

- PD-ABI-021
FS# 89001

Agency for International Development

Semiannual Report to Congress on Audit Management and Resolution

April 1, 1991 through September 30, 1991



U.S. Agency for International Development

**Semiannual Report to Congress
on
Audit Management and Resolution**

For the Period April 1, 1991 to September 30, 1991

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FOREWORD

The Agency for International Development is submitting its Semiannual Management Report along with the Inspector General's Semiannual Report to Congress for the period April 1, 1991 - September 30, 1991. A.I.D. continues to lead in promoting economic development in a challenging, constantly changing world. We understand that promoting development requires sound, effective management and accountability at all levels and will continue to stress the importance of these attributes in our operations. Several organizational and management proposals designed to restructure the Agency along more functional lines, enhance management controls, and emphasize the need to reinforce accountability have become effective October 1, 1991.

In addition, over the past 18 months, we have taken a number of concrete steps to improve accountability. Through these initiatives management controls have been strengthened and responsibilities have become focused. These strategies are summarized later in this report.

Our commitment to superior performance has influenced our increased awareness to the need for prompt audit resolution and follow-up. A.I.D. management recognizes the value in working cooperatively with the Office of the Inspector General by using audits as an effective management tool. We are therefore pleased to report our intent to broaden management's responsibilities and efforts to increase audit coverage of our programs and to ensure a more active management role in the audit management and resolution process.

The Agency for International Development is following through with its strategic plan for improving management and upgrading its operations. New streamlined organizational changes are now in place. I will continue to advise you of our progress in enhancing the effectiveness of the services that we provide through our many management initiatives.



Ronald W. Roskens
Administrator

AUDIT MANAGEMENT AND RESOLUTION PROGRAM

A.I.D. is responsible for administering over 7 billion dollars annually in economic and humanitarian assistance to approximately 80 developing countries. Our field missions are consequently heavily involved in working with host governments and other organizations on a wide range of accountability issues.

Such diverse and sometimes complex undertakings require advanced management skills for success. This demand coupled with increased financial accountability requirements by the Office of Management and Budget, the Congress, and the Inspector General, have caused A.I.D. to review and reflect on its overall audit process. The urgency for A.I.D. management to fulfill its responsibility by taking a more involved and assertive role in the overall audit management process (planning, implementation, and follow-up) became apparent.

Guidance better defines A.I.D. management responsibilities for audit monitoring.

As a consequence, draft guidance has been developed with the anticipation that it will become formal procedure this year. This guidance outlines the program which is required for all field missions and central bureaus. It emphasizes that field missions and central bureaus must take leadership roles in assuring that its audit monitoring responsibilities are carried out in coordination with the Inspector General. Specific responsibilities will be assigned to individuals and will be reflected in the appropriate performance plans. The audit role of the project officer is fully outlined in this process.

Audit Resolution and Follow-up

This section includes the statistics and the results for both the closure of audit recommendations and aging of open recommendations for FYs 1990 and 1991.

A.I.D. management has made significant progress in improving our audit resolution and follow-up process, including clearing the backlog of open recommendations in this past year. This section will include the overview of A.I.D.'s resolution and followup performance, as required in the Inspector General Act, P.L. 100-504.

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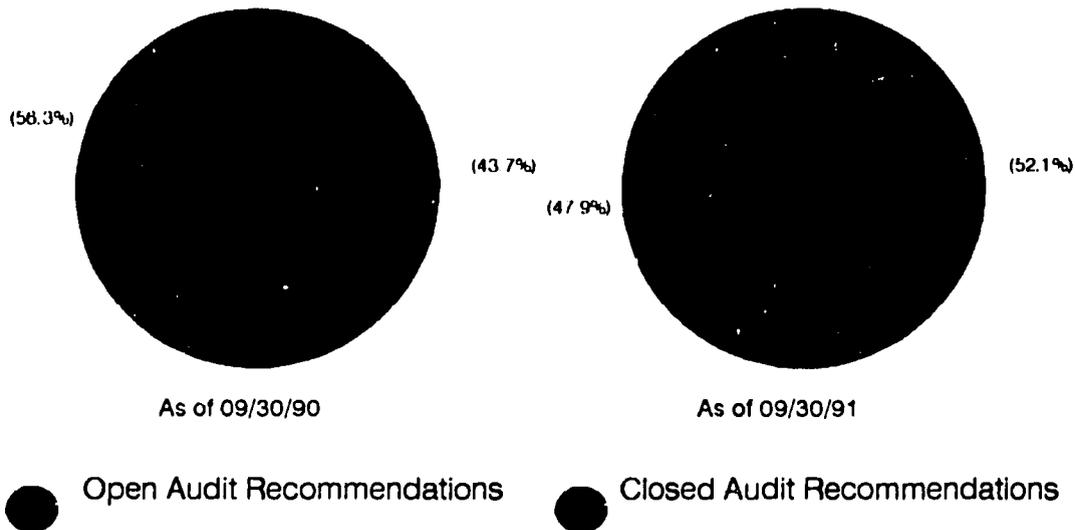
Closure of Audit Recommendations

In FY 1990, we reported 693 audit recommendations which required action. Of the 693, 303 (44%) were closed as of 09/30/90. In FY 1991, we reported 753 audit recommendations of which 392 (52%) were closed as of 09/30/91.

Significant improvement in taking action on audit recommendations.

The improved closure rate between FY 1990 and 1991 reflects the efforts and results of A.I.D.'s invigorated audit resolution process. Our success in reducing the number and percentage of open recommendations should further improve as our level of audit consciousness grows and additional guidance is developed. The comparison of open to closed audit recommendations below shows that we have succeeded in closing a higher percentage of recommendations for FY 1991.

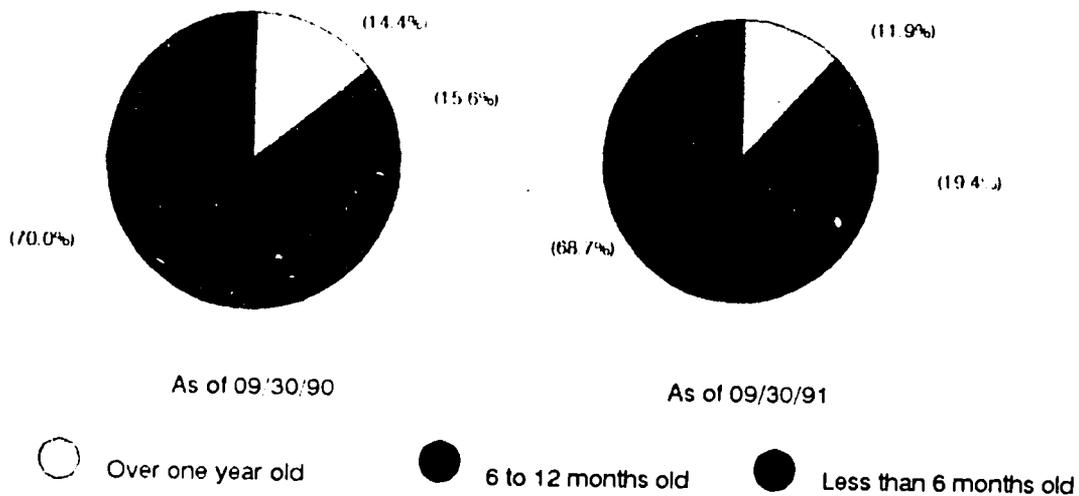
Comparison of Open to Closed Audit Recommendations



Open Recommendations

Analysis of open recommendations for fiscal years 1990 and 1991 reveals that A.I.D. has made steady, if limited, progress in closing recommendations. We stress the importance of cleaning up old actions: to that end, the percentage of recommendations over one year old decreased from 14 % to 12 % from 1990 to 1991. It should also be noted that we had fewer open recommendations at 09/30/91 (361) than at 09/30/90 (390) even though there was an overall increase in the number of recommendations issued in 1991. The illustrations below show the aging of open recommendations for the periods ending 09/30/90 and 09/30/91.

Open Audit Recommendations



A.I.D.'S TRACKING SYSTEM

A.I.D. implemented its audit tracking system effective October 1, 1991. By tracking each actionable item (recommendation and sub-recommendation) and classifying each in accordance with A.I.D.'s internal control techniques, management was able to better analyze weaknesses and "early warning" shortcomings of program activities. We have analyzed trends in an attempt to head off troubles in project design and implementation. Accountability, both managerial and financial, has become more measurable as a result of our audit tracking system.

Audit tracking system has enhanced a audit follow-up activities.

HIGH RISK AREAS

A.I.D. reported four high risk areas to OMB in the A.I.D. 1990 Federal Managers Financial Integrity Act Report last December. In our August 1991 up-date to OMB we reported progress on each of the weaknesses as follows:

High risk areas are being addressed.

Financial Management Systems and Operation - Significant risks and vulnerabilities associated with the headquarters payment operations: delays in payments, interest penalties, duplicate payments, and lack of controls caused significant problems in the Agency.

Action taken: The development of a new A.I.D./Washington accounting system is underway. A statement of work was written and procurement action for systems requirements and design assessment was completed. In addition, a financial management Strategic Information System Plan was completed. This plan is a synthesis of goals, objectives, critical success factors, problems, regulatory and legislative requirements, and technology considerations.

Audit Coverage of A.I.D. Programs and Administrative Operations - A.I.D. lacks adequate monitoring systems to ensure that its contractors and grantees are being audited.

Action taken: As previously mentioned, the Management Control Review Committee has approved a complete audit management and resolution program including procedures which will ensure that the responsible central and field offices implement coordinated audits of A.I.D. funded recipients with the Inspector General.

Management of Sensitive Information - Fourteen automated systems were identified as containing sensitive information (ADP security).

Action taken: Contracts for long-term disaster recovery service to support the most critical mainframe systems and off-site tape storage service have been signed. Procurement for a magnetic media storage facility is underway. Reviews of security plans for sensitive systems have been held. A draft of the Agency's Disaster and Contingency Plan has been developed.

Allocation of Staff Levels for Administrative Management- A.I.D. headquarters and overseas direct hiring staffing allocations have not produced satisfactory compliance with expected standards for control of, and accountability for A.I.D. managed funds.

Action taken: Reviews of A.I.D./Washington and overseas functions to reduce overlaps and redundancies in budget and control areas have been completed. Evaluations of various overseas organizational and staffing approaches will be made during the upcoming year. Improvements for streamlining Agency procedures and systems are underway.

OTHER ACTIONS TO IMPROVE ACCOUNTABILITY

As previously stated, A.I.D. management has taken several steps to improve accountability. These initiatives are listed below:

Evaluation

In February 1991, the Administrator signed a three-year comprehensive evaluation agenda--the first time such an agenda had been developed. It will provide broad coverage in major program and policy areas as well as studies of the effectiveness of A.I.D.'s operational and management systems in achieving development results.

We increased the evaluation staff by 25 to oversee this effort.

Host Country Contracting

In June 1990, we tightened the host country contracting process by requiring:

- Certification by mission director that host country governments have the capability to manage host country contracts;
- Mission personnel be observers on technical panels;
- A.I.D. procurement personnel review and approve all key steps in the procurement process.

A large number of issues in management control and audit follow-up have been discussed by management and Inspector General this past year.

Implementing instructions were issued in November 1990.

Host Country Contributions

As of April 1991, missions are required to provide auditable evidence that host country contributions toward project activities have been made.

Local Currency Policy

In June 1991, we revised our policy, in consultation with the Congress, to provide increased flexibility in local currency generation and usage but stricter accountability for the currency that is generated.

Cash Grants

In June 1990, we issued procedures to strengthen accountability for cash transfers and non-project sector assistance.

Management Control Review Committee

Established in July, 1990 to oversee A.I.D.'s management control and audit management processes and to provide an early warning system to managers of potentially serious problems.

Chaired by Deputy Administrator, and composed of Deputy Assistant Administrators or Assistant Administrators of all major A.I.D. bureaus. The Inspector General also participates and provides periodic reports on issues relating to the Committee.

Workforce Planning

A Workforce Planning Working Group was established in September, 1990 to develop workforce precepts and a formal plan to accomplish the following:

- Minimum staffing standards are being established to assure that overseas missions and central bureaus have the proper number of staff with the required skills to manage their programs.

- A career development path for each employee is being instituted that assures that staff acquire required skills through training and work experience in keeping with their responsibilities as a prerequisite for advancement.
- A skill inventory of all Foreign Service and General Service staff is underway that will allow missions and central bureaus to better match job needs and staff skills, thus giving the Agency the capacity to respond to programmatic changes in a timely way with its most qualified personnel.
- The Agency will apply a comparable staffing strategy for its Foreign Service National staff in recognition that an ever increasing share of the implementation workload will fall on this segment of the workforce.

Focusing Program Resources

Both the Administrator and the Inspector General have frequently said the Agency is trying to do too many things under its staffing levels.

By FY 1995, most country programs will be focused on no more than two or three priority sectors.

Focusing on Results

There will be increased emphasis on results: programs will be designed with results in mind.

Contractors will be accountable for results rather than just for level of effort.

Staffing

To maintain A.I.D.'s unique advantage of its field missions, maintain proper accountability and operate within tight operating budgets, A.I.D. is currently performing an assessment of its in-country presence. The study, to be completed later this year, will recommend alternatives for more efficient and cost-effective configurations of our overseas staff.

Agency Incentives

With the 1992-93 cycle, we are revising performance appraisal forms for foreign service and civil service employees to place greater weight on their effectiveness in identifying, tracking and correcting management control weaknesses, and in tracking, resolving, and closing audit recommendations.

We are revising performance and promotion precepts to give more emphasis to management control, implementation and impact.

The employee awards program will be reoriented to give higher priority to improved management.

Public Information on Procurement Opportunities

In October 1991, we implemented a system to provide the public with early information on upcoming A.I.D. procurement activities through the use of a Department of Commerce bulletin board. This is one of several actions taken to encourage greater public participation in A.I.D. activities and eliminate the perception of A.I.D. as a "closed shop."

BEST AVAILABLE DOCUMENT

**MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS WITH DISALLOWED COSTS
FOR THE SIX-MONTH PERIOD ENDING 09/30/91**

	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period	61	8,199,962
B. Audit reports on which management decisions were made during the period	45	4,331,051
C. Total audit reports pending final action during the period (total of A and B)	106	12,531,013
D. Audit reports on which final action was taken during the period	53	4,372,918
1. Recoveries		
(a) Collections and offsets	44	2,523,673
(b) Property		
(c) Other		
2. Write-offs	16 ¹	1,849,245
3. Total of 1 and 2 (monetary)	53	4,372,918
E. Audit reports needing final action at the end of the period (subtract D3 from C)	53	8,158,095

1. In order to correctly reflect monetary adjustments, this number of audits reports has to be shown as 16 rather than 9.

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS
WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
FOR THE SIX-MONTH PERIOD ENDING 09/30/91**

	NUMBER OF AUDIT REPORTS	FUNDS TO BE PUT TO BETTER USE
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period	25	95,777,323
B. Audit reports on which management decisions were made during the period	22	10,300,688
C. Total audit reports pending final action during the period (total of A and B)	47	106,078,011
D. Audit reports on which final action was taken during the period	26	35,818,891
1. Value of recommendations implemented (completed)	21 ¹	34,183,333
2. Value of recommendations that management concluded should not or could not be implemented or completed	5	1,635,558
3. Total of 1 and 2 (monetary)	26	35,818,891
E. Audit reports needing final action at the end of the period (subtract D3 from C)	21	70,259,120

1. 24 is actual total of audits reports but final action has been completed on only 21.

BEST AVAILABLE DOCUMENT

**A.I.D. Semiannual Management Report
Appendix**

<i>Audit Reports with Management Decisions Open One Year or More after Management Decision, as of September 30, 1991</i>					
Audit Recommendations with Bills for Collection Issued					
Report Number	Rec. Number	Issue Date	Disallowed Costs	Funds To Be Put To Better Use	A.I.D. Administrative Unit/Comments
5-279-82-009	1	8/26/82	114,285		Bill for Collection issued
0-000-86-006	1	7/30/86	95,141		Bill for Collection issued
7-686-87-002-N	1	12/11/86	36,160		Bill for Collection issued
3-650-87-008	4	3/6/87	136,905		Bill for Collection issued
AM-88-003	1a,b	10/19/87	20,563		Bill for Collection issued
TR-88-066	1	6/28/88	36,365		Bill for Collection issued
0-000-88-003-N	1	7/5/88	183,443		Bill for Collection issued
1-519-89-021-N	1	1/19/89	2,182,298		Bill for Collection issued
3-617-89-004-N	1a	1/31/89	665		Bill for Collection issued
1-596-89-036-N	2a	7/14/89	169,304		Bill for Collection issued
TR-89-128	1	9/21/89	448		Bill for Collection issued
7-677-89-011	4a	9/25/89	6,799		Bill for Collection issued
1-538-90-001	1b	10/11/89	699		Bill for Collection issued
7-685-90-002	2	10/20/89		13,098	Bill for Collection issued

Report Number	Rec. Number	Issue Date	Disallowed Costs	Funds To Be Put To Better Use	A.I.D. Administrative Unit/Comments
2-492-90-003-N	1a,c	10/30/89	71,260		Bill for Collection issued
TR-90-27	1	11/17/89	9,767		Bill for Collection issued
7-608-90-003	1a	11/28/89	985,589		Bill for Collection issued
1-520-90-008-N	1	12/28/89	3,832		Bill for Collection issued
1-519-90-011-N	1	1/19/90	101,785		Bill for Collection issued
7-683-90-007	3a	5/4/90	8,160		Bill for Collection issued

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**A.I.D. Semiannual Management Report
Appendix**

<i>Audit Reports with Management Decisions Open One Year or More after Management Decision, as of September 30, 1991</i>					
Report Number	Rec. Number	Issue Date	Disallowed Costs	Funds To Be Put To Better Use	A.I.D. Administrative Unit/Comments
7-669-89-012	1	9/28/89		1,900,000	USAID/Liberia closed due to political situation.
5-391-90-003	3	10/26/89		4,829,000	Review of local currency guidance to begin 10/91; expect closure by 3/92.
3-278-90-001	3b	10/31/89		216,000	Final local currency deposits expected within next 6 months.
3-650-90-007	1b	3/26/90		48,457,303	USAID/Sudan is still pursuing collection.
7-683-90-007	2b	5/4/90		18,386	USAID/Niger is expecting final action as of 3/92.
7-660-90-016	3	8/31/90		70,000	Final action pending stabilization of Government of Zaire political situation.