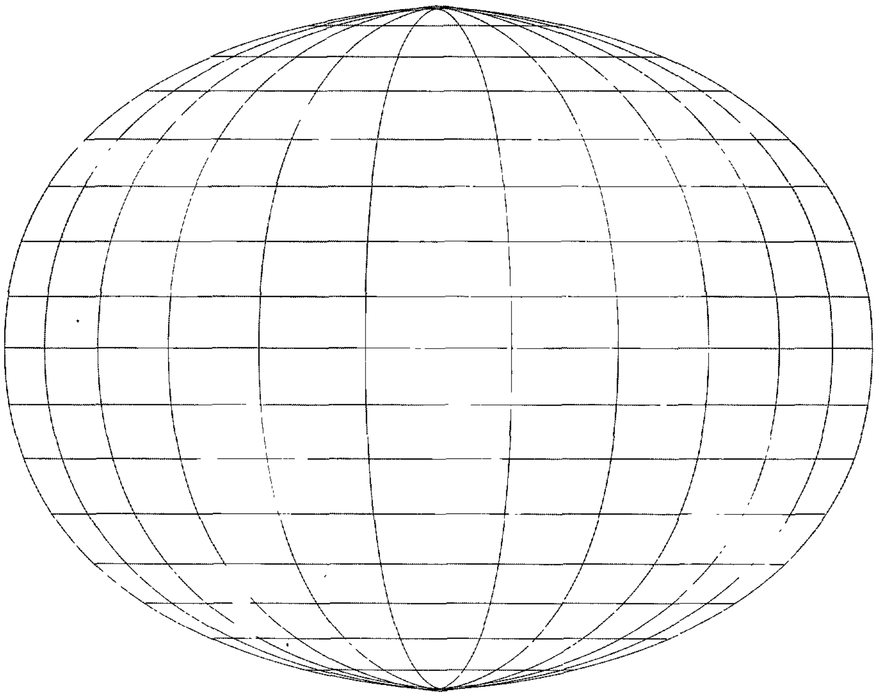
Report of Audit

AUDIT OF USAID'S PAYROLL AND RELATED INTERNAL CONTROLS FOR FISCAL YEAR 1999

Report No. 0-000-00-007-F
September 28, 2000



Financial Audit

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

PD-ABS-568

USAID

U.S. Agency for
International
Development

SEP 29 2000

MEMORANDUM FOR CFO, Michael T. Smokovich

FROM: IG/A/FA, Alvin A. Brown

SUBJECT: Audit on USAID Payroll and Related Internal Controls for Fiscal Year 1999
Audit Report No. 0-000-00-007-F

This memorandum audit report is our report on U.S. Agency for International Development (USAID) Payroll and Related Expenses. This report is part of our review of USAID's consolidated financial statements as required by the Government Management and Reform Act of 1994. This act requires USAID to prepare and submit audited financial statements for the preceding fiscal year that covers all accounts and associated activity of the agency.

In previous years, the Office of Inspector General's (OIG) ability to express an opinion was impaired by inadequate financial accounting and performance measurement systems, and related material weaknesses in internal controls. The OIG concluded that these deficiencies in the financial accounting systems[1] created consequential risks that the financial statements including the performance overview information could contain material misstatements. The amount of substantive testing required to express an opinion on the fairness of the financial statements would have been prohibitive and unattainable by the statutory deadline of March 1 for submitting the audited financial statements to the Office of Management and Budget (OMB). Accordingly, the OIG did not express an opinion on the fairness of the financial statements.

As a result of problems noted in previous years' audits, the OIG agreed with USAID to focus our fiscal year 1999 efforts on the material line items on its balance sheet. This report is one in a series of reports that communicate the results of our audits conducted on the selected line items reported in the USAID fiscal year 1999 balance sheet. This report makes four recommendations to improve USAID's accounting for its payroll and strengthen related internal controls. Based on discussions with M/FM officials, there is substantial agreement

---

[1] According to OMB Circular A-127 and the Chief Financial Officers' Act, a financial management system includes supporting systems that contain the information needed to carry out financial management functions, manage financial operations, and report financial status information. The systems provide the information managers need to (1) carry out their fiduciary responsibilities, (2) deter fraud, waste, and abuse; and (3) relate financial consequences to agency program performance. Thus, in addition to basic accounting functions, USAID's financial management system includes supporting systems that perform performance measurement, budget, and procurement functions.

I would like to express my sincerest appreciation for the courtesies extended by your staff to the auditors.

Background

USAID was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 60 countries; 42 of which have operational and formal USAID missions. As of September 30, 1999, USAID payroll expense was about $221 million.

For fiscal year 1999, USAID OIG contracted with Gardiner, Kamya and Associates, P.C. (hereafter referred to as Gardner Kamya & Associates, PC) to audit USAID payroll and its related expenses for the year ended September 30, 1999. On February 1, 2000, Gardner Kamya & Associates, PC issued their report addressing issues identified during their review of USAID 1999 payroll related expenses. (See Appendix I & II). Gardner Kamya & Associates, PC did not audit the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing and Statement of Custodial Activity for the year then ended.

Audit Objective

This audit was performed to support the fiscal year 1999 Government Management Reform Act (GMRA) audit of USAID's consolidated financial statements. For fiscal year 1999, USAID's Office of Inspector General agreed with the Office of Financial Management that it would be advantageous for the audit to concentrate on selected major balance sheet items. Accordingly, the objective of this audit is as follows:

Were USAID Payroll Account Balances Accurate as of September 30, 1999?

See Appendix III for a detailed discussion of Gardner Kamya & Associates, PC audit observation and recommendations.

Audit Findings

Were USAID Payroll Account Balances Accurate as of September 30, 1999?

Gardner Kamya & Associates, PC were unable to determine the accuracy of USAID payroll and related expenses incurred for the year ended September 30, 1999.

Gardner Kamya & Associates, PC identified one material internal control weakness and four reportable conditions. Gardner Kamya & Associates, PC determined that improvements were needed in the following areas:

(1) USAID's transaction control process had no audit trail.

(2) USAID needs improvements in the management and certification of its AETA reports.

(3) USAID needs to improve its management of employee overtime and leave approval.

(4) USAID needs to improve its budgetary control processes.

(5) USAID needs to improve its general ledger processes.

The following sections provide a summary of observations made by Gardner Kamya & Associates, PC related to the USAID processes listed above. See Appendix I and II for details.

Material Weakness

USAID Transaction Control
<u>Process had no Audit Trail</u>

The USAID general ledger system does not provide for payroll data to be recorded at the transaction level. Data is recorded through the use of journal vouchers which are comprised of a summary of payroll transactions and adjustments. All expenses are recorded in the general ledger account number 6100 Operating Expenses, but the payroll related expenses cannot be traced back to the source. This condition results in the absence of an audit trail to support the general ledger total, and brings into question the completeness and accuracy of recorded transactions.

This material weakness prevents the system from providing the information needed to determine whether amounts posted to general ledger control accounts agree with subsidiary records.

- Standard General Ledger requires that transactions can be traced back to the source/point of entry in the feeder systems and to supporting documentation.

- Joint Financial Management Improvement Program (JFMIP), Core Financial System Requirements requires that a Core system (1) provide control accounts in the general ledger to balance general ledger account balances and other systems such as property, travel management, etc. and (2) provide mechanisms for users to correct out of balance conditions discovered during the reconciliation process and maintain an audit trail of any such corrections.

Gardner Kamya & Associates, PC did not recommend any remedial action because of the pending implementation of USAID's new accounting system in September 2000. This system is expected to have the capability to record transactions by sub-object codes, track specific program expenditures, and make information readily available to the USAID's personnel and other oversight parties as appropriate.

Reportable Conditions

USAID Needs Improvements in the Management and Certification of American Electronic Time and Attendance (AETA) Reports

Gardner Kamya & Associates, PC observed instances where the final AETA reports were not initialed by both the timekeepers and supervisors. After the time and attendance records are finalized, a final AETA report is generated. The timekeepers and supervisors are required to initial these reports. Additionally, Gardner Kamya & Associates, PC determined that the final AETA Reports were not securely preserved. Out of the thirty-six (36) AETA Reports requested for review, sixteen (16) reports were not produced and they could not be located by the respective time keepers and coordinators. These reports provide the legitimate basis for the number of hours worked by employees and paid for by the USAID. Additionally, Gardner Kamya & Associates, PC noted that in some instances the timekeepers keep the record of their own time and attendance without a supervisor specifically initialing the time keeper's hours on the related AETA report. Similarly, supervisors are also certifying their own AETA reports. This should be done by the respective division heads.

Gardner Kamya & Associates, PC determined that the USAID payroll system has two internal control mechanisms in place to prevent employees on a no-pay status from being paid. The first one (for employees on Leave Without Pay (LWOP) for 30 days or more) is initiated by the Personnel Department by processing an SF-50 and inputting the code 9 into the system. The second mechanism is the inputting of relevant codes by timekeepers where the LWOP is less than 30 days. However the effectiveness of these mechanisms depends on the timely preparation of SF-50 and the prompt inputting of codes by the timekeepers to prevent payments to employees on LWOP status. Any lapse in these required controls could lead to payment of salaries or accrual of sick and annual leave for employees on LWOP. Gardner Kamya & Associates, PC observed documents relating to instances where these internal controls failed and employees on LWOP were paid.

Best business practices dictate that evidence of performance of services should be produced in the form of time reports that should be controlled by supervisory review and approval. These same practices dictate that financial transactions be recorded in accordance with management general or specific authorization. Additionally, Joint Financial Management Improvement Program (JFMIP) Human Resources and Payroll Systems Requirements require that "agency systems must maintain, store and permit ready retrieval of employment and payroll data." JFMIP also requires that "payroll systems must provide adequate internal controls to ensure that human resources and payroll systems are operating as intended".

<u>Recommendation No 1:</u> We recommend that USAID Office of the Chief Financial Officer establish procedures to ensure that:

1.1 Final AETA reports are initialed by timekeepers and supervisors.

1.2 Final AETA reports are securely stored and retained in accordance with the government's retention policy.

1.3 SF-50 for LWOP be processed in a timely manner.

1.4 Periodic training sessions are held to reinforce the responsibilities of the timekeepers, supervisors, and staff of the Personnel Department in order for them to understand their role in the internal control process.

1.5 Internal controls are reviewed periodically and corrective action taken when weaknesses are identified.

1.6 Channels of communication are established between the timekeepers, supervisors, and Personnel Department, so that all parties are kept informed of employees on Leave Without Pay (LWOP) status.

1.7 Timekeepers and/or supervisors do not certify their own time and attendance records.

USAID Needs to Improve its Management
Of Employee Overtime and Leave Approval

During their review of time and attendance records, Gardner Kamya & Associates, PC noted instances where employees were paid for overtime hours worked without evidence of prior supervisory approval. Gardner Kamya & Associates, PC also noted instances where sick and annual leave taken by employees were not properly monitored by supervisors. Employees are required to complete a SF-71 when applying for leave and supervisors are required to verify and approve leave within the available limits. However, these requirements were not properly adhered to by the supervisors in all instances. Gardner Kamya & Associates, PC noted instances where annual and sick leave applications were not certified by the respective supervisors. Additionally, Gardner Kamya & Associates, PC noted that supervisors were not referring to any source document for information on the availability of leave credits before approving leave applications. This occurred because supervisors were not in possession of any record of leave credits available to employees in their divisions. Although leave reports are produced biweekly by the Payroll Division, these reports are not circulated to the supervisors.

Gardner Kamya & Associates, PC also noted that USAID does not have a policy to monitor or audit leave balances. After each pay period, a Statement of Earnings and Leave (SEL) is produced by New American Payroll System (NAPS). The SEL itemizes earnings, deductions, and leave, and is distributed to each department's Administrative Officer. These SELs are not reviewed for the accuracy of hours paid, leave taken or leave balances. In addition, leave audits were not performed on a regular basis but only when an employee or supervisor specifically requests one or when an employee retires.

Best business practices dictate that evidence of performance of services, including overtime, should be produced in the form of time reports which should be controlled by supervisory review and approval. These practices also dictate that all recorded transactions represent economic events that actually occurred and were executed in accordance with prescribed procedures. JFMIP requires the "payroll system to automatically convert leave taken in excess of available balance, based upon an established leave priority policy and when appropriate, provide for management review." JFMIP also requires that, "the system must provide employees and managers self-service capabilities in obtaining information pertinent to their needs." In addition, managers should have access to their organizational and subordinate work force non-personal data. JFMIP also requires that the system "maintain a detailed audit trail and control data to ensure that all reported leave hours have been processed accurately and that the hours used in pay calculation are correct." "The system must provide for the performance of all activities associated with determination of proper leave balances for all types of leave, leave advances, accruals, usage, forfeitures, limitations and transfers."

<u>Recommendation No. 2:</u> We recommend that USAID OFM:

2.1 Establish a standard medium for the approval of overtime hours to be worked. These approvals should be retained by the timekeepers and a copy attached to the pertinent AETA Report. This would facilitate easy identification of legitimate overtime worked by each employee and will help to monitor and control overtime costs.

2.2 Establish procedures to require all employees to officially request intended leave. Supervisors should verify leave credits prior to approval before forwarding approved leave applications to the timekeeper for input in AETA.

2.3 Establish procedures to ensure that final AETA Reports for each pay period be compared to the SEL in order to ensure that the employee was paid for actual hours worked and leave taken is properly recorded. We also recommend that USAID Office of Financial Management implement a system to periodically perform leave audits to ensure employees' leave balances are correct.

2.4 Require the biweekly leave reports to be promptly circulated to the respective supervisors. This will enable the supervisors to ascertain employees' leave balance before approval of leave applications.

USAID Needs to Improve Its <u>Budgetary Control Processes</u>

During their review of the expenses incurred in Fiscal Year 1999, the Gardner Kamya & Associates, PC noted the following:

The actual payroll expenditure for the fiscal year exceeded the budget control amount as shown below.

Actual Expenditure Per Payroll Summary	$221,163,792.30
Budgetary Control Amount	$220,991,766.00
Difference - over-expenditure	$ 172,026.30

The payroll expenses for the last two pay periods 19 and 20A, accrued at year end, were not fully accounted for in the fiscal year 1999. The actual accrued expenditure amounted to $11,821,982.24, while $11,386,299.42 was accounted for as accrued expenditure.

Generally Accepted Accounting Principles (GAAP) require that transactions be recorded at the amounts and in accounting periods in which they are executed. Transactions should also be recorded to permit the preparation of financial statements in conformity with GAAP or any other applicable criteria.

Recommendation No. 3: We recommend that USAID OFM establish proper budgetary control procedures. USAID OFM should ensure that expenses are recorded in the period in which they were incurred and that the status of budgetary resources is monitored for compliance with laws and regulations.

USAID Needs to Improve Its General Ledger Processes

Gardner Kamya & Associates, PC concluded that USAID does not have procedures to reconcile its general ledger to the payroll subsidiary records. The balances recorded in the general ledger were not at the transaction level. Data output from the New American Payroll System (NAPS) was manually entered into NMS using journal vouchers. Therefore, a reconciliation of the NMS (General Ledger) to the subsidiary records was necessary. Gardner Kamya & Associates, PC also noted that USAID was not posting transactions to the general ledger in a timely manner. They noted that pay periods 20-23, covering the period 10/1/98 to 11/08/98, were posted to the general ledger on March 30, 1999. In addition, pay period 18 (8/29/99-9/11/99) was posted on November 22, 1999 while 19 and 20A were not posted as of the date of their report.

JFMIP requires that the "agency systems must provide for the reconciliation of human resources and payroll data within the systems, for comparison and reconciliation with that of disbursing, accounting and other administrative systems/subsystems/modules to ensure accuracy, completeness, and data integrity." Further, JFMIP requires that Payroll systems must provide "timely access to complete and accurate information to those internal and external to the agency who require the information".

Recommendation No. 4: We recommend that USAID OFM:

4.1 Reconcile the General Ledger balances to the subsidiary records on a regular basis.

4.2 Ensure transactions are promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial reports.

This report is intended for the information of USAID's management, USAID's Office of Inspector General, the U.S. Office of Management and Budget, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

MANAGEMENT COMMENTS AND OUR EVALUATION

In commenting on our draft audit report and its recommendations, the Chief Financial Officer said that USAID management generally agree with the findings, but have some suggested re-wording of the draft recommendations in order to ensure that they were actionable, clear, and assigned to the appropriate organization.

We agreed with management's decision regarding recommendation nos. 1, 2, 3, and 4 and have incorporated their clarifications and suggestions in our audit report. Further, we accepted management's explanation for the finding and recommendation relating to the improvements needed in the budgetary control process. Therefore, no management decision or further discussion is needed. The following shows the detailed management comments.

Finding: USAID Transaction Control Process Had No Audit Trail

Management generally agrees with this finding. Management appreciates that no corrective action was recommended because of the pending implementation of Phoenix and the planned cross-servicing of payroll to NFC.

Finding: USAID Needs Improvements in the Management and Certification of AETA Reports

With regard to recommendation No. 1, management reported that they generally agree with the findings but suggest the following re-crafting of the recommendations to clarify actions, eliminate duplication, and properly assign responsibility. In addition, USAID management would like to assess whether changes were needed in view of the cross servicing to the National Finance Center (NFC). Management suggests that the report recommendation be changed to read "We recommend that the Chief Financial Officer establish procedures to ensure that":

1.1 Final AETA reports are initialed by timekeepers and supervisors;

1.2 AETA reports are properly stored and secured;

1.3 AETA reports are retained in accordance with records retention policy

1.4 Timekeepers and/or supervisors do not certify their own time and attendance records;

1.5 LWOP actions are initiated and sent to M/HR for processing in a timely manner and proper coordination exists among timekeepers, supervisors, M/HR, and M/FM regarding employees on LWOP status.

Management agrees to establish the procedures listed above by the end of Fiscal Year 2001.

Management further suggests that the recommendation be changed to read "we recommend that the Office of the Chief Financial Officer ensure that training is conducted to reinforce the responsibilities of timekeepers, supervisors, M/FM, and M/HR." They further reported that they agree with this revised recommendation. Management also reported that training will be held as part of the transition to NFC payroll. This action is expected to be completed by the end of fiscal year 2001.

<u>Finding: USAID Needs to Improve its Management of Employee Overtime and Leave Approval</u>

Concerning audit recommendation No. 2, management generally agrees with the finding but suggests that the report should be changed to read "we recommend that the Office of Human Resources establish procedures:"

2.1 For the use of a standard medium for the approval of overtime hours to be worked, including retaining by the timekeepers and attaching a copy to the AETA report; and

2.2 Requiring that all employees officially request leave, and supervisors verify leave credits before approval.

Management reported that they agree with the revised recommendation and will establish the related procedures by the end of fiscal year 2001.

For audit recommendation No. 3, management requested that this recommendation be changed to read "we recommend that the Office of the Chief Financial Officer establish procedures to ensure that:"

3.1 A system is implemented to periodically perform leave audits to ensure that balances are correct; and

3.2 Biweekly leave reports are promptly provided to supervisors so that leave can be verified before approval.

Management reported that they agree with the revised recommendation and will establish the related procedures by the end of fiscal year 2001.

<u>Finding: USAID Needs to Improve its Budgetary Control Process</u>

Management did not agree with this finding and recommendation. Management stated that at the end of each fiscal year, they obligate an estimated amount for pay periods 19 and 20 because the actual paydays are usually in the next fiscal year. Management stated that they do not liquidate the prior fiscal year obligation. If necessary, as in fiscal year 1999, an upward adjustment was recorded to cover the actual disbursement. Management believes that the payroll expense for pay periods 19 and 20 in fiscal year 1999 were fully accounted for.

Finding: USAID Needs to Improve its General Ledger Process

For audit recommendation No. 4, management generally agrees with the finding but requested that this recommendation be changed to read "we recommend that the Office of the Chief Financial Officer establish procedures to:"

4.1 Reconcile the general ledger balances to the payroll subsidiary records on a regular basis; and

4.2 Ensure that payroll transactions are promptly recorded and are properly classified and accounted for, in order to prepare timely and reliable financial reports.

Management reported that they agree with the revised recommendation and will establish the related procedures by the end of fiscal year 2001.

SCOPE AND METHODOLOGY

For fiscal year 1999, USAID OIG contracted with Gardiner, Kamya and Associates, P.C to audit USAID payroll and its related expenses for the year ended September 30 1999. Gardner Kamya & Associates, PC did not audit the related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing and Statement of Custodial Activity for the year then ended. Therefore, Gardner Kamya & Associates, PC did not express an opinion on them.

USAID's financial statements are the responsibility of its management. Our responsibility is to review the audit work performed by Gardner Kamya & Associates, PC and to propose audit recommendations based on the audit findings of Gardner Kamya & Associates, PC.

The contractor conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounts audited are free from material misstatement. We reviewed the contractor's methodology to ensure full adherence to generally accepted government auditing standards.

USAID MANAGEMENT COMMENTS

USAID

U.S. Agency for International Development

MEMORANDUM **September 27, 2000**

TO: IG/A/FA, Alvin A. Brown

FROM: M/CFO, Michael T. Smokovich /s/

SUBJECT: Draft Audit Report on USAID's Payroll and Related Internal Controls for FY99, Audit Report No. 0-000-00-007-F

Thank you for the opportunity to respond to the subject draft report. We generally agree with the findings, but have suggested some re-wording of the draft recommendations in order to ensure that they are actionable and clear, and are assigned to the appropriate organization.

Finding: USAID Transaction Control Process Had No Audit Trail

We generally agree with the finding and appreciate that you have not recommended corrective action in view of the implementation of Phoenix and the planned cross-servicing of payroll.

Finding: USAID Needs Improvements in the Management and Certification of AETA Reports

We generally agree with the findings, but suggest the following re-crafting of the recommendations to clarify actions, eliminate duplication, and properly assign responsibility. In addition, we would like to assess whether changes are needed in view of the cross-servicing to NFC.

New Recommendation No. 1: We recommend that the Office of the Chief Financial Officer establish procedures to ensure that:

1.1: final AETA reports are initialed by timekeepers and supervisors;
1.2: AETA reports are properly stored and secured;
1.3: AETA reports are retained in accordance with records retention policy;
1.4: timekeepers and/or supervisors do not certify their own time and attendance records;
1.5: LWOP actions are initiated and sent to M/HR for processing in a timely manner and proper coordination exists among timekeepers, supervisors, M/HR and M/FM regarding employees on LWOP status.

Management Decision: We agree and will establish these procedures by the end of fiscal year 2001.

1300 Pennsylvania Avenue, N.W.
Washington, D.C. 20523

New Recommendation No. 2: We recommend that the Office of the Chief Financial Officer ensure that training is conducted to reinforce the responsibilities of timekeepers, supervisors, M/FM and M/HR.

Management Decision: We agree with this recommendation. Training will be held as part of the transition to NFC payroll. Action should be complete by the end of fiscal year 2001.

Finding: USAID Needs to Improve its Management of Employee Overtime and Leave Approval

We generally agree with the findings, but suggest the following re-crafting of the recommendations to clarify actions and properly assign responsibility:

New Recommendation No. 3: We recommend that the Office of Human Resources establish procedures:

3.1: for the use of a standard medium for the approval of overtime hours to be worked, including retaining by the timekeepers and attaching a copy to the AETA report; and
3.2: requiring that all employees officially request leave, and supervisors verify leave credits prior to approval.

Management Decision: We agree and will establish the procedures by the end of fiscal year 2001.

New Recommendation No. 4: We recommend that the Office of the Chief Financial Officer establish procedures to ensure that:

4.1: a system is implemented to periodically perform leave audits to ensure that balances are correct; and
4.2: biweekly leave reports are promptly provided to supervisors so that leave can be verified prior to approval.

Management Decision: We agree and will establish the procedures by the end of fiscal year 2001.

Finding: USAID Needs to Improve its Budgetary Control Processes

We do not agree with this finding or recommendation. At the end of each fiscal year, we obligate an estimate for pay periods 19 and 20, because the actual paydays are in the next fiscal year. We do liquidate the prior fiscal year obligation. If we have to upward adjust the prior year obligation to cover the actual disbursement, we will, and that is what we did in FY99. The draft audit report indicates that "the payroll expenses for the last two pay periods, 19 and 20A, accrued at year end, were not fully accounted for in FY99". We believe that they were.

Finding: USAID Needs to Improve its General Ledger Processes

We generally agree with the findings, but suggest the following re-crafting of the recommendations to clarify actions and properly assign responsibility.

New Recommendation No. 5: We recommend that the Office of the Chief Financial Officer establish procedures to:

5.1: reconcile the general ledger balances to the payroll subsidiary records on a regular basis; and
5.2: ensure that payroll transactions are promptly recorded and are properly classified and accounted for, in order to prepare timely and reliable financial reports.

Management Decision: We agree and will establish the procedures by the end of fiscal year 2001.

GARDNER KAMYA & ASSOCIATES, PC'S AUDIT REPORT OF USAID PAYROLL AND RELATED EXPENSES

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

Contract Number: OIG-I-00-98-00219-00
Task Order Number: OIG-I-05-98-00219-00

AUDIT OF USAID PAYROLL RELATED EXPENSES

February 1, 2000

Prepared For:
Office of the Inspector General
United States Agency For International Development

Gardiner, Kamya & Associates, P.C.
Management Consultants and Certified Public Accountants
Washington, D.C.

16

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
AUDIT OF USAID PAYROLL RELATED EXPENSES
FISCAL YEAR 1999 ENDED SEPTEMBER 30, 1999

Table of Contents

Gardiner, Kamya & Associates, P.C.
Management Consultants and Certified Public Accountants
1717 K Street, N.W., Suite 601 Washington, D.C. 20036
Phone: 202 857-1777
Fax: 202 857-1778

February 1, 2000

U.S. Agency for International Development
1300 Pennsylvania Ave., N.W.
Washington, D.C. 20523-7700
Attn: Mr Chris Johnson

Re: Task Order # OIG-1-05-98-00219-00 - Audit of USAID Payroll Related Expenses

Dear Mr Johnson;

Gardiner, Kamya & Associates, P.C. (GKA) is pleased to submit one original and six copies of the final report on the above referenced engagement.

If you have any questions, please contact me or Rohit Chowbay at (202) 857-1777. Our fax number is (202) 857-1778 and e-mail address is gardkamy@erols.com.

Very truly yours,
Gardiner, Kamya & Associates, P.C.

John M. Kamya

Gardiner, Kamya & Associates, P.C.
Management Consultants and Certified Public Accountants
1717 K Street, N.W., Suite 601 Washington, D.C. 20036
Phone: 202 857-1777
Fax: 202 857-1778

INDEPENDENT AUDITOR'S REPORT

To the Office of Inspector General
U.S. Agency for International Development
Washington, D.C

We were engaged to audit the payroll related expenses incurred by the United States Agency for International Development (USAID) for the year ended September 30, 1999 The related Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing and the Statement of Custodial Activity for the year then ended were not audited by us and accordingly, we do not express an opinion on them. These financial statements are the responsibility of USAID's management.

USAID was unable to provide the payroll related expenses incurred for the year ended September 30, 1999 either in the form of financial statements or a schedule of expenses

Since USAID could not provide the payroll related expenses incurred for the year ended September 30, 1999 and we were not able to determine the payroll related expenses reported for the year, the scope of our work was not sufficient to enable us to express, and we do not express an opinion, on the payroll related expenses.

In accordance with *Government Auditing Standards,* we have also issued a report dated January 21, 2000, on our consideration of USAID/Washington internal control structure applicable to payroll, and a report dated January 21, 2000, on USAID/Washington compliance with laws and regulations applicable to payroll

This report is intended for the information of USAID's management, USAID's Office of Inspector General, the U.S. Office of Management and Budget, and the U S. Congress However, this report is a matter of public record and its distribution is not limited

Gardiner, Kamya & Associates, P.C.

January 21, 2000

Gardiner, Kamya & Associates, P.C.
Management Consultants and Certified Public Accountants
1717 K Street, N.W., Suite 601 Washington, D.C. 20036
Phone: 202 857-1777
Fax: 202 857-1778

AUDITOR'S REPORT ON INTERNAL CONTROL

To the Office of Inspector General
U S. Agency for International Development
Washington, D C.

We were engaged to audit the payroll related expenses incurred by United States Agency for International Development (USAID) for the year ended September 30, 1999 and have issued our report thereon dated January 21, 2000. In that report, we disclaimed an opinion on USAID's payroll related expenses.

In planning and performing our audit, we considered USAID/Washington internal control, applicable to payroll, over financial reporting by obtaining an understanding of USAID's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the payroll expenses and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect USAID's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation 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. However, we noted certain matters, discussed in the following paragraphs, involving the internal control and its operation that we consider to be reportable conditions and material weaknesses.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

MATERIAL WEAKNESS

1 - Transaction Control Process - Audit Trail

Observation:

The USAID general ledger system does not provide for payroll data to be recorded at the transaction level. Data is recorded through the use of journal vouchers which are comprised of a summary of payroll transactions and adjustments. All expenses are recorded in the general ledger account number 6100 Operating Expenses but the payroll related expenses cannot be traced back to the source. This condition results in the absence of an audit trail to support the general ledger total and brings into question, the completeness and accuracy of recorded transactions. In addition, this condition prevents the system from providing the information needed to determine whether amounts posted to general ledger control accounts agree with subsidiary records.

Criteria:

- Standard General Ledger requires that transactions can be traced back to the source/point of entry in the feeder systems and to supporting documentation.
- Joint Financial Management Improvement Program (JFMIP), Core Financial System Requirements requires that a Core system (1) provide control accounts in the general ledger to balance general ledger account balances and other systems such as property, travel management, etc. and (2) provide mechanisms for users to correct out of balance conditions discovered during the reconciliation process and maintain an audit trail of any such corrections.

Recommendation:
GKA does not recommend any remedial action because we have been informed that USAID will be implementing a new General Ledger system in September 2000. This system will have the capability to record transactions by sub-object codes, track specific program expenditures, and make information readily available to USAID's personnel and other oversight parties as appropriate.

REPORTABLE CONDITIONS

1 - Certification of AETA Reports

Observation:
We observed instances where the final AETA reports were not initialed by both the timekeepers and supervisors. After the time and attendance records are finalized, a final AETA report is generated. The timekeepers and supervisors are required to initial these reports.

Best business practices dictate that evidence of performance of services should be produced in the form of time reports which should be controlled by supervisory review and approval.

Recommendation:
We recommend that USAID Office of Financial Management (OFM) require timekeepers and supervisors to initial the final AETA report to make them authentic.

2 - AETA Reports not Retained

Observation:
The final AETA Reports were not securely preserved. Out of the thirty-six (36) AETA Reports requested for our review sixteen (16) reports were not produced as they could not be located by the respective time keepers and coordinators. These reports provide the legitimate basis for the number of hours worked by employees and paid for by USAID.

Joint Financial Management Improvement Program (JFMIP) "Human Resources and Payroll Systems Requirements requires that "agency systems must maintain, store and permit ready retrieval of employment and payroll data".

Recommendation:
We recommend that USAID OFM require timekeepers, supervisors and coordinators to ensure that the final AETA reports are authenticated, securely stored and retained in accordance with the government's retention policy.

3 - Segregation of Duties

Observation:
We noted that in some instances the timekeepers keep the record of their own time and attendance without a supervisor specifically initialing the time keeper's hours on the related AETA report. Similarly, supervisors are also certifying their own AETA reports. This should be done by the respective division heads.

JFMIP requires that "payroll systems must provide adequate internal controls to ensure that human resources and payroll systems are operating as intended".

Recommendation:
We recommend that USAID OFM implement policies and procedures to preclude timekeepers and or supervisors from certifying their own time and attendance records.

4 - Overtime Approval

Observation:
During our review of time and attendance records, we noted instances of employees being paid for overtime hours worked but no evidence of their supervisors approval in advance.

Best business practices dictate that evidence of performance of services including overtime, should be produced in the form of time reports which should be controlled by supervisory review and approval.

Recommendation:
We recommend that USAID OFM establish a standard medium for the approval of overtime hours to be worked. These approvals should be retained by the timekeepers and a copy attached to the pertinent AETA Report. This would facilitate easy identification of legitimate overtime worked by each employee and will help to monitor and control overtime costs.

5 - Monitoring Sick and Annual Leave

Observation:
We noted that the sick and annual leave taken by employees are not properly monitored by supervisors. Employees are required to fill out an SF-71 when applying for leave and supervisors are required to verify and approve leave within the available limits. However, these requirements are not being properly adhered to by the supervisors in all instances. We noted annual and sick leave applications which were not certified by the supervisors.

Best business practices dictate that all recorded transactions represent economic events that actually occurred and are executed in accordance with prescribed procedures.

Recommendation:
We recommend that USAID OFM establish procedures to require all employees to officially request intended leave. Supervisors should verify leave credits prior to approval before forwarding approved leave applications to the time keeper for input in AETA.

6 - Leave Approval

Observation:
The supervisors are not referring to any source document for information on the availability of leave credits before approving leave applications because they are not in possession of any record of leave credits available to employees in their divisions. Although leave reports are produced bi-weekly, these reports are not circulated to the supervisors.

JFMIP requires the "payroll system to automatically convert leave taken in excess of available balance, based upon an established leave priority policy. When appropriate, provide for management review". JFMIP also requires that, "the system must provide employees and managers self-service capabilities in obtaining information pertinent to their needs. In addition, "managers should have access to their organizational and subordinate work force non-personal data".

Recommendation:
We recommend that USAID OFM require the bi-weekly leave reports be promptly circulated to the respective supervisors This will enable the supervisors to ascertain employees' leave balance before approval of leave applications.

7 - AETA Codes

Observation:
The payroll system has two internal control mechanisms in place to prevent employees on a no-pay status from being paid. The first one (for employees on LWOP for 30 days or more) is initiated by the Personnel Department by processing an SF-50 and inputting the code 9 into the system. The second mechanism is the inputting of relevant codes by timekeepers where the LWOP is less than 30 days. However the effectiveness of these mechanisms depends on the timely preparation of SF-50 and the prompt inputting of codes by the timekeepers to prevent payments. Any lapse in these required controls could lead to payment of salaries or accrual of sick and annual leave for employees on LWOP. We observed documents relating to instances where these internal controls failed and employees on LWOP were paid.

Best business practices dictate that financial transactions be recorded in accordance with management general or specific authorization.

Recommendation:
We recommend that USAID OFM implement procedures to ensure the following:

- SF-50 for LWOP be processed in a timely manner.
- Periodic training sessions be held to reinforce the responsibilities of the timekeepers, supervisors, and staff of the Personnel Department in order for them to understand their role in the internal control process.

- Internal controls be reviewed periodically and corrective action taken when weaknesses are observed.

- A channel of communication be established between the timekeepers, supervisors, and Personnel Department, so that all parties are kept informed of employees on Leave Without Pay (LWOP) status.

8 - Monitoring and Auditing Leave Balances

Observation:
We noted that USAID does not have a policy in place to monitor or audit leave balances. After each pay period, a Statement of Earnings and Leave (SEL) is produced by NAPS. The SEL itemizes earnings, deductions, and leave, and is distributed to each department's Administrative Officer. These SELs are not reviewed for accuracy of hours paid, leave taken or leave balances. In addition, leave audits are not performed on a regular basis but only when an employee specifically requests one or when an employee retires.

JFMIP requires that the system "maintain a detailed audit trail and control data to ensure that all reported leave hours have been processed accurately and that the hours used in pay calculation are correct". "The system must provide for the performance of all activities associated with determination of proper leave balances for all types of leave, leave advances, accruals, usages, forfeitures, limitations and transfers".

Recommendation:
We recommend that USAID OFM establish procedures to ensure that final AETA Reports for each pay period be compared to the SEL in order to ensure that the employee was paid for actual hours worked and leave taken is properly recorded. We also recommend that USAID OFM implement a system to ensure leave audits are performed periodically to ensure employees' leave balances are reviewed for accuracy.

9 - Budgetary Control

Observation:
During our review of the expenses incurred in Fiscal Year 1999, we noted the following:

- The actual payroll expenditure for the fiscal year exceeded the budget control amount as shown below.

Actual Expenditure Per Payroll Summary	$221,163,792.30
Budgetary Control Amount	$220,991,766.00
Difference - over-expenditure	$ 252,026.30

- The payroll expenses for the last two pay periods 19 and 20A accrued at year end were not fully accounted for in the fiscal year 1999. The actual accrued expenditure amounted to \$11,821,982.24 while \$11,386,299.42 was accounted for as accrued expenditure.

Generally Accepted Accounting Principles (GAAP) require that transactions be recorded at the amounts and in accounting periods in which they are executed. Transactions should also be recorded to permit the preparation of financial statements in conformity with GAAP or any other applicable criteria.

Recommendation:
We recommend that USAID OFM establish proper budgetary control procedures. USAID OFM should ensure that expenses are recorded in the period in which they were incurred and that the status of budgetary resources is monitored for compliance with laws and regulations.

10 - Reconciliation of the General Ledger to the Payroll Subsidiary Records - Repeat Finding

Observation:
USAID does not have any procedures in place to reconcile the general ledger to the payroll subsidiary records. The balances recorded in the general ledger are not at the transaction level. Data output from the New American Payroll System (NAPS) is manually fed into NMS using journal vouchers. Therefore a reconciliation of the NMS (General Ledger) to the subsidiary records is necessary.

JFMIP requires that the "agency systems must provide for the reconciliation of human resources and payroll data within the systems, for comparison and reconciliation with that of disbursing, accounting and other administrative systems/subsystems/modules to ensure accuracy, completeness, and data integrity".

Recommendation:
We recommend that USAID OFM reconcile the General Ledger balances to the subsidiary records on a regular basis.

11 - Timely Posting to the General Ledger - Repeat Finding

Observation:
USAID is not posting transactions to the general ledger in a timely manner. We noted that pay periods 20-23 covering the period 10/1/98 to 11/08/98 were posted to the general ledger on March 30, 1999. In addition, pay period 18 (8/29/99 - 9/11/99) were posted on November 22, 1999 while 19 and 20A were not posted as of the date of this report.

JFMIP requires that Payroll systems must provide "timely access to complete and accurate information to those internal and external to the agency who require the information".

Recommendation:
We recommend that USAID OFM ensure transactions are promptly recorded, properly classified and accounted for in order to prepare timely and reliable financial reports.

This report is intended for the information of USAID's management, USAID's Office of Inspector General, the U.S. Office of Management and Budget, and the U.S. Congress. However, this report is a matter of public record and its distribution is not limited.

Gardiner, Kamya + Associates, P.C.
January 21, 2000

Gardiner, Kamya & Associates, P.C.
Management Consultants and Certified Public Accountants
1717 K Street, N.W., Suite 601 Washington, D.C. 20036
Phone: 202 857-1777
Fax: 202 857-1778

AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Office of Inspector General
U.S. Agency for International Development
Washington, D.C.

We were engaged to audit the payroll related expenses incurred by United States Agency for International Development (USAID) for the year ended September 30, 1999 and have issued our report thereon dated January 21, 2000 In that report, we disclaimed an opinion on USAID's payroll related expenses.

The management of USAID is responsible for complying with laws and regulations applicable to USAID/Washington. As part of obtaining reasonable assurance about whether the payroll related expenses element of the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin 98-08.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed one instance, described below, where the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

USAID's financial system does not substantially comply with the United States Standard General Ledger at the transaction level.

Observation:
The USAID general ledger system does not allow payroll data to be recorded at the transaction level. Data is recorded through the use of journal vouchers which are comprised of a summary of payroll transactions. All expenses are recorded in the general ledger account number 6100, Operating Expenses, and reported in the Statement of Net Cost. However, the payroll transactions cannot be traced from the source document to the Statement of Net Cost and vice versa.

Criteria:

OMB 98-08 "Audit Requirements for Federal Financial Statements" requires that transactions can be traced back to the source/point of entry in feeder systems and to supporting documentation.

Responsible Party:

USAID is responsible for the financial system which was found not to be in substantial compliance.

Recommended remedial action and the time frame to implement such action.

GKA does not recommend any remedial action because we have been informed that USAID will be implementing a new General Ledger system in September 2000. This system will have the capability to record transactions by sub-object codes, track specific program expenditures, and make information readily available to USAID's personnel and other oversight parties as appropriate.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended for the information of USAID's management, USAID's Office of Inspector General, the U S. Office of Management and Budget, and the U S. Congress. However, this report is a matter of public record and its distribution is not limited.

Gardiner, Kamya & Associates, P.C.

January 21, 2000