

Financial Audits

**AUDIT OF FISCAL YEAR 1993
ANNUAL FINANCIAL STATEMENT FOR USAID'S
FSN SEPARATION PAY TRUST FUND
UNDER THE CFO ACT**

**Report No. 0-000-94-006
June 30, 1994**



BEST AVAILABLE DOCUMENT

**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Assistant Inspector
General for
Audit

June 30, 1994

MEMORANDUM

FOR: AA/M, Larry E. Byrne
FROM: AIG/A, James B. Durnil
SUBJECT: Audit of Fiscal Year 1993 Annual Financial Statement for USAID's Foreign Service National (FSN) Separation Pay Trust Fund

Attached are the financial statements on USAID's FSN Separation Pay Trust Fund (Trust Fund) for FY 1993 — the first year statements have been prepared for this entity. We performed an audit of the annual financial statements under the requirements of the CFO Act. In addition, we reviewed the presentation of management performance information required by the Office of Management and Budget (OMB). This report presents the results of the audit.

The audit was conducted in accordance with the generally accepted government auditing standards and OMB Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require the audit to provide reasonable assurance that financial statements are free of material misstatement. This audit also included a review of internal controls and tests of USAID's compliance with applicable laws and regulations.

In FY 1992, the FSN Separation Pay Trust Fund was established for USAID at the Department of Treasury to fund and account for separation payments made to FSNs who voluntarily leave USAID (e.g., through retirement and resignation). All overseas Missions with liabilities for voluntary separation pay, per their official compensation plans, are required to participate in the Trust Fund.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

FOREIGN SERVICE NATIONAL SEPARATION
PAY TRUST FUND

INSPECTOR GENERAL'S REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1993

INSPECTOR GENERAL'S REPORT ON
INTERNAL CONTROL STRUCTURE

INSPECTOR GENERAL'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS

Clarification of Entity Audited

USAID determined that the FSN Separation Pay Trust Fund was to include deposits for **only voluntary** separation payments owed to Foreign Service Nationals employed by USAID. Under established compensation plans in the countries where USAID operates, USAID generally has a liability from date of employment for separation payments to FSNs who voluntarily leave USAID employment.

In addition to its liability for voluntary separation payments, USAID generally has a **contingent** liability for **involuntary** severance payments in the event of reductions-in-force (RIFs) and/or Mission closures. Severance payments in the case of involuntary separations are often much larger than voluntary separation payments — but do not become actual liabilities until RIFs or closures are planned. While USAID has determined it may use existing country balances in the FSN Separation Pay Trust Fund to partially fund involuntary severance pay, the Trust Fund's country balances are not primarily intended for involuntary severance payments and are insufficient to cover involuntary severance payments.

USAID is planning Mission closures which will result in involuntary severance payments to FSNs. We are monitoring USAID's plans. For example, USAID is in the process of making significant involuntary severance payments to FSNs in connection with the ongoing closure of the Pakistan Mission, and will be required to make involuntary severance payments to FSNs at several other Missions planned for closure over the next few years. However, our CFO Act audit of the FY 1993 financial statements for the FSN Voluntary Separation Pay Trust Fund did not address USAID's process for planning Mission closures and associated funding requirements, such as involuntary severance payments to FSNs.

Financial Statement Audit

The audit objectives were to determine whether: (1) the financial statements for the FSN Separation Pay Trust Fund were presented fairly in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles, (2) the entity had an adequate internal control structure, and (3) the entity complied with laws and regulations that could have a direct and material effect on the financial statements and certain other laws and regulations designated by OMB and USAID.

We determined that the financial statements present fairly, in all material respects, the financial position of the Foreign Service National Separation Pay Trust Fund at September 30, 1993, and the financing sources and expenditures, budget and actual expenses, and cash flows for the year then ended in conformity with OMB Bulletin Number 93-02, "Form and Content of Agency Financial Statements."

Our attached Report on Internal Control Structure identifies two reportable conditions¹ applicable to the FSN Separation Pay Trust Fund. The reportable conditions pertained to (1) incomplete policy guidance to the Missions, and (2) lack of centralized verification of reported activity. Regarding the first reportable condition, management was in the process of formulating and disseminating additional policy guidance, and therefore we are not making a recommendation. Regarding the second reportable condition, the importance of centralized monitoring was highlighted when our audit identified one Mission which had overpaid its FSNs \$19,000 and was at risk of making additional overpayments of \$352,000. During our audit, the Mission took appropriate corrective action to avoid further overpayments. Our Report on Internal Control Structure includes the following recommendation:

Recommendation No. 1: We recommend that the Assistant Administrator for Management establish an appropriate mechanism to centrally monitor Mission compliance with policies related to computing accruals, and recording and reporting activity for the FSN Separation Pay Trust Fund.

Our attached Report on Compliance with Laws and Regulations identifies one instance of noncompliance. Although required by legislation, in our opinion, the Trust Fund was not fully funded for its liability related to voluntary separation payments to Foreign Service Nationals. Our Report on Compliance with Laws and Regulations includes the following recommendation:

Recommendation No. 2: We recommend that the Assistant Administrator for Management develop a plan to fully fund the FSN Separation Pay Trust Fund.

Performance Measures

An additional audit objective was to determine whether USAID had established a performance measurement system that documents the basis for reported information. Although required by the CFO Act, USAID had not established a performance measurement system for the FSN Separation Pay Trust Fund for FY 1993. According to USAID officials, financial performance measures will be presented for this entity in FY 1994.

Since the Trust Fund was still in its early stages in FY 1993, we are not making any recommendations regarding performance measures. We will continue to monitor USAID's progress in developing performance measures during our required audits of the FSN Separation Pay Trust Fund in the future under the CFO Act audit requirements.

¹See our Report on Internal Control Structure on page 17 for the definition of "reportable condition".

Management Comments

Management agreed with our recommendations. Moreover, management expressed its commitment to improve the financial records of the FSN Separation Pay Trust Fund and to close our recommendations as soon as possible. Regarding Recommendation No. 2, management stated it was exploring whether the unfunded liability could be funded in FY 1994.

We can resolve Recommendation No. 1 when we receive and assess a statement of management's planned mechanism to centrally monitor Mission compliance with established policies, and we can close the recommendation when we have evidence that the mechanism is effectively operational. We can resolve and close Recommendation No. 2 when we have evidence that the unfunded liability has been fully funded.

A copy of management's written comments to the draft audit report is attached as Appendix I.

I very much appreciate the courtesies and cooperation extended to my staff during this audit.

Please advise me within 30 days of any actions planned or taken to close the two recommendations in this report.

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Inspector General's Report

We have audited the accompanying statement of financial position for the Foreign Service National (FSN) Separation Pay Trust Fund of the U.S. Agency for International Development (USAID) as of September 30, 1993, and the related statements of financing sources and expenditures, of budget and actual expenses, and of cash flows for the year then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting prescribed in OMB Bulletin Number 93-02, "Form and Content of Agency Financial Statements," which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foreign Service National Separation Pay Trust Fund at September 30, 1993, and the financing sources and expenditures, budget and actual expenses, and cash flows for the year then ended in conformity with OMB Bulletin Number 93-02, "Form and Content of Agency Financial Statements."

Office of the Inspector General

Office of the Inspector General
June 27, 1994

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1993

(in U.S. Thousands)

	<u>1993</u>
ASSETS	
Financial Resources:	
Fund Balance with Treasury (Note 2)	-
-Unrestricted	\$ 0
-Restricted	3,105
Due from Missions for Past Service Costs (Note 3)	5,979
Total Financial Resources	\$ <u>9,084</u>
Non-financial Resources:	<u>0</u>
Total Assets	<u>\$ 9,084</u>
LIABILITIES	
Funded Liabilities:	
Accounts Payable (Note 4)	352
Estimated Future Liability (Note 5) for Separation Payments	\$ <u>2,753</u>
Total Funded Liabilities	3,105
Unfunded Liabilities	
Estimated Future Liability (Note 3) for Separation Payments	<u>5,979</u>
Total Liabilities	5,979
NET POSITION	<u>0</u>
Total Liabilities and Net Position	\$ <u>9,084</u>

The accompanying notes are an integral part of the financial statements.

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND
STATEMENT OF FINANCING SOURCES AND EXPENDITURES
AND TRUST FUND BALANCES, BY USAID MISSION
FOR THE YEAR ENDED SEPTEMBER 30, 1993 (in U.S. Thousands)**

USAID Mission	Balance September 30, <u>1992</u>	FY 1993 Funding (Note 6)	FY 1993 Acc. Expenditures (Note 7)	Balance September 30, <u>1993</u>
Afghanistan - USAID Rep.	\$ 4	\$ 0	\$ 0	\$ 4
Bangladesh	0	25	0	25
Bolivia	0	168	0	168
Burkina Faso	0	6	0	6
Chile - USAID. Rep.	5	0	0	5
Colombia	25	39	22	42
Costa Rica	6	13	0	19
Ecuador	16	110	5	121
Egypt	0	303	0	303
El Salvador	37	0	0	37
Ghana	0	69	0	69
Guatemala (Note 8)	193	410	5	598
India	39	147	0	186
Indonesia	113	0	0	113
Ivory Coast-REDSO/WCA	44	0	0	44
Jordan	0	72	0	72
Lebanon	0	10	0	10
Mali	0	34	0	34
Mauritania	0	1	0	1
Mongolia	2	0	0	2
Mozambique	0	187	0	187
Nepal	12	19	0	31
Nigeria	0	1	0	1
Pakistan	148	132	0	280
Panama	6	22	0	28
Paris - Inter.USAID -Coor.	0	3	0	3
Peru	94	0	5	89
ROCAP	0	6	6	0
Tanzania	0	67	0	67
Thailand	106	0	8	98
Togo	27	0	0	27
Tunisia	0	36	0	36
West Bank/Gaza	0	12	0	12
Yemen	0	35	0	35
Total	\$ <u>877</u>	<u>\$1,927</u>	\$ <u>51</u>	<u>\$ 2,753</u>

The accompanying notes are an integral part of the financial statements.

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1993**

	Amount (U.S. Thousands)
CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>0</u>
CASH PROVIDED BY INVESTING ACTIVITIES	<u>0</u>
CASH PROVIDED BY FINANCING ACTIVITIES	
Cash Provided:	
Transfers from other funds (Note 9)	<u>2,279</u>
Cash Used:	
FSNSP Trust Fund Disbursements	<u>51</u>
Net Cash Provided by Financing Activities	2,228
Fund Balance with Treasury, beginning of year	<u>877</u>
Fund Balance with Treasury, end of year	\$ <u><u>3,105</u></u>

The accompanying notes are an integral part of the financial statements.

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
 FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND
 STATEMENT OF BUDGET AND ACTUAL EXPENSES
 FOR THE YEAR ENDED SEPTEMBER 30, 1993

(in U.S. thousands)

<u>PROGRAM NAME</u>	<u>RESOURCES</u>	<u>BUDGET</u>		<u>ACTUAL</u>
		<u>DIRECT</u>	<u>REIMBURSED</u>	
FSNSP Trust Fund	\$ 3,156	\$ 1,562	\$ 0	\$ 51
Total	\$ 3,156	\$ 1,562	\$ 0	\$ 51

BUDGET RECONCILIATION

Total Expenses		\$ 51
Add:		
(1) Capital Acquisitions		0
(2) Loans Disbursed		0
(3) Other Expended Budget Authority		0
Less:		
(1) Depreciation and Amortization		0
(2) Unfunded Annual Leave Balance		0
(3) Other Unfunded Expenses		0
Accrued Expenditures		\$ 51
Less reimbursements		0
Accrued Expenditures, Direct		\$ 51

The accompanying notes are an integral part of the financial statements.

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1993

Note 1. - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Foreign Service National Separation Pay Trust Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Foreign Service National Separation Pay Trust Fund in accordance with the form and contents specified by the Office of Management and Budget (OMB) in OMB Bulletin 93-02 and the Trust Fund policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared from the Foreign Service National Separation Pay Trust Fund, pursuant to OMB directives, that are used to monitor and control the fund's use of budgetary resources.

Reporting Entity - Foreign Service National Separation Pay Trust Fund

Section 151 of FY 1992 Authorization Act for the Department of State (P.L. 102-138) established a Foreign Service National Separation Pay Trust Fund in the U.S. Treasury for deposit and payment of current, future and previously obligated accrued separation pay. The reporting entity for these financial statements is the USAID Foreign Service National Separation Pay Trust Fund. In accordance with Treasury regulations, Trust Fund 72X8342 has been established with the Department of Treasury as the fund symbol for this program.

Basis of Accounting

Transactions are recorded on an accrual basis and budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal restraints and controls over the use of federal funds.

Financing Resources

Financing for the trust fund program is from annual transfers from other USAID controlled funds. The funding can be either operating expense type funds, (e.g., USAID Operating Expense; Inspector General Operating Expense; Housing Guaranty Operating Expense;) or program funds.

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

Fund Balance with Treasury

This total represents the total of the unobligated and unliquidated obligations as reflected in the Agency's records. The Trust Funds do not maintain cash in commercial bank accounts.

Comparative Data

Comparative data for prior years have not been presented because this is the first year for which financial statements were prepared for the Foreign Service National Separation Trust Fund. In future years, comparative data will be presented to provide an understanding of changes in the financial position and operation of the fund.

Note 2. Fund Balance with Treasury

(dollars in thousands)

	<u>Available</u>	<u>Restricted</u>	<u>Total</u>
FSNSP Trust Fund	\$ <u>0</u>	\$ <u>3,105</u>	\$ <u>3,105</u>
Fund Balance and Cash	\$ <u>0</u>	\$ <u>3,105</u>	\$ <u>3,105</u>

The Fund Balance with U.S. Treasury per USAID of \$3,105,000 differs from the U.S. Treasury's TFS-6653 balance of \$ 1,849,000. The \$1,256,000 difference represents outstanding cash reconciliation differences as of September 30, 1993. \$1,114,000 of this balance represents deposits which were recorded by USAID in FY 1993, but which were not processed by Treasury until FY 1994 (\$830,000 in October 1993; \$152,000 in November 1993; and \$132,000 in December 1993).

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

Note 3. Unfunded Liabilities - Amounts Due from Missions

The amount of \$5,979,000 reported as unfunded liability balance is an estimated amount based on a worldwide cable request to all missions to submit their estimated liabilities as of September 30, 1993. To date, all missions have responded except for Nigeria and Paris. The following are the unfunded amounts that were reported. Missions which responded negatively are not listed.

<u>Mission</u>	<u>Unfunded Liability as of 9/30/93</u> (in thousands of dollars)
Bangladesh	\$ 221
Bolivia	406
Cape Verde	151
Chad	30
Costa Rica	77
El Salvador	404
Ethiopia	18
Egypt	1,048
Ivory Coast	98
Japan	7
Jordan	335
Lebanon	58
Liberia	2
Nepal	208
Niger	80
Pakistan/Afghanistan	1,000
Panama	81
Peru	870
Sri Lanka	27
Thailand	741
Tunisia	35
Yemen	79
West Bank/Gaza	3
Total	<u>\$ 5,979</u>

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

Note 4. Accounts Payable

This balance represents an over-funding in the USAID/Guatemala mission due to miscalculation of the amount that should have been transferred to the FSNSP Trust Fund. The payable is to the original funding appropriation and payment will be done in FY 1994.

Note 5. Fund Balances

Unexpended Appropriations	(dollars in thousands)
(1) Unobligated	\$ 1,242
(2) Unexpended	<u>1,511</u>
Total	<u>\$ 2,753</u>

Note 6. FY 1993 Funding

The amounts reported in this column reflect the actual amount of funds that were transferred into the FSNSP Trust Fund in FY 1993. It does not represent the amount of liability that was incurred in FY 1993. If FY 1992 and prior amounts were not transferred until FY 1993 then these amounts are included in this column.

Note 7. Accrued Expenditures

Accrued Expenditures by Object Classification:
(dollars in thousands)

<u>Object Class</u>	<u>Description</u>	<u>FY 1993</u>
(1)	Personal Services and Benefits	<u>\$ 51</u>
(11)	Total Expenses by Object Class	<u>\$ 51</u>

Note 8. Guatemala FY 1993 Funding

The \$410,000 amount reported is net of the \$352,000 over funding made by USAID/Guatemala. The total amount that was transferred to the fund by USAID/Guatemala in FY 1993 was \$762,000.

FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND FINANCIAL STATEMENTS

Note 9. Transfers from other funds

The \$2,279,000 amount includes the \$352,000 over payment by USAID/Guatemala. This disclosure is noted so that difference between the \$2,279,000 transfer amount reported on the Statement of Cash Flows and the \$1,927,000 FY 1993 funding amount on the Statement of Financing Sources and Expenditures is disclosed.

Note 10. Operating and Administrative Expenses of the Trust Funds

All operating and administrative costs of the program are absorbed by USAID as a whole. Since the program is a decentralized program, no organization was overburdened and operation of the fund was absorbed into the regular workload of the existing staff. Due to the immateriality of the support costs, no attempt was made to allocate such costs to the fund.

Inspector General's Report on Internal Control Structure

We have audited the financial statements of the Foreign Service National (FSN) Separation Pay Trust Fund of the U.S. Agency for International Development (USAID) as of and for the year ended September 30, 1993, and have issued our report thereon dated June 27, 1994.

We conducted our audit in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the FSN Separation Pay Trust Fund for the year ended September 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the FSN Separation Pay Trust Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that: (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets; (2) funds, property and other assets are safeguarded against loss from unauthorized use or disposition; and (3) transactions, including those related to obligations and costs, are executed in compliance with (a) laws and regulations that could have a direct and material effect on the Principal statements and (b) any other laws and regulations that OMB or the FSN Separation Pay Trust Fund's management have identified as being significant for which compliance can be objectively measured and evaluated. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Mission disbursements to the Trust Fund
- USAID/Washington disbursements to the Trust Fund
- Payments to FSN employees for voluntary separation
- Reporting and financial statement preparation

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under generally accepted government auditing standards and OMB Bulletin Number 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted two reportable conditions: (1) incomplete policy guidance to the Missions; and (2) lack of centralized verification of reported activity. These two reportable conditions are discussed in detail in the attachment.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not consider either of the two reportable conditions to be material weaknesses.

In addition to the objectives referred to in the fourth paragraph of this report, management is responsible for providing reasonable assurance that data which support performance measures reported in the "Overview of the Reporting Entity" are properly recorded and accounted for to permit preparation of reliable and complete performance information. OMB Bulletin Number 93-06 requires that auditors obtain an understanding of the internal control structure as it relates to the AICPA's existence and completion assertions and assess control risk relative to policies and procedures designed to provide reasonable assurance of achieving this objective. However, USAID had not developed a performance measurement system for the FSN Separation Pay Trust Fund.

This report is intended for the information of the Congress and the management of the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report, when it becomes a matter of public record.

Office of the Inspector General

Office of the Inspector General
June 27, 1994

REPORTABLE CONDITIONS

Accounting for the FSN Separation Pay Trust Fund is performed at the Mission level. Missions required to make deposits to the Trust Fund compute their separation pay accrual amounts, and report them periodically to USAID/Washington. USAID/Washington then uses the summarized figures reported by the Missions to compile the Trust Fund's annual financial statements. In our opinion, because of the decentralized nature of the Trust Fund, there is a risk that transactions and computations may be treated inappropriately and/or inconsistently at the Mission level, resulting in misstated financial statements.

Policy Guidance to Missions Not Yet Adequately Formulated

USAID/Washington's policy guidance for the Trust Fund to Missions for FY 1992 and FY 1993 activity was somewhat limited. In late FY 1991, USAID/Washington issued a cable to the Missions which advised them of the creation of the new Trust Fund and provided interim procedures to Missions for depositing funds to meet the liability for separation pay accrued in FY 1992 and subsequent years. This interim guidance, which included a one-time data call from USAID/Washington, stated that the exact means and mechanisms to effect deposits to the Treasury Department account had not yet been determined. It did not address specifics on accounting for and reporting on transactions, payments to FSNs, or records retention requirements. The cable indicated that USAID/Washington would maintain detailed records.

In late FY 1992, USAID/Washington advised Missions, via cable, of revised interim procedures — for FY 1992 only — for the Trust Fund. This cable advised Mission that the earlier cable was incorrect regarding USAID/Washington maintenance of detailed records. Missions were instructed to maintain, as a minimum, all separation pay deposit information with employees' payroll records. The revised guidance defined "voluntary separation pay", further clarified which Missions were required to participate, and provided basic instructions on making deposits, and on accounting and reporting requirements.

In September 1993, the USAID Office of Financial Management issued a financial management bulletin which gave additional background information, defined key terms and definitions, and gave more detailed guidance in the areas of funding, accounting, reporting to USAID/Washington, and making payments to FSNs. The financial management bulletin also provided examples of calculating FSN separation pay.

Mission officials told us that the policy guidance available through most of FY 1993 was incomplete or vague in some areas. For example, officials in one Mission indicated that — due to lack of detailed guidance — they developed their own approach for computing the separation pay accruals. As a result, the Mission used a different methodology in FY 1992 than it did in FY 1993. Another Mission used a different method to account for the accrual transaction from one year to the next. A third Mission misinterpreted the FY 1992 guidance and made an accrual based on involuntary separation pay instead of voluntary — which resulted in a 50 percent over-accrual of separation pay liability for that year. This same Mission also had questioned how to account for deposits into the Trust Fund.

During our audit, we discussed with responsible USAID officials the voids and/or ambiguities in policy guidance. In May 1994, USAID/Washington issued a cable which acknowledged that confusion appeared to exist at Mission level, and stated that USAID/Washington sought to identify and answer questions. The May 1994 cable redefined the distinction between voluntary and involuntary separation pay, elaborated on detailed record retention requirements, and clarified certain funding issues. This cable, therefore, clarifies policy guidance related to the FSN Separation Pay Trust Fund.

In its May 1994 cable, USAID/Washington advised the Missions that the financial management bulletin related to the FSN Separation Pay Trust Fund will be revised and reissued. We believe that the steps taken and planned by USAID/Washington should sufficiently resolve the remaining voids and ambiguities in policy guidance. We plan to review the status of formal guidance in our next CFO Act audit of this entity.

Lack of Centralized Verification Process

In addition to completing the formulation of comprehensive policies, we believe USAID/Washington should have a monitoring process to verify that computing, recording, and reporting of Trust Fund activity are complete, accurate, and in compliance with established policies. For FY 1993, USAID/Washington had no systematic process for this purpose. Rather, it relied solely on information as reported by the Missions.

One USAID Mission Was Not Complying with the Country Compensation Plan

A centralized verification process could identify and correct instances of noncompliance with established policies. For example, we noted that one Mission was not in compliance with the country's official compensation plan. The Mission was computing its annual voluntary separation pay accrual and making payments to separating FSNs based on the formula for involuntary separation pay, as specified in the compensation plan. This noncompliance resulted in overpayments to separating FSNs of approximately \$19,000 prior to

our audit, and an over-accrual of voluntary separation pay as of September 30, 1993, of approximately \$352,000. Had our audit not identified this Mission's over-accrued liability, \$352,000 would have been inappropriately paid when FSNs voluntarily left the Mission.

Upon being advised by us that the Mission was not in compliance with the country's official compensation plan, Mission management attempted to recover past overpayments and stated its intention to follow the official compensation plan in the future. We considered the expeditious corrective actions taken by the Mission to be adequate resolution of this instance of noncompliance. (An appropriate adjustment of \$352,000 to the liability as of September 30, 1993, was also made in the USAID Statement of Financial Position for the Trust Fund.)

USAID has various options to provide verification of the accuracy and completeness of reported information. For example, Mission Directors could be requested to certify the appropriateness and accuracy of reported data. Also, periodic field checks could be made by USAID/Washington Controller personnel.

A March 1994 cable from USAID/Washington to the Missions indicated that the Controller's Assessment program, which serves an internal review function, would be modified to include an assessment of the Trust Fund. In the Controller's Assessment program, teams from USAID/Washington periodically perform on-site reviews and assess Mission controller operations. However, as of the completion of our audit, USAID management did not yet have formal plans to include the Trust Fund in the Controller's Assessment program.

Recommendation No. 1: We recommend that the Assistant Administrator for Management establish an appropriate mechanism to centrally monitor and verify Mission compliance with formal policies related to computing accruals, and recording and reporting activity for the FSN Separation Pay Trust Fund.

Inspector General's Report on Compliance with Laws and Regulations

We have audited the financial statements of the Foreign Service National (FSN) Separation Pay Trust Fund administered by the U.S. Agency for International Development (USAID), as of and for the year ended September 30, 1993, and have issued our report thereon dated June 27, 1994.

We conducted our audit in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to USAID is the responsibility of USAID's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of USAID's compliance with certain provisions of laws and regulations. Applicable laws included: the Chief Financial Officers Act of 1990; the FSN Separation Pay Trust Fund's authorizing legislation (22 U.S.C. § 4012 (a)); individual country compensation plans; and the Federal Managers' Financial Integrity Act (FMFIA) of 1982. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance disclosed one instance of noncompliance.

Trust Fund Not Fully Funded

The FSN Separation Pay Trust Fund's authorizing legislation, 22 U.S.C. § 4012(a), mandated the establishment of a trust fund to provide separation pay for foreign national employees. The legislation provided that the following should be deposited into the fund:

- 1) all amounts previously obligated for accrued separation pay of foreign national employees...and;
- 2) amounts obligated for fiscal years after 1991...for current and future costs of separation pay of foreign national employees.

We believe that the intent of the authorizing legislation for the FSN Separation Pay Trust Fund was to establish a trust fund for all separation payments to FSNs who voluntarily leave USAID (i.e., through resignation and retirement). As of September 30, 1993, USAID had deposited only \$3,105,000 of its total estimated liability of \$9,084,000 for voluntary separation pay into the FSN Separation Pay Trust Fund — resulting in an unfunded liability of \$5,979,000. This unfunded liability is the portion of the liability which accrued for fiscal years prior to 1992, the year in which the Trust Fund was established.

USAID management instructed Missions to accrue and provide funding for their liabilities for voluntary separation pay for FY 1992 and subsequent years. This resulted in an unfunded liability at many Missions for years prior to FY 1992. However, some Missions received funding for prior years from their regional bureaus, on an ad hoc basis.

Nonetheless, at least one formal determination by USAID suggested an interpretation of the Trust Fund's authorizing legislation that full funding—including funding for the liability accrued in years prior to FY 1992—was required. In addressing matters related to the closure of a particular Mission, an official from the Office of the General Counsel of one of the regional bureaus concluded in April 1993 that "...amounts equal to accrued severance obligations should be deposited into the [Trust Fund], in accordance with the [authorizing legislation]." This official defined "obligations" to include both recorded and unrecorded prior obligations.

In addition, in the Overview of the financial statements, USAID management indicates that they intend to fund the pre-FY 1992 liability "within ten years or earlier if possible." On the other hand, a May 1994 USAID/Washington cable to Mission controllers stated that "...the Agency has not developed any position regarding funding of the cumulative prior years' liability...for FSN separation pay." Therefore, at the time of our audit, it remained unclear as to how and when the funding of the pre-FY 1992 liability will occur.

USAID's Statement of Financial Position for the FSN Separation Pay Trust Fund identifies an unfunded liability of about \$5,979,000, as of September 30, 1993. Because of the relative magnitude of this amount, we believe management should develop a formal plan to fully fund the Trust Fund.

Recommendation No. 2: We recommend that the Assistant Administrator for Management develop a plan to fully fund the FSN Separation Pay Trust Fund.

We considered this instance of noncompliance in forming our opinion on whether the FSN Separation Pay Trust Fund's fiscal year 1993 financial statements are presented fairly, in all material respects, in conformity with OMB Bulletin Number 93-02, "Form and Content of Agency Financial Statements," and this report does not affect our report dated June 27, 1994 on those financial statements.

Except as described above, our tests for compliance with the provisions of selected laws and regulations referred to in the third paragraph of this report disclosed no instances of noncompliance. With respect to items not tested, nothing came to our attention that caused us to believe that the FSN Separation Pay Trust Fund had not complied, in all material respects, with those provisions.

This report is intended for the information of the Congress and the management of the U.S. Agency for International Development. This restriction is not intended to limit distribution of this report, when it becomes a matter of public record.

Office of the Inspector General

Office of the Inspector General
June 27, 1994

USAID MANAGEMENT'S PROGRAM OVERVIEW
OF THE FOREIGN SERVICE NATIONAL
SEPARATION PAY TRUST FUND

PROGRAM OVERVIEW

DESCRIPTION OF ENTITY

Section 151 of the FY 1992 Authorization Act for the Department of State (P.L. 102-138) required that a separate trust fund account be established in the Department of Treasury for foreign service national employees' separation pay. In accordance with U.S. Treasury regulations, a Foreign Service National Separation Pay Trust Fund (72X8342) was established for the Agency for International Development (USAID). Agency policy was written to require only obligation and deposit of funds to the Trust Fund for current obligations recorded after FY 1991. Prior to FY 1992 USAID did not recognize liabilities for accrued separation pay, and there were no obligated balances to transfer since USAID did not record obligations for separation pay until payment was due.

The purpose of the Foreign Service National Separation Pay program is to fund and account for separation payments for eligible foreign service national employees (direct hire and personal service contractors), who voluntarily terminate employment; and is applicable only in those countries that, due to local law, require a lump-sum voluntary separation payment based on years of service and rate of pay at time of separation.

The USAID Foreign Service National Separation Pay Trust Fund is a decentralized system with management and accounting of the fund handled at the overseas missions. The Foreign Service National Separation Pay Trust Fund Program is not a specific organization within USAID. Basically, it is a program which is intended to ensure proper funding and subsequent payment of separation costs related to USAID's foreign national personnel. The trust fund serves as an accounting mechanism to centralize and control the funding and ultimate payment of these costs. The Central Accounting and Reporting Division of the Office of Financial Management (FM), maintains the consolidated financial reporting system which processes the overseas accounting information reported on the Summary of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Account Report (U-101 reports). There are currently about 35 missions who are reporting FSNSP trust fund activity. This data is processed in the general ledger and is the basis for the preparation of financial reports.

PERFORMANCE MEASURES

Because the Foreign Service Separation Pay Trust Fund is very limited in its purpose and objectives and since it is a very small program as compared to other USAID programs, management has taken into consideration the cost benefits of developing and monitoring performance measures and the impact on other programs and responsibilities of the Office of Financial Management. FY 1993 measures were not developed, but the following measures are presented for FY 1994.

Since the program is small in dollar amount and activity, quantified measures will not be established. The measures will assume 100% compliance.

Program Performance

The nature of the trust fund, its reason for existence and the goals and objectives of the Foreign Service National Separation Pay Trust Fund are straightforward:

- to accurately and properly calculate the annual deposit amounts into the program. The responsibility for managing and accounting for the various trust programs lies with the overseas missions and controller offices. By utilizing the overseas offices knowledge and expertise in the local laws, local currency exchange rates, and foreign service national employee salary records, proper funding should be accomplished.

- to make accurate and timely payments to eligible recipients. The overseas missions and controller offices are responsible for making properly certified payments to eligible employees. This should ensure accurate and timely payments since they are most familiar with the mission's program and are in position to monitor the payment procedure and to immediately respond to any problems that may arise.

- to provide a complete and useful picture of all agency FSN separation payments.

In an attempt to improve the accuracy and usefulness of this program, USAID has issued revised instructions to the overseas missions. Revised procedures instruct missions to flow all separation payments through this trust fund. Initial instructions advised missions to only charge the trust fund for the balance that was available and to pay any additional amounts from operating expenses or other applicable fund. Through these modifications, USAID intends to fully disclose the costs associated with voluntary separations from the agency.

No measures have been presented for the above program performance goals. Since the program is decentralized throughout the world, it would require a good deal of time and effort to collect, compile, and review the required information. Considering the small size of this program and the limited benefits recognized, the results would not be cost beneficial and would require manpower hours that are already in short supply and which are needed for other FM responsibilities and operations.

Financial Performance

The accompanying financial statements summarize the Foreign Service National Separation Pay Trust Fund Program's financial position, the change in trust fund balances by mission, its cash flow, and a comparison of budget and actual expenses. The statement of change in trust fund balances and the statement of cash flows vary from the format prescribed by OMB Bulletin 93-02 for the statement of operations and changes in net position. The formats have been

modified because the program is a non-revenue producing trust fund which has no net position balance. The reports as presented are intended to provide more meaningful information than would be the case if the formats of OMB Bulletin 93-02 were used. In addition to these standard reports, the following financial performance measures have been established:

- all missions annual year deposits will be completed by July 31 as mandated in FM's Bulletin #14C and properly reported on the Summary of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Accounts (U-101) report.

- all cash deposits and disbursements will be reconciled by the overseas USAID controller offices to the United States Disbursing Officers (USDOS) accounts and any differences cleared within 60 days.

- all deposits will be allotted and obligated and reported on the U-101 report within same month as the deposit.

Financial Management Performance

It is management's objective to receive an unqualified opinion the Foreign Service National Separation Pay Trust Fund financial statements. Management plans to achieve this goal by maintaining an accounting system that is accurate, complete, traceable to supporting documentation, and capable of producing the required financial statements; and by adhering to a system of internal controls that are reasonable and cost effective considering the size and activity of the program.

FINANCING RESOURCES

Financing for the trust fund program results from annual transfers from other USAID controlled funds. The funding can be either from operating expense or program funds. Apportionment of funds by OMB is not required.

FINANCIAL CONDITION

The Foreign Service National Separation Pay Trust Fund is a new program and as such this is the first year for financial statements. The financial condition of the program is sound as far as funding requirements to cover all liabilities since FY 1992. However, there exists an estimated unfunded liability balance of \$5,979,000 for liabilities accrued prior to FY 1992. These liabilities will be funded over the long term when funds are available. It is management's intent to have a fully funded trust fund within ten years or earlier if possible.

CONCLUSION/SUMMARY

Program Performance

The program performance for the Foreign Service National Separation Pay Trust Fund has been successful. During the period, operating procedures were developed for managing and accounting for this program. Due to misunderstanding and/or lack of communication, there were some U-101 reporting and processing problems and follow up action with the missions was required by the Office of Financial Management. Based on the responses received to FM's inquiries and more finalized operating instructions, it is expected that the problems experienced the past year will not be repeated. In order to capture all of the agency's costs related to foreign service national separations costs, additional instructions have been developed and issued to the overseas missions.

Financial Operations/Condition

Operations

The financial operations of the program are working very well now that initial operating procedures have been completed and this information sufficiently communicated to the overseas missions. Transfers are being made to the trust fund and reported by the overseas missions to the Central Accounting and Reporting Division of FM via the U-101 reports. The amounts are being fully allotted and obligated and reported on the U-101. Separation payments are being processed and also reported on the U-101 reports. The U-101 reports are processed in the agency's centralized mission accounting system and also in the general ledger. The one area that is a concern to FM management is cash reconciliations between the USDOs and the missions. In FY 1993 this was not a significant problem and hopefully this will continue. Cash reconciliations have been identified as a performance measure and all missions will be encouraged to manage this responsibility and to ensure that all reconciling items are cleared within 60 days.

Condition

The fund has a fund balance of \$2,753,000 to cover the FSNSP Trust Fund separation liabilities accrued since FY 1992. However, to date no action has been taken to fund the separation liabilities prior to FY 1992. The amount of unfunded liabilities as of September 30, 1993 was estimated at \$5,979,000.

Mission Closures

USAID is currently downsizing its worldwide operations and this will involve the closing of several missions and termination of foreign service national employees. This will result in some large expenses that normally would not be incurred in such a short period of time. In regards to the Foreign Service National Separation Pay Trust Fund, the amount of liability is limited to the amount of separation pay the foreign service national employees would be entitled to if their separation was voluntary. Also, payment out of the trust fund is limited to the available amount of funds in

the trust fund. Any excess payment would be funded out of current year appropriated funds. Any amount which would have been due to the foreign service national employees if the separation was voluntary would be channelled through this trust fund so that the trust fund does capture all costs related to voluntary separations. Although the agency will experience material close out expenses related to foreign service nationals, the funding of these costs are an agency, and not FSNP Trust Fund, responsibility.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the Foreign Service National Separation Pay Trust Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990.

While the statements have been prepared from the books and records of the Foreign Service National Separation Pay Trust Fund in accordance with the form and contents specified by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a sovereign entity, that any unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, or transfers from existing appropriations.

Legislation

Section 151 of the FY 1992 Authorization Act for the Department of State (P.L. 102-138) required that a separate trust fund account be established in the Department of Treasury for foreign service national employees' separation pay. Per this legislation:

(a) Establishment

There is established in the U.S. Treasury of the United States a fund to provide separation pay for foreign national employees of agencies of the U.S. Government, other than the Department of Defense.

(b) Funding

There shall be deposited in such account-

(1) all amounts previously obligated for separation pay of foreign national employees of such agencies of the U. S. Government; and

(2) amounts obligated for fiscal years after 1991 by such agencies for the current and future costs of separation pay of foreign national employees.

(c) Availability

Amounts shall be deposited in the fund annually and are authorized to be available until expended.

(d) Expenditures from the fund

Amounts deposited in the fund shall be available for expenditure to make separation payments to foreign national employees in countries in which such pay is legally authorized.

Legislation Background

GAO Report to Congress B-179343, dated October 21, 1974

The U.S. General Accounting Office (GAO) issued a memorandum to the Department of State (which referenced above report) that stated that the Department of State was not recording obligations for separation allowances for foreign service national employees when they earn rights to be paid in the future, but was instead delaying the recording of obligations until the allowances were paid. GAO stated that this was not proper accounting and required that such obligations be recorded as incurred. Per the GAO:

"The Comptroller General has ruled that an appropriation is obligated when a definite commitment is made, or a legal liability is incurred to pay funds (18 Comp. Gen. 363,38 id. 81). Further, 31 U.S.C. 1501 (a), which lists criteria for recording obligations, states that an amount is an obligation of the U.S. Government when supported by documentary evidence of employment or services of persons. When the severance payments to foreign service nationals are covered by binding agreements and will be paid to such qualifying employee, liability for future payment of severance benefits meets the criteria for valid obligations and should be recorded as they are incurred".

GAO did recognize the difficulties in trying to estimate the amount of separation allowance that eventually will be paid to each foreign employee and recommended a simple and effective method for estimating the amount of separation allowances that are to be recorded each year. Their recommendation was:

"Each year the increase in liability (obligations) will be computed as the difference between the amount of separation allowance that would have been paid if all employees terminated on the last day of the previous fiscal year. This method, which excludes such unknown factors as future changes in pay and exchange rates, would automatically take into account year-to-year changes in the amount owed for separation allowances, and provide a means for arriving at a definite amount to be obligated".

**National Defense Authorization Act for Fiscal Year 1991
(P.L. 101-510, dated November 5, 1990)**

The National Defense Authorization Act (commonly referred to as: "M" account legislation) impacted the funding/obligating for foreign service national separation pay liabilities. The legislation mandated the elimination of "M" accounts and merged surplus account balances. All "annual year" appropriations must now be cancelled five years after initial availability and any remaining unliquidated obligations must also be cancelled and are unavailable for payment. The Department of State was faced with the potential cancellation of funds obligated in prior years for foreign service national separation pay liability. The U.S. General Accounting Office advised the Department of State to seek legal authority for the establishment of a trust fund into which funds could be deposited, ensuring their continued availability for payment, even after the date on which the funds would otherwise have been cancelled under the "M" account legislation. The provisions suggested by the GAO were included in the FY 1992 Authorization Act for the Department of State (P.L. 102-138).

APPENDICES



APPENDIX I

JUN , 7 1994

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

TO: IG/A/FA, B. ~~Reginald Howard~~, Director
FROM: M/FM/CONT, ~~Tony Cully~~, Acting Controller
Subject: Draft Audit Report on FY 1993 Annual Financial
Statement for USAID's Foreign Service National
Separation Pay Trust Fund under the CFO Act

We are in agreement with the recommendations included in the draft audit report. We are committed to improving the financial records of the Foreign Service National Separation Pay Trust Fund program and will take all reasonable and cost effective action to accomplish this task and close the recommendations as soon as possible.

In response to Recommendation No. 2 ("We recommend that the Associate Administrator for Management develop a plan to fully fund the FSN Separation Pay Trust Fund."), M/FM has contacted M/BUD to determine if funds could be made available in FY 1994 to fully fund the estimated unfunded liability of approximately \$5.8 Million. Upon final discussions with M/BUD, we will advise you of the Bureau's funding plan.

We appreciate the efforts of your staff in this endeavor and look forward to providing any assistance you deem necessary. If you have any questions, do not hesitate to call me or any member of my staff.

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APPENDIX II

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