

**Regional Inspector General for Audit  
Singapore**

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**Audit of the  
Quality of Mission Accounting  
and Control System Data  
At USAID/India**

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**Audit Report No. 5-386-95-019  
September 15, 1995**





U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

September 15, 1995

**MEMORANDUM**

TO: See below

FROM: Richard C. Thabet, RIG/A/Singapore

SUBJECT: Audit of the Quality of Mission Accounting and Control System Data  
at USAID/India (Audit Report No. 5-386-95-019)

Attached for your information is a copy of the subject report.

Attachment: a/s

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U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

September 15, 1995

MEMORANDUM FOR Desaix B. Meyers, III  
Acting Mission Director USAID/India

FROM: Richard C. Thabet, RIG/A/Singapore *Richard C. Thabet*

SUBJECT: Audit of the Quality of Mission Accounting and Control System  
Data at USAID/India (Audit Report No. 5-386-95-019)

This memorandum is our report on the quality of Mission Accounting and Control System (MACS) Data at USAID/India. We considered your comments on the draft report and have included them as Appendix II to the report.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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## Introduction

Realizing that it must operate with increasingly scarce funds, the United States Agency for International Development (USAID) is undertaking a new and aggressive effort to change the way data and information are managed. Such an effort is critical to our future. In the modern workplace, be it business or government, a high-quality, reliable information system is no longer a luxury—it is a necessity.

To ensure that the data in the entire USAID system is of high quality and therefore useful to managers concerned about project status and pipeline reports, the Office of Information Resources Management is undertaking a major initiative. It is centralizing data collection and improving the management of information. One of the first steps is the Project Information and Pipeline Evaluation initiative. This initiative is a joint Office of Information Resources Management and Financial Management

project that will combine MACS<sup>1</sup> data from the missions and financial data from USAID/Washington, allowing all Agency managers timely and comprehensive information on USAID projects worldwide.

For this system to succeed, the MACS data from all missions must be of the highest quality. Therefore, in support of the Office of Information Resources Management's work, the Office of Audit is making a series of audits to evaluate the quality of data (in the MACS files) which is central to the Agency's work. An important part of the effort is this audit of USAID/India data.

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## **Audit Objective**

The audit was designed to answer the following question:

- **Is the data in USAID/India's Mission Accounting and Control System (MACS) accurate?**

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

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## **Audit Findings**

USAID/India MACS data was accurate in 30 of the 39 data elements reviewed. The errors contained in the remaining nine data elements resulted from the Mission not having access to retired documents to verify data integrity and accuracy.

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<sup>1</sup> The Mission Accounting and Control System (MACS) is a computer based accounting and financial management system. The system is an on-line, fully integrated processing system in which data is updated continuously as transactions are posted via computer terminals.

<b>RESULTS OF OUR REVIEW</b>			
<b>MACS Files</b>	<b>Data Elements Reviewed</b>	<b>Elements With Substantial Errors</b>	<b>Elements With No Substantial Errors *</b>
Budget Allowance Transaction	3	0	3
Reservation/Obligation Transaction	4	0	4
Commitment Transaction	7	7	0
Disbursement Transaction	10	0	10
Advance Transaction	8	0	8
Project Information Master	7	2	5
<b>Total</b>	<b>39</b>	<b>9</b>	<b>30</b>

*(\* Error rates of less than 5 percent were considered insignificant for reporting purposes. Appendix III contains the error rates for each of these elements.)*

Since USAID managers worldwide will rely on information in the Agency's new system for making decisions on where and how to allocate scarce resources, it is critical that the data coming from each mission's MACS be accurate and complete. Therefore, the efforts of USAID/India to ensure the integrity of data in MACS will contribute to the Agency's overall goal of providing accurate and timely information on all project activity worldwide in USAID.

An analysis of the problems and recommendations to correct the problems are discussed in detail below.

**Project Information File Was Not Entirely Accurate**

The project information in USAID/India's MACS was generally correct except for some items which lacked sufficient source documentation or were

incorrectly entered. The Mission did not enter and maintain all information according to procedures established by the MACS User's Guide. These procedures detail the need to:

- verify 17 data elements, including the Project Number, Agreement Date, Life of Project, Project Assistance Completion Date, and Terminal Disbursement Date when entering information into the system; and
- review periodically the data elements and adjust them as required.

We reviewed 36 Project Information Master records and tested seven data elements in each record.

Two of the seven elements contained error rates of 13.89 percent and 25.0 percent (see Appendix III). These errors pertained to the Project Amount and Life of Project (in years) elements. The errors in the Project Amount element all related to the Project Development and Support funds where USAID/India could not locate documentation to support the entire amount. Not updating the number of years when the Mission extended the Project Assistance Completion Date caused the majority of the errors in the Life of Project element.

USAID/India did not periodically review this information in the Project Information Master file for accuracy as prescribed by the MACS User's Guide. Accounting personnel often must revise or correct the project information in MACS. For one thing, the documents used to enter initial project information into MACS do not always contain complete data. For another, the personnel need to revise or update the information when the project status changes. The Mission should periodically review such information to detect likely errors.

Without accurate and complete information, USAID managers worldwide may rely on inaccurate information in the Agency's Information and Pipeline Evaluation initiative when making decisions on where and how to allocate resources.

**Recommendation No. 1: We recommend that USAID/India:**

- 1.1 Correct the Project Information Master file to ensure that the information in the file is accurate; and**
- 1.2 Annually review the data entered into the Project Information Master file to ensure that the data is correct and fully supported.**

**Data in Commitment Transaction File Was Not Entirely Accurate**

The Commitment Transaction File was not entirely accurate for several reasons. One reason was that some records were unverifiable because USAID/India retired the supporting documentation. Also the Mission did not document some control numbers and incorrectly entered some of the dates.

We sampled 79 of 4,120 records in the Commitment Transaction File, and all seven elements tested contained a significant error rate (see Appendix III). Five of the seven elements, contained an error rate of 8.86 percent because the Mission retired the supporting documentation for seven records. The Earmark Control Number element could not be verified for nine records, with an error rate of 11.39 percent. Finally, the Commitment End Date element consisted of seven records not supported because of retired documentation and five that the Mission incorrectly entered, resulting in an error rate of 15.19 percent.

The MACS User's Guide provides criteria for missions to use when entering data into MACS. Additionally, the Comptroller General's Standards for Internal Controls in the Federal Government require all transactions and other significant events to be clearly documented, and the documentation readily available for examination. Correct and supported data is essential so that USAID managers have reliable information for decision-making purposes.

**Recommendation No. 2: We recommend that USAID/India review, at least annually, the Commitment Transaction File to ensure that the data has been correctly entered and is fully supported by relevant source documents.**

## **Management Comments and Our Evaluation**

USAID/India's officials generally concurred with the report's findings and recommendations. However, the Mission did not believe that all of the errors were substantial. The error rates in seven of the nine elements resulted from the Mission not providing supporting documentation that the Mission retired and was not easily accessible. Without supporting documentation, we were not able to attest to the accuracy of the records and, therefore, we had to classify them as errors. We classified the errors as substantial because they exceeded the defined standard mean error rate of 5 percent, a rate agreed to by USAID/Washington.

Furthermore, the Mission believed that the Life of Project (in years) element in the Project Information Master File was not a significant element since it did not appear on any of the generated reports from MACS. Even though it did not appear on the reports generated, it was in the system and accessible for queries by others. Because this information is available to users, accuracy is essential.

For Recommendation No. 1.1, USAID/India updated the incorrect Life of Project (in years) element prior to our departure and provided a copy of the corrections made. Also, in response to Recommendation No. 1.2, the Controller's Office issued operations instructions requiring the Project Information Master File to be reviewed quarterly for accuracy and proper support. Based on these actions Recommendation Nos. 1.1 and 1.2 are closed upon issuance of this report.

For Recommendation No. 2, the Controller's Office issued Operation Instructions requiring the quarterly review of the Commitment Obligation Transaction File for accuracy and proper support. Based on this action, Recommendation No. 2 is closed upon issuance of this report.

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# SCOPE AND METHODOLOGY

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## Scope

The Office of the Regional Inspector General for Audit, Singapore, audited the quality of data maintained in MACS files of USAID/India in accordance with generally accepted government auditing standards. From July 17, 1995 through July 28, 1995, we examined six files and 39 data elements from a universe of 28 MACS Transaction/Master files<sup>2</sup> and 757 data elements (21.4 percent and 5.2 percent respectively). For significant error rates on any of the data elements, we also evaluated the cause and made the appropriate recommendations.

In addition to the methodology discussed below, we obtained written representations from USAID/India which we considered essential for answering our audit objectives and for assessing internal controls and compliance.

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## Methodology

We identified the MACS files and key data elements to review for each file. We analyzed the fiscal years 1992, 1993 and 1994 data from the following six of the 28 MACS Transaction/Master files<sup>3</sup>:

- Budget Allowance Transaction
- Reservation/Obligation Transaction
- Commitment Transaction
- Disbursement Transaction
- Advance Transaction
- Project Information Master

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<sup>2</sup> Appendix IV contains a complete listing of MACS Transaction/Master files.

We selected a statistical sample for five of the data files that provided a confidence level of 90 percent, with a precision level of plus or minus 4 percent, and an expected rate of occurrence not over 5 percent. We reviewed 100 percent of the records in the Project Information Master file. For each data element reviewed (dollar amounts, dates, document numbers, etc.), we determined whether the data in MACS was supported by information from source documents. Based on the results of these determinations, we calculated the standard mean error rates for each data element and assessed whether the error rate was significant. We considered a standard mean error rate of 5 percent or greater as significant. We considered a standard mean error rate of less than 5 percent in data elements as insignificant for reporting purposes. We statistically projected the mean average number of errors in the MACS file. These projections indicated the average number of errors estimated for each data element based on the errors found in the statistical sample. We also reviewed the Mission's internal controls for the implementation of the procedures in the MACS User's Guide.

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August 28, 1995

Mr. Richard C. Thabet  
Regional Inspector General/Audit  
Singapore

Sub: Audit of the Quality of Mission Accounting and Control  
System Data at USAID/India

Dear Mr. Thabet:

You have asked that USAID/India provide a Management Representation Letter in connection with your audit of the quality of Mission Accounting and Control System (MACS) data at USAID/India. Your staff has informed us that the audit covered six MACS files and was intended to answer the following audit objective:

Is the data in USAID/India's Mission Accounting and Control Systems (MACS) accurate?

For the activities under audit during the audit period, USAID/India was responsible for (1) the Mission's internal control system, (2) the Missions's compliance with applicable U.S. laws and regulations, and (3) the fairness and accuracy of the Mission's accounting and management information relating thereto.

I and my staff have made available to you all records and data in our possession for the purpose of the audit.

Based on representations made to me by my staff and their written concurrence with the representations made in this letter, I confirm, as a layman and not as a lawyer, the following representations with respect to the audit and the audit objective:

- (1) To the best of my knowledge and belief, USAID/India has made available to your staff all records and data relating to the audit objective;
- (2) To the best of my knowledge and belief, the records and data relating to the audit objective are accurate and complete and give a fair representation of the status of the matters under audit.
- (3) To the best of my knowledge and belief, USAID/India is not aware of any material instance where financial or management information (which we consider substantive) on matters directly relating to this audit has not been properly and accurately recorded and reported, other than the findings in the draft audit report.

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- (4) To the best of my knowledge and belief, USAID/India has disclosed all known material irregularities related to the MACS data under audit, which we consider substantive, involving Mission employees with internal control responsibilities. For the purpose of this representation, "irregularities" means the intentional noncompliance with applicable laws or regulations and/or intentional misstatements, omissions or failures to disclose same.
- (5) To the best of my knowledge and belief, USAID/India is not aware of any instances (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) of noncompliance (which we consider substantive) with USAID policies and procedures or violation of U.S. law and regulation.
- (6) To the best of my knowledge and belief, USAID/India is not aware of any instance (other than what has been included in the draft audit report or reported by the Mission during the course of the audit) of noncompliance by the Mission (which we consider substantive) with the data control procedures over the MACS.
- (7) After review of your draft audit report and further consultations with my staff, (to the best of my knowledge and belief), I know of no other facts as of the date of this letter (other than those expressed in our Management Comments to the draft report) which would materially alter the conclusions reached in the draft report.

I request that this Management Representation Letter be considered a part of the official Mission comments on the draft audit report, and be published as an Annex to the final report.

Yours Sincerely,



Desaix B. Myers  
Acting Director  
USAID/India

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MEMORANDUM

August 28, 1995

TO : Richard C. Thabet  
RIG/A/Singapore

FROM : Desai B. Myers  
Acting Mission Director, USAID/India

SUBJECT : Draft Audit Report on Quality of Mission Accounting  
and Control System (MACS) at USAID/India

Thank you for considering our comments on the discussion paper in preparing the draft report which would lend some perspective to the audit findings. I wish to reciprocate your comments about the collaborative and supportive working relationship maintained during the audit. I was myself very impressed by the openness and professionalism displayed by the auditors in carrying out their work.

Regarding the audit report, it is factually correct but we feel that the use of the term "substantial errors" is not justified considering the nature of the findings and to that extent, the report does not present a true and fair picture of our operations. While we understand that this may be unavoidable in audits such as this where the auditor is expected to use defined parameters for developing findings and canned language in reporting them, we are nonetheless concerned at the erroneous conclusions a reader can draw about the quality and integrity of our MACS data. Accordingly, we offer the following specific comments for your consideration in revising the report.

Page 3: The report states that nine data elements contained "substantial errors" but does not explain the effect of these errors on data integrity and accuracy. Moreover, we feel it is not correct to classify entries as unsupported and in turn "substantial" errors when the reason the support was unavailable is that most of these related to expired projects which were several years old. Such records had been retired and were not readily available at the time of the audit. Finally, as explained below, we do not think these so-called errors had any significant effect on data integrity for decision-making by the management.

Project Information Master (PIM) File: One of the two errors found in this File was that the number of years in a project's life was not updated when the PACD was extended and changed in MACS. We acknowledge this lapse but do not feel that it was

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significant as this field does not show up on any of the MACS reports and thus the information has little relevance for the managers. The second error noted in the PIM File was that documentation could not be located to support the life-of-project (LOP) amount for PD&S-funds. Firstly, it should be mentioned that PD&S are unilateral funds that do not have an LOP amount. The total amount of obligations becomes the LOP at any given point in time and this is entered in the PIM File as the LOP. Secondly, each entry in the LOP field of the PIM File is the sum total of numerous transactions recorded in other files and thus cannot be supported by one document. Rather, it will need to be supported by documentation for all transactions that were recorded during a given period. Thirdly, since these funds have been allotted to the mission for the past several years against the same project number, the number of documentation required to support each entry in the PIM File normally runs into hundreds. This was in fact the case in the sample selected by the auditors where we had to find documentation for over 200 commitments most of which were two to three years old and had been retired. We found most of the old documents but did not attempt to trace the few that were not readily available prior to the auditors departure. In view of these factors, we feel that the LOP amount has little relevance for data integrity in the case of PD&S funds and thus the finding should also not be termed as a "substantial error".

Recommendation No. 1: We had already corrected the errors during the course of the audit and provided documentary support to the auditors before their departure. Also, we have established a formal procedure to review the PIM File data quarterly (please see attached Controller Operating Instruction dated August 25, 1995). We, therefore, request that this recommendation be closed.

**Commitment Transaction (COT) File:** Besides the seven elements for which supporting documentation had been retired, the audit found that control numbers were not documented in two cases (these related to the PVOH I Project which expired in FY 90) and commitment end dates were incorrectly entered in five cases. The finding is correct. However, we wish to point out that of the seven elements in the COT File for which supporting documentation had been retired, six related to decommitments. Five of these decommitments were made during 1992 and one during 1993 based on 1311 reviews. The only documentary supports for decommitments are journal vouchers or memos and notes from the project officers which we normally retain only for a year. Similarly, the seventh unsupported entry related to a FY 87 Miscellaneous Obligating Document which had been retired a long time back. It appeared in the audit sample as funds were transferred from one reservation number to another in May 1992. Thus we do not think that the nonavailability of supporting documentation at the time of the audit for actions taken some years back should be termed as a

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significant error. In sum, if these instances of unavailable old documents are excluded from the analysis in Appendix III, the error rate in six of the seven elements will fall below the five percent threshold and these would get dropped from the report. This will leave only one element, the commitment end date, with an error rate exceeding five percent.

Recommendation No. 2: We agree with the recommendation and have established formal procedures which require quarterly reviews of the COT File data (see attached Operating Instruction dated August 25, 1995 issued by Controller). Accordingly, we request that this recommendation be closed.

The management representation letter is enclosed as requested.

Attachment: (1) Copy of Controller Operating Instruction dated  
August 25, 1995  
(2) Management Representation Letter

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USAID/India  
MACS FILES AND ELEMENTS REVIEWED

<u>MACS FILES/ELEMENT</u>	<u>UNIVERSE</u>	<u>NUMBER IN SAMPLE</u>	<u>ERRORS IN SAMPLE</u>	<u>UNIVERSE ERROR RATE</u>	<u>PRECISION LEVEL</u>	<u>PROJECTED ERRORS IN UNIVERSE</u>
<b>BUDGET ALLOWANCE TRANSACTION</b>						
Budget Plan Code	712	73	0	<2.98%		None
Transaction Amount	712	73	0	<2.98%		None
Project Number	712	73	0	<2.98%		None
<b>RESERVATION/OBLIGATION TRANSACTION FILE</b>						
Obligation Number	10,166	80	1	1.25%		*
Reservation Control Number	10,166	80	3	3.75%		*
Budget Plan Code	10,166	80	1	1.25%		*
Transaction Amount	10,166	80	2	2.50%		*
<b>COMMITMENT TRANSACTION FILE</b>						
Commitment Document Number	4,120	79	7	8.86%	+/-5.21%	366
Earmark Control Number	4,120	79	9	11.39%	+/-5.82%	470
Call Forward Date	4,120	79	7	8.86%	+/-5.21%	366
Transaction Amount (AID/W)	4,120	79	7	8.86%	+/-5.21%	366
Transaction Amount (Mission)	4,120	79	7	8.86%	+/-5.21%	366
Commitment End Date	4,120	79	12	15.19%	+/-6.58%	626
Budget Plan Code	4,120	79	7	8.86%	+/-5.21%	366
<b>DISBURSEMENT TRANSACTION FILE</b>						
Obligation Document Number	24,581	81	1	1.23%		*
Reservation Control Number	24,581	81	1	1.23%		*
Commitment Document Number	24,581	81	1	1.23%		*
Earmark Control Number	24,581	81	1	1.23%		*
Budget Plan Code	24,581	81	1	1.23%		*
Disbursing Office Code	24,581	81	3	3.70%		*
Federal Outlay Code	24,581	81	1	1.23%		*
Budget Allowance Amount	24,581	81	1	1.23%		*
Transaction Type Code	24,581	81	1	1.23%		*
Actual Disbursed Amount	24,581	81	1	1.23%		*
<b>ADVANCE TRANSACTION FILE</b>						
Advance Number	3,060	79	0	<2.87%		None
Obligation Document Number	3,060	79	0	<2.87%		None
Commitment Document Number	3,060	79	0	<2.87%		None
Project Number	3,060	79	0	<2.87%		None
Advance Type	3,060	79	1	1.27%		*
Accountability Date	3,060	79	3	3.80%		*
Advance Transaction Amount	3,060	79	0	<2.87%		None
Local Currency Amount	3,060	79	0	<2.87%		None

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USAID/India  
MACS FILES AND ELEMENTS REVIEWED

<u>MACS FILES/ELEMENT</u>	<u>UNIVERSE</u>	<u>NUMBER IN SAMPLE</u>	<u>ERRORS IN SAMPLE</u>	<u>ERROR RATE</u>	<u>ERRORS IN UNIVERSE</u>
<b>PROJECT INFORMATION MASTER FILE</b>					
PACD	36	36	0	-	0
Authorized Amount	36	36	5	13.89%	5
Agreement Date	36	36	0	-	0
Terminal Disbursement Date	36	36	1	2.78%	1
Host Country Contribution	36	36	1	2.78%	1
Project Number	36	36	0	-	0
Life of Project (In Years)	36	36	9	25.00%	9

\* Error rates of less than five percent were considered accurate for reporting purposes

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<b>MACS TRANSACTION AND MASTER FILES NUMBER OF DATA ELEMENTS</b>	
<b>MACS FILE NAME</b>	<b># OF ELEMENTS PER RECORD</b>
Operating Expense Budget Master	10
Operating Expense Budget Transaction	12
Budget Allowance Master File	13
Budget Allowance Transaction File	12
Reservation Master File	17
Obligation Master File	37
Reservation/Obligation Transaction File	20
Project Information Master File	115
Project Information Transaction File	25
Condition Precedent Transaction File	96
Project Element Master File	13
Project Element Transaction File	12
Direct Reimbursement Authorization Master File	16
Direct Reimbursement Authorization Transaction File	17
Earmark Master File	20
Earmark Transaction File	19
Commitment Master File	41
Commitment Transaction File	25
Advance Master File	22
Advance Transaction File	30
Planned Expenditures Master File	13
Planned Expenditures Transaction File	15
Accrual Transaction File	18
Prepayment Amortization Transaction File	23
Disbursement Transaction File	28
Interface Disbursement/Advance File	36
Interface Disbursement/Advance Reject File	35
Prepayment Amortization File	17
<b>Totals 28 MACS FILES</b>	<b>757</b>