funds were kept in the MDA as a reserve that could be used to pay expenses under other PIO/Ps. Therefore, no reviews of unliquidated obligations under each PIO/P were considered to be necessary. (As discussed in the report section beginning on page 7, we disagree with this practice and recommend that it be discontinued.)

Because reviews of unliquidated obligations in the MDA have not been made, A.I.D. has no assurance that the obligations are valid and necessary for the purposes authorized under individual PIO/Ps. Furthermore, due to the inaccurate accounting records for the MDA (as discussed in the report sections beginning on pages 14 and 19), the amount of any excess obligations at the time of our audit could not be accurately determined. However, Office of Financial Management records indicate that for 1,837 PIO/Ps terminated on or before March 31, 1991 sponsoring offices transferred more funds into the MDA than were actually disbursed for these PIO/Ps, leaving a balance of $16.9 million to be deobligated or returned to the sponsoring offices.[6] A few examples from the Office of Financial Management's records follow:

- Credit transfers for PIO/P 263-50081, which ended in August 1987, totaled $19,802. Only $17,144 was disbursed for this PIO/P, leaving a balance of $2,658 to be returned to the sponsoring office or deobligated.

- Credit transfers for PIO/P 279-40024, which ended in August 1989, totaled $174,939. Only $81,889 was disbursed for this PIO/P, leaving a balance of $93,050.

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[6] This information is taken from the participant payment system and is the best information available. However, as discussed in the report sections beginning on pages 23 and 30, our tests showed that information in the participant payment system is not reliable. In particular, the data in the participant payment system does not reflect administrative expenses incurred prior to January 1, 1990.

- Credit transfers for PIO/P 519-80167, which ended in August 1989, totaled $100,122. Only $71,670 was disbursed for this PIO/P, leaving a balance of $28,452.

In conclusion, because no reviews of unliquidated obligations in the MDA have been made, A.I.D. has not complied with binding U.S. Government policies or A.I.D. policies and procedures. The Office of Financial Management should assign responsibility for implementing A.I.D.'s procedures for performing reviews of unliquidated obligations at least twice each year on the MDA. On pages 11 and 12 we recommend that the Office of Financial Management, in consultation with the Office of General Counsel, deobligate or return to missions those funds in the MDA that are no longer needed for authorized purposes.

Management Comments and Our Evaluation

In its response to the draft report, management agreed with the intent of recommendation 8 but stated that the design of the MDA does not permit exact semi-annual reviews of unliquidated obligations. As an interim step, management plans to conduct quarterly reviews to identify excess cash held in the MDA and as a longer term step plans to replace the MDA with a revolving fund. Recommendation 8 is resolved and can be closed when the planned corrective actions have been fully implemented.

Accounting Records Are Not Kept on an Accrual Basis

The U.S. Code, as well as U.S. Government and A.I.D. policies and procedures, require that accounting records be kept on an accrual basis. However, the accounting records for the MDA are kept on a cash basis because Office of Financial Management staff have been preoccupied with more pressing problems such as delays and errors in recording credit transfers and payments. As a result, the Office of Financial Management did not have information it needed to monitor the financial status of the MDA.

> Recommendation No. 9 **We recommend that the Office of Financial Management establish and implement procedures for preparing information on accrued credit transfers and expenditures on a quarterly basis.**

Accrual accounting systems recognize income when it is earned and recognize expenses when goods and services are received. Cash accounting systems recognize income when it is actually received and recognize expenses when they are actually paid. Accrual accounting systems provide more complete information on the financial status of an entity.

The U.S. Code [31 U.S.C. 3512 (e)] provides that "The head of each executive agency shall maintain the accounts of the agency on an accrual basis to show the resources, liabilities, and costs of operations of the agency."

The General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies restates the law and goes on to say that:

> Thus, the accrual basis is the prescribed basis of accounting to be used by federal agencies. When the differences between the results of cash and accrual accounting are insignificant, the cash basis of accounting can be followed.
>
> * * *
>
> Generally, accrual accounting can contribute materially to effective financial control over resources and costs of operations and is essential to develop adequate cost information.

A.I.D. Handbook 19 (Section A.5. of Appendix 1.A.) requires the Agency Controller to ensure that obligations are liquidated in the period that goods are received or constructive receipt occurs.

Contrary to these requirements, the Office of Financial Management keeps the accounting records for the MDA on a cash basis rather than on an accrual basis. Office of Financial Management officials agreed that accrual accounting information would be useful and should be developed. However, they have not focused on the issue of how to develop accrual information because they have been preoccupied with addressing what they believed were more pressing problems affecting the MDA. Among these more pressing problems were delays and errors in recording credit transfers and payments and the lack of an adequate basis for certifying fund availability for contracts funded from the MDA.

Because accrual accounting information is not available, the Office of Financial Management cannot effectively monitor the financial status of the MDA. For example, the Office cannot tell what balance, if any, would remain in the MDA if all credit transfers owed to the MDA were made and all liabilities incurred by the MDA were paid.

The adverse consequences of this situation are illustrated by billing problems with the Department of Agriculture which the Office of Financial Management is still trying to resolve. Because accrual information was not available to show expenses being incurred for services provided by the Department of Agriculture, the Office of Financial Management did not realize that A.I.D. was incurring a large unrecorded liability, estimated at $13 million, from 1979 through 1988. Because these expenses were not being recorded, the Office believed that the MDA was over-funded and decided in 1983 to deobligate and return to the U.S. Treasury $5 million. In 1988, however, the Department of Agriculture unexpectedly presented bills for services rendered from 1979 through 1988. As a result, the Office of Financial Management had to reverse its earlier decision and make a $5 million upward adjustment of prior year funds. This problem would not have arisen if accrual information had been maintained.

In conclusion, the Office of Financial Management is not complying with U.S. Government and A.I.D. requirements that accounting records be kept on the accrual basis, and did not have information it needed to monitor the MDA's financial status. Therefore, the Office of Financial Management needs to establish and implement a system for preparing information on accrued credit transfers and accrued expenditures on a quarterly basis.

Management Comments and Our Evaluation

Management plans to evaluate the possibility of recording accruals for the MDA in the U101/country financial reporting system but believes it is most likely that accrual information will not be maintained until the MDA is replaced with a revolving fund. Recommendation 9 is resolved and can be closed when a system for measuring accruals have been established.

Has the Office of Financial Management documented its accounting system for the master disbursing account in accordance with binding U.S. Government policies?

The Office of Financial Management has not documented its accounting system for the MDA in accordance with binding U.S. Government policies. This problem is discussed in the following section.

Accounting System Is Not Adequately Documented

The General Accounting Office's Policy and Procedures Manual requires that Federal agencies document their accounting systems in sufficient detail to provide management, users, and others with an understanding of how the system operates and how each component of the system relates to the others. The Office of Financial Management has not prepared documentation meeting these requirements for the MDA because of other demands on staff time. The lack of acceptable documentation has contributed to processing errors and delays and makes it difficult for the Office of Financial Management to conduct self-evaluations of its operations.

<u>Recommendation No. 10</u> We recommend that the Office of Financial Management prepare complete and current procedures for operating the master disbursing account.

The General Accounting Offices's <u>Policy and Procedures Manual for the Guidance of Federal Agencies</u> (Title 2, Appendix III, Chapter 5) prescribes standards for documenting Federal agencies' accounting systems. It states that documentation of the actual operation of the accounting system must describe the financial management and accounting aspects of the system and explain how the functional users and operators interact with and use the system. The manual further states that:

> The documentation must be complete, current, and maintainable. In addition, it must be of sufficient scope and depth to provide management, users, systems operation and maintenance personnel, and auditors and other evaluators with an understanding of the design and operation of the system and its integration with and relation to all other components.

Although A.I.D. has 11 separate documents describing its accounting system for the MDA, these documents fall far short of the requirements prescribed by the General Accounting Office. For example, the documents do not accurately or completely explain:

- how to record credit transfers and disbursements,
- how to determine whether funds are available in the master disbursing account for obligations,
- when or how to notify sponsoring offices that budgets and commitments should be revised,
- when or how to notify sponsoring offices when funds transferred to the master disbursing account for specific training programs are in excess of disbursement needs, or
- when or how to reconcile the amounts transferred to the MDA for each specific training program with disbursements for each program.

The Office of Financial Management has not prepared more comprehensive and current documentation on the accounting system for the MDA because its staff have been preoccupied with other urgent problems affecting the MDA such as delays and errors in recording credit transfers and payments into the MDA accounting records.

Ironically, though, the lack of adequate documentation was at least partially responsible for the existence of these delays and errors. For example, as of October 16, 1991, staff in the

Cash Management and Payment Division had not processed a journal voucher to record credit transfers for the quarter ending March 31, 1991 because they were not certain how the transactions should be recorded. As another example, budget worksheet revisions are frequently not prepared when needed because there are no written instructions stating when budget worksheet revisions should be prepared. The failure to submit budget worksheet revisions led to hundreds of administrative fund control violations (see page 7). As a third example, an official in the Central Accounting and Reporting Division attributed errors in recording payments in the cash journal to a lack of understanding of how the payments were supposed to be recorded (see page 21).

Also, in our opinion, the lack of comprehensive and current documentation makes it difficult for the Office of Financial Management to perform meaningful internal control evaluations which are required by Office of Management and Budget Circular A-123. For example, the internal control questionnaires used by the former Overseas Project Accounting Division to conduct internal control evaluations in 1989 and 1990 did not include a complete description of the control objectives or the control techniques for the MDA. As a result, while the internal control evaluations identified several problems affecting the MDA, they did not disclose most of the problems discussed in this report. Similarly, the 1990 internal control evaluation performed by the Central Accounting and Reporting Division did not include a complete description of the control objectives and techniques applicable to MDA transactions and did not disclose several problems disclosed by our audit.

In conclusion, the Office of Financial Management did not have complete and current procedures describing how MDA transactions should be processed. The absence of such procedures has contributed to processing errors in the MDA accounting records and has made it difficult for the Office to perform meaningful self-evaluations of its operations. Therefore, the Office needs to develop complete and current procedures. Each Division with responsibilities for processing MDA transactions should participate in developing these procedures.

Management Comments and Our Evaluation

In response to Recommendation 10, management noted that most of its attention would be focused on correcting the other problems discussed in this report. However, management stated that it would prepare procedures addressing areas of concern within the MDA. Recommendation 10 is resolved and can be closed when procedures have been issued clearly describing how the MDA will operate up until the establishment of the revolving fund which is planned to replace the MDA.

REPORT ON INTERNAL CONTROLS

The following sections summarize our assessment of the internal controls related to each audit objective and include recommendations to the Office of International Training, the Office of Financial Management, and A.I.D.'s Management Control Review Committee.

Scope of Our Internal Control Assessment

We performed our audit in accordance with generally accepted government auditing standards, except that we did not design the audit to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect audit objective three (see Appendix II). Government auditing standards require that we assess the applicable internal controls when necessary to answer the audit objectives. These standards also require that we report on the controls assessed, the scope of our work, and any significant internal control weaknesses found during the audit.

Our assessment was limited to the controls applicable to the audit objectives. We did not perform our assessment to provide assurance on either the Office of Financial Management's or the Office of International Training's overall internal control structure.

We classified the significant internal control policies and procedures applicable to each audit objective by categories. For each category of controls, we obtained an understanding of the design of the relevant policies and procedures, determined whether they were placed in operation, and assessed control risk.

General Background on Internal Controls

Under 31 U.S. Code 3512 (b) (the Federal Managers' Financial Integrity Act) and implementing policies issued by the Office of Management and Budget, A.I.D. is responsible for establishing and maintaining adequate accounting and internal controls that provide:

- complete disclosure of the financial results of the agency,

- adequate financial information for management purposes,

- effective control over and accountability for assets, and

- reliable accounting results.

Section 3512 (d) of the law requires that the head of each agency prepare an annual report stating whether the agency's internal controls meet these standards and describing any material weaknesses in its internal controls.

The General Accounting Office has issued a document entitled Standards for Internal Controls in the Federal Government to be used by agencies in establishing and maintaining internal controls. These standards state that "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." The standards further state that documentation of internal control systems and transactions and other significant events must be purposeful and useful to managers in controlling their operations, and to auditors or others involved in analyzing operations.

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

Conclusions for Audit Objective One

The audit objective was to determine whether the Office of International Training and the Office of Financial Management ensured that (a) budget worksheets were prepared accurately and timely and offices sponsoring participant training were notified of the amount to be committed in a timely manner in accordance with A.I.D. policies and procedures and that (b) budgets were revised when necessary in accordance with A.I.D. policies and procedures. For the purposes of this report, we classified the applicable internal controls in the following categories:

- establishing standard budget factors to be used in preparing budget worksheets,

- reviewing budget worksheets to verify that they are prepared correctly,

- establishing timeliness standards stating how long each step in the budget process should take,

- monitoring compliance with timeliness standards,

- establishing standards for when budget worksheets should be revised, and
- monitoring compliance with these standards to verify that budget worksheets are revised when required.

We found that the first two controls listed above were logically and consistently applied. Therefore, we limited our substantive testing to determine whether budget worksheets were prepared accurately to the steps described in Appendix II. However, we found that the last four controls listed above were not properly designed or implemented and therefore we could not rely on the controls in performing the audit. Therefore, we expanded our substantive tests, described in Appendix II, to answer the audit objective.

We found the following significant internal control weaknesses:

- Timeliness standards have not been developed for most of the steps in the budget process.
- The Office of International Training and the Office of Financial Management did not routinely monitor how long each step in the budget process took.
- The Office of International Training did not record the dates when each step in the budget process occurred.
- The Office of Financial Management and the Office of International Training have not developed a written policy stating when budget worksheets should be revised.

Additional information on these weaknesses is included in the sections beginning on pages 5 and 7.

The Office of International Training and the Office of Financial Management have conducted internal control assessments of their operations pursuant to Office of Management and Budget Circular A-123. However, the assessments performed for 1990 and 1991 did not disclose these weaknesses.

Conclusions for Audit Objective Two

The audit objective was to determine whether the Office of Financial Management ensured that (a) credit transfers were made on time and in the correct amount and (b) credit transfers were recorded promptly and classified correctly in accordance with binding U.S. Government policies and A.I.D. policies and procedures. We classified the applicable internal controls in the following categories:

- monitoring to ensure that credit transfers are made in the correct amount and on time in accordance with the schedule specified in confirmation cables,

- reconciliation of source documents and entries made in various financial management systems, and

- monitoring the status of credit transfer posting.

We found that the first three controls listed above were not properly designed and/or implemented and so we could not rely on these controls in performing the audit. However, we performed substantive tests, described in Appendix II, to answer the audit objective. We found that the fourth control listed above was properly designed and implemented but we still performed substantive tests to answer the audit objective. The substantive tests are described in Appendix II.

We found the following significant internal control weaknesses:

- The Office of Financial Management did not monitor to ensure that missions and offices made credit transfers in the correct amount and according to the schedule prescribed in confirmation cables.

- Reconciliations between U101 reports and entries made to the U101/country financial reporting system and the participant payment system were not performed consistently or in a timely manner.

Additional information on these weaknesses is included in the sections beginning on pages 11 and 14.

The internal control reviews conducted by the Office of Financial Management for 1990 and 1991 did not disclose these weaknesses.

Conclusions for Audit Objective Three

The audit objective was to determine whether the Office of Financial Management recorded disbursements promptly and accurately in accordance with binding U.S. Government policies and A.I.D. policies and procedures. We classified the applicable internal controls in the following categories:

- use of a checklists, reconciliations, or other techniques to ensure that all payment documents are entered into each financial management system,

- reconciliations between source documents and entries made in various financial management systems, and

- reconciliations between entries made in different financial management systems.

We found that these controls were not properly designed or implemented and therefore we could not rely on the controls in performing the audit. However, as described in Appendix II, we performed substantive tests to answer the audit objective.

We found the following significant weaknesses:

- Although a checklist was used to help ensure that all payment documents were received for entry into the spreadsheet program maintained by the Cash Management and Payment Division, no controls had been implemented to verify that all payments are recorded in the cash journal or general ledger.

- Reconciliations between payment documents and entries to the participant payment system were performed, but no reconciliation between payment documents and entries to the spreadsheet program, the cash journal, or the general ledger were performed.

- No reconciliations between disbursements recorded in different financial management systems were performed.

Additional information on these weaknesses is included in the report section beginning on page 19. The internal control assessments performed by the Office of Financial Management for 1990 and 1991 did not disclose most of these weaknesses, although one of the assessments did state that control reconciliations of accounts were not being completed in a timely manner.

<u>Conclusions for Audit Objective Four</u>

The audit objective was to determine whether the Office of Financial Management certified fund availability in accordance with binding U.S. Government policies and A.I.D. policies and procedures. We classified the internal controls in the following categories:

- designing the MDA in such a way that fund control requirements can be met, and

- verifying amounts obligated and amounts available for obligation before obligating documents are signed.

We found that these controls were not properly designed or implemented, so we could not rely on the controls in performing the audit. However, we performed substantive tests to answer the audit objective. The substantive tests are described in Appendix II.

We found the following significant internal control weaknesses:

- The design of the MDA did not permit the Office of Financial Management to comply with fund control requirements.

- The Office of Financial Management did not verify the amount available for obligation in the MDA before obligating documents were signed.

Additional information on these weaknesses can be found in the report section beginning on page 23.

The internal co trol assessments performed by the Office of Financial Management in 1990 and 1991 did not disclose these weaknesses.

Conclusions for Audit Objective Five

This audit objective was to determine whether the Office of Financial Management (a) reviewed unliquidated obligations and (b) maintained accounting records for the MDA on an accrual basis in accordance with applicable laws, binding U.S. Government policies, and A.I.D. policies and procedures. We classified the internal controls in the following categories:

- establishing a requirement to perform reviews of unliquidated obligations in the MDA and performing the reviews, and

- establishing a requirement to maintain accrual information and actually maintaining the information.

We found that these controls were not properly designed or implemented, so we could not rely on the controls in performing the audit. However, we performed reviews, discussed in Appendix II, to answer the audit objective.

We found the following significant internal control weaknesses:

- No reviews of unliquidated obligations in the MDA have been performed.

- The accounting records for the MDA are not kept on an accrual basis.

Additional information on these weaknesses can be found in the report sections beginning on pages 27 and 29.

The internal control assessment performed by the Cash Management and Payment Division in 1990 discussed these problems.

Conclusions for Audit Objective Six

The audit objective was to determine whether the Office of Financial Management has documented its accounting system for the MDA in accordance with binding U.S. Government policies. We did not identify any internal controls applicable to this objective.

Material Weakness Should Be Reported

The Federal Managers' Financial Integrity Act and implementing regulations issued by the Office of Management and Budget require that material weaknesses in internal controls be reported to the President and the Congress. Within A.I.D., the Management Control Review Committee (MCRC) is responsible for reviewing internal control assessments prepared by A.I.D.'s components and recommending to the Administrator which internal control problems should be reported as material weaknesses. In our opinion, the internal control weaknesses described in the sections above collectively meet the definition of a material weakness. The MCRC has not identified the problems affecting the MDA as a material weakness because the Office of Financial Management and the Office of International Training have not identified most of the internal control weaknesses we found. As a result, the problems affecting the MDA were not given the high visibility and close tracking of corrective actions that would help resolve them.

> **Recommendation No. 11: We recommend that the Office of Financial Management, in preparing the next report under the Federal Managers' Financial Integrity Act, perform a comprehensive assessment addressing the internal control weaknesses identified in this report and report the material weaknesses.**

> **Recommendation No. 12: We recommend that the Office of International Training, in preparing the next report under the Federal Managers' Financial Integrity Act, perform a comprehensive assessment addressing the internal control weaknesses identified in this report and report the material weaknesses.**

> **Recommendation No. 13 We recommend that the Management Control Review Committee include the accountability problems affecting the master disbursing account as a material weakness in its next annual report to the Administrator.**

Title 31, Section 3512 (d) of the U.S. Code requires that the head of each executive agency prepare an annual report stating whether the internal control systems of the agency meet the standards in Title 31, Section 3512 (b). If the agency's systems do not meet these standards, the head of the agency must identify the material weaknesses and describe how they will be corrected.

Section 5.k. of Office of Management and Budget and Circular A-123 defines a material weakness as one which would:

> * * * significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory

requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

An August 3, 1991 memorandum from the Office of Management and Budget states that, since the above factors are judgmental and can be widely interpreted, each material weakness should meet one or more of the following additional criteria:

- merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee;

- exists in a major program or activity;

- could result in the loss of $10 million or more, or 5 percent or more of the resources of a budget line item; or

- its omission from the report could reflect adversely on the management integrity of the agency.

Within A.I.D., the Management Control Review Committee is responsible for reviewing internal control assessments, audit reports, and other assessments to identify weaknesses, including material weaknesses.

The internal control weaknesses affecting the MDA meet the definition of a material weakness because they:

- significantly weaken safeguards against waste and unauthorized use of funds;

- merit the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee; and

- exist in a major program or activity.

The MCRC has not previously reported management of the MDA as a material weakness for at least two reasons:

- The responsible Agency components did not disclose most of the internal control weaknesses affecting the MDA in their reports to the MCRC. However, the Office of Financial Management had reported on some of the internal control problems affecting the MDA and had identified management of the MDA as a "significant concern." The Office of International Training had reported the MDA as an "area of vulnerability" but did not report the specific internal control weaknesses we found in areas that the Office of International Training is responsible for. Office of International Training officials explained that they did not report some of the weaknesses included in our report because they did not and still do not consider them to be internal control weaknesses. For example, the Office of International Training believes that expenditures from the MDA may properly exceed the commitment amounts established by sponsoring offices. Therefore, the Office did not consider the lack of controls to prevent expenditures in excess of commitment amounts to be an internal control problem.

- Even if all the internal control weaknesses we found had been reported by the Office of Financial Management and the Office of International Training, members of the Management Control Staff in the Finance and Administration Directorate question whether the amounts involved are large enough in relation to A.I.D.'s total budget to justify reporting the MDA as a material weakness.

As a result, the internal control weaknesses affecting the MDA did not have the visibility and close tracking of corrective actions that come from designation as a material weakness. We note that management of the MDA has been designated a "significant concern" since at least 1990, but the problems have not been corrected. Higher visibility and close tracking of corrective actions would help resolve the accountability problems affecting the MDA.

Management Comments and Our Evaluation

In response to Recommendation 11, the Office of Financial Managment noted that it has reported the MDA as a "significant concern" since 1990, and made a commitment to report the MDA as a material weakness in the next report under the Federal Managers' Financial Integrity Act (FMFIA). In responding to Recommendation 12, the Office of International Training stated that it has also reported the MDA as a significant concern since 1990. The Office of International Training stated that at the time the next FMFIA report is due, it will assess progress in correcting the problems affecting the MDA and report accordingly. The Office of International Training also described a study which is underway and may provide additional relevant information. In response to Recommendation 13, the Management Control Staff stated that it would defer to the judgment of the Office of Financial Management and the Office of International Training regarding the seriousness of the problems affecting the MDA and that it would not disagree if the MDA were reported as a material weakness.

Recommendations 11 and 13 are resolved and may be closed once the MDA is reported as a material weakness. Recommendation 12 is unresolved pending the Office of International Training's decision on whether to report the MDA as a material weakness.

REPORT ON COMPLIANCE

This section summarizes our conclusions on the Office of Financial Management's compliance with applicable laws and binding U.S. Government policies. (The Office of International Training was not responsible for compliance with the laws and binding U.S. Government policies for which we evaluated compliance.)

<u>Scope of Our Compliance Assessment</u>

We conducted our audit in accordance with generally accepted government auditing standards except that we did not design the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect audit objective three (see Appendix II). Government auditing standards require that we assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives. These standards also require that we report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested A.I.D.'s compliance with the following legally binding requirements:

- the requirement in the General Accounting Office's <u>Standards for Internal Controls in the Federal Government</u> that transactions be recorded promptly and accurately;

- the requirements in the General Accounting Office's <u>Policy and Procedures Manual for the Guidance of Federal Agencies</u> that agencies have positive knowledge that funds are available for obligation before actually obligating funds, review their unliquidated obligations at least once a year, maintain their accounting records on an accrual basis, and document how their accounting systems operate; and

- the requirement in 31 U.S. Code 3512 (e) that agencies maintain their accounting records on an accrual basis.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing an entity conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance, and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

A.I.D.'s Office of Financial Management is responsible for complying with the laws and binding U.S. Government policies for which we evaluated compliance.

Conclusions on Compliance

For the items we tested, there were no indications or instances of abuse or illegal acts that could result in criminal prosecution that would significantly affect our audit objectives. The rest of our conclusions on compliance are summarized below.

Title 31, Sections 2512 (a), (b), and (c) require that the heads of executive agencies establish accounting and internal control systems that are consistent with the standards prescribed by the Comptroller General. These standards are included in the General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies, which incorporates the Standards for Internal Controls in the Federal Government. We found the following with respect to compliance with these standards:

- The General Accounting Office's Standards for Internal Controls in the Federal Government state that "transactions and other significant events are to be promptly recorded and properly classified." For the transactions we tested, the Office of Financial Management complied with this requirement with respect to transactions recorded in the spreadsheet program maintained by the Cash Management and Payment Division. However, for the items we tested, the Office did not comply with this requirement for transactions recorded in the participant payments system, the cash journal, the general ledger, and the U101/country financial reporting system. (See pages 14 through 22.)

- Title 2, Appendix I of the Policy and Procedures Manual states that "to control funds adequately, there must be an effective verification of available funds (positive knowledge) before creating an obligation * * *." For the obligation actions we tested, the Office of Financial Management did not comply with this requirement because it did not have positive knowledge that funds were available before the obligating documents were signed. (See pages 23 through 27.)

- Title 7, Chapter 3, Section 3.7.A. of the <u>Policy and Procedures Manual</u> states that "each agency shall review its unliquidated obligations at least once a year * * * to reasonably assure itself that only those transactions meeting the criteria of legally valid obligations * * * have been included." The Office of Financial Management has not complied with this requirement because it has not conducted any reviews of the unliquidated obligations in the MDA. (See pages 27 through 29.)

- Title 31, Section 3512 (e) of the U.S. Code, as well as Title 2, Appendix I of the <u>Policy and Procedures Manual</u>, require that Federal agencies maintain accounting records on an accrual basis. The Office of Financial Management has not complied with these requirements because it maintains the accounting records for the MDA on a cash basis. (See pages 29 through 31.)

- Title 2, Appendix III, Chapter 5 of the <u>Policy and Procedures Manual</u> prescribes detailed requirements for documenting the operation of Federal agencies' accounting systems. The Office of Financial Management has not complied with these requirements because it has not prepared acceptable documentation describing how the accounting system for the MDA works. (See pages 31 through 33.)

Additional Background Information on the Master Disbursing Account

This appendix provides additional details on how the MDA operates. In general, the MDA operates as follows:

- The mission or office prepares a project implementation order/participant training (PIO/P), representing an earmarking and commitment of funds, and sends the PIO/P to the Office of International Training.

- The Office of International Training places the PIO/P with one of its contractors, who are also called programming agents.

- Based on the requirements established in the PIO/P, the contractor designs a training program and places the participant with a school or other training institution. The contractor then sends a training implementation plan, describing the details of the training program, to the mission or office for approval.

- Once the mission or office approves the training implementation plan, the contractor prepares a budget worksheet using the standard budget factors included in A.I.D. Handbook 10.

- The Office of International Training reviews and approves the budget worksheet and forwards it to the Office of Financial Management.

- If the training program will last more than one year, the Office of Financial Management adds an inflation factor to certain costs shown in the budget worksheet. The Office then sends a confirmation cable, containing the final budget, to the mission or office.

- The mission or office reviews the final budget in the confirmation cable and, if it concurs, revises the earmark and commitment for the specific PIO/P to reflect the final budget.

- At the end of each quarter, the mission or office accrues expenses based on the final budget amount and transfers these funds to the MDA.

- The Office of Financial Management records the transfers (called credit transfers) in separate accounts under each appropriation used by the missions and offices. These separate accounts are called pseudo allotments.

- When contractors request disbursements from the MDA, the request is approved by the Office of International Training.

- The Office of Financial Management makes all disbursements from the pseudo allotment established under appropriation No. 72-11X1025.

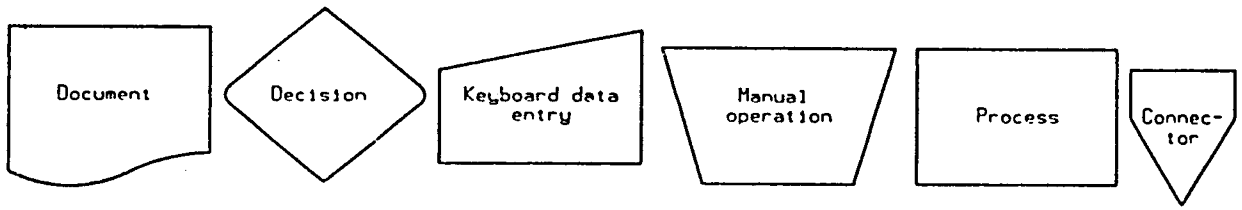
- At the end of each quarter, the Office of Financial Management distributes disbursements to each pseudo allotment based on a weighted average of the funds available under each pseudo allotment.

- The Office of Financial Management records accounting information for the MDA in five financial management systems: the participant payment system, the cash journal, the general ledger, the U101/country financial reporting system, and an unofficial spreadsheet program maintained by the Cash Management and Payment Division. To monitor the cash flow of the MDA, the Office relies primarily on information in the spreadsheet program. To monitor the status of funds for individual PIO/Ps, the Office relies on the participant payment system.

More detailed information on the budget process, the credit transfer process, and the payment process is included in the flow charts on the following pages.

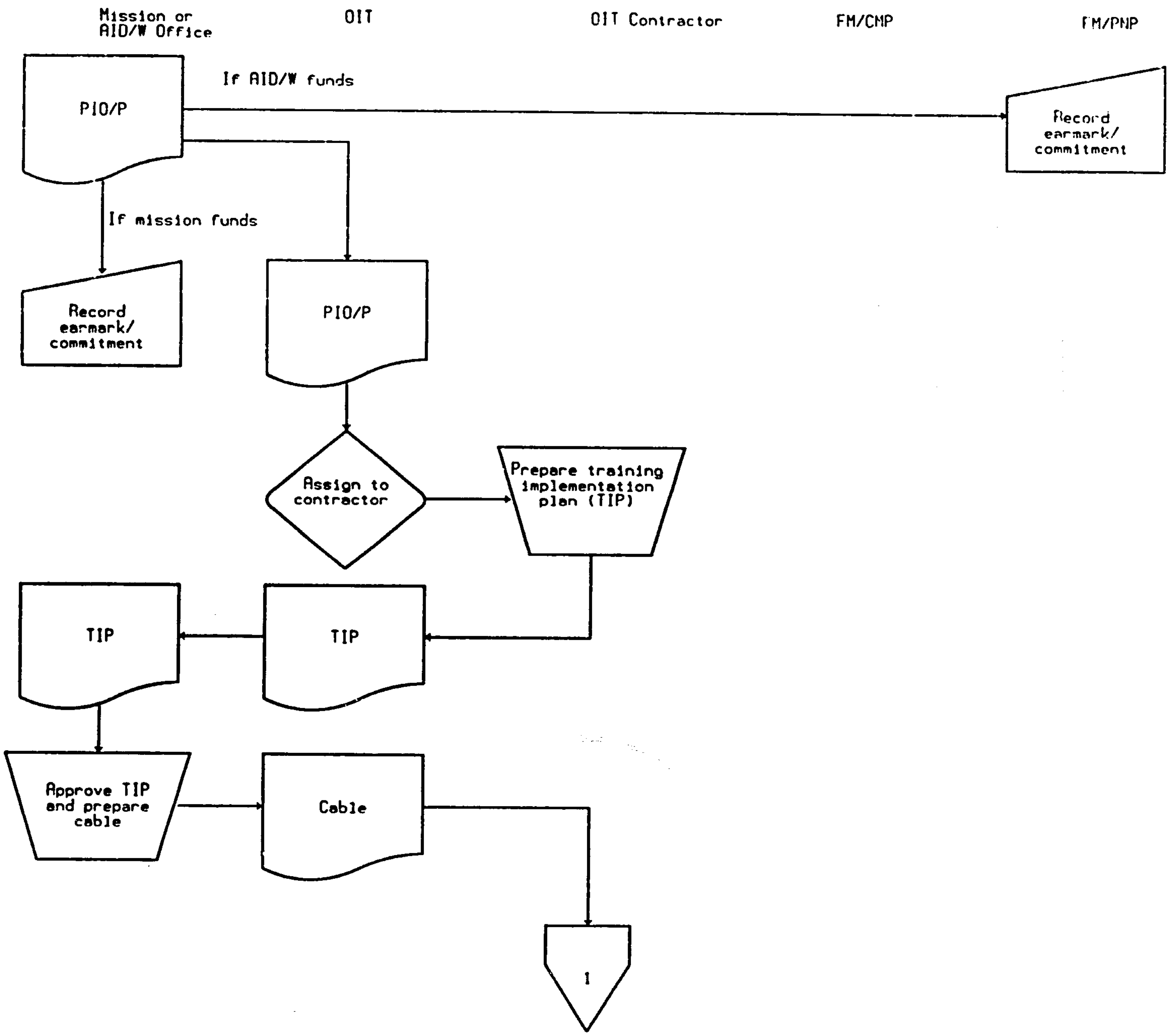
Index to Flow Charts

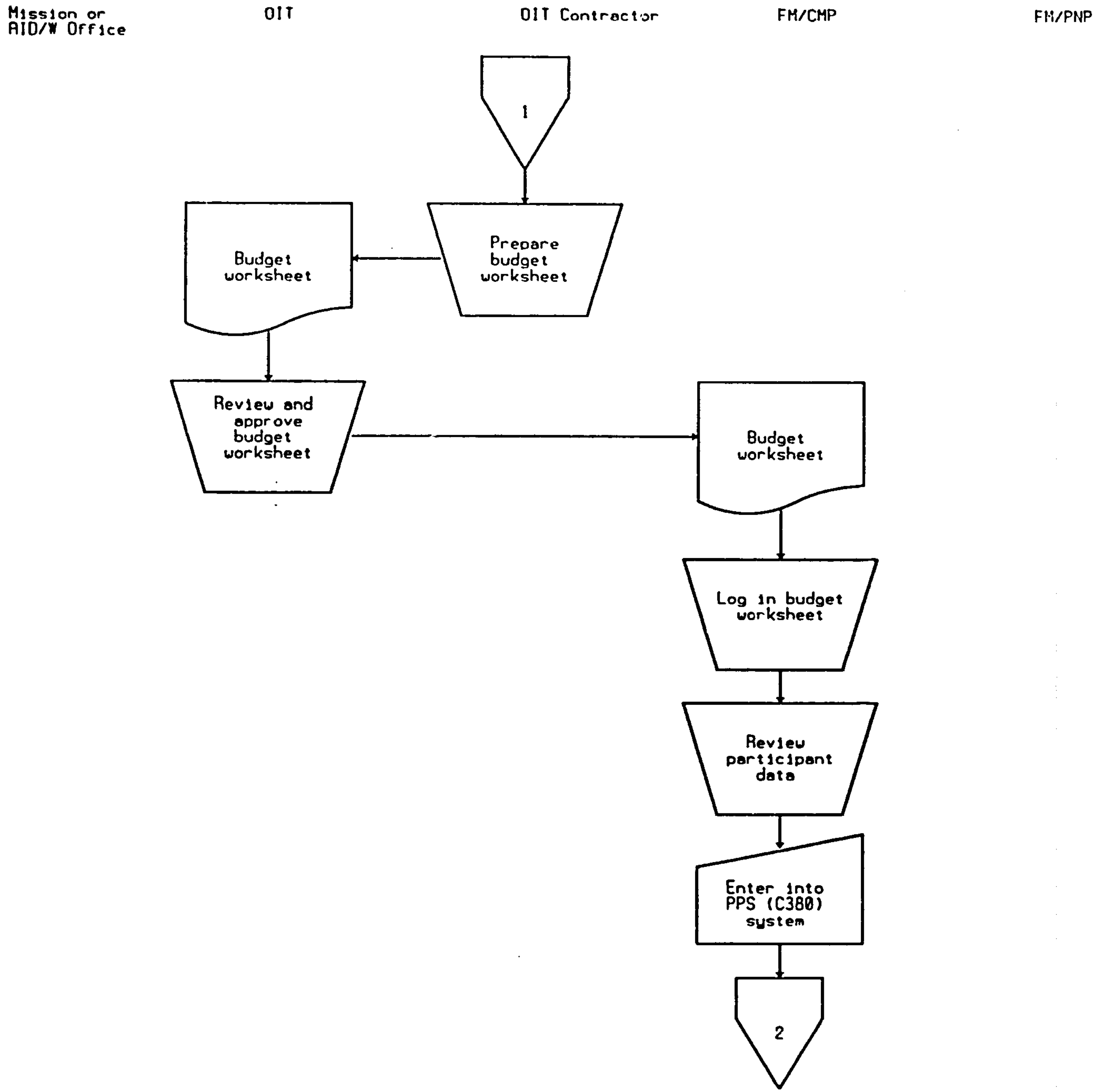
Key to Flow Chart
Symbols and Abbreviations

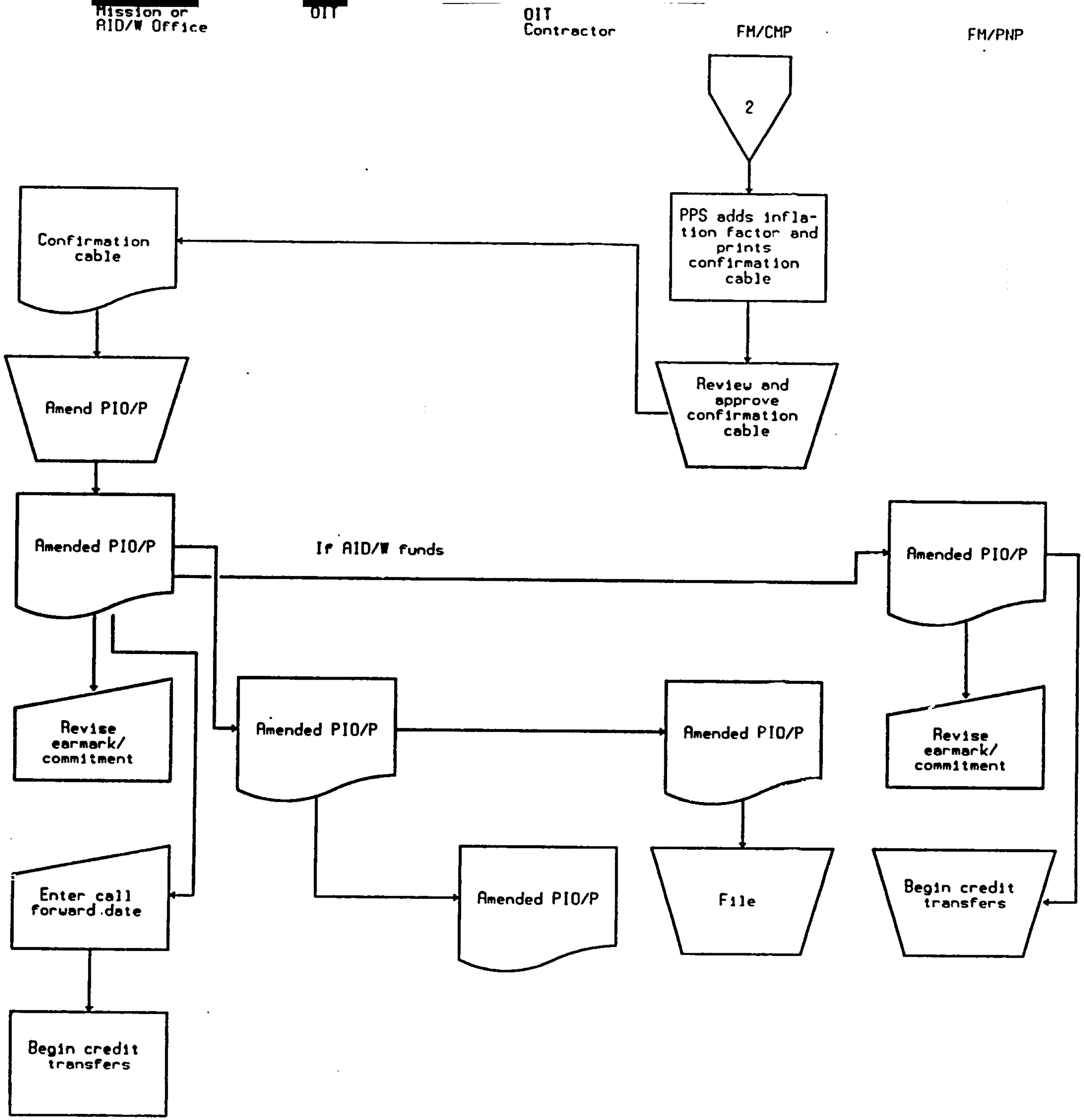


C425	U101/country financial reporting system
FACS	Financial and accounting control system
FM/CAR	Office of Financial Management/Central Accounting and Reporting Division
FM/CMP	Office of Financial Management/Cash Management and Payment Division
FM/LM	Office of Financial Management/Loan Management Division
FM/PNP	Office of Financial Management/Project/Non-Project Branch
G/L	General ledger
JV	Journal voucher
OIT	Office of International Training
OLQ	On-line query
PIO/P	Project implementation order/participant training
PPS	Participant payment system
TIP	Training implementation plan

Budget Process

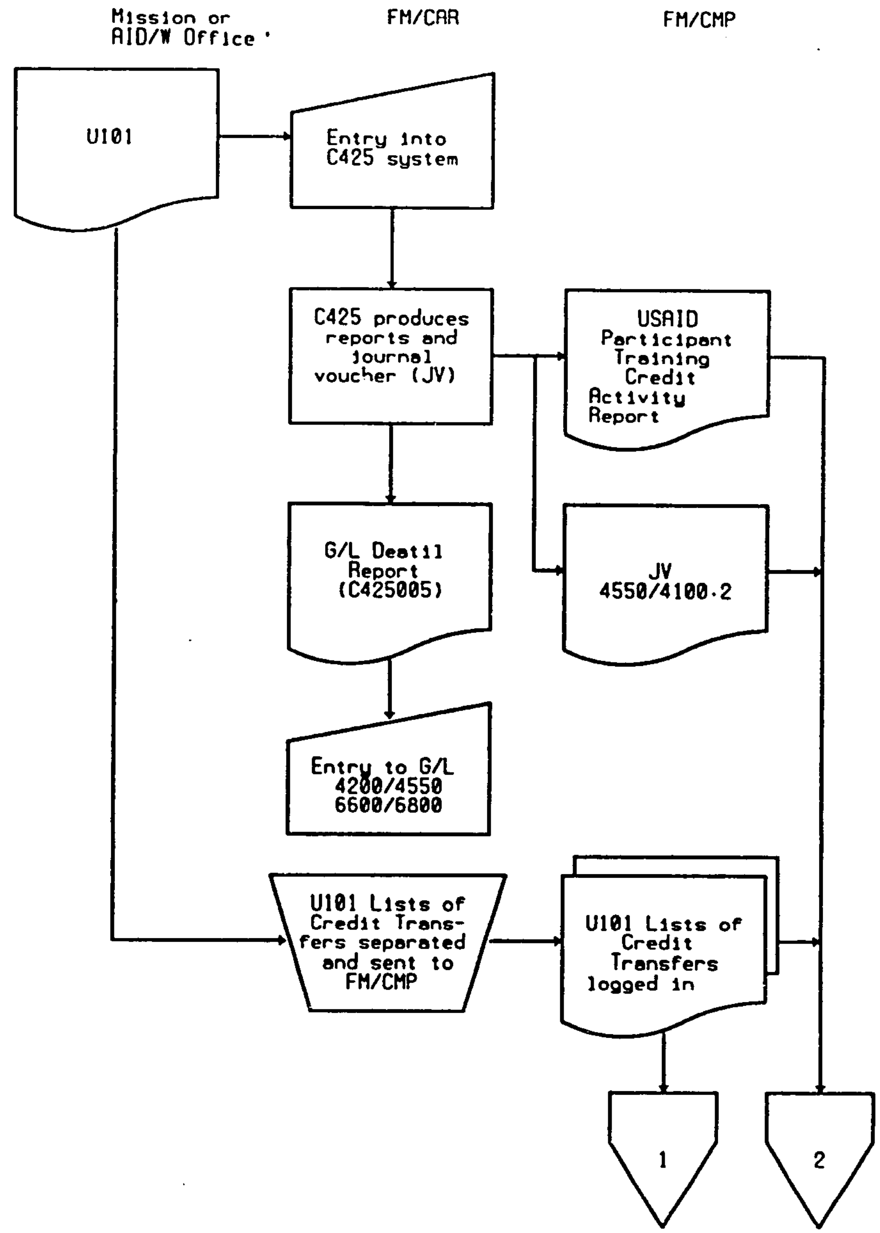


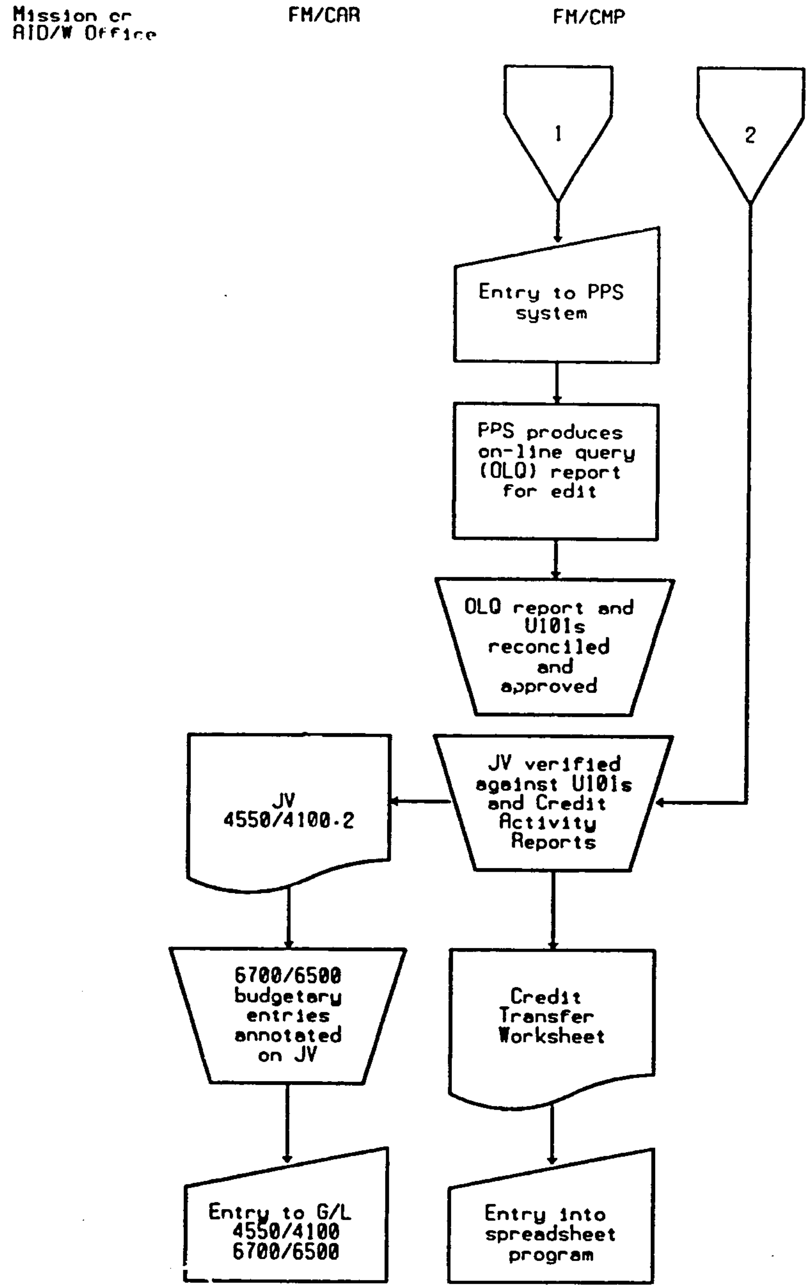

Mission or AID/W Office
OIT
OIT Contractor
FM/CMP
FM/PNP
1
Prepare budget worksheet
Budget worksheet
Review and approve budget worksheet
Budget worksheet
Log in budget worksheet
Review participant data
Enter into PPS (C380) system
2



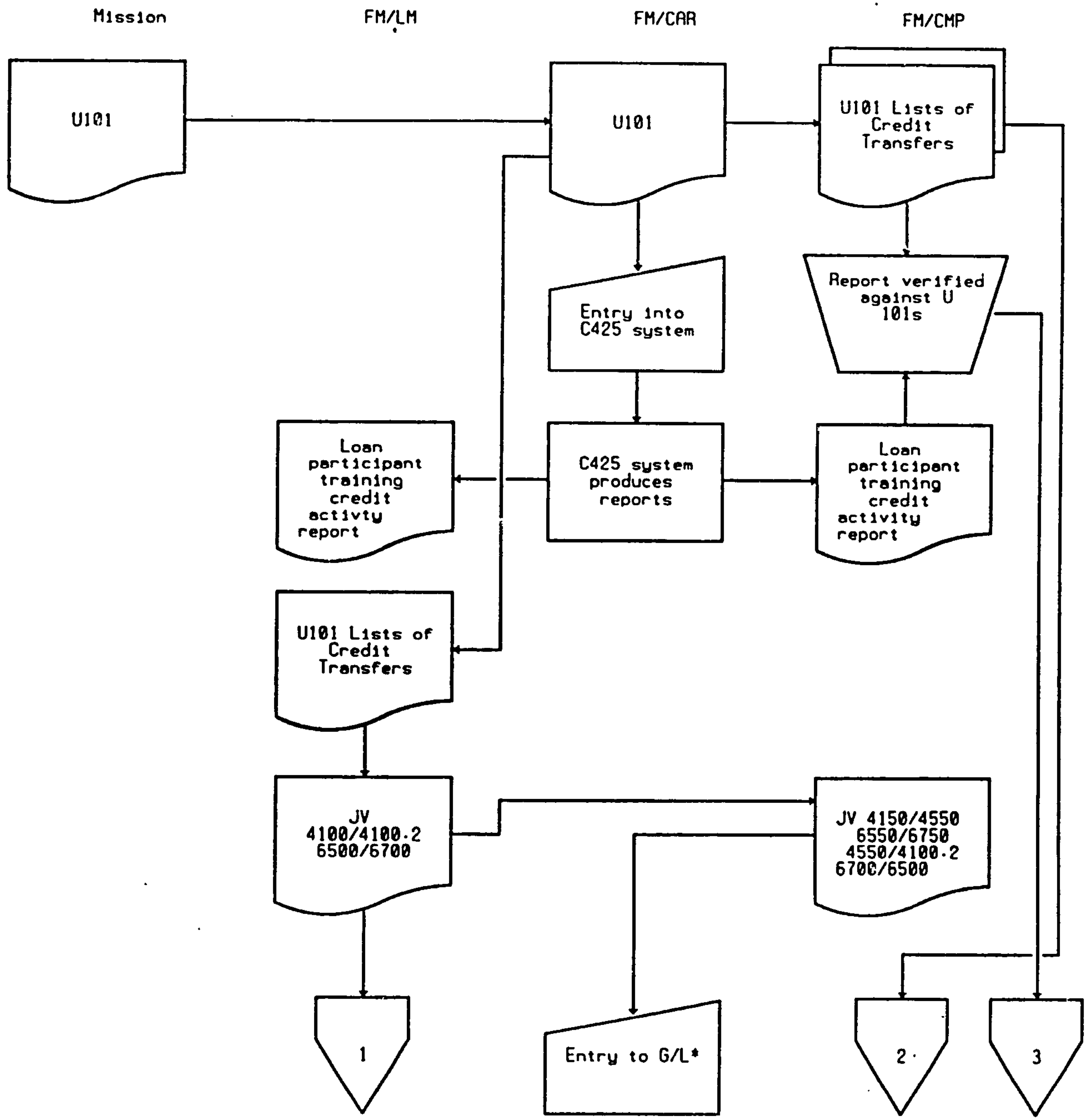
Mission or AID/W Office
OIT
OIT Contractor
FM/CMP
FM/PNP
2
PPS adds infla- tion factor and prints confirmation cable
Confirmation cable
Review and approve confirmation cable
Amend PIO/P
Amended PIO/P
If AID/W funds
Amended PIO/P
Revise earmark/ commitment
Amended PIO/P
Amended PIO/P
Revise earmark/ commitment
Enter call forward date
Amended PIO/P
File
Begin credit transfers
Begin credit transfers

Mission Grant Credit Transfers

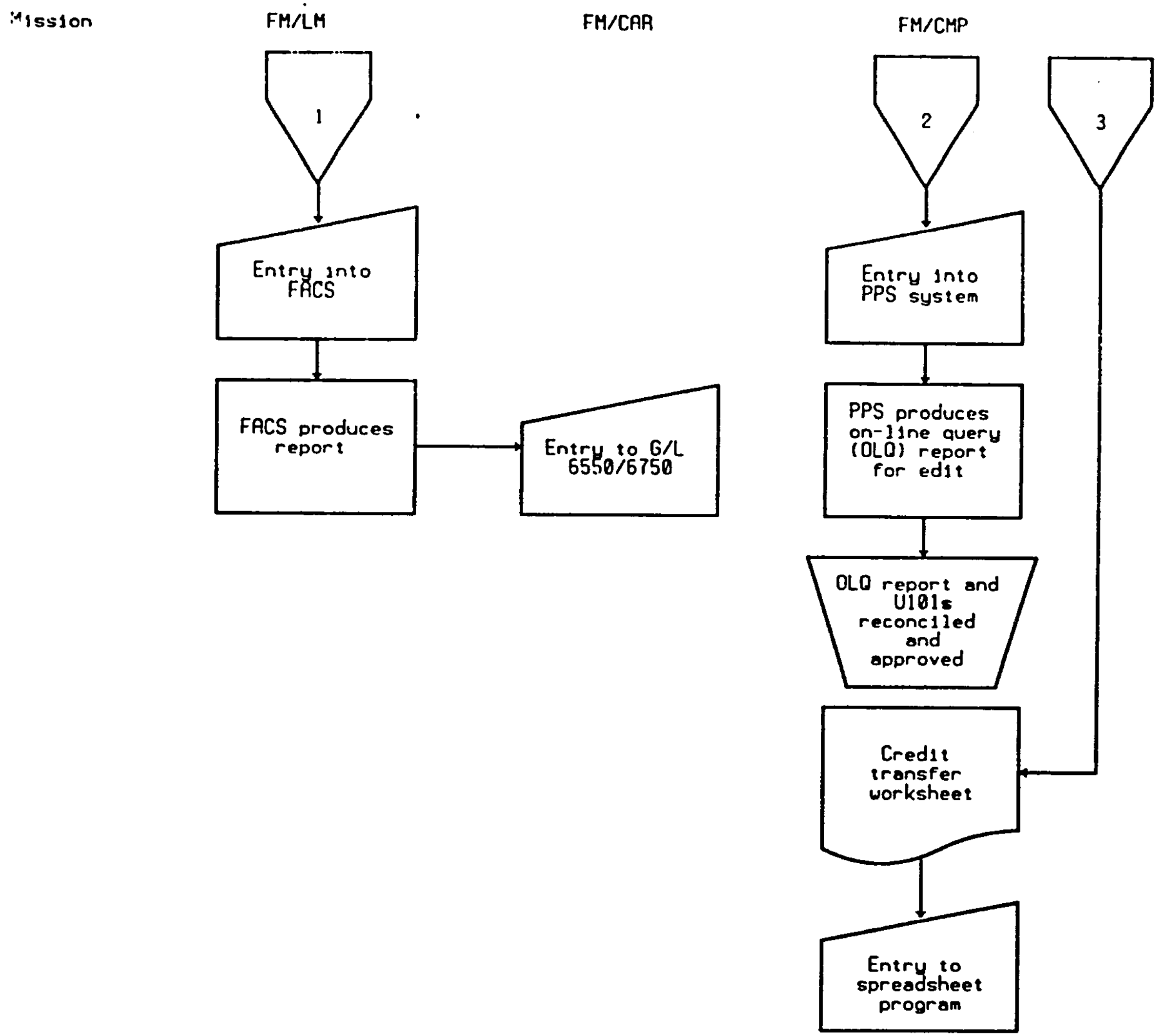



Mission or AID/W Office
FM/CAR
FM/CMP
1
2
Entry to PPS system
PPS produces on-line query (OLQ) report for edit
OLQ report and U101s reconciled and approved
JV verified against U101s and Credit Activity Reports
JV 4550/4100.2
6700/6500 budgetary entries annotated on JV
Credit Transfer Worksheet
Entry to G/L 4550/4100 6700/6500
Entry into spreadsheet program

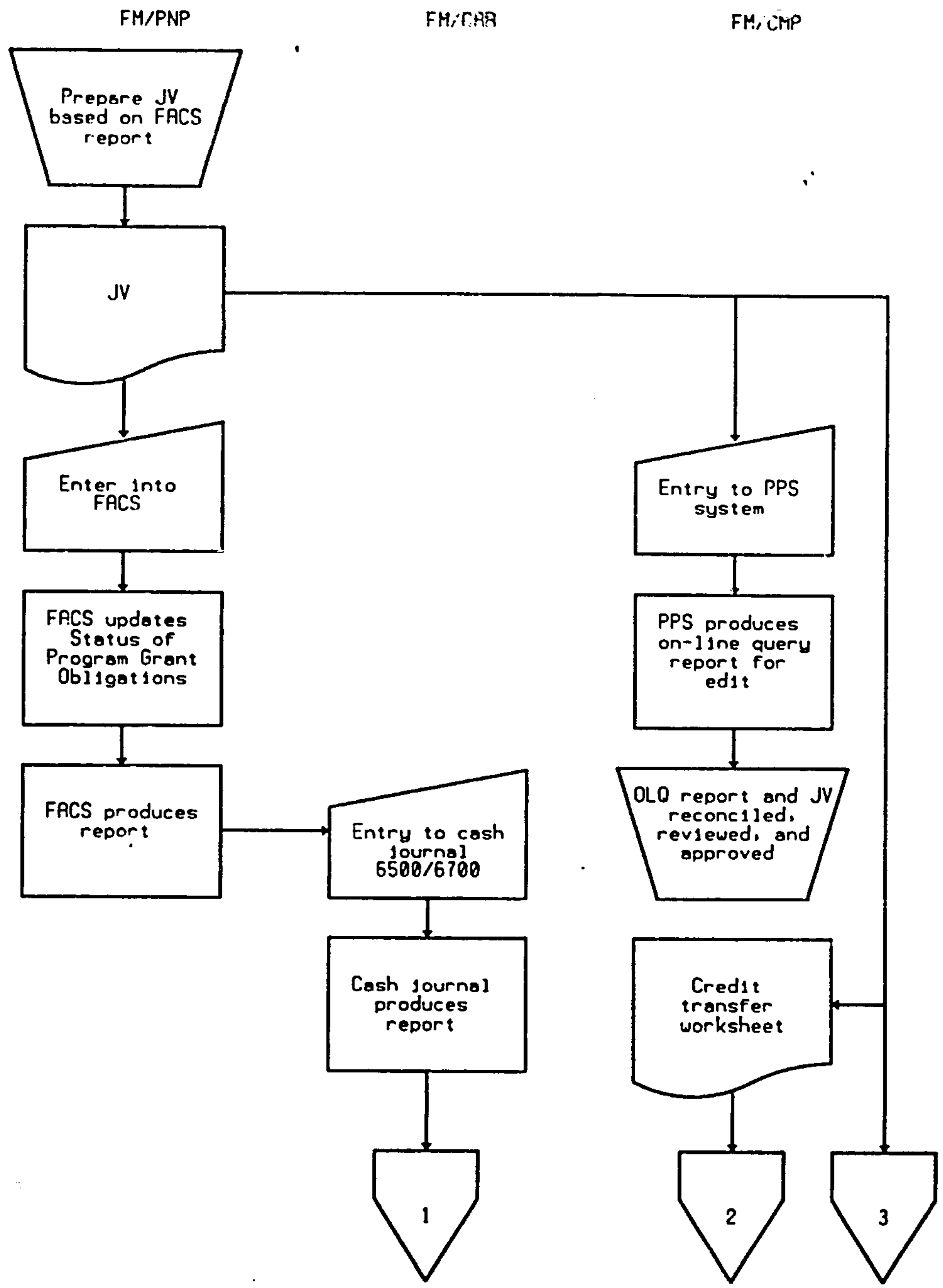
Loan Credit Transfers

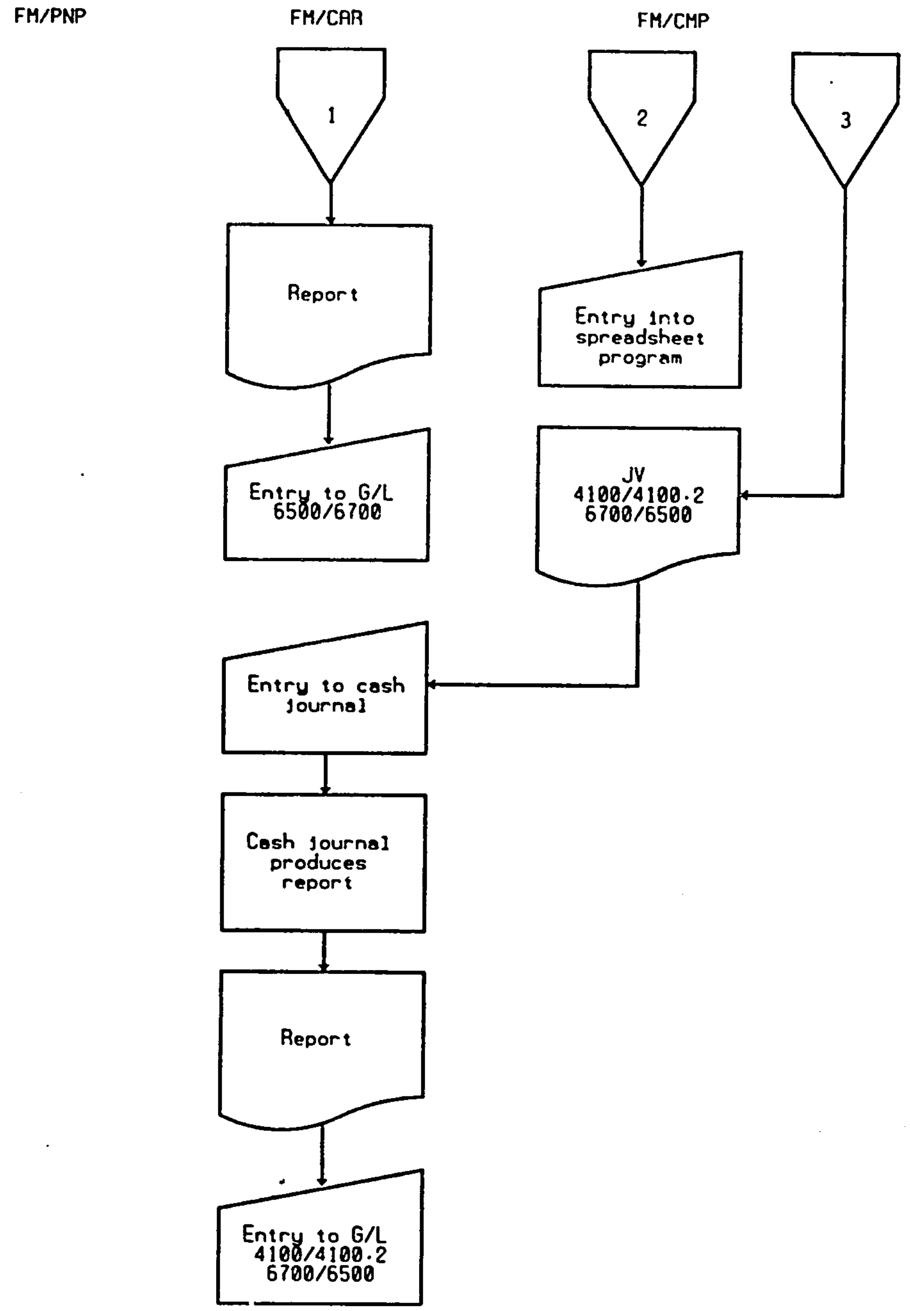


* 4150/4550 4550/4100.2 6700/6500

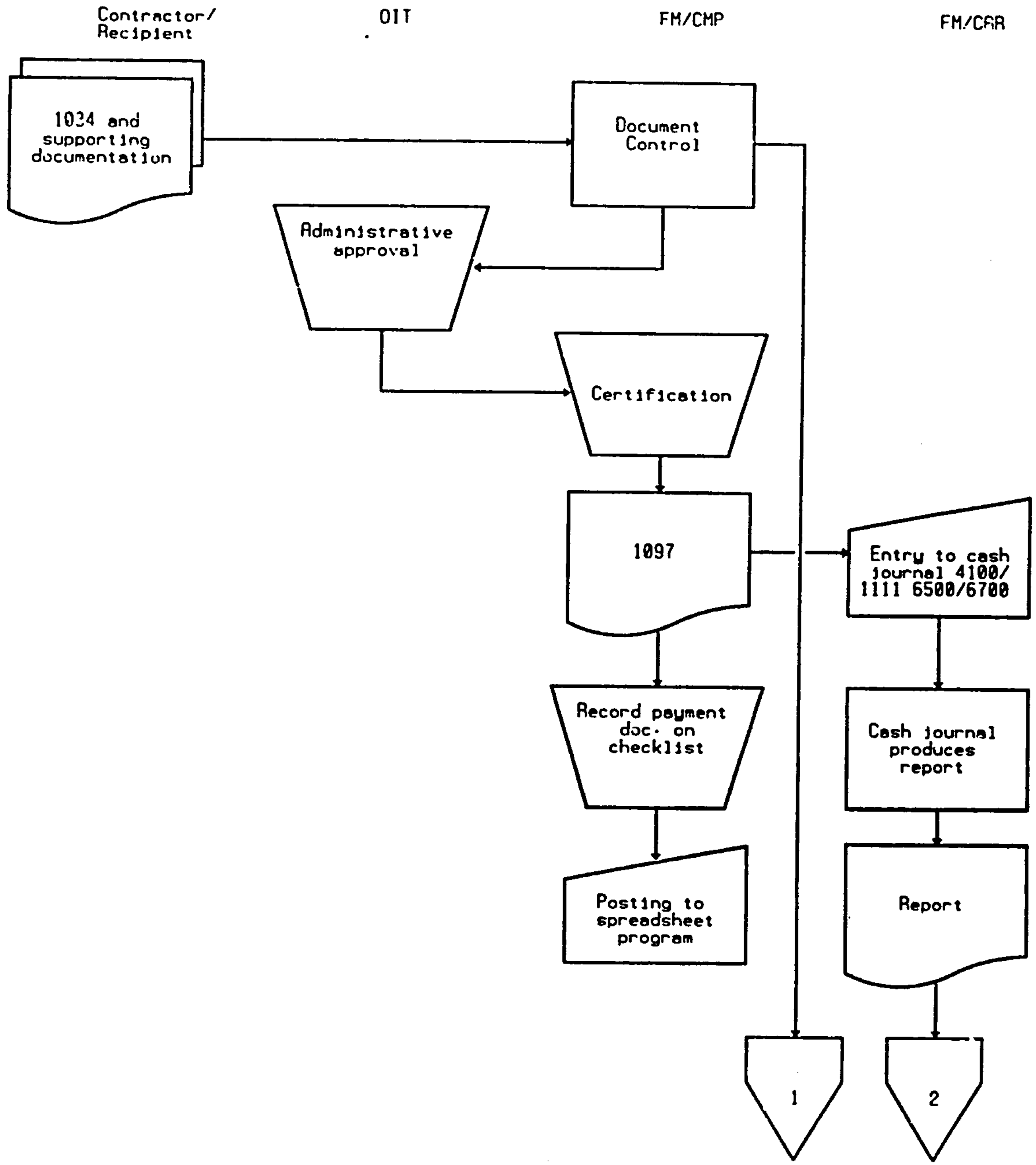

Mission
FM/LM
FM/CAR
FM/CMP
1
2
3
Entry into FACS
FACS produces report
Entry to G/L 6550/6750
Entry into PPS system
PPS produces on-line query (OLQ) report for edit
OLQ report and U101s reconciled and approved
Credit transfer worksheet
Entry to spreadsheet program

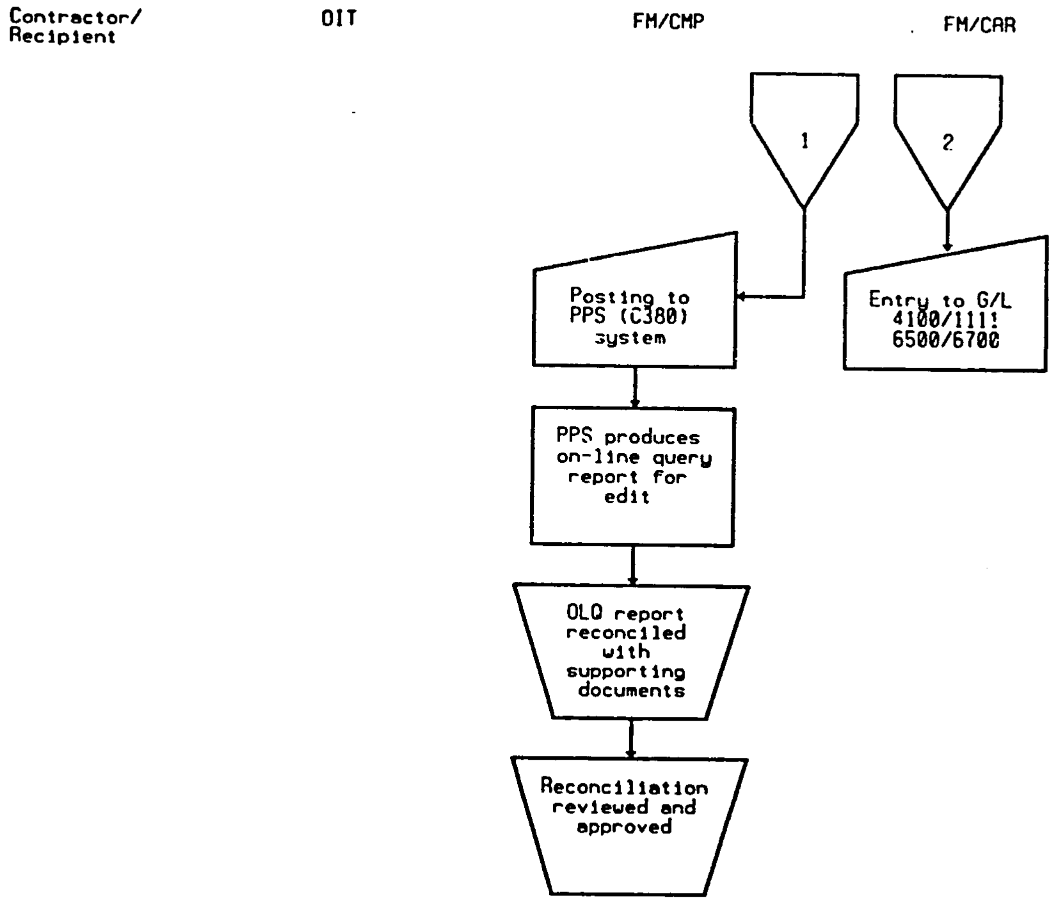
AID/W Credit Transfers



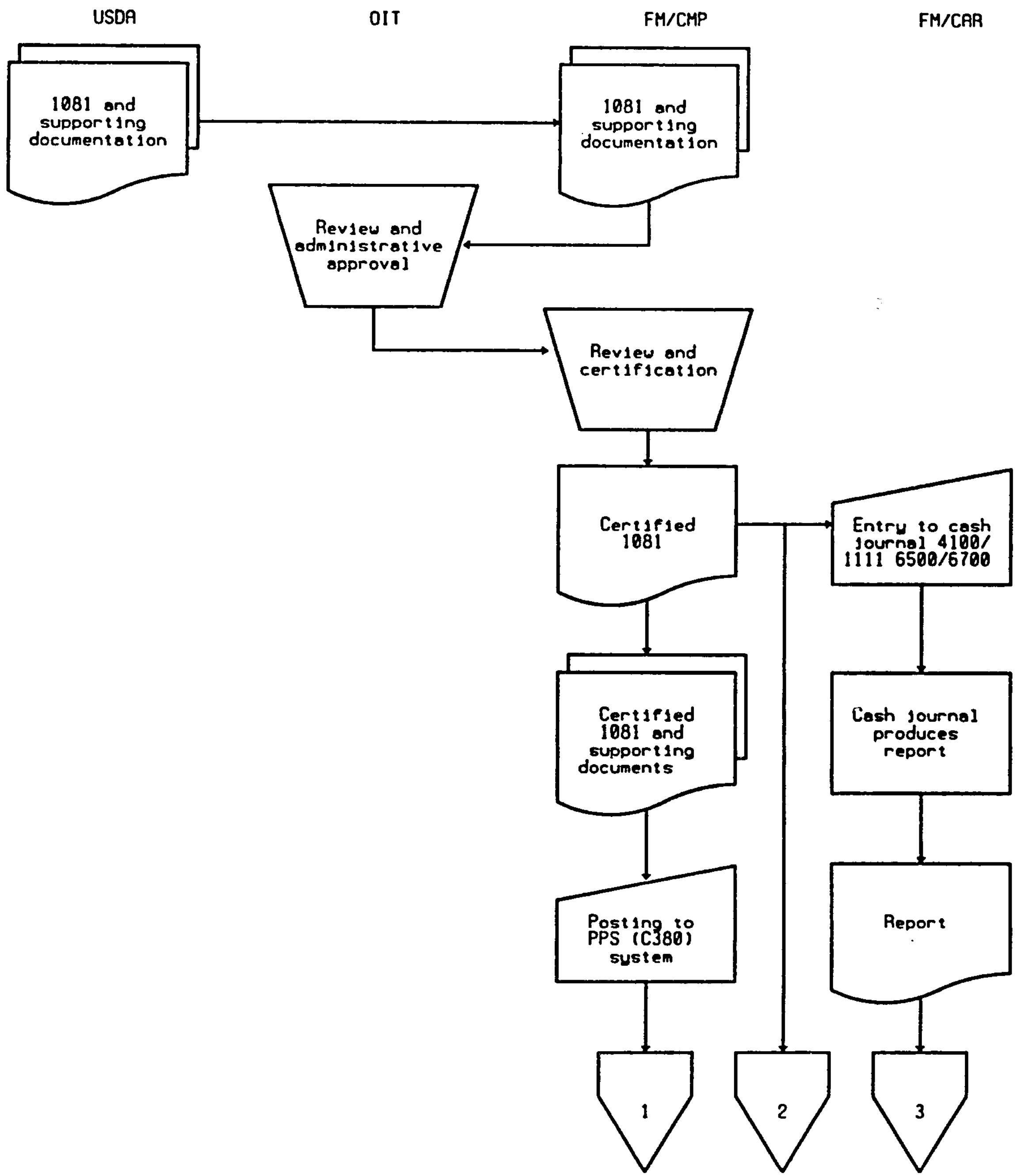

FM/PNP
FM/CAR
FM/CMP
1
2
3
Report
Entry into spreadsheet program
Entry to G/L 6500/6700
JV 4100/4100.2 6700/6500
Entry to cash journal
Cash journal produces report
Report
Entry to G/L 4100/4100.2 6700/6500

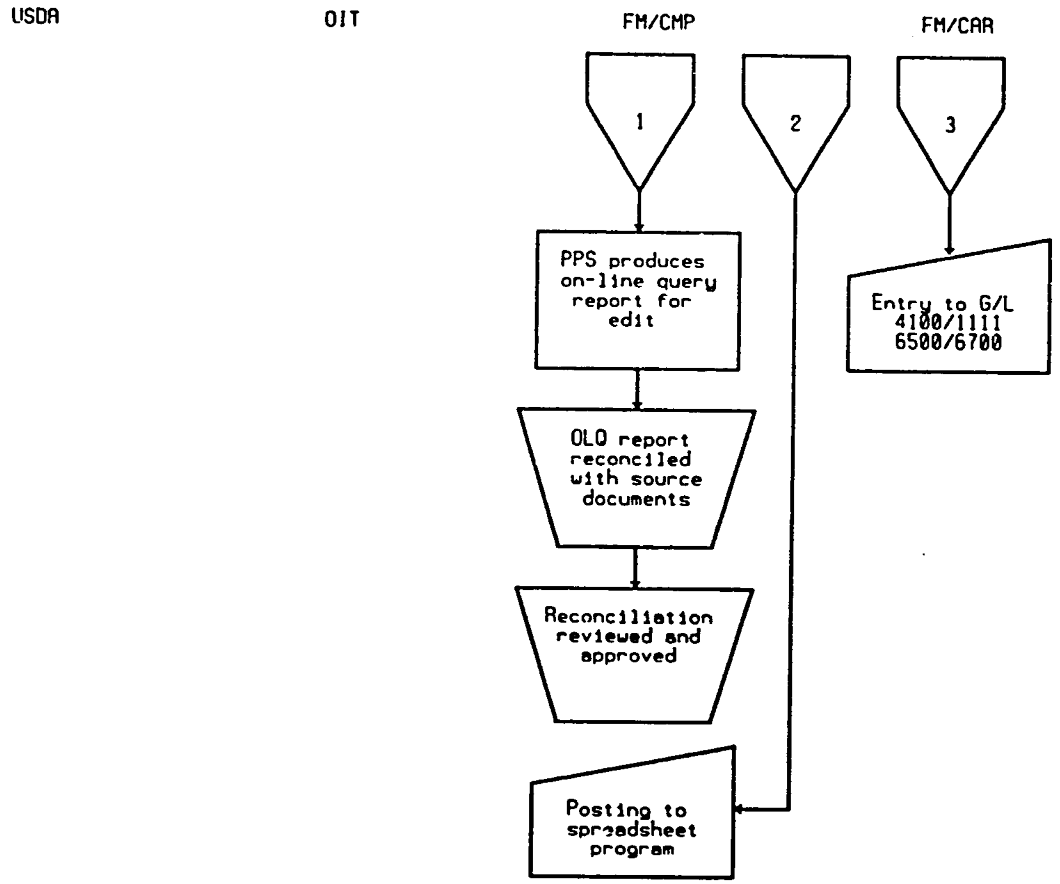
Letter of Credit Payments



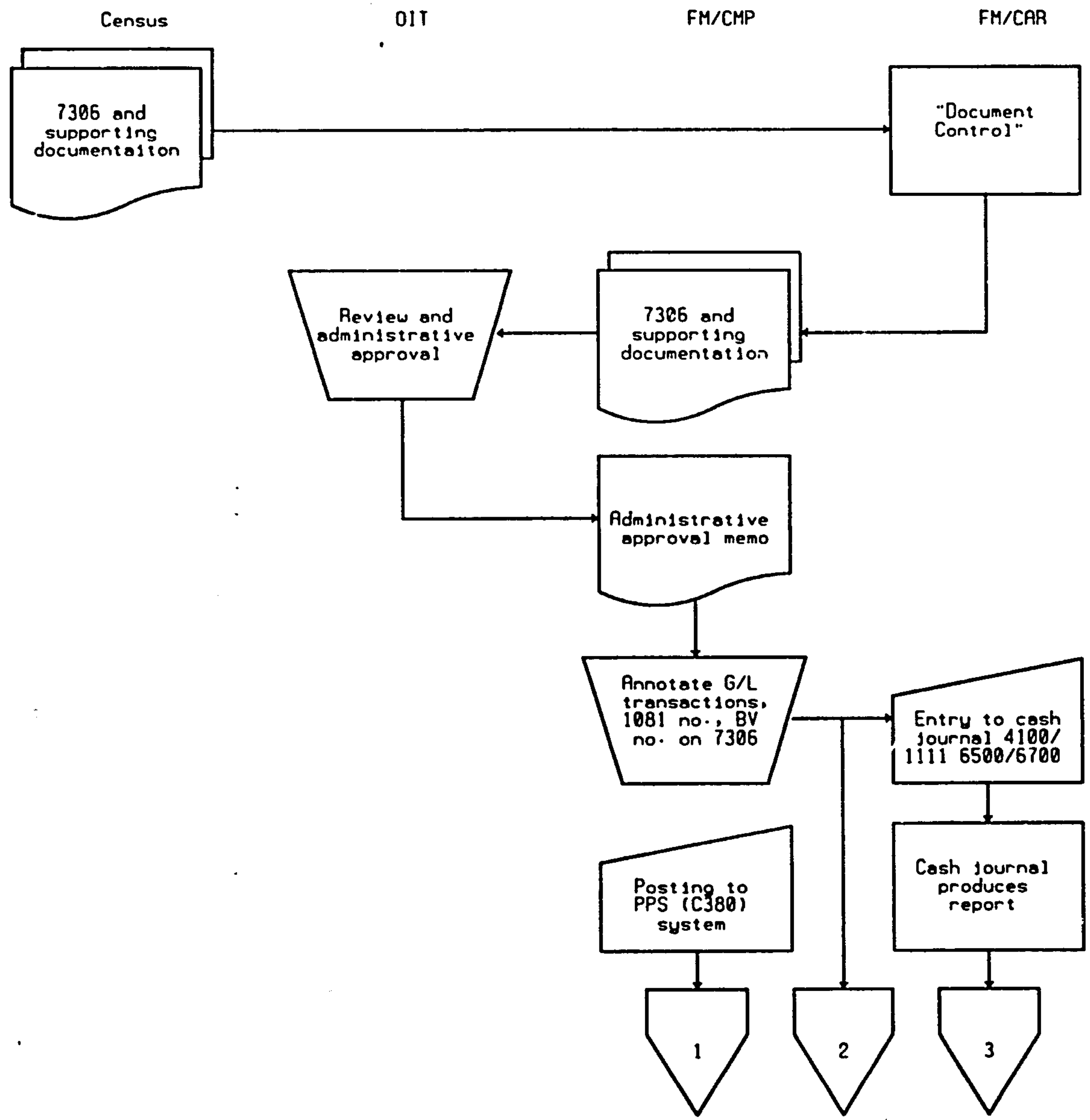

Contractor/ Recipient
OIT
FM/CMP
FM/CAR
1
2
Posting to PPS (C380) system
Entry to G/L 4100/1111 6500/6700
PPS produces on-line query report for edit
OLQ report reconciled with supporting documents
Reconciliation reviewed and approved

USDA Payments



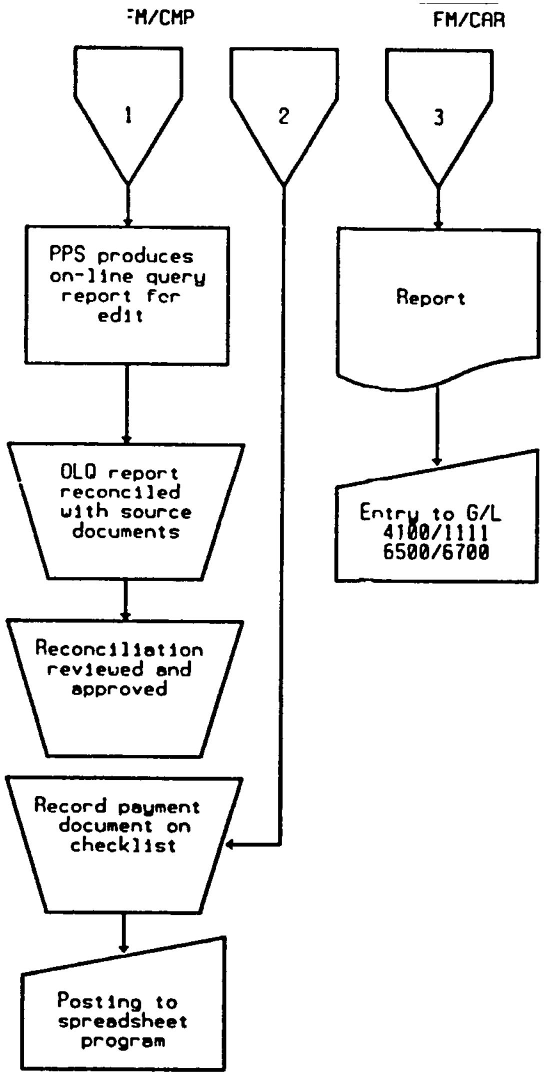

USDA
OIT
FM/CMP
FM/CAR
1
2
3
PPS produces on-line query report for edit
OLQ report reconciled with source documents
Reconciliation reviewed and approved
Posting to spreadsheet program
Entry to G/L 4100/1111 6500/6700

Bureau of Census Payments



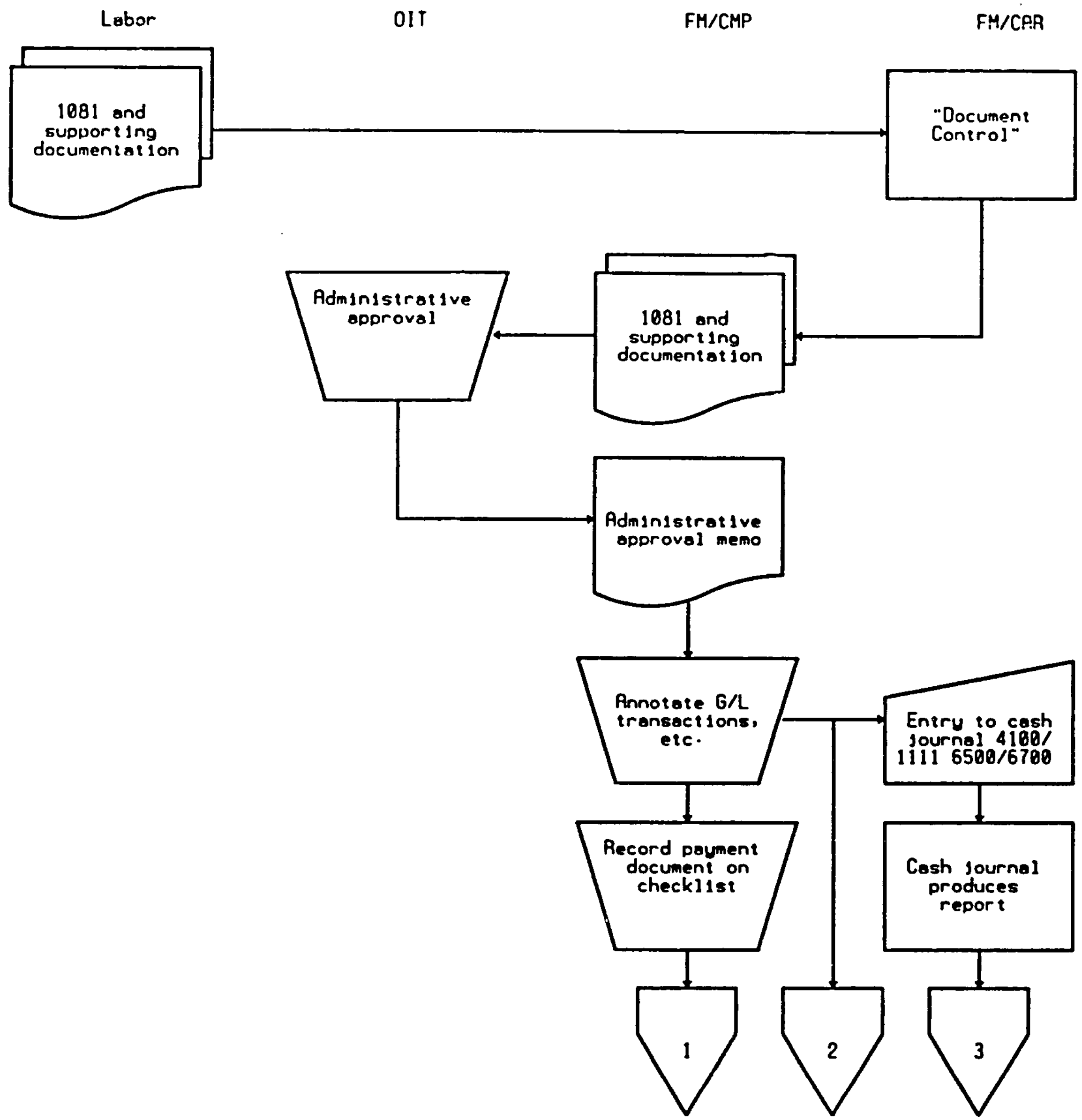
Census

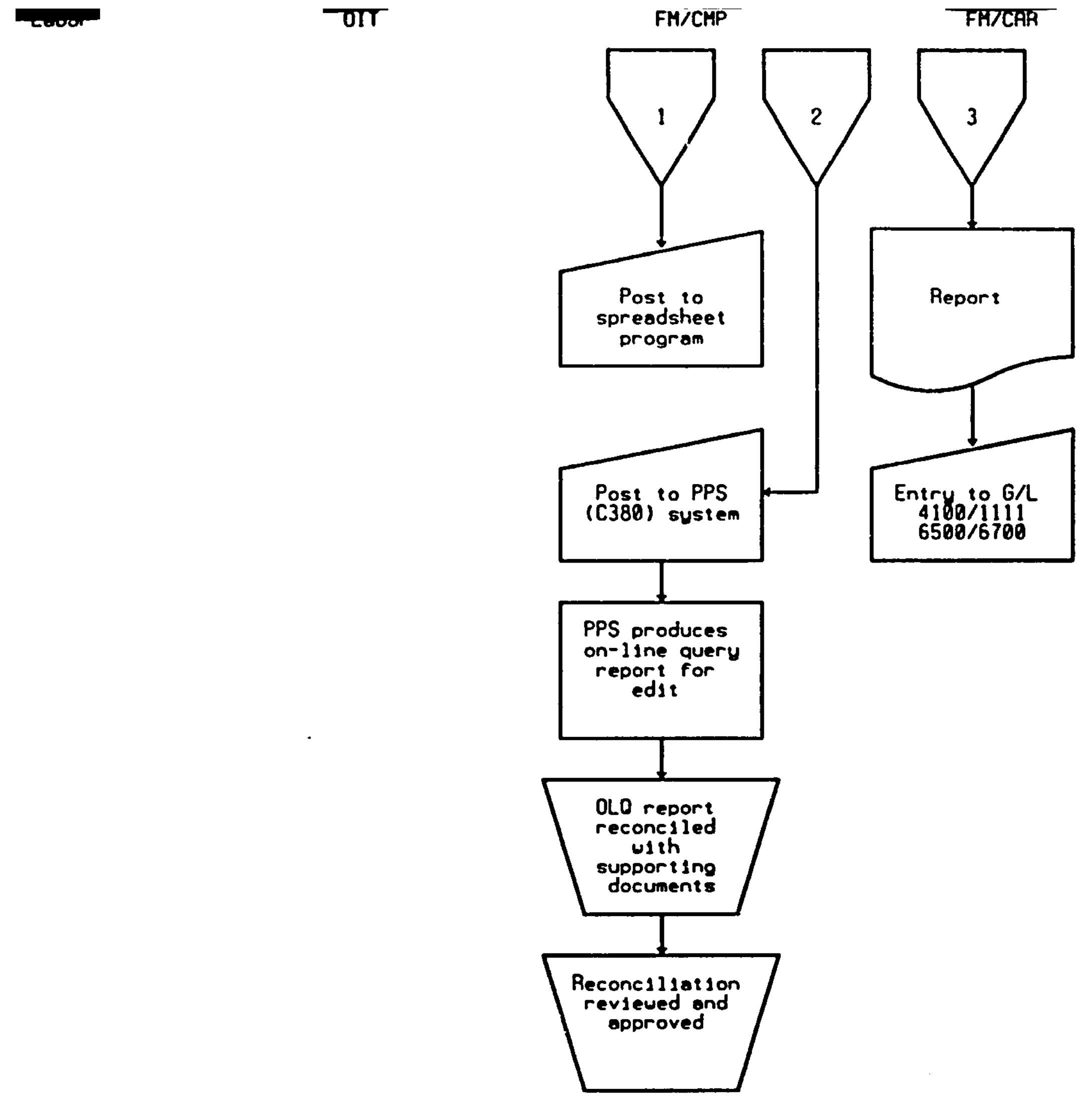
OIT



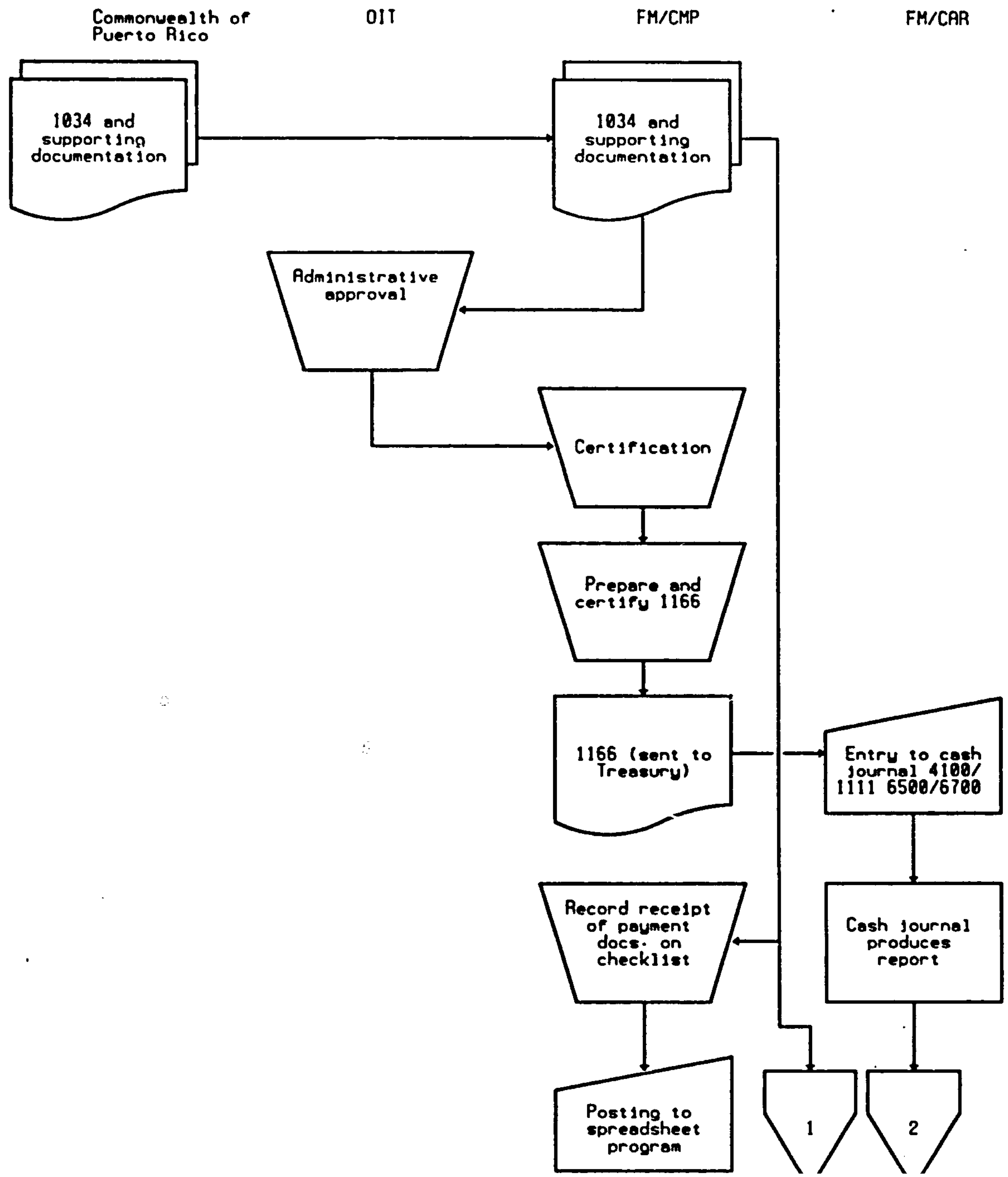
FM/CMP
FM/CAR
1
2
3
PPS produces on-line query report for edit
OLQ report reconciled with source documents
Reconciliation reviewed and approved
Record payment document on checklist
Posting to spreadsheet program
Report
Entry to G/L 4100/1111 6500/6700

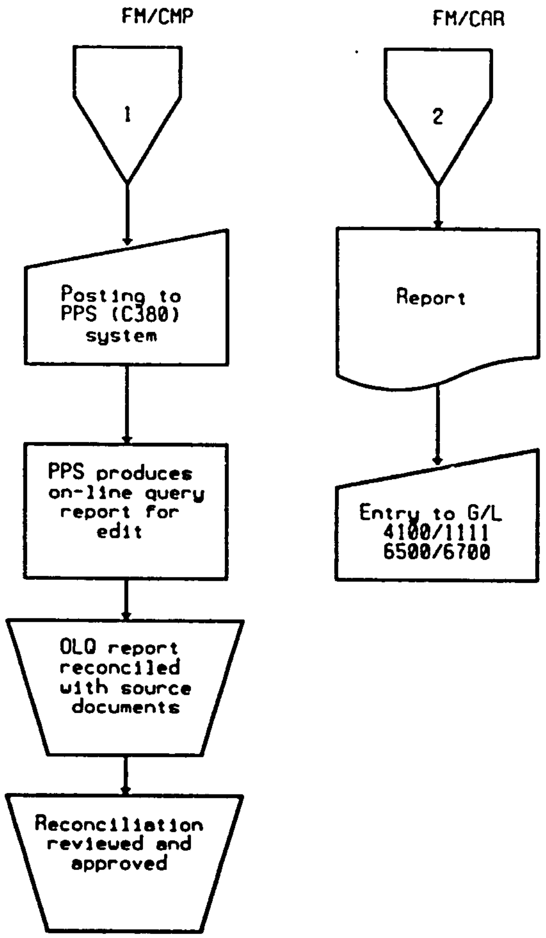
Dept. of Labor Payments



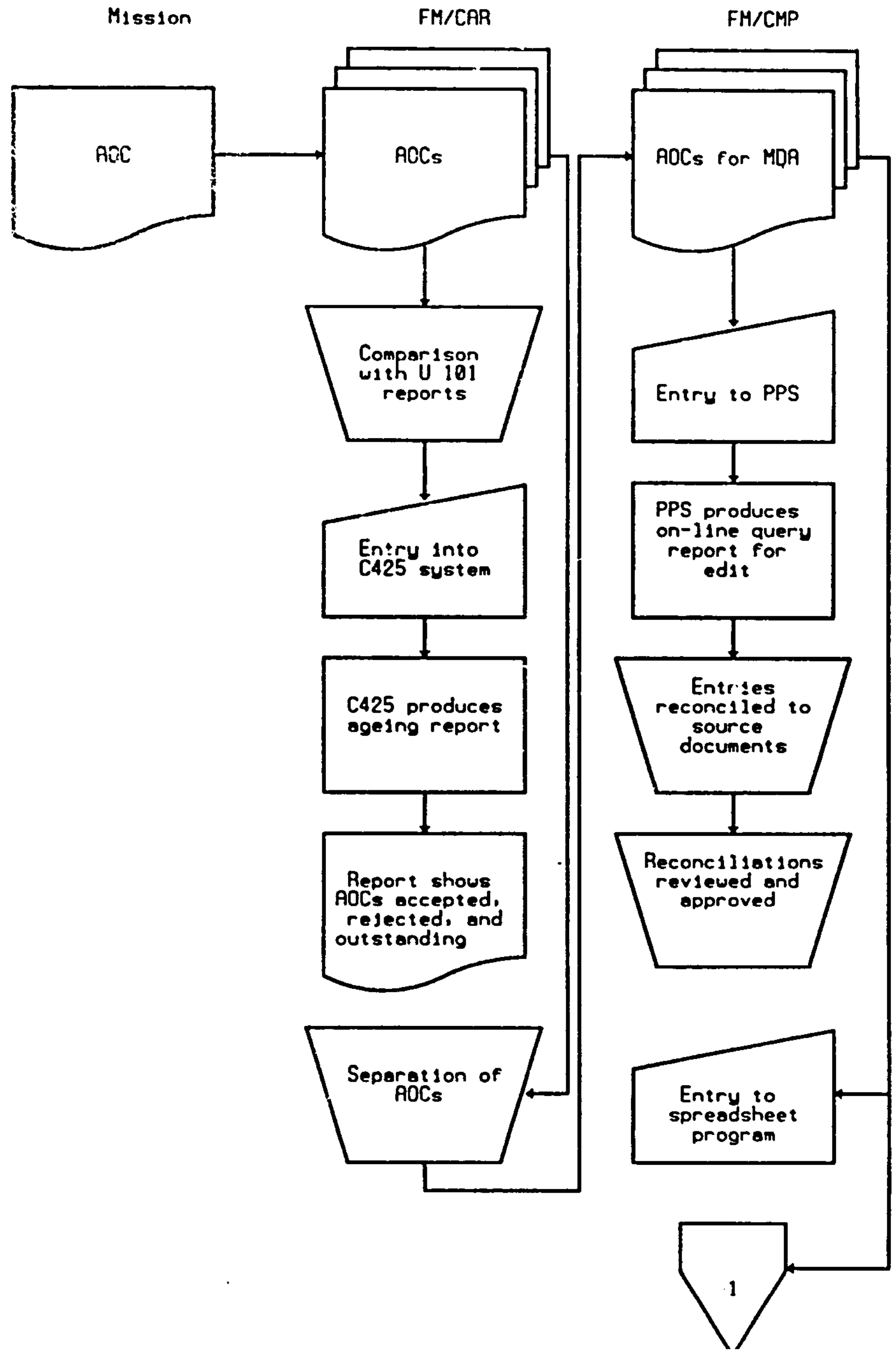

[redacted]
OIT
FM/CMP
FM/CAR
1
2
3
Post to spreadsheet program
Report
Post to PPS (C380) system
Entry to G/L 4100/1111 6500/6700
PPS produces on-line query report for edit
OLQ report reconciled with supporting documents
Reconciliation reviewed and approved

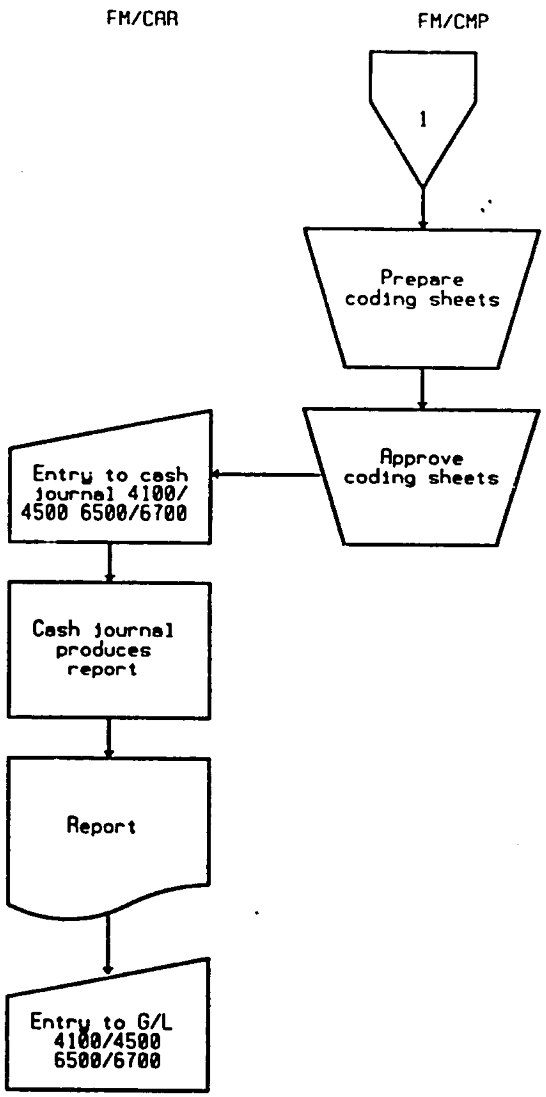
Direct Reimbursement Payments




FM/CMP
FM/CAR
1
2
Posting to PPS (C380) system
Report
PPS produces on-line query report for edit
Entry to G/L 4100/1111 6500/6700
OLQ report reconciled with source documents
Reconciliation reviewed and approved

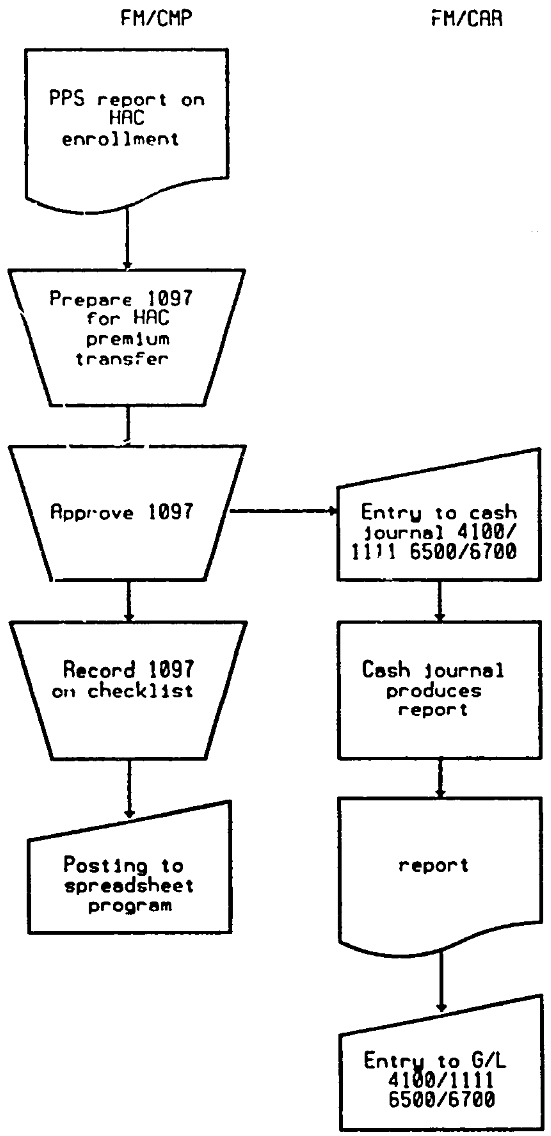
Advices of Charge





FM/CAR
FM/CMP
1
Prepare coding sheets
Approve coding sheets
Entry to cash journal 4100/ 4500 6500/6700
Cash journal produces report
Report
Entry to G/L 4100/4500 6500/6700

HAC Premium Payments



SCOPE AND METHODOLOGY

Scope

The Office of Inspector General/Programs and Systems Audits audited the master disbursing account (MDA) at the request of the Office of Financial Management. We conducted the audit in accordance with generally accepted government auditing standards except that we did not design the audit to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect audit objective three, which was to determine whether the Office of Financial Management records disbursements promptly and accurately in accordance with applicable regulations and A.I.D. policies and procedures. Our audit procedures were sufficient to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect the audit objective for the 40 disbursements we examined. However, they were not sufficient to provide reasonable assurance of detecting abuse and illegal acts that could significantly affect the audit objective for all disbursements made during the period covered by the audit. This was because, in reviewing whether disbursements were recorded promptly and accurately in the spreadsheet program maintained by the Cash Management and Payment Division, we did not obtain confirmations from the recipients of disbursements from the MDA. Our rationale for not obtaining confirmations is discussed in the methodology section below under audit objective three.

We performed the audit from July 16, 1991 through April 10, 1992 and covered the period from April 1, 1990 through March 31, 1991. The audit covered reported A.I.D. disbursements of $56.8 million. The amounts covered by our audit tests are discussed in the methodology section below.

We conducted the audit in three A.I.D. offices in the Washington, D.C. area: the Office of Financial Management, the Office of International Training, and the Office of Information Resources Management.

A previous audit performed by the Office of the Inspector General (Audit Report No. 9-000-87-05, dated April 17, 1987) included a finding and recommendation on the MDA. We considered the status of this finding and recommendation in performing our audit.

In addition to the limitation discussed at the beginning of this section, the audit was subject to the following limitations:

- We did not review the general and application controls for the participant payment system, the cash journal, the general ledger, or the U101/country financial reporting system. Instead, we relied on substantive tests of the data in these systems. The substantive tests are described in the methodology section below under audit objectives two and three.

- As discussed in the methodology section under audit objectives one, two, and four, there were cases in which records relating to items we had selected for review were not available. Depending on the circumstances, we either replaced the items originally selected for review or reduced the size of our sample.

- In reviewing whether credit transfers were recorded promptly and accurately in the general ledger, we reviewed only those transactions which decrease A.I.D./Washington operating expenses and expended funds and increase the balance of the participant clearing account and A.I.D./Washington unliquidated obligations (4550/4100 and 6700/6500). We did not review those transactions which increase mission operating expenses and expended funds and decrease the balance in the participant clearing account and mission unliquidated obligations (4200/4550 and 6600/6800). The rationale for this omission is discussed in the methodology section below under audit objective two.

- We could not review whether disbursements were recorded promptly in the participant payment system because the posting dates are not recorded.

In our judgment, these limitations did not significantly affect the results of the audit.

Methodology

Audit Objective One

The audit objective was to determine whether the Office of International Training and the Office of Financial Management ensured that (a) budget worksheets were prepared accurately and timely and offices sponsoring participant training were notified of the amount to be committed in a timely manner in accordance with A.I.D. policies and procedures and that (b) budgets were revised when necessary in accordance with A.I.D. policies and procedures.

To accomplish this objective, we reviewed the requirements included in A.I.D. Handbook 10, Appendix 1.A. of A.I.D. Handbook 19, and the General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies.

To obtain an understanding of the internal controls over the budget process, we interviewed officials in the Office of International Training and the Office of Financial Management's Cash Management and Payment Division. We also examined a small number of PIO/Ps, budget worksheets, and confirmation cables, as well as the log books kept by the Cash Management and Payment Division. Finally, we reviewed the desk procedures and task assignments prepared by the Cash Management and Payment Division. Based on this information, we prepared a flow chart on the budget process and asked officials in the Office of International Training and the Office of Financial Management to review and comment on the flow chart.

To determine whether the Office of International Training ensured that budget worksheets were prepared accurately, we reviewed a judgmental sample of five budget worksheets and compared the amounts shown in the budget worksheets to the standard budget factors. We drew this judgment sample by taking five budget worksheets from the Office of International Training's files. We relied on the results of this small, judgmental sample rather than examine a larger random sample because we assessed risk exposure at a relatively low level. Risk exposure is the likelihood of misuse of resources, failure to achieve program objectives, or non-compliance with laws, regulations, or policies and procedures.

We also reviewed a random sample of 9 of the 104 revised budget worksheets received by the Office of Financial Management during the period from January 1, 1991 through March 31, 1991. We reviewed the revised budget worksheets to determine the reasons for the revisions and to determine if the reasons could have been anticipated when the original budget worksheets were prepared. We relied on the results of this small sample because we assessed risk exposure at a relatively low level.

To determine whether the Office of International Training and the Office of Financial Management ensure that budget worksheets are prepared and confirmation cables are sent in a timely manner, we selected a random sample of 20 of the 1,541 budget worksheets logged in by the Office of Financial Management during the year from April 1, 1990 through March 31, 1991. We did not verify that the information in the log book was complete or accurate. For the 20 budget worksheets selected, we examined records in the Office of International Training and the Office of Financial Management and also obtained information from an A.I.D. contractor in an attempt to determine how long each step in the budget process took. However, in several cases, dates or documentation were missing or the dates shown were obviously incorrect. The steps in the budget process that we were able to review, and the number of PIO/Ps for which dates were available for each step, are presented below:

- from when the Office of International Training sent the PIO/P to one of its contractors until the contractor sent the training implementation plan to the mission or office for approval (dates available for seven PIO/Ps),

- from when the contractor sent the training implementation plan to the sponsoring office until the training was scheduled to begin (dates available for 15 PIO/Ps),

- from when the contractor sent the training implementation plan to the mission or office until the mission or office approved the plan (dates available for 10 PIO/Ps),

- from when the mission or office approved the training implementation plan until the contractor prepared the budget worksheet (dates available for nine PIO/Ps),

- from when the contractor prepared the budget worksheet until the Office of International Training approved the worksheet (dates available for 20 PIO/Ps),

- from when the Office of International Training approved the budget worksheet until the worksheet was logged in by the Office of Financial Management (dates available for 18 PIO/Ps), and

- from when the Office of Financial Management logged in the budget worksheet until it sent the confirmation cable (dates available for 19 PIO/Ps).

We also reviewed a report submitted by one of the Office of International Training's contractors, which showed the dates when the training programs began and ended for 14 of the 20 PIO/Ps we reviewed. We did not verify these dates. We compared the dates shown in the report to the dates budget worksheets were approved and the dates confirmation cables were sent.

Finally, we selected a random sample of 32 original confirmation cables from the 2,255 confirmation cables shown in the Office of Financial Management's log book from April 1, 1990 through March 31, 1991. We did not verify that the information in the log book was complete or accurate. For the selected confirmation cables, we calculated the difference between the original earmark/commitment amount recorded by missions and offices and the final budget amount included in the confirmation cables.

To determine whether budget worksheets are revised when necessary, we reviewed data entered in the participant payment system to identify PIO/Ps with termination dates from April 1, 1990 through March 31, 1991. For each of the 1,762 PIO/Ps identified, we calculated the variance between the budget and actual expenses.

Audit Objective Two

The audit objective was to determine whether the Office of Financial Management ensured that (a) credit transfers were made on time and in the correct amount and (b) credit transfers were recorded promptly and classified correctly in accordance with binding U.S. Government policies and A.I.D. policies and procedures.

To accomplish this audit objective, we first reviewed A.I.D. policies and procedures found in A.I.D. Handbook 19, the Controllers Guidebook, and the desk procedures and task assignments prepared by the Cash Management and Payment Division. We also reviewed the General Accounting Office's Standards for Internal Controls in the Federal Government.

To obtain an understanding of the internal controls for credit transfers, we interviewed officials in the Office of Financial Management's Cash Management and Payment Division, Central Accounting and Reporting Division, and Loan Management Division, as well as officials in the Office of International Training. We also reviewed a small number of transactions to obtain an understanding of how credit transfers are processed. Based on this information, we prepared flow charts on the credit transfer process and asked officials in the Office of Financial Management to review and comment on the flow charts.

To determine whether credit transfers were made on time and in the correct amount, we selected a random sample of the 2,255 PIO/Ps for which confirmation cables were sent during the year ending March 31, 1991. We used a table of random numbers to make the selection from a log book kept by the Cash Management and Payment Division. We did not verify that the log book contained all the PIO/Ps for which confirmation cables were sent or that all of the confirmation cables shown in the log book were actually sent. We originally selected a sample of 40 PIO/Ps. However, we had to delete nine PIO/Ps from the sample because of one or more of the following problems:

- The Office of Financial Management reissued the confirmation cable because it did not receive a "come-back" copy verifying that the first confirmation cable was sent. Because we could not be certain that the first confirmation cable was sent, we could not evaluate the timeliness of credit transfers made pursuant to these confirmation cables.

- Credit transfers were not posted to the participant payment system and U101 reports were not on file, so we could not determine the amount and timing of credit transfers.

- Confirmation cables referred to in the log book were not on file.

- Neither we nor the staff in the Cash Management and Payment Division could find the PIO/P files.

- The date of the confirmation cable was outside the period covered by our audit (April 1, 1990 through March 31, 1991).

Therefore, we randomly selected 10 replacement PIO/Ps, resulting in a final sample of 41 of the 2,255 PIO/Ps for which confirmation cables were sent during the year ending March 31, 1991.

For these 41 PIO/Ps, we performed the following steps:

- We obtained copies of the confirmation cables and, based on the information in the cables, calculated the amount that should have been transferred to the MDA.

- We reviewed data in the participant payment system and reviewed U101 reports (or journal vouchers for A.I.D./Washington transfers) to determine the amounts actually transferred to the MDA. We identified 97 individual credit transfers. We obtained information on 21 of these credit transfers directly from the U101 reports or journal vouchers because they had not been posted to the participant payment system. We obtained information on the other 76 credit transfers from the participant payment system and verified the information in the system by reviewing the U101 reports for 48 of the 76 credit transfers. In verifying the information for these 48 credit transfers, we found one error in the participant payment system. We did not verify the information we took from the participant payment system for the other 28 credit transfers.

- We then compared the amounts required to be transferred by the confirmation cables with the amounts actually transferred.

- To assess the timeliness of the transfers, we compared the timing of the credit transfers with the schedule prescribed in the confirmation cables.

To determine whether credit transfers were recorded promptly and classified correctly, we selected a judgment sample of 40 credit transfers shown in U101 reports (or journal vouchers for A.I.D./Washington transfers). We could not use random sampling techniques because the universe of all credit transfers could not be readily determined.

We judgmentally selected two A.I.D./Washington credit transfers from the journal vouchers on file in the Cash Management and Payment Division. To select mission credit transfers, we used a table of random numbers to select 10 country codes in each of the three quarters ending in June 1990, September 1990, and December 1990 and 8 country codes in the quarter ending March 31, 1991. We then obtained the U101 report for each country code and quarter selected and judgmentally selected one individual credit transfer for review. However, we had to replace 17 of the 38 country codes selected because in 10 cases there were no credit transfers from that country for the quarter being reviewed and in 7 cases neither we nor the staff in the Cash Management and Payment Division could locate the relevant U101 reports. The replacements were made using a random number table.

For each of the 40 credit transfers selected, we compared the amount of the credit transfer shown on the U101 report or the journal voucher with the amount recorded in the participant payment system. We also compared the country credit transfer appropriation totals for each of the selected credit transfers to the country credit transfer appropriation totals shown in the U101/country financial reporting system. We then verified the addition of all country credit transfer appropriation totals to arrive at the credit transfer appropriation totals shown in the U101/country financial reporting system. We compared the credit transfer appropriation totals for the 40 selected credit transfers to the amounts recorded in the cash journal, general ledger, and the spreadsheet maintained by the Cash Management and Payment Division.

However, in reviewing the amounts recorded in the general ledger, we reviewed only those transactions which decrease A.I.D./Washington operating expenses and expended funds and increase the balance of the participant clearing account and A.I.D./Washington unliquidated obligations (debits to 4550/credits to 4100 and debits to 6700/credits to 6500). We did not review those transactions which increase mission operating expenses and expended funds and decrease the balance in the participant clearing account and mission unliquidated obligations (4200/4550 and 6600/6800).

We did not review the latter transactions because these transactions are based on journal vouchers produced automatically by the U101/country financial reporting system. In these journal vouchers, credit transfer transactions are commingled with other transactions. Verifying the amounts in the journal vouchers would require extracting data from all mission U101 reports to verify each journal voucher transaction. This would require a substantial investment of audit resources which would not likely be justified by the resulting benefits. In addition, the Central Accounting and Reporting Division performed an analysis of the balance in the participant clearing account (4550) as of July 1991. This analysis and the resulting corrective actions provide some additional assurance that the 4200/4550 and 6600/6800 transactions were made correctly.

We also assessed the timeliness of the entries made to the participant payment system, the spreadsheet in the Cash Management and Payment Division, the cash journal, and the general ledger. For the purposes of this assessment we considered entries made within 60 days of the transaction date to be timely. We compared transaction dates in the U101 reports and journal vouchers to the posting dates shown in the cash journal and the general ledger and to the dates of reports based on the Cash Management and Payment Division's spreadsheet program and the U101/country financial reporting system. To assess the timeliness of entries made to the participant payment system, we relied primarily on status reports prepared by the Cash Management and Payment Division. We also reviewed 40 credit transfers made during the year ending March 31, 1991 to determine if they had been posted by mid-December 1991.

Audit Objective Three

The audit objective was to determine whether the Office of Financial Management recorded disbursements promptly and accurately in accordance with binding U.S. Government policies and A.I.D. policies and procedures.

To accomplish this audit objective, we first reviewed A.I.D. policies and procedures found in A.I.D. Handbook 19, the Controllers Guidebook, and desk procedures prepared by the Cash Management and Payment Division. We also reviewed the General Accounting Office's Standards for Internal Controls in the Federal Government.

To obtain an understanding of the internal controls for disbursements, we interviewed officials in the Office of Financial Management's Cash Management and Payment Division and Central Accounting and Reporting Division, as well as officials in the Office of International Training. We also reviewed a small number of transactions to obtain an understanding of how payments are processed. Based on this information, we prepared flow charts on the payment process and asked officials in the Office of Financial Management to review and comment on the flow charts.

To determine whether disbursements were recorded promptly and accurately, we reviewed the supporting documents for all disbursements recorded in the Cash Management and Payment Division's spreadsheet program during the year March 31, 1991. From the source documents, we verified that amounts were recorded promptly and correctly in the spreadsheet program.

We also determined from the source documents what period each payment was for. By establishing that no periods were missing, we obtained a minimal level of assurance that all disbursements from the MDA were recorded in the spreadsheet program. We could have obtained a greater level of assurance by requesting confirmations from the recipients of disbursements from the MDA. We decided not to seek confirmations because: (1) our audit objective did include determining the correct amount of disbursements that should have been recorded by the Office of Financial Management; (2) based on the results of our initial internal control assessment, we believed that many disbursements were likely not recorded correctly; and (3) additional time would have been required to obtain confirmations from the recipients of disbursements.

After reviewing the disbursements recorded in the spreadsheet program, we used a table of random numbers to select a sample of 40 of the 366 disbursements recorded in the spreadsheet program to determine whether the disbursements were recorded promptly and accurately in the participant payment system, the cash journal, and the general ledger. We performed the following steps:

- We determined whether disbursements were entered accurately into the participant payment system by verifying that correct amounts were applied to the correct

PIO/Ps. However, we could not determine whether disbursements were posted promptly to the participant payment system because the posting dates are not recorded.

- We compared the amounts shown in the source documents to the amounts recorded in the cash journal. We also compared the date of each disbursement to the date it was entered in the cash journal. We considered disbursements recorded within 60 days to be recorded promptly.

- We verified that account totals entered into the general ledger were taken correctly from the cash journal. We also compared the date of each disbursement to the date the account totals were entered in the general ledger. We considered disbursements recorded within 60 days to be recorded promptly.

Audit Objective Four

The audit objective was to determine whether the Office of Financial Management certified fund availability in accordance with binding U.S. Government policies and A.I.D. policies and procedures.

To accomplish the audit objective, we first reviewed the fund control requirements in Title 2, Appendix 1 of the General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies and A.I.D.'s fund control regulation found in Appendix 1.A. of A.I.D. Handbook 19.

To obtain an understanding of the internal controls and procedures followed for certifying fund availability for obligations funded under the MDA, we interviewed officials in the Office of Financial Management's Cash Management and Payment Division. We also reviewed the certifications and related documentation for five obligation actions to obtain a general understanding of how certifications of fund availability were made.

To test whether the Office of Financial Management certified fund availability in accordance with A.I.D.'s fund control regulation, we obtained from the Office of International Training a list of obligation actions funded under the MDA in fiscal years 1990 and 1991. We did not verify that this list was complete or accurate. From this list, we selected a random sample of 6 of the 12 obligation actions signed during the year ending March 31, 1991. The six actions we selected included obligations of $47.8 million, or 91 percent of the $52.3 million obligated during the year ending March 31, 1991.

For this sample of six obligation actions, we obtained copies of the obligation documents, the PIO/Ps, and any other documentation available to show what basis the Office of Financial Management had for certifying that funds were available for the obligations. To obtain this documentation, we examined files in the Office of Procurement and the Office of Financial Management's Cash Management and Payment Division. We also interviewed the operating accountant in charge of the MDA, who actually made the certifications, to obtain an explanation of the documentation.

For three obligation actions where the Office of Financial Management certified that funds were available based on its verification of information reported by a contractor, we verified a judgment sample of the information in the contractor's reports. We did not use random sampling techniques because this would have involved counting the hundreds of line items in each report and we decided that the benefits of a random sample would not justify the additional time required. For each of the three obligations, we selected 15 PIO/Ps for review, or 45 PIO/Ps in total. However, we could not locate files in the Cash Management and Payment Division that we needed to verify the reported information for four of the PIO/Ps. Therefore, we verified the reported information for 41 PIO/Ps as follows:

- For obligation No. DHR-0000-Z-00-9079-04, we verified 13 PIO/Ps with reported funds available of $292,075, or 2 percent of the $15 million obligated.

- For obligation No. DHR-0000-Z-00-9079-07, we verified 15 PIO/Ps with reported funds available of $251,559, or 3 percent of the $8.5 million obligated.

- For obligation No. DHR-0000-Z-00-9079-09, we verified 13 PIO/Ps with reported funds available of $270,781, or 1 percent of the $22 million obligated.

To verify the reported funds available for each PIO/P, we traced the amount shown in the reports to the budget worksheets approved by A.I.D.

Audit Objective Five

This audit objective was to determine whether the Office of Financial Management (a) reviewed unliquidated obligations and (b) maintained accounting records for the MDA on an accrual basis in accordance with binding U.S. Government policies and A.I.D. policies and procedures.

To accomplish the audit objective, we reviewed the requirements found in Sections 1108 (c) and 3512 (d) of Title 31 of the United States Code; Title 7, Chapter 3 of the General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies, and Sections A.5.a.(11) and A.6.d. of Appendix 1.A. of A.I.D. Handbook 19.

To obtain an understanding of the internal controls for reviewing unliquidated obligations and maintaining accrual accounting information, we interviewed officials in the Office of Financial Management's Cash Management and Payment Division and the Central Accounting and Reporting Division. We also examined entries in the participant payment system, the cash journal, the general ledger, and a spreadsheet program maintained by the Cash Management and Payment Division and reviewed reports based on the data in these systems. Based on these interviews and reviews, it was evident that the Office of Financial

Management was not meeting the requirements for reviewing unliquidated obligations or maintaining accrual accounting information.

To establish the cause and effect of these problems, we interviewed officials in the two divisions mentioned above, reviewed documentation concerning the deobligation of $5 million from the MDA and the subsequent reversal of this action, and reviewed reports based on data in the participant payment system and a spreadsheet program maintained by the Cash Management and Payment Division. The steps we took to verify that credit transfers and payments were recorded correctly in the participant payment system and the spreadsheet program are discussed in this appendix under audit objectives two and three.

Audit Objective Six

The audit objective was to determine whether the Office of Financial Management has documented its accounting system for the MDA in accordance with applicable regulations.

To accomplish the objective, we reviewed the requirements in Title 2, Chapter 5 of the General Accounting Office's Policy and Procedures Manual for the Guidance of Federal Agencies. We interviewed officials in the Office of International Training, the Office of Information Management, and the Office of Financial Management's Cash Management and Payment Division, Central Accounting and Reporting Division, and Loan Management Division. We reviewed all of the documentation that these officials provided us on the cash journal, the general ledger, the participant payment system, and the U101/country financial reporting system. We then compared the available documentation to the requirements in the Policy and Procedures Manual.

Additional Information on the Budget Process

This appendix provides information on how long it took to perform each step in the budget process for a sample of 20 PIO/Ps. However, we could not measure the time it took for each step for all 20 PIO/Ps because dates were frequently missing or obviously incorrect. Also, we could not determine how long it took the Office of International Training to send PIO/Ps to its contractors because the Office did not record when it received the 20 PIO/Ps.

In the following sections, we discuss our findings with respect to each step in the budget process. The same information is summarized in Appendix IV.

<u>Preparation of Training Implementation Plans</u> - A.I.D. Handbook 10, Section 9.D.2. states that, for training that does not require extensive programming efforts, such as technical training, the training implementation plan should be cabled to the mission within 10 days after the contractor receives the PIO/P. For academic or technical training requiring extensive programming effort, every effort should be made to place the participant within 90 days after the contractor receives the PIO/P. We could only evaluate compliance with these requirements for 7 PIO/Ps, because the dates for the other 13 PIO/Ps were either missing or erroneous (i.e., the date the contractor said it received the PIO/P was after the date it sent the training implementation plan).

Of the seven PIO/Ps we reviewed, four were for academic training and three were for technical training. The contractor sent the training implementation plan for all four academic programs well within the 90-day limitation. However, the training implementation plans for the three technical programs were sent in 2, 28, and 114 days, respectively, for an average of 48 days. This was well over the 10-day limitation in the Handbook.

A.I.D. Handbook 2, Section 9.D.2. also indicates that the training implementation plan should be sent to the sponsoring office 30 days before the participant's scheduled departure date. Of the 15 PIO/Ps where dates were available, 6 (40 percent) were sent at least 30 days in advance of the scheduled departure date and 9 (60 percent) were not.

<u>Approval of Training Implementation Plans</u> - We could only analyze the time it took to approve the training implementation plans for 10 PIO/Ps. On average, it took the mission or office 29 days to approve the training implementation plan.

<u>Preparation of Budget Worksheets</u> - We could only analyze the time it took to prepare the budget worksheets for nine PIO/Ps. On average, it took contractors 23 days to prepare budget worksheets.

Approval of Budget Worksheets - For the 20 PIO/Ps reviewed, it took an average of 23 days for the Office of International Training to approve the budget worksheets. However, for 16 of the 20 PIO/Ps, the Office of International Training provided its approval within one to four days.

Transmittal of Budget Worksheets to the Office of Financial Management - For the 18 PIO/Ps we were able to review, an average of 11 days passed between the time the Office of International Training approved the budget worksheet and when it was logged in by the Office of Financial Management. However, only one to seven days passed for 14 of the 18 PIO/Ps.

Preparation of Confirmation Cables - According to standards prepared by the Office of Financial Management's Cash Management and Payment Division, confirmation cables should be sent within 10 days of the date the Office of Financial Management receives the budget worksheet. For the 19 PIO/Ps we were able to review, it took an average of 23 days for the Office of Financial Management to prepare and send confirmation cables.

Entire Budget Process - On average, it took 153 days, or 5 months, to complete the entire budget process. Excluding one case where unusual delays occurred, the process still took an average of 136 days, or about four and a half months.

Time Taken for Steps in Budget Process (in Days)

PIO/P Number	Contractor	FROM: OIT sent PIO/P to contractor UNTIL: Contractor sent TIP	FROM: Contractor sent TIP UNTIL: Mission/office approved TIP	FROM: Mission/office approved TIP UNTIL: Contractor prepared BWS	FROM: Contractor prepared BWS UNTIL: OIT approved BWS	FROM: OIT approved BWS UNTIL: FM received BWS	FROM: FM received BWS UNTIL: FM sent confirmation cable	FROM: OIT sent PIO/P to contractor UNTIL: FM sent confirmation cable
66400038	PIET				3	6	13	
53230259	PIET	114			1	5	26	
49357047	PIET				1			
49290178	PIET				1	1	13	
38630182	PIET		6	3	1	1	51	
26350611	PIET				1	40	15	
52100125	PIET				10	1	4	
67980088	PIET	47	3	93	1	4	7	
66070166	PIET		89	14	1	2	12	
26350665	PIET	2	4	1	4	16	14	
49270121	PIET	28	13	64	1	3	4	
66990037	PIET		13	1	1		94	
49270123	PIET	42	91	3	1	3	9	
49388910	PIET	69	14	11	1	3	20	
52280221	USDA				350	47	17	
49397071	PIET	3	19		1	4	14	
49240209	USDA				40	51	20	
26370120	PIET		35	17	1	4	85	
49200092	CID				43	7	11	
52090318	PIET				2	4	11	
Average		44	29	23	23	11	23	153
Average excluding one extreme delay (shaded item)		44	29	23	6	11	23	136

Abbreviations:

BWS = budget worksheet
CID = Consortium for International Development
FM = Office of Financial Management
OIT = Office of International Training
PIET = Partners for International Education and Training
PIO/P = project implementation order/participant training
TIP = training implementation plan
USDA = U.S. Department of Agriculture

Note: Where no values are shown for a PIO/P, dates were missing or obviously incorrect.

Discussion of Six Obligation Actions Reviewed

In this appendix, we discuss the six obligation actions (contracts, cooperative agreements, and amendments) we reviewed to assess procedures for verifying that funds were available for obligation.

Cooperative Agreement No. DHR-0071-A-00-0067 with the American Association of Collegiate Registrars and Admission Officers (obligation of $134,853 signed on September 27, 1990) - The Office of Financial Management certified that funds were available based on an estimate that missions and offices would budget and transfer to the MDA $145 per participant for the Association to review the academic credentials of 800 to 1,000 A.I.D. participants. This was not an adequate basis for certifying availability of funds because there was no positive assurance that the Association's services would be required for the planned number of participants. If the Association's services were required -- and funds were budgeted -- for fewer than 930 participants, part of the obligation would be unfunded and would have to be absorbed by the excess cash balance in the MDA. A second problem is that no funds had been transferred to the MDA to pay for the Association's services at the time the Office of Financial Management certified that funds were available in the MDA.

Contract No. DHR-0000-Z-00-0026 with the Consortium for International Development (obligation of $2.2 million signed on June 20, 1990) - The Office of Financial Management reportedly certified that funds were available based on an estimate of the number of participants that would be placed with the Consortium and an estimate of the administrative cost per participant. (However, the Office of Financial Management no longer had this estimate available for review.) This was not a sound basis for certifying availability of funds because there was no positive assurance that the planned number of participants would in fact be placed with the Consortium for International Development. In addition, no funds had been transferred to the MDA for the Consortium's services at the time the Office of Financial Management made its certification that funds were available in the MDA.

Contract Amendment No. DIR-0000-C-00-6050-05 with Georgetown University (obligation of $18,360 signed on March 21, 1991) - The Office of Financial Management's certification was based on its analysis of a report which listed the participants that had completed English language training at Georgetown University in December 1990. The Office of Financial Management reviewed its records to determine how many weeks of English Language training had been budgeted for each of these participants and multiplied the number of weeks times Georgetown's fee of $90 per week. This was not a satisfactory procedure because the funds in the contract amendment were expended before the Office of Financial Management made its analysis and the contract amendment was signed. We say the funds were expended because, in the Federal Government, expenditures are deemed to occur when the related goods or services are received. Georgetown University provided its services during the period from January 23, 1990 through December 20, 1990, but the contract amendment was not signed until March 21, 1991. A secondary problem was that the Office of Financial Management did not verify that the funds budgeted for English language training had been transferred to the MDA before it certified that the funds were available in the MDA.

Contract Amendment No. DHR-0000-Z-00-9079-04 with Partners for International Training and Education (obligation of $15 million signed on May 2, 1990) - To determine whether funds were available, the Office of Financial Management verified the "Consolidated New PIO/P Authorization and Budget Change Report" submitted by Partners. This report showed the new amounts budgeted during the period from July 1, 19 through September 30, 1989 for all participants placed with Partners. The first general problem we found is that there is no positive assurance that all participants for which funds are budgeted will actually arrive for training. If some participants do not begin training, part of the obligated amount will be unfunded. The second general problem is that some of the budgeted funds have not been transferred to the MDA when the Office of Financial Management certifies that funds are available in the MDA. A third general problem is that sometimes the Office of Financial Management's review does not detect errors in the reports that Partners submits.

We reviewed the information reported by Partners and accepted by the Office of Financial Management for 13 PIO/Ps with reported funds available of $292,075. We found that the funds available were overstated for 3 of the 13 PIO/Ps (23 percent) by a total of $12,054 (4 percent of $292,075). A discussion of the three PIO/Ps follows:

- PIO/P 278-90052 had reported funds available of $99,234. However, one of the participants did not arrive for training so $10,729 of the contract obligation was unfunded.

- The amount available under PIO/P 515-70198 was overstated by $825. The Office of Financial Management accepted the amount budgeted by Partners ($10,395) but the budget worksheet shows that A.I.D.'s Office of International Training reduced the budget by $825 to $9570.

- Under PIO/P 493-67002, Partners showed a $500 increase in the amount available. However, the previous budget was based on an actual cost budget worksheet, which reflects actual costs under a completed training program, and there was no documentation in the Office of Financial Management's files to support the $500 increase.

Contract Amendment No. DHR-0000-Z-00-9079-07 with Partners for International Education and Training (obligation of $8.5 million signed on November 28, 1990) - The Office of Financial Management based its certification on its review of Partner's Consolidated New PIO/P Authorization and Budget Change Report covering the period from October 1, 1989 through March 31, 1990. The general problems with this procedure are discussed above on page 87.

We reviewed the information accepted by the Office of Financial Management for 15 PIO/Ps with reported funds available of $251,559. We found that the funds available were overstated for 2 of the 15 PIO/Ps (13 percent) by a total of $10,194 (4 percent of $251,559). The two PIO/Ps are discussed below:

- The amount available under PIO/P 279-[illegible]82 was overstated by $4,834 because (1) the amount available for inflation was overstated by $930 and (2) the amount of the new budget was overstated in Partner's report by $3,904.

- The amount available under PIO/P 520-70192 was overstated by $5,360 because Partners misstated the amount of the previous budget. Partners calculated the amount available by subtracting the previous budget from the current budget.

<u>Contract Amendment No. DHR-000-Z-00-9079-09 with Partners for International Education and Training (obligation of $22 million signed on January 23, 1991)</u> - The Office of Financial Management based its certification on its review of Partner's Consolidated New PIO/P Authorization and Budget Change Report covering the period from April 1, 1990 through September 30, 1990. The general problems with this procedure are discussed above on page 87.

We reviewed the amounts accepted by the Office of Financial Management for 13 PIO/Ps with reported funds available of $270,781. We found that the reported amount available was incorrect for 2 of the 13 PIO/Ps (15 percent). The total difference was $6,945 (3 percent of $270,781). Because positive and negative differences partially offset each other, the net effect of the differences was to understate the funds available by $3,095 (1 percent of $270,781). The errors found were as follows:

- Partners showed an increase of $1,925 in the amount available under PIO/P 698-80027 but there was no documentation in the Office of Financial Management's files to support this increase.

- Partners showed a decrease of $5,020 in the amount available under PIO/P 543-40092 but there was no documentation in the Office of Financial Management's files to support this decrease.

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

JUL 31 1992

MEMORANDUM

TO: IG/A/PSA, Coinage Gothard

FROM: FA/FM/CONT, Michael G. Usnick

SUBJECT: Audit of the Master Disbursing Account

The Office of Financial Management (FA/FM) and the Office of International Training (R&D/OIT) have reviewed the draft audit report of the Master Disbursing Account (MDA). As a result of this review and extensive discussion, we have concluded that the most appropriate course of action is to seek legislative approval to establish a Revolving Fund for participant training managed centrally in AID/W. We are confident that establishing a revolving fund will fundamentally address the deficiencies documented in the draft audit report.

From the options discussed in the audit, we have concluded that creating a revolving fund will permit the Agency to continue training third country national participants through centrally managed contracts with maximum program flexibility. The other options would require significant change in the participant training program and/or significant workload transfers among offices. The revolving fund option proved to be the least objectionable proposal to everyone involved.

While our offices have reached consensus on the revolving fund option, implementation of the revolving fund cannot be achieved until FY 1994/95 and only if legislatively approved in the FY 1994 A.I.D. appropriation act. The GC is planning to meet with FA/B to discuss inclusion of the revolving fund option in the 1994 budget submission and to negotiate legislative language.

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Since conversion to the revolving fund will require several years, we will work to tighten controls over the existing MDA to ensure that funds are safeguarded. There are some differences of opinion on the legal ramifications of MDA funding which will require continued attention as we work towards full transition to the revolving fund (we anticipate closing the MDA over several years; ie: FY 1994 and 1995).

As indicated earlier, we believe that the consensual agreement on replacement of the MDA with a revolving fund fundamentally responds to many of the concerns and specific recommendations detailed in the draft audit. Specific responses to each recommendation are attached.

We would like to express our appreciation to your staff for the quality of the draft report, for the professional manner in which the audit was conducted and for your prompt response to our request for the audit.

Please contact Sandy Owens on extension 32284 or David Ostermeyer on extension 32104 if you have any questions or issues you would like to discuss.

Recommendation No. 1:
We recommend that the Office of International Training, in conjunction with the Office of Financial Management, establish and implement procedures to ensure that sponsoring offices receive final budgets (confirmation cables) and commit funds before participants begin training. These procedures should include timeliness standards for each step in the budget process, a tracking system to identify delays in the process, and periodic verification that timeliness standards are being met.

Agency Response:
Funds are committed upon issuance of the PIO/P for participant training programs. This means that funds are committed before participants begin training and therefore there are no fund control violations.

In response to the statement that the sponsoring offices receive final budgets (confirmation cables) prior to participants beginning training, we do not agree. We do agree that if the PIO/P is grossly under-funded there should be procedures put in place to notify the Mission of the shortfall before continuing with the programming. OIT will work with the A.I.D. Missions to determine an appropriate margin of Mission error which would require such notification.

Finally, we agree that there should be mechanisms in place to track the status of budgets. This mechanism should include documentation of the receipt of budgets from the contractor, date returned to the contractor, date forwarded to FM, verification of receipt by FM, and date confirmation cable sent to the A.I.D. mission or sponsoring office. OIT will work with FM and its contractors to establish timeliness standards for each step in the process. Further, OIT will take a sample of budgets each quarter to determine if there are problems at any point in the process.

Recommendation No. 2:
We recommend that the Office of Financial Management:

2.1 in conjunction with the Office of International Training, design and implement a system to ensure that no funds are spent in excess of the amounts committed and that commitment amounts are reduced whenever it becomes evident that fewer funds than anticipated will be needed;

2.2 in consultation with the Office of General Counsel, determine what action is needed, if any, to resolve the fund control violations discussed in this finding; and

2.3 report to the Administrator the administrative fund control violations that have occurred in the master disbursing account.

Agency Response:
The original design of the MDA provided for retention of residual PIO/P balances to meet the demands of PIO/P's that were under-estimated. In this way, the MDA was able to provide costs savings by reducing the workload of preparing "final" budgets and PIO/P's. This practice continues today with operational guidance that budgets need not be amended for changes of $1,000 or less.

During informal discussions between FM and GC, it was indicated that GC does not interpret such financial practices to be funds control violations. Since the MDA operates as designed and since GC (per Recommendation 2.2 consultation) does not conclude that this constitutes a funds control violation, FM does not plan further action to address the perceived violations.

As we have indicated earlier, however, the Agency is pursuing legislation to replace the MDA with a revolving fund. This revolving fund will require an exact accounting for costs, allocations of operating costs and USAID replenishment of the costs of the revolving fund. This concept is consistent with the findings of the audit and the spirit of the recommendation. Therefore, it is requested that Recommendation 2.1, 2.2 and 2.3 be closed upon issuance of the final audit report.

Recommendation No. 3:
We recommend that the Office of International Training establish and implement procedures requiring its contractors to report when it is first known when expenditures will exceed or be short of the approved budget for which funds have been committed by the sponsoring office.

Agency Response:
OIT accepts the recommendation and will undertake the required steps to institute reporting procedures within the next 90 days.

Recommendation No. 4:
We recommend that the Office of Financial Management:

4.1 establish and implement procedures to ensure that offices sponsoring participant training through the master disbursing account transfer correct amounts on time to the account and

4.2 in consultation with the Office of General Counsel, reconcile its records and take action to appropriately resolve those instances where expenditures exceeded or fell short of credit transfers into the master disbursing account. This should include deobligating or returning to sponsoring offices those funds that are no longer needed for authorized purposes under individual training programs.

Agency Response:
(4.1) In response to Recommendation 4.1, FA/FM has begun issuing reports from the current MDA tracking system to reflect the status of credit transfers to all USAID's. These reports have been sent with instructions to forward all overdue credits to the MDA immediately.

This report (sent monthly), coupled with plans to replace the MDA, addresses the concerns of Recommendation 4.1 and it should be closed upon final audit report issuance.

(4.2) FM is currently reviewing older PIO/P records in the system to determine a reasonable amount to be deobligated from the MDA. Because the MDA has been historically based on budget "estimates" and the availability of residuals (undisbursed balances of PIO/P's that were not deobligated at training conclusion) in the MDA, FM will retain residual funding to meet unrecognized costs until the account reaches final closure. In addition, recent legislation to curtail access to the merged surplus appropriations limits the Agency's ability to address accrued costs that have not been billed to date (similar to the USDA/OICD billing) requiring a more conservative stance to ensure payment reserves.

FM will review MDA reserves at least quarterly to determine amounts of excess cash held within the MDA and return those funds to the Treasury via deobligation. We hope to deobligate as much as possible without disrupting MDA payments. Funds will not be returned to individual USAID's because fund identities have been clouded throughout the years of MDA operation.

FM's actions coupled with the joint agreement to replace the MDA addresses the concerns of Recommendation 4.2 and it should be closed upon final audit report issuance.

Recommendation No. 5:
We recommend that the Office of Financial Management:

5.1 bring credit transfer postings up to date,

5.2 bring reconciliations between the source documents and entries to the participant payment system and U-101/country financial reporting system up to date,

5.3 assign the staff needed to record credit transfers promptly and accurately, and

5.4 include the master disbursing account in its new integrated accounting system.

Agency Response:
(5.1) The posting of credit transfers has been brought to date since the time of the audit. Recommendation 5.1 should be closed upon issuance of the final audit report.

(5.2) Reconciliations between the participant payments systems and the country financial reporting (CFR) system are on-going. Final reconciliation is projected for completion by December 1993. FM agrees that this reconciliation is necessary for the fiscal integrity of MDA accounting.

(5.3) Staffing during the audit field work was not at the level authorized under the contract existing at that time. The staffing level under the replacement contract, effective July 1, 1992, is consistent with the authorized staffing levels at the time of the field audit. We are confident that the current contractor's ability to recruit and retain staff exceeds the success of the preceeding contractor. Because credit transfer postings are up to date with current staffing levels, Recommendation 5.3 should be closed upon issuance of the final report.

(5.4) Attached is a memo sent to Gary Eidet, FA/FM/AWACS requesting that AWACS design include a revolving fund as the replacement to the MDA concept of funding the centrally managed participant training program (Attachment A). Based on our plans to pursue the revolving fund and design our new accounting system accordingly, we request that Recommendation No. 5.4 be closed upon issuance of the final audit report.

Recommendation No. 6:
We recommend that the Office of Financial Management establish control procedures to ensure that disbursements from the master disbursing account are promptly and accurately entered into the participant payments system, the cash journal, and the general ledger.

Agency Response:
Since the audit, the Office of Financial Management has established procedures to ensure that disbursements are promptly and accurately entered into the various records. For the cash journal, we have instituted a system to track entries through the cash journal via unique batch processing, and pre-validation of batch proof listings in lieu of an interface with the Agency's primary accounting system (FACS). The system has now been in place for three months. Procedures for verification of cash journal accounting transactions are attached for your review (Attachment B).

For the participant payment system, disbursing activity is currently reconciled in support of vouchers and scheduled MDA payments via the use of the on-line query options available within the automated participant tracking system. These procedures are also attached for your review (Attachment C).

Finally, although not yet complete, procedures are being developed to accomplish the reconciliation of pseudo-allotment ledger balances per the spreadsheet with the CFR allotment ledger. Reconciliation is expected to be complete prior to implementation of the proposed revolving fund accounting method.

Based on the control procedures being developed or now in place, it is requested that Recommendation No. 6 be closed upon issuance of the final audit report.

Recommendation No. 7:
We recommend that the Office of Financial Management develop and implement a system that will provide positive knowledge that funds are available before obligating documents are signed.

Agency Response:
We agree that the MDA does not provide the methodology to permit positive knowledge of funds availability as required by the recommendation. It has been FM's contention throughout this audit and throughout the negotiations for MDA replacement that the current MDA concept fails to address funds availability. This specific concern is primarily responsible for the Agency's agreement to replace the MDA with a legislatively approved revolving fund.

The Agency's effort to seek legislative approval for the revolving fund to replace the MDA should close this recommendation.

Recommendation No. 8:
We recommend that the Office of Financial Management implement A.I.D.'s procedures for conducting semi-annual reviews of the unliquidated obligations in the master disbursing account.

Agency Response:
As discussed earlier in Recommendation No. 4.2, FM shall conduct quarterly reviews of residual balances contained in the MDA to address the concerns of this recommendation. However, the MDA concept does not conceptually permit exact "semi-annual reviews of the unliquidated obligations".

FM fully agrees with the spirit of this recommendation, but the MDA does not provide the structure to perform these reviews. As with Recommendation No. 7, the problem of performing these semi-annual reviews has proven to be insurmountable in preserving the MDA.

The Agency's effort to seek legislative approval for the revolving fund to replace the MDA should close this recommendation.

Recommendation No. 9:
We recommend that the Office of Financial Management establish and implement procedures for preparing information on accrued credit transfers and expenditures on a quarterly basis.

Agency Response:
Efforts to establish and proceduralize accrual concepts shall be addressed upon implementation of the revolving fund replacement of the MDA.

Because of the corrective actions necessary in the MDA, both as a result of this audit and operating requirements, FM does not believe that it would be prudent to focus immediate efforts on addressing the accrual concerns of this recommendation. However, we will periodically evaluate the possibility of recording accruals in the country financial reporting system.

Based on efforts to establish the revolving fund, we request that this recommendation be closed upon issuance of the final audit report.

Recommendation No. 10:
We recommend that the Office of Financial Management prepare complete and current procedures for operating the master disbursing account.

Agency Response:
FM agrees with the spirit of the recommendation. However, it is not practical to finalize complete and current MDA procedures prior to the projected implementation of the revolving fund in replacement of the MDA. The problems reported in this audit and the work required to address the recommendations will not permit immediate attention to fully address this recommendation.

FM shall issue procedures that will address areas of significant processing concern within the MDA. As an example, in response to Recommendation No. 6, FM has issued procedures governing the posting of disbursements among the participant payments system, cash journal and general ledger.

Implementation of the revolving fund in AWACS will ensure that procedures are in place regarding all processes.

Recommendation No. 11:
We recommend that the Office of Financial Management, in preparing the next report under the Federal Managers' Financial Integrity Act, perform a comprehensive assessment addressing the internal control weaknesses identified in this report and report the material weaknesses.

Agency Response:
As acknowledged in the draft audit report, FM has reported the MDA as a "significant concern" since 1990. In addition, FM will report the MDA as a material weakness in our next submission to the Management Control Review Committee.

Based on FM agreement to report the MDA as a material weakness in the next FMFIA cycle, we request that this recommendation be closed upon issuance of the final audit report.

Recommendation No. 12:
We recommend that the Office of International Training, in preparing the next report under the Federal Managers' Financial Integrity Act, perform a comprehensive assessment addressing the internal control weaknesses identified in this report and report the material weaknesses.

Agency Response:
OIT has reported the MDA as an area of significant concern since 1990. At the point when the next FMFIA report is due, we will assess our progress in addressing the issues in this report and respond appropriately.

It should be noted, however, that we believe that the entire system requires attention and have initiated a Participating Agency Service Agreement with the General Services Administration (GSA) to utilize the Federal Information Systems Support Program to provide the Office of International Training with an Information Systems Plan (ISP) for the training program through the use of Information Engineering methodology and Integrated CASE tools.

The review will identify and determine alternative methods of "doing business" which will simplify processes and procedures and develop an Information Systems Plan. This will include reviewing the overall environment in which the training program functions including the paperflow and accounting systems.

The first stage of the overall systems review was initiated in early July and is progressing as planned with a 15 week projected completion. Additional phases of the overall review will be initiated after completion of the Information Systems Plan.

Recommendation No. 13:
We recommend that the Management Control Review Committee include the accountability problems affecting the master disbursing account as a material weakness in its next annual report to the Administrator.

Agency Response:
FA/MCS defers to FM and OIT in judgment of the severity of the problem. If reported as a material weakness, we will not disagree. Action plans detailing each major step and target date will be required of FM and OIT for inclusion in the FMFIA report for the material weakness.

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