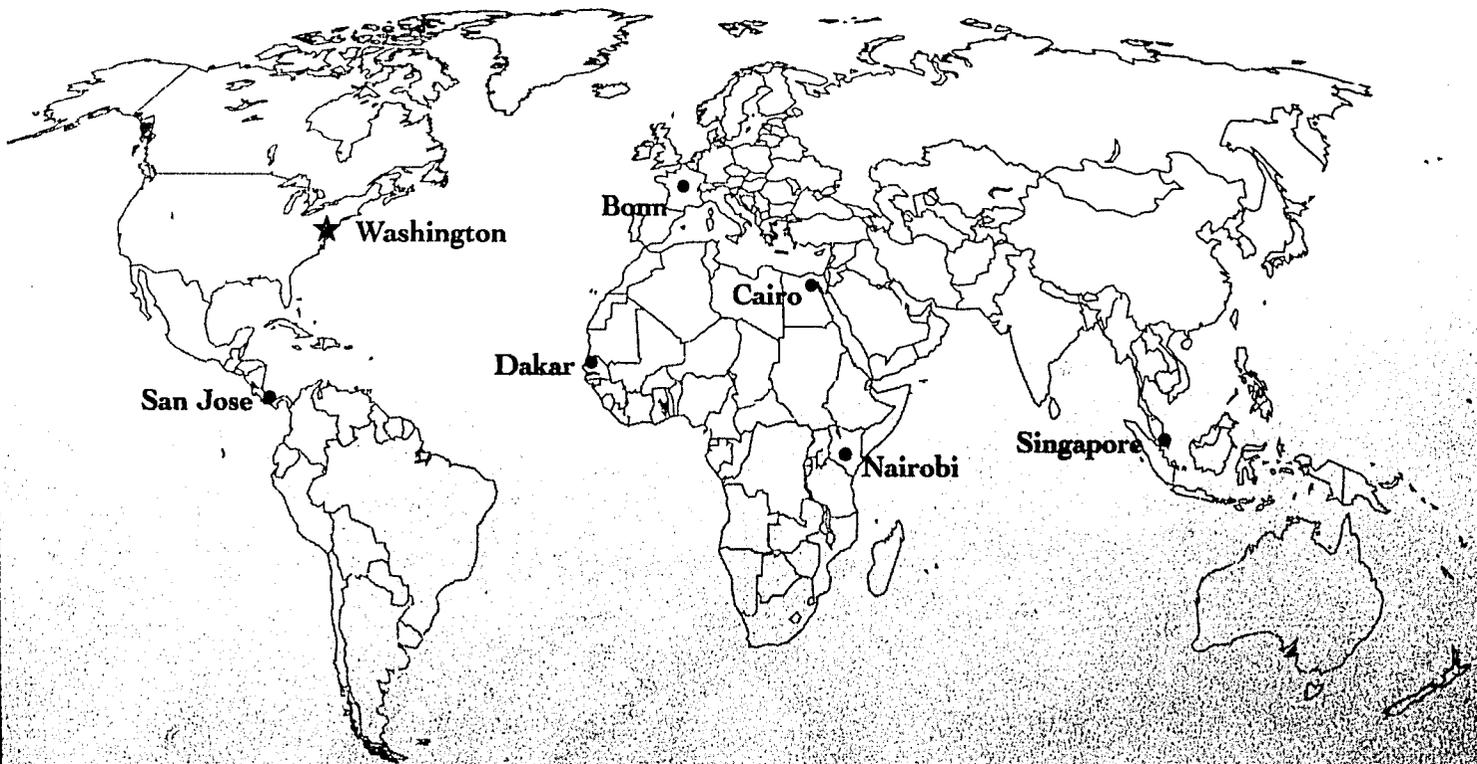


FD-ABL-222
111 111 111

Financial Audits

**AUDIT OF FISCAL YEAR 1994
ANNUAL FINANCIAL STATEMENT FOR USAID'S
MISCELLANEOUS U.S. DOLLAR TRUST FUNDS
UNDER THE CFO ACT**

**Report No. 0-000-95-031
May 31, 1995**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

May 31, 1995

MEMORANDUM

TO: CFO, Donald K. Charney

FROM: AIG/A, *James B. Durnil*
James B. Durnil

SUBJECT: Audit of Fiscal Year 1994 Annual Financial Statement for USAID's
Miscellaneous U.S. Dollar Trust Funds under the CFO Act

The Chief Financial Officers (CFO) Act of 1990 requires the U.S. Agency for International Development (USAID) to prepare an Annual Financial Statement for the Miscellaneous U.S. Dollar Trust Funds. This statement is to include the presentation of program and financial performance information related to the program. The USAID Office of Inspector General is responsible for auditing the Annual Financial Statement. To fulfill this responsibility, we contracted with the independent certified public accounting firm of Deloitte and Touche to perform, under our general oversight, the financial audit for fiscal year (FY) 1994. In addition, the USAID Office of Inspector General reviewed the presentation of management performance information required by the Office of Management and Budget (OMB). This report presents the results of the audit.

Audits under the CFO Act are to be made in accordance with 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 the financial statements are free of material misstatement. The audit included obtaining an understanding of the relevant internal control policies and procedures designed to achieve control objectives; determining that the controls had been placed in operation; and assessing the control risks. The audit also included tests of USAID's compliance with certain laws and regulations.

The Miscellaneous U.S. Dollar Trust Funds includes the activity of two trust funds -- the U.S. Dollar Advances from Foreign Governments Trust Fund and the Gifts and Donations Trust Fund. The U.S. Dollar Advances from Foreign Governments Trust Fund records expenditures against receipts held in trust where USAID acts in a fiduciary capacity in carrying out specific purposes and programs in accordance with trust agreements. The Gifts and Donations Trust Fund records the receipt of money, funds property and services of any kind made available by gift, devise, bequest and grants, and expenditures against these receipts in accordance with applicable agreements and in furtherance of USAID program objectives. Neither of the two trust funds involve appropriated funds.

Deloitte and Touche was unable to express an opinion on the financial statements. Complete accounting records supporting balances that were material to the principal financial statements were not provided by management. Deloitte and Touche identified one material weakness¹ applicable to the U.S. Dollar Advances from Foreign Governments Trust Fund for the year ended September 30, 1994:

"USAID cannot provide a complete accounting for the Trust Funds."

Deloitte and Touche was unable to verify the balances originating prior to 1994. Before 1994, Trust Fund activity was decentralized and all transactions may not have been recorded or reconciled with Trust Fund account balances. Also, in the case of the Trust Fund for South Vietnam, which represents the largest of the old balances, resolution has been hampered by political and legal concerns.

Our reports for FY 1993² and 1992³ on the CFO Act audits of the Miscellaneous U.S. Dollar Trust Funds identified the same material weakness. Our prior reports also included a recommendation to correct the material weakness through improved accounting, reporting and reconciliation. In late FY 1994, we determined that management actions were sufficient to close our recommendation. It is, therefore, our view that -- although a material weakness still existed during FY 1994 -- a further recommendation by us is not warranted at this time.

Management's Comments and Our Evaluation

We provided a copy of the draft report to USAID's Chief Financial Officer and other USAID Management officials who were involved in the audit. These officials indicated they were in agreement with the findings identified. Further, management commented that (1) the limitation of audit work to the Washington Offices, and (2) management's inability to provide information

¹ See page 6 of Deloitte and Touche's Independent Auditor's Report for the definition of a "material weakness."

² Audit Report No. 0-000-94-005, dated June 30, 1994

³ Audit Report No. 0-000-93-003 dated June 30, 1993.

on several very old trust funds (notably Vietnam due to political and legal concerns) contributed to the disclaimer of opinion. We have advised management that we will work to resolve these contributory factors in our planned audit of this entity for FY 1995.

We appreciate the courtesies and cooperation extended to both the staffs of the USAID Office of Inspector General and Deloitte and Touche during the course of this audit.

TABLE OF CONTENTS

	<u>Page</u>
INSPECTOR GENERAL'S LETTER REPORT	1
INDEPENDENT AUDITOR'S REPORT	5
PRINCIPAL STATEMENTS	9
USAID MANAGEMENT'S PROGRAM OVERVIEW OF THE MISCELLANEOUS U.S. DOLLAR TRUST FUNDS	18
USAID MANAGEMENT'S COMMENTS (APPENDIX I)	



INDEPENDENT AUDITORS' REPORT

To the Administrator
and the Inspector General of the
U. S. Agency for International Development:

Summary

We were engaged to audit the principal financial statements of the Miscellaneous U. S. Dollar Trust Funds (the Trust Funds) administered by the U. S. Agency for International Development (USAID) as of and for the years ended September 30, 1994 and 1993.

We are unable to express an opinion on the principal financial statements because management has been unable to provide a complete accounting for material Trust Funds' balances as of and for the year ended September 30, 1993 which are still outstanding as of September 30, 1994. We were unable to apply procedures to satisfy ourselves as to such Trust Funds' balances.

We noted a deficiency in internal controls that we consider to be a reportable condition under established standards, which is also considered a material weakness.

These conclusions and the scope of our work are discussed in more detail below.

Disclaimer of Opinion on Principal Financial Statements

Because we were unable to apply alternative auditing procedures to satisfy ourselves regarding material Trust Funds' balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on, the principal financial statements of the Trust Funds on pages 9 to 12.

Report on Internal Control Structure

The management of USAID is responsible for establishing and maintaining the internal control structure of the Trust Funds. 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:

- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the principal financial statements in accordance with the basis of accounting prescribed in OMB Bulletin No. 94-01;
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and
- Transactions, including those related to obligations and costs, are executed in compliance with:
 - Laws and regulations that could have a direct and material effect on the principal financial statements; and
 - Any other laws and regulations that the OMB, entity management, or the Inspector General 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.

In planning our engagement to audit the principal financial statements of the Trust Funds, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of attempting to express an opinion on the principal financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. 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 principal financial statements.

A material weakness is a reportable condition in which the design or operation of one or more 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 principal 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 believe that the following reportable condition is also a material weakness.

USAID cannot provide a complete accounting for material Trust Funds balances.

We reported a material weakness in internal controls in our report on the financial statements of the Trust Funds for the year ended September 30, 1993. That material weakness has not been resolved in the current year, although significant progress has been made in eliminating old and unused Trust Fund balances during 1994. Management of the Trust Funds has been unable to provide a complete accounting for material Trust Fund balances, particularly for older Trust Fund accounts.

In previous years, accounting for Trust Fund activity was decentralized. There was no department specifically charged with accounting for Trust Fund activity. During that period, transactions were not properly recorded and activity was not periodically reconciled. As a result, Trust Fund accounts for balances originating prior to 1994 cannot be established accurately. Specifically, in the case of the Trust Fund for South Vietnam, efforts to resolve the outstanding balances have proven unsuccessful due to political and legal concerns regarding disposition of the final balances.

USAID/Washington has taken strides to resolve many of these Trust Fund accounts during 1994 and should continue to do so. USAID/Washington should continue to monitor and reconcile activity in current Trust Fund accounts.

Compliance with Laws and Regulations

Compliance with laws and regulations applicable to the Trust Funds is the responsibility of USAID's management. During our engagement to audit the principal financial statements, we performed tests of the Trust Funds' compliance with certain provisions of laws and regulations. However, the objective of our engagement to audit the principal financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Laws and regulations applicable to the Trust Funds include:

- Eligibility provisions of Title III of the Foreign Assistance Act of 1961, as amended;
- The Chief Financial Officers Act of 1990;
- The Budget and Accounting Act of 1950, as amended;
- The Federal Managers Financial Integrity Act of 1982.

Except for the accounting for material Trust Fund balances, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

Management's Responsibilities

Management has responsibility for:

- Preparing the principal financial statements in accordance with the comprehensive basis of accounting described in Note 1 to the principal financial statements;
- Establishing and maintaining an internal control structure; and

- Complying with applicable laws and regulations.

Management is also responsible for obtaining audit coverage that is broad enough to help fulfill the reasonable needs of potential users of the audit report. With respect to audit coverage of internal controls and compliance with laws and regulations, management engaged us to perform those procedures required in a financial statement audit conducted in accordance with generally accepted government auditing standards. Those procedures were not sufficient to provide a basis for expressing an opinion on internal controls or compliance. Had we been engaged to apply additional agreed-upon procedures or perform an examination of controls or compliance with laws and regulations, we might have discovered and reported deficiencies in internal controls or instances of noncompliance in addition to those reported above.

Independent Auditors' Responsibilities

Except as discussed in the following paragraph, we were engaged to audit the principal financial statements of the Trust Funds in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. As noted above, the scope of our work was limited due to the lack of adequate accounting records, and we are unable to express, and do not express an opinion on the principal financial statements.

Also, as requested by the USAID Office of the Inspector General (IG) the procedures we conducted did not address the requirement in OMB Bulletin No. 93-06 to obtain an understanding of the internal control structure and to assess risk with respect to management's policies and procedures for the preparation of performance information. This audit requirement was addressed by the IG.

Distribution

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

Deloitte & Touche LLP

May 23, 1995

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 1994 AND 1993
(In Thousands)**

	1994	1993
ASSETS		
NON-ENTITY ASSETS:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 5	\$ 5
Restricted Fund Balance with Treasury (Note 2)	5,743	16,858
Governmental Assets:		
Advances	<u>53</u>	<u>6</u>
TOTAL NON-ENTITY ASSETS	<u>\$ 5,801</u>	<u>\$ 16,869</u>
LIABILITIES AND NET POSITION		
LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:		
Intragovernmental Liabilities:		
Accounts Payable, Federal	\$ 1	\$ -
Governmental Liabilities:		
Accounts Payable	1,540	7,108
Other Liabilities Trust Fund Balance (Note 3)	<u>4,245</u>	<u>9,465</u>
TOTAL LIABILITIES	<u>5,786</u>	<u>16,573</u>
NET POSITION:		
Other:		
Gifts and Donations Fund Balances	15	15
Cumulative Results of Operations	<u>-</u>	<u>281</u>
TOTAL NET POSITION	<u>15</u>	<u>296</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,801</u>	<u>\$ 16,869</u>

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

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 1994 AND 1993
(In Thousands)**

	1994	1993
INCOME FROM TRUST FUND ACTIVITY	\$ 6,345	\$ 65,697
MISCELLANEOUS INCOME	<u>-</u>	<u>281</u>
TOTAL FINANCING SOURCES	6,345	65,978
TRUST FUND EXPENSES	<u>6,345</u>	<u>65,697</u>
RESULTS OF OPERATIONS	<u>\$ -</u>	<u>\$ 281</u>
NET POSITION, BEGINNING BALANCE	\$ 296	\$ 15
RESULTS OF OPERATIONS	-	281
LESS NONOPERATING CHANGES	<u>(281)</u>	<u>-</u>
NET POSITION, ENDING BALANCE	<u>\$ 15</u>	<u>\$ 296</u>

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

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1994 AND 1993
(In Thousands)**

	1994	1993
CASH PROVIDED BY OPERATING ACTIVITIES:		
Results of Operations	\$ -	\$ 281
Adjustments Affecting Cash Flow:		
Advances	(47)	28
Accounts Payable	(5,567)	6,052
Trust Funds	<u>(5,220)</u>	<u>(6,721)</u>
Net cash used in operating activities	(10,834)	(360)
CASH USED IN FINANCING ACTIVITIES:		
Gifts and Donations	-	(1)
Transfer to Treasury	<u>(281)</u>	<u>-</u>
NET CASH USED IN OPERATING AND FINANCING ACTIVITIES	(11,115)	(361)
FUND BALANCES WITH TREASURY, BEGINNING OF YEAR	<u>16,863</u>	<u>17,224</u>
FUND BALANCES WITH TREASURY, ENDING OF YEAR	<u>\$ 5,748</u>	<u>\$ 16,863</u>

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

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF BUDGETARY RESOURCES AND ACTUAL EXPENSES
YEARS ENDED SEPTEMBER 30, 1994 AND 1993**

(In Thousands)

	1994	1993
BUDGET RESOURCES (Note 1):		
U. S. Dollar Advances from Foreign Governments	\$ 4,107	\$ 65,364
Gifts and Donations	<u>15</u>	<u>14</u>
Total	<u>\$ 4,122</u>	<u>\$ 65,378</u>
BUDGET OBLIGATIONS (Note 1):		
U. S. Dollar Advances from Foreign Governments	\$ 1,700	\$ 62,383
Gifts and Donations	<u>1</u>	<u>1</u>
Total	<u>\$ 1,701</u>	<u>\$ 62,384</u>
BUDGET RECONCILIATION:		
Expenses:		
U. S. Dollar Advances from Foreign Governments	\$ 6,344	\$ 65,696
Gifts and Donations	<u>1</u>	<u>1</u>
ACTUAL EXPENSES (Note 4)	<u>\$ 6,345</u>	<u>\$ 65,697</u>

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

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT MISCELLANEOUS U. S. DOLLAR TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 1994 AND 1993

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

U. S. Dollar Advances from Foreign Governments - Section 607 of the Foreign Assistance Act (FAA) of 1961, authorizes the U. S. Agency for International Development (USAID) to accept advances of U. S. dollars from foreign governments and international organizations to facilitate the purposes of the FAA. In accordance with Treasury regulations, USAID has established a U. S. Dollar Advances from Foreign Governments Trust Fund to record expenditures against receipts held in trust. USAID acts in a fiduciary capacity in carrying out specific purposes and programs in accordance with bilateral agreements. The Treasury Symbol for this program is 72X8502 and the Office of Management and Budget (OMB) Control Number is 15-06-00-3-8502.

Gifts and Donations - Section 635(d) of the FAA, provides the principal authority authorizing the Agency to accept and use, in furtherance of USAID program objectives, money, funds, property and services of any kind made available by gift, devise, bequest, and grants. In accordance with Treasury regulations, USAID has established a Gifts and Donations Trust Fund (Account 72X8824), which records cash expenditures against deposit of funds into this account. The OMB Control Number is 15-06-00-3-8824.

The financial statement accounts of the two Trust Funds have been combined for purposes of the accompanying financial statements.

B. *Basis of Presentation*

For 1994, the financial statements have been prepared to report the financial position and results of operations of the Miscellaneous U. S. Dollar Trust Funds (Trust Funds), as required by the Chief Financial Officers Act (CFO Act) of 1990. They have been prepared from account balances contained in the books and records of the Trust Funds in the financial statement formats contained in OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, and the Trust Funds' policies, which are summarized below. For 1993 the financial statements were prepared in the financial statement formats contained in OMB Bulletin 93-02, *Form and Content of Agency Financial Statements*. The implementation of OMB Bulletin 94-01 did not materially impact the financial statement presentation.

C. *Basis of Accounting*

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

D. Fund Balances, with Treasury

Fund balances with Treasury represent the total of the unobligated and unliquidated obligations as reflected in the USAID records. The balances are restricted for use in accordance with Trust Fund or Donation agreements with the exception of \$4,653 of unconditional donations. The Trust Funds do not maintain cash in commercial bank accounts.

E. Financing Sources

Financing for the U. S. Dollar Advances from Foreign Governments Trust Fund is from advances received from foreign governments and/or international organizations. Appropriated funds are not used to finance this fund and the fund does not generate any revenue to supplement its financing amounts.

Financing for the Gifts and Donations Trust Fund is from either conditional or unconditional contributions from individuals or public organizations. Appropriated funds are not used to finance this fund and the fund does not generate any revenue to supplement its financing amounts. Since 1993, there have been no new contributions made to the fund.

As neither of the Trust Funds receive appropriations, liabilities cannot be classified meaningfully into those covered by Budgetary Resources and those not covered by Budgetary Resources, the disclosure required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. The presentation adopted is consistent with generally accepted accounting principles.

F. Income from Fund Activity

Income from Fund Activity reflects receipt of funds from Foreign Governments Trust Fund and the Gifts and Donations Trust Fund. Available fund balances are recorded as income and expense when used to acquire goods and services for participating countries.

2. FUND BALANCES WITH TREASURY

Fund Balances with Treasury are as follows (in thousands):

	Available	Restricted	Total
TRUST FUNDS			
U.S. Dollar Advances from Foreign Governments	\$ -	\$ 5,732	\$ 5,732
Gifts and Donations	<u>5</u>	<u>11</u>	<u>16</u>
Total	<u>\$ 5</u>	<u>\$ 5,743</u>	<u>\$ 5,748</u>

3. TRUST FUND BALANCES

The Trust Fund Balances are detailed as follows (in thousands):

	1994	1993
Unexpended Trust Fund Balances:		
Unobligated	\$2,407	\$2,981
Undelivered Orders	<u>1,838</u>	<u>6,484</u>
Total	<u>\$4,245</u>	<u>\$9,465</u>

The Trust Funds represent advances or donations received from foreign governments and international organizations for which USAID has a fiduciary responsibility. These fund balances do not represent equity to the U. S. Government.

For 1994 the Trust Fund Balances by country were (in thousands):

	Balance October 1, 1993	Deposits Received	Purchases Expended	Balance September 30, 1994
Government of:				
Bolivia	\$ 8	\$ 2,300	\$ 1,929	\$ 379
South Korea	5	-	5	-
Zambia (Washington managed)	2,694	-	2,522	172
Zambia (Overseas managed)	49	-	27	22
Botswana	1,717	-	517	1,200
Pakistan	2,382	(1,667)	617	98
Bahrain	14	-	-	14
Nigeria	614	-	-	614
Kuwait	32	-	27	5
Zaire	204	207	-	411
South Vietnam	1,070	-	-	1,070
Malta	254	-	254	-
Others	216	-	154	62
United Nations Children Emergency Fund (UNICEF) Reimbursable Training Program (Note 6)	173	267	266	174
	<u>33</u>	<u>18</u>	<u>31</u>	<u>20</u>
	9,465	1,125	6,349	4,241
Unapplied Expenditures	<u>-</u>	<u>-</u>	<u>(4)</u>	<u>4</u>
TOTAL TRUST FUND BALANCES	<u>\$9,465</u>	<u>\$ 1,125</u>	<u>\$6,345</u>	<u>\$4,245</u>

For 1993 the Trust Fund balances by country were (in thousands):

	Balance October 1, 1992	Deposits Received	Purchases Expended	Balance September 30, 1993
Government of:				
Bolivia	\$ 2,209	\$ 1,900	\$ 4,101	\$ 8
South Korea	7	-	2	5
Zambia (Washington managed)	3,139	55,533	55,978	2,694
Zambia (Overseas managed)	-	1,197	1,148	49
Botswana	3,712		1,995	1,717
Pakistan	4,358	(1,017)	959	2,382
Bahrain	14	-	-	14
Nigeria	618	-	4	614
Kuwait	-	96	64	32
Zaire	-	204	-	204
South Vietnam	1,070	-	-	1,070
Malta	254	-	-	254
Others	1,139	-	923	216
United Nations Children Emergency Fund (UNICEF) Reimbursable Training Program (Note 6)	154	336	317	173
	<u>188</u>	<u>50</u>	<u>205</u>	<u>33</u>
	16,862	58,299	65,696	9,465
Other In-transit/Unapplied Expenditures	(1,161)	-	(1,161)	-
Unidentified/Suspense	<u>486</u>	<u>-</u>	<u>486</u>	<u>-</u>
TOTAL TRUST FUND BALANCES	<u>\$ 16,187</u>	<u>\$ 58,299</u>	<u>\$ 65,021</u>	<u>\$ 9,465</u>

4. TRUST FUND EXPENSES

Trust Fund Expenses by object classification are as follows (in thousands):

Description	1994	1993
Travel	\$ 1	\$ (4)
Transportation of Commodities	1,929	40,073
Contractual Services	73	71
Supplies and Materials/Commodities	2,527	19,527
Equipment Not Capitalized	254	11
Grants, Subsidies, and Commodities	-	237
Other:		
(a) Participant Training Costs	395	500
(b) Overseas Managed Trust Funds	1,165	5,281
(c) Representational Allowances	-	1
(d) Other Personnel Compensation	<u>1</u>	<u>-</u>
Total Expenditures by Object Classification	<u>\$ 6,345</u>	<u>\$ 65,697</u>

5. MISCELLANEOUS INCOME

The amount is detailed as follows (in thousands):

	1994	1993
Cash reconciling items and advice of charges eliminated	\$ -	\$ 941
Unsupported Trust Funds balances	<u>-</u>	<u>(660)</u>
	<u>\$ -</u>	<u>\$ 281</u>

These amounts relate to adjustments of unidentified differences that were not supported by reliable documentary evidence.

6. REIMBURSABLE TRAINING PROGRAM

USAID manages several activities for training foreign students, funded by the Trust Funds of certain foreign governments. These costs are accounted for in the Reimbursable Training Program. The funding of Reimbursable Training Program costs was provided as follows (in thousands):

	1994	1993
Government of:		
Bahrain	\$ -	\$ -
Guatemala	-	-
Kuwait	3	33
Nigeria	-	3
South Korea	-	1
UNICEF	<u>28</u>	<u>168</u>
Total	<u>\$ 31</u>	<u>\$ 205</u>

The types and amounts of expenses are as follows:

Personal Services & Benefits - RTP Contract Staff	\$ 17	\$ 130
Personal Services & Benefits - USAID Direct Hire Staff	14	39
Travel and Transportation for RTP staff	-	1
Office Space	-	33
Supplies and Materials	<u>-</u>	<u>2</u>
Total	<u>\$ 31</u>	<u>\$ 205</u>

Amounts included above for Personal Services and Benefits - USAID Direct Hire Staff, and Office Space were paid out of USAID's operating expense appropriation. These costs were reimbursed to USAID's operating expense appropriation and were available for obligation in that appropriation.

* * * * *

**USAID Management's
Program Overview of the
Miscellaneous U.S. Dollar Trust Funds**

PROGRAM OVERVIEW

The Financial Statements for the Miscellaneous U. S. Dollar Trust Funds (the Trust Funds) include the financial activities of two USAID Trust Funds. These are:

- The U. S. Dollar Advances from Foreign Governments Trust Fund; and
- The Gifts and Donations Trust Fund

In this section, each of these Funds are separately described. Amounts are expressed in actual dollars.

U. S. DOLLAR ADVANCES FROM FOREIGN GOVERNMENTS

Program Overview

Section 607 of the Foreign Assistance Act (FAA) of 1961, provides USAID with the authority to accept advances of U. S. dollars from foreign governments and/or international organizations to facilitate the purposes of the FAA. In accordance with U. S. Treasury regulations, USAID has established a U. S. Dollar Advances from Foreign Governments Trust Fund account (Number 72X8502) at the U. S. Treasury to maintain these deposits. USAID acts in a fiduciary capacity in carrying out specific activities and programs in accordance with bilateral agreements with foreign countries and draws from the foreign countries trust fund balance to pay for related expenditures.

The funds are not tied to a specific organization or program in USAID. The goal is to offer services that USAID already performs in other programs and has the technical expertise and resources to provide. The difference between these funds and other programs is that the funding is provided by foreign countries instead of by Congress appropriation or revenue-generating services. These funds are derived from primarily a financing mechanism rather than a specific organization or program.

Active Trust Fund Programs Managed by USAID - Washington

(i) *Government of Bahrain and Nigeria*

The Governments of the State of Bahrain, Civil Service Bureau, and the Government of the Federal Republic of Nigeria signed separate agreements with USAID in June 1981 and August 1977, respectively, to provide professional and administrative services for participants to receive training at various training institutions and facilities in the United States to meet manpower development requirements.

(ii) *Governments of Bolivia and Zambia*

The Governments of the Republic of Bolivia and Zambia signed separate agreements with USAID in March 1992 to enhance food security. The sale of the United States (U. S.) agricultural commodities generates local currency to (1) combat hunger and malnutrition and their causes; (2) promote equitable and sustainable development; and (3) develop and expand export markets for agricultural commodities. The deposits of U. S. Dollar Trust Funds are used to pay for port-to-port and inland transportation of PL 480, Title III agriculture commodities (maize).

(iii) *Government of Kuwait*

The Government of Kuwait signed an agreement with USAID in January 1993 to provide the professional and administrative services needed by Kuwaiti participants receiving human resource, management, development, and programming training at various institutions and facilities in the U. S.

(iv) *Government of South Korea*

The Government of the Republic of South Korea signed an agreement with USAID in March 1992 to provide professional and administrative services required by South Korean participants receiving training in the operational aspects of administering international development programs at various institutions and facilities in the U. S.

(v) *United Nations Children's Emergency Fund (UNICEF)*

The United Nations Children's Emergency Fund (Training Component of the Mickey Leland Memorial Fund for Africa) signed an agreement with USAID in December 1990 to provide professional and administrative services for participants from various African countries receiving training in human resource development requirements at various institutions and facilities in the U. S.

Active Trust Fund Programs Managed by USAID Overseas Missions

(i) *Government of Pakistan*

Monies received from the Government of Pakistan are for the placement, monitoring, tuition, fees, monthly maintenance, and management of Pakistani participants in U. S. educational institutions. The Academy for Educational Development under direct mission contract provides screening and monitoring of such participants.

(ii) *Government of Botswana*

Monies received from the Botswanan Permanent Secretary to the Ministry of Finance and Development Planning are for long-term and short-term training in the U. S., long-term and short-term technical assistance, and general program support costs Botswanan trainees studying in the U. S.

(iii) *Government of Zambia*

The Government of the Republic of Zambia signed an agreement with USAID in March 1993 to share the administrative costs of the United States Assistance Programs in the Republic of Zambia. The amounts deposited by the Government of the Republic of Zambia were made available for purchase of the USAID office in Zambia. Title to any tangible assets purchased from the Trust Fund account will ultimately be vested in the Government of Zambia.

(iv) *Government of Zaire*

U. S. economic assistance to Zaire ceased with the civil insurrection of September 1991. At that time, the decision was made to dispose of all program and project funded personal property in the custody of the mission and the proceeds from disposal of this property were deposited into the fund.

The Government of Zaire was made aware of this action by either an amendment to Project Agreements or by letters from mission officials. The funds are to be used as mutually agreed.

Performance Measures

Although USAID is required to develop performance measures for all programs under its control, no such measures have been developed for the Trust Funds. This is because:

- The Trust Funds are being liquidated, and it is USAID's intention to continue to liquidate these funds wherever possible;
- The overall size of the funds make relevant, reliable, and consistent measurement impractical; and
- USAID management believes that it is more important to concentrate scarce resources on more significant programs such as the Housing Guaranty and Direct Loan Programs.

However, it is management's intention to develop basic financial performance measures to ensure that the activity is appropriately recorded, and individual Trust Fund balances are reconciled. The measures established for 1995 are:

- The financial statements themselves;
- All receipts into the trust fund will be deposited and budget allowances prepared and recorded within 60 days of receipt;
- All cash disbursements and collections will be reconciled to Treasury and any difference cleared within 60 days;
- All interoffice payments (Advice of Charges) will be reviewed and processed within 60 days of original payment; and
- Monthly status reports of deposits, disbursements, and current fund balance for each individual Trust Fund will be prepared and reviewed.

Furthermore, it is management's objective to receive an unqualified audit opinion on the financial statements.

Performance Measure Results

Based on a review of the status of the U. S. Dollar Trust Fund as of September 30, 1994, USAID has been successful in its goal to place more emphasis on ensuring that financial activity was appropriately recorded and that individual Trust Fund balances were accurate and reconciled.

- All trust fund receipts were deposited and budget allowances issued as of September 30, 1994. The only exception was a \$3,000 deposit for USAID/Zaire that was deposited in September 1994 for which a budget allowance was not issued until 1995.
- All cash disbursements and collections were reconciled as of September 30, 1994 or 60 days later. The only exception was \$71,000 in outstanding cash reconciliation activities for USAID/Botswana. The \$71,000 balance was a decrease of \$54,000 from USAID/Botswana's September 30, 1993 balance of \$125,000.
- All interoffice payments (Advice of Charges), except for one, were processed as of September 30, 1994. The one exception was processed in December 1994.
- Status reports for each individual Trust Fund were prepared each month and reviewed.

Financial Matters

Financing for the Trust Funds is obtained from advances received from foreign governments and/or international organizations. Appropriated funds are not used to finance this fund and the fund does not generate any revenue to supplement its financing amounts. Apportionment of available funds by OMB is not required.

(i) Financial Condition

The financial condition of the Fund will fund current active programs. Commitments and obligation for new programs are incurred only after deposits by the foreign countries or international organizations are received by USAID and deposited into U. S. Treasury Account 72X8502. Funding is sufficient to cover the expenses related to the current programs.

Records supporting old and inactive Trust Fund Balances are poor. This problem described below is a general problem in USAID's current financial accounting systems and is not limited to the Trust Funds. This problem has been recognized by USAID management and corrective actions are included in USAID's 5-year plan submitted to OMB under the terms of the Chief Financial Officers' Act.

(ii) Problem Areas

The key issue for financial statement reporting is:

- Trust Fund balance for old and unsupported transactions with foreign governments.

The cash reconciliation differences can be identified by reporting period and mission. These differences represent overstatement of financial statement line items as a result of cash transactions not being fully reconciled to the balances reported by the Treasury. The cumulative differences by period are \$-0- and \$653,000 for 1994 and 1993, respectively. During the audit of the 1993 financial statements, the decision was made to expense or write-off the accumulated balance.

The differences on the trust fund balances increased to \$674,769 by September 30, 1992. In 1993, this and other unidentified differences were expensed or written-off. However, the auditors were still unable to reach a conclusion as to the validity, completeness, and accuracy of the reported Trust Fund balance (\$4,245,000 at September 30, 1994). As a result, the auditors decided to disclaim their opinion on the financial statements. This inability to reconcile cash balances for old and inactive accounts contributed to the auditors citing of a material weakness in internal controls over Trust Fund accounts.

In 1993, there were problems with the records that supported the Trust Funds. These were old problems associated with old accounting activity. In 1994 these problems were addressed and resolved.

All cash reconciliation differences as of September 30, 1994 (except for USAID/Botswana) have been identified and cleared either in 1994 or 1995. All outstanding cash reconciliation balances as of September 30, 1993 (except for USAID/Botswana) have been expensed and cleared. All differences in Trust Fund balances have been cleared and remaining balances identified to individual Trust Fund Programs and reconciled to Treasury.

The remaining problems will be resolved in 1995 by closing out inactive trust funds and by obtaining confirmation from those countries with active trust funds that the balance reported by USAID is a valid one. Although USAID management foresees that there will be some difficulties with these procedures, it is hoped that sufficient evidence will be gathered to allow the auditors to come to an opinion about the 1995 financial statements.

Conclusion

Program Performance

Essentially, the success or failure of the program is determined by the foreign countries themselves, since the existence of the program is dependent on their financing. As long as USAID can provide the desired services, and there are countries and international organizations are willing to provide the financing through advances, the program will continue to function.

Financial Operations and Condition

Ongoing financial operations of the program are satisfactory. The only area of some concern is the outstanding cash reconciliation balance for USAID/Botswana.

GIFTS AND DONATIONS TRUST FUND

Program Overview

Section 635(d) of the FAA provides the principal authority authorizing USAID to accept and use, in furtherance of USAID program objectives, money, funds, property, and services of any kind made available by gift, devise, bequest, and grants. In accordance with U. S. Treasury regulations, USAID has established a Gifts and Donations Trust Fund (Account 72X8824) which records cash expenditures against deposit of funds into this account.

Conditional and Unconditional Gifts

Donations to the Gifts and Donations Trust Fund are conditional (for a specific purpose) or unconditional (for general use). For conditional gifts, there are several criteria that must be met:

- USAID must comply with the conditions of the donation and still use the donation in furtherance of the purposes of the FAA;
- USAID must comply with the conditions of the donation in a reasonable and cost-efficient manner; and
- Acceptance of the donation will not result in, nor create the appearance of, a conflict of interest.

Currently, there are two conditional gift programs. One of the programs is the National Cash Register Corporation (NCR) donations of \$150,060. This donation was made in 1986 and was to be administered by USAID in USAID/Nigeria. At September 30, 1994, the undisbursed balance of this donation is \$10,060.

The other was a donation of \$1,000 received from a private individual as a memorial to a former employee which was to be used for a cash award to a current USAID employee. This donation was accepted and then awarded to a USAID employee in FY 1994.

Unconditional gifts of \$4,653 have generally been utilized by USAID's Office of the Administrator. Donated funds may be used by USAID for representational or entertainment expenses, provided those expenses further a valid USAID function. USAID may use donated funds for these purposes without regard to the limitations of Section 636(a) of the FAA or Section 508 of the Appropriations Act. No unconditional donations were received in FY 1994.

Performance Results

Although USAID is required to develop performance measures for all programs under its control, no such measures have been developed for the Trust Funds. This is because:

- The overall size of the funds make relevant, reliable, and consistent measurement impractical; and
- USAID management believes that it is more important to concentrate scarce resources on more significant programs, such as the Housing Guaranty and Direct Loan Programs.

Conclusion

There are no material problems with the current Gifts and Donations Trust Fund Program. During the year, management requested a status report from US.AID/Nigeria on the \$10,060 donation from NCR.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the combined financial position and results of operations of the two Trust Funds, pursuant to the requirements of the CFO Act of 1990.

While the statements have been prepared from the books and records of the Trust Funds in accordance with the form and contents specified by 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.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

TO: IG/A/FA, Thomas F. O'Connor

FROM: CFO, Donald K. Charney *D/KC*

SUBJECT: Draft Report on the Audit of USAID's Miscellaneous U.S.
Dollar Trust Funds for Fiscal Year 1994

I have reviewed the subject audit report and concur with the findings identified. The Office of Financial Management appreciates the auditor's recognition of the considerable efforts and progress accomplished in the past year. We are committed to continuing improvement of the financial records and financial statements for the Miscellaneous U.S. Dollar Trust Fund program in the upcoming year.

The following limitations during the audit contributed to the inability of Deloitte and Touche in rendering an opinion and should be considered as addendum comments to the audit report:

- A. The negotiated scope of this audit limited the access of the Deloitte and Touche auditors to that information available from the Washington offices of the Agency. This limitation resulted in the auditors inability to access "complete accounting for material Trust Fund balances" or to apply alternative auditing standards. This limitation has resulted, in part, in the disclaimer of opinion.
- B. We have been unable to provide information related to several trust funds that are very old. The most significant balance, for South Vietnam, has been dormant since the U.S. Government departed Vietnam in April 1975. Since that time the Agency has not reimbursed Vietnam or otherwise terminated the trust fund due to political and legal concerns. The age, limited access to documentation and political uncertainty related to these trust funds have also contributed to the disclaimer.

The Office of Financial Management appreciates the efforts of your staff and that of Deloitte and Touche in provision of this audit of the Miscellaneous U.S. Dollar Trust Fund.

25