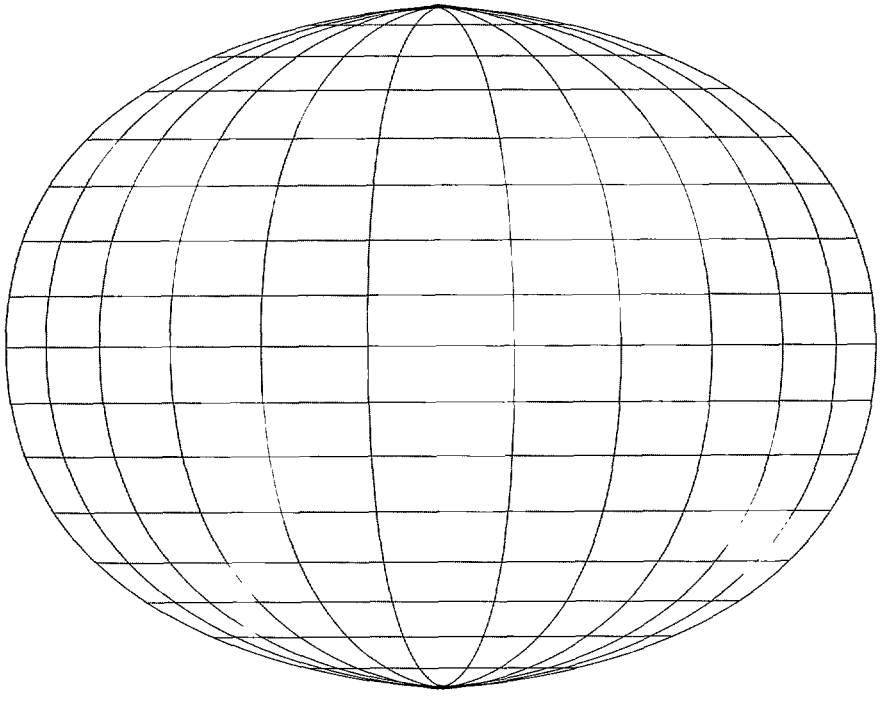
Report of Audit

Audit of USAID/El Salvador's U101-Reported Financial Data as of September 30, 2000

Audit Report No. 1-519-01-003-F
February 23, 2001



San Salvador, El Salvador

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

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

February 26, 2001

MEMORANDUM

FOR: USAID/El Salvador Director, Kenneth C. Ellis

FROM: RIG/San Salvador, Timothy E. Cox

SUBJECT: Audit of USAID/El Salvador's U101-Reported Financial Data as of September 30, 2000 (Report No. 1-519-01-003-F)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

The report contains two recommendations for your action. Based on the information provided by the Mission, a management decision has been reached for both recommendations. A determination of final action for the recommendations will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

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

Summary of Results

As part of a worldwide audit, the Regional Inspector General/San Salvador audited selected financial data to answer the following audit objective:

- Were the account balances on USAID/El Salvador's U101 reports accurately presented with respect to accruals, advances, and the 1221 reconciliation?

USAID/El Salvador generally presented accurate information with regards to advances and the 1221 reconciliation; however, our sample of accrual transactions indicated that the Mission does not always have adequate support for accrual amounts and some accrual estimates were inaccurate. The report contains recommendations that USAID/El Salvador work with USAID/Panama and USAID/Mexico to establish written procedures for the accrual process and that

USAID/El Salvador revise its written procedures for accruals to include the use of a control sheet to show the accrual calculation and indicate the source and basis of the information. (See pages 2 through 5.)

USAID/El Salvador expressed agreement with our recommendations and has developed a plan of action to implement both recommendations. (See Appendix II.)

Background

Under the Government Management and Reform Act of 1994, USAID is required to submit annual audited financial statements to the Office of Management and Budget (OMB) and appropriate congressional committees. These financial statements include the activities of overseas missions as reported in the year-end Summaries of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Accounts, also referred to as the U101 report, which is generated from the Mission Accounting and Controls System (MACS).

This audit is part of the Office of Inspector General's (OIG) worldwide audit of USAID's Fiscal Year 2000 financial statements. The OIG's Financial Audit Division (IG/A/FA) is leading this worldwide effort, with the assistance from the OIG's Regional Inspectors General. IG/A/FA selected 10 overseas missions to be included in the audit, including USAID/El Salvador. USAID/El Salvador serves as the accounting station for USAID/Mexico and USAID/Panama as well as some activities in Costa Rica related to the Office of Foreign Disaster Assistance and closeout projects from USAID/Costa Rica. Our audit included U101 data reported by USAID/El Salvador for activities in these other countries.

Audit Objective

As part of a worldwide audit, the Regional Inspector General/San Salvador audited selected financial data to answer the following audit objective:

- Were the account balances on USAID/El Salvador's U101 reports accurately presented with respect to accruals, advances, and the 1221 reconciliation?

Appendix I describes the audit scope and methodology.

Audit Findings

Were the account balances on USAID/El Salvador's U101 reports accurately presented with respect to accruals, advances, and the 1221 reconciliation?

USAID/El Salvador generally presented accurate information with regards to advances and the 1221 reconciliation; however, our sample of accrual transactions indicated that the Mission did not always have adequate support for accrual amounts and some accrual estimates were inaccurate.

With respect to advances, based on an examination of sample transactions as described in Appendix I:

- The Mission properly reported advances in the September 2000 U101 report and properly scheduled them for payment by the disbursing offices.
- Recipients generally refunded interest earned on advances to USAID.[1]
- Requests for advances (Standard Forms 1034) were maintained on file and payment amounts were equal to the amounts reflected on the requests.
- Financial information on the recipients' requests for advances was consistent with the controller's office advance information.

Also with respect to advances, we found that the amount of outstanding advances over 120 days old had been significantly reduced since the time of our review of internal controls.[2] As of October 4, 2000, outstanding advances over 120 days old totaled $481,080 as compared to a total of $998,300 on July 21, 2000.

For the 1221 reconciliation process, we found no discrepancies in the reconciling items reported in the September 30, 2000 U101.

With respect to accruals, based on a review of sample transactions as described in Appendix I, we found that:

- Quarterly accruals were recorded in the September 2000 U101 report.
- Accruals were reversed at the beginning of the subsequent quarter.
- Accrual amounts did not exceed the total unliquidated commitment balance.
- When necessary, accrual amounts were adjusted for disbursements made subsequent to the accrual estimation.

However, as discussed in the following sections, USAID/El Salvador did not have adequate supporting documentation for some of its accruals and accrual estimates were not always accurate.

[1] Although we noted that one recipient has not refunded interest, the amount is not considered material. Therefore, we are not making a recommendation related to this finding.

[2] The results of our assessment of USAID/El Salvador's internal controls over MACS are reported separately in the Audit Report No. 1-519-01-001-F "Audit of Certain USAID/El Salvador Financial Operations and Management Controls," dated January 23, 2001.

Some Accruals Were Not Accurate Or Adequately Supported

USAID's Automated Directive System (ADS) Section 631 requires that accrual estimates be based on the best available information on expenditures for an activity. As part of our audit, we reviewed supporting documentation to determine if the accrual amounts were reasonable estimates of expenditures. We found that, of a sample of 30 accruals, eight lacked adequate documentation to support the amounts accrued as of September 30, 2000. These accruals were related to USAID/Mexico and USAID/Panama projects.

ADS 631 requires the cognizant technical officer to develop accruals using worksheets and guidance from the Mission Controller and to use an appropriate basis for accruals. USAID/El Salvador's Mission Operations Manual 970, *Development of Accruals*, requires that the project manager determine the amount for the accrued expenditures and encourages the use of the MACS Report P09, Accrual Worksheet. It further requires the responsible financial analyst to review the reasonableness of the accrual. However, the USAID/El Salvador Mission Operations Manual does not apply to USAID/Panama or USAID/Mexico and neither of those missions had written procedures related to accruals. As a result, estimates for five USAID/Mexico accruals and three USAID/Panama accruals were not adequately documented and we could not determine if their accrual amounts were reasonable.

In addition, six of the 30 accruals in our sample were miscalculated or incorrect as described below:

- Two accruals were incorrect due to errors in their calculation, resulting in an over-accrual of $25,000 and an under-accrual of $39,125. The under-accrual occurred because the cognizant technical officer did not properly review the information from the grantee in order to properly estimate accrued expenditures. For the over-accrual, the amount accrued was $25,000 more than the documentation provided by the grantee.

- One $214,766 accrual was accrued twice under two different earmark control numbers. The double entry of this accrual occurred because the cognizant technical officer did not exercise sufficient care in calculating accruals. In addition, the accountant in USAID/El Salvador and the cognizant technical officer in USAID/Mexico were not able to meet to discuss accruals. The accountant relied on the amount provided by the technical officer and did not receive any supporting documentation for the accrual amounts.

- Three accruals were made for expired projects for which the Mission is awaiting a final indirect cost settlement for the activities. The accrual amounts for these projects were based on the remaining unliquidated commitment balance for the projects instead of on an estimate of the anticipated amount of the indirect costs. Based on previous years' indirect

costs for these recipients, we estimate that these accruals were excessive by at least $200,000. USAID/El Salvador's accrual practices for projects with outstanding indirect cost rates did not take into account the "best available information," as required by ADS 631, when estimating accrual amounts.

As a result of the six discrepancies noted above, the accruals in the sample were overstated by approximately $400,000, or about 2.6 percent of the total amount of the sample accruals.

As a result of the above, we are making the following recommendations:

Recommendation No. 1: We recommend the USAID/El Salvador work with USAID/Panama and USAID/Mexico to establish written procedures for the accrual process, to include (a) the roles of the cognizant technical officer and the USAID/El Salvador controller staff in the accrual process and (b) the requirements for maintaining adequate documentation for accruals.

Recommendation No. 2: We recommend that USAID/El Salvador revise its written procedures for accruals to include the use of a control sheet to show the accrual calculation and indicate the source and basis of the information.

Management Comments and Our Evaluation

USAID/El Salvador expressed agreement with our recommendations and has developed a plan of action to implement both recommendations. Therefore, a management decision has been reached for both recommendations. USAID/El Salvador's comments were also cleared by USAID/Panama and USAID/Mexico management.

Scope and Methodology

Scope

The Regional Inspector General/San Salvador conducted an audit of USAID/El Salvador's U101-reported account balances as of September 30, 2000. The audit was performed in accordance with generally accepted government auditing standards at USAID/El Salvador's offices from October 16, 2000 through December 18, 2000.

The audit examined USAID/El Salvador's fiscal year 2000 financial operations related to cash advances, accruals, and the 1221 reconciliation. It did not cover any other USAID/El Salvador financial operations.

During the first phase of this audit, we obtained an understanding of the controls over the advance process, accrual process, and reconciliation process. We determined whether the controls were placed in operation, and we assessed control risk. The results of the assessment on internal controls are reported separately in Audit Report No. 1-519-01-001-F, "Audit of Certain USAID/El Salvador Financial Operations and Management Controls," dated January 23, 2001.

Methodology

The audit objective was to determine if the account balances on USAID/El Salvador's U101 reports were accurately presented in the areas of accruals, advances, and the 1221 reconciliation.

In examining advances, we reviewed a stratified random sample of 30 current advances as of September 30, 2000 made by USAID/El Salvador. The population of all current advances over $1,500 as of September 30, 2000 and the sample of 30 advances we reviewed are compared in the following table:

Population	Number	Amount (millions)
Advances of $100,000 or more	6	$5.3
Advances from $1,500 to $100,000	44	$1.1
Total	50	$6.4

Sample	Number	Amount (millions)
Advances of $100,000 or more	6	$5.3
Advances from $1,500 to $100,000	24	$.6
Total	30	$5.9

For each sample item, we reviewed documentation and interviewed USAID/El Salvador personnel to verify that: (1) advances were included in the September

2000 U101 report and the disbursing office payment schedules, (2) recipients refunded interest earned on advances to USAID, (3) requests for advance (Standard Forms 1034) were maintained on file and payment amounts were equal to the amounts reflected on the requests, and (4) financial information on the recipients' requests for advances was consistent with the controller's office advance information.

We also selected a judgmental sample of 10 advances outstanding over 120 days as of October 4, 2000. The ten sample items totaled $480,882 out of a universe of 17 items totaling $481,080. For each item, we reviewed documentation and interviewed USAID/El Salvador personnel to determine (1) how long the advances have been outstanding, (2) the reason that the advance was still outstanding, (3) action taken by USAID/El Salvador to liquidate the advance, (4) whether interest was adequately recorded for the advance.

In examining accruals, we reviewed a stratified random sample of 30 accruals made for the fourth quarter of fiscal year 2000 by USAID/El Salvador. The population of all fourth quarter fiscal year 2000 accruals over $1,500 and the sample of 30 accruals we reviewed are compared in the following table:

Population	Number	Amount (millions)
Accruals of $500,000 or more	6	$10.7
Accruals from $1,500 to $500,000	246	$12.5
Total	252	$23.2

Sample	Number	Amount (millions)
Accruals of $500,000 or more	6	$10.7
Accruals from $1,500 to $500,000	24	$4.7
Total	30	$15.4

For each accrual sample item, we determined (1) if the accrual amount was included in the September 30, 2000 U101 report, the Batch Project Accrual Transaction Listing (MACS Report P16), and the Accrual Transaction Register (MACS Report C15); (2) if accruals were not in excess of the total unliquidated commitment balance; (3) if the accruals were reversed at the beginning of the subsequent quarter; and (4) if the accrual amount was reasonable based on the guidance in ADS 631.

In addition, we selected a judgmental sample of 10 accruals made for the third quarter of fiscal year 2000. To determine the accuracy of the accruals, we compared the amount accrued to the amounts subsequently liquidated by the recipient.

For appropriations 72X1021 and 72X1037, we reviewed the Mission's 1221 reconciliation of the disbursements reported in MACS with the disbursements reported by the United States Disbursing Offices as of August 31, 2000, and we calculated the number and absolute value of the unreconciled transactions as of that date.

In performing the audit tests described above, we considered a finding material if the number of errors was more than five percent of the total sample reviewed.

Management Comments

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A.I.D. MISSION TO EL SALVADOR

Date: February 12, 2001

To: Timothy E. Cox, Regional Inspector General/San Salvador

From: Kenneth C. Ellis, Mission Director USAID/El Salvador

Subject: Audit of USAID/El Salvador's U101– Reported Financial Data as of September 30, 2000 (Report No. 1-519-01-003-F)

USAID/El Salvador has reviewed the report of this audit and concurs in the report's two recommendations:

> **Recommendation No. 1:** We recommend that USAID/El Salvador work with USAID/Panama and USAID/Mexico to establish written procedures for the accrual process, to include (a) the roles of the cognizant technical officer and the USAID/El Salvador controller staff in the accrual process and (b) the requirement for maintaining adequate documentation for accruals.
>
> **Recommendation No. 2:** We recommend that USAID/El Salvador revise its written procedures for accruals to include the use of a control sheet to show the accrual calculation and include the source and basis of information.

To implement Recommendation No. 1 USAID/El Salvador will work with USAID/Panama and USAID/Mexico to revise applicable Mission Orders based upon the accrual control and calculation procedures called for in this recommendation and in Recommendation No.2. In addition, the USAID/El Salvador Controller will provide training to each Mission in the procedures necessary to develop and document accruals.

To implement Recommendation No. 2 USAID/El Salvador will revise its Mission Order concerning accruals to include the use of a worksheet for calculation of the accruals and identification of the source and basis of information. The revised Mission Order and its accrual calculation worksheet will more clearly define responsibilities of the Cognizant Technical Officers and the Controller Staff regarding development documentation, review and recording of accruals.

USAID/El Salvador appreciates the thoroughness of your analyses and the practical recommendations for improvement of Mission activities contained in this audit report.