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AUDIT OF A.I.D.'S  
COMPLIANCE WITH OFFICE OF MANAGEMENT AND  
BUDGET CIRCULAR A-129 GUIDELINES ON  
MANAGING ACCOUNTS RECEIVABLE

Audit Report No. 87-02

April 28, 1987

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

April 28, 1987

MEMORANDUM FOR AA/M, R.T. Rollis, Jr.

FROM: RIG/A/W, *James F. Boyer, Jr.*  
Mervin F. Boyer, Jr.

SUBJECT: Audit of A.I.D.'s Compliance With Office  
of Management and Budget Circular A-129  
Guidelines on Managing Accounts Receivable

This report presents the results of an audit of A.I.D.'s Compliance with Office of Management and Budget Circular A-129 Guidelines on Managing Accounts Receivable. The objectives were to: (i) evaluate A.I.D.'s compliance with the Office of Management and Budget (OMB) guidelines on accounts receivable as stated in OMB Circular A-129; (ii) ascertain whether A.I.D. updated interest charges on the outstanding receivables; and (iii) determine whether A.I.D. converted identifiable claims to Bills for Collection in a timely manner.

The audit showed that A.I.D. did not fully comply with the OMB A-129 guidelines relating to: servicing, following up, collecting and writing off the receivables. Interest charges on the outstanding accounts were not updated. Identifiable claims were not always converted to Bills for Collection in a timely manner.

As of June 30, 1986, A.I.D. reported 1,634 outstanding receivables totaling \$7.8 million. Of these, about 70 percent or \$5.5 million were seriously delinquent, ranging from 1 to 21 years. Eleven accounts totaling approximately \$1 million were determined to be uncollectible, but had not been written off. Interest charges on the outstanding receivables, estimated to be \$1.2 million, were not recorded in A.I.D.'s accounts receivable system. Four claims of \$1.1 million, resulting from audit disallowances, were not converted to Bills for Collection, some 6 to 14 months after they were identified.

The report contains two recommendations to correct the above deficiencies. The Office of Financial Management (M/FM) should take aggressive action to follow up and collect the receivables, assess interest charges on the outstanding accounts, and initiate action to write off uncollectible accounts. The Office of Procurement (SER/OP) should reemphasize the need to expedite the process of converting identifiable claims to Bills for Collection.

A copy of the draft audit report was circulated to M/FM and SER/OP officials and their comments were considered in preparing this report. M/FM agreed that more aggressive collection action was necessary but took exception to our findings on the uncollectible accounts and unrecorded interest charges on the outstanding receivables. SER/OP did not concur with our conclusion that claims were not always converted to Bills for Collection in a timely manner. Based on our review of OMB A-129 guidelines and A.I.D.'s financial procedures and our tests of the receivables, we believe that the audit findings are valid and the two recommendations should considerably improve A.I.D.'s compliance with the OMB A-129 guidelines on managing accounts receivable. I appreciate the courtesies and cooperation extended to my staff during the audit.

Please advise this office within 30 days of the actions taken or planned to clear the recommendations.

## EXECUTIVE SUMMARY

In May 1985, the Office of Management and Budget issued a Circular (OMB A-129) to Federal Agencies which established guidelines on managing credit programs. Paragraph 11 of this Circular prescribed the guidelines on managing receivables generated as a result of the Agency's administrative operations. Examples include: overpayments, employee advances, audit disallowances, fees, fines, penalties and related claims. These guidelines prescribe policies and procedures on account servicing, follow-up, debt collection and write-offs of the receivables.

The A.I.D. Office of Financial Management is responsible for establishing, maintaining and updating an adequate system of internal control over administrative accounts receivable. A.I.D. bills and collects the receivables through 12 offices in Washington and 51 offices overseas. As of June 30, 1986, A.I.D. reported 1,634 outstanding receivables (Bills for Collection) totaling approximately \$7.8 million (Exhibit 1).

The purposes of this compliance audit were to: (i) evaluate A.I.D.'s compliance with the OMB A-129 guidelines on administrative receivables; (ii) ascertain whether A.I.D. updated its interest charges on the outstanding receivables; and (iii) determine whether A.I.D. converted identifiable claims into Bills for Collection in a timely manner.

The audit showed that A.I.D. did not fully comply with the OMB A-129 guidelines in managing accounts receivable. For example, comprehensive debtor information files were not maintained; outstanding accounts were not subject to timely follow-up and interest charges were not updated; delinquent accounts were not assigned to collection agencies and those identified as uncollectible were not written off. Other collection measures such as referring delinquent accounts to the Internal Revenue Service for income tax refund offsets were not implemented. Noncompliance with the prescribed regulations was attributable to lack of sustained, systematic and coordinated efforts by the A.I.D. billing units to follow-up and collect the receivables and shortages of personnel in the billing units.

Consequently, approximately 70 percent, or about \$5.5 million of the outstanding receivables, totaling approximately \$7.8 million, as of June 30, 1986, were more than one year past due. Eleven of these accounts totaling approximately \$1 million were determined to be uncollectible, but had not been written off. Estimated interest charges of approximately \$1.2 million were neither billed nor recorded in A.I.D.'s accounts receivable system. Management stated that they will issue

instructions to A.I.D. billing offices to take more aggressive collection action to ensure compliance with prescribed regulations.

A.I.D. regulations (Handbook 19) require that Bills for Collections be issued on claims established as a result of audit disallowances. A review of 53 audit reports on A.I.D.-financed contracts, issued between April 1985 and June 1986, showed 4 claims totaling approximately \$1.1 million on which no Bills for Collection were issued by A.I.D. some 6 to 14 months after completion of the audits. According to A.I.D. officials, the delays in issuing the bills were due to the time-consuming process of negotiating the claims with the contractors. If A.I.D. had processed the claims within the prescribed time frames, the U.S. Government could have earned up to \$98,000 in interest on the funds due. Management did not concur with our conclusion and stated that A.I.D. is precluded from issuing Bills for Collection until such time as negotiations with the contractors on questioned costs are concluded and all issues are satisfactorily resolved.

We recommend that the Office of Financial Management implement a more aggressive debt collection effort and accrue interest on existing debt. We recommend that the Office of Procurement reemphasize the need to expedite the process of converting identifiable claims into Bills for Collection.

*Office of the Inspector General*

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PART I - INTRODUCTION

A. Background

The Office of Management and Budget (OMB) issued a Circular (OMB A-129) on May 9, 1985, titled "Managing Federal Credit Programs." Paragraph 11 of OMB A-129 provides guidelines to Federal government agencies on managing receivables which are generated in connection with the agency's administrative operations, grants, contracts, and other agreements. These receivables arise from overpayments to beneficiaries, advances to employees, audit exceptions resulting from identification of unallowable costs, fees, fines, penalties, and related claims. OMB A-129 guidelines prescribe policies and procedures on servicing, follow-up, collection and write-offs of such receivables. In addition, OMB A-129 requires federal agencies to establish adequate accounting and reporting systems to ensure compliance with the above guidelines.

A.I.D.'s administrative accounts receivable include amounts due from employees, foreign governments, cooperating sponsors, participant trainees, contractors, suppliers, international organizations and other U.S. Government agencies. The receivables do not include outstanding loans arising from A.I.D.'s foreign assistance programs, or advances to employees.

The receivables are generated as a result of A.I.D.'s operations in Washington and overseas. Twelve A.I.D. offices in Washington and 51 offices overseas are responsible for preparing and issuing Bills for Collection, requesting payments from debtors, maintaining files on bills issued, following up on outstanding accounts, assessing interest charges and penalties and reconciling outstanding balances to the accounts receivable control accounts.

The A.I.D. Office of Financial Management (M/FM) is responsible for establishing, maintaining and updating an adequate system of control to provide: timely billing and collection, periodic review of billing and collection operations and producing timely and accurate management reports. The Central Accounting Division in M/FM is responsible for the accounting and reporting functions in coordination with the A.I.D. billing units.

As of June 30, 1986, A.I.D.'s administrative accounts receivable totaled approximately \$7.8 million. An analysis of the receivables is shown in Exhibit 1.

A.I.D.'s policies and procedures on administrative accounts receivable are stated in its Financial Management Handbook 19, the USAID Controllers Guidebook and the Internal Procedures Manual issued by the Office of Financial Management. OMB A-129 guidelines are incorporated in Handbook 19. Legal requirements governing the receivables are set forth in the Federal Claims Collection Act of 1966 and the Debt Collection Act of 1982, which are also incorporated in A.I.D.'s written procedures.

The A.I.D. Office of the Inspector General (OIG) audited the Agency's administrative accounts receivable and issued a report in September, 1983. The report made five recommendations, all of which were closed by the OIG by February 1984, because of corrective actions planned or implemented by the A.I.D. Office of Financial Management. However, the current audit shows that A.I.D. has continued to experience problems in servicing, following up, collecting and writing off administrative receivables.

#### B. Audit Objectives and Scope

This compliance audit was made to:

- determine whether A.I.D. complied with the OMB A-129 guidelines on administrative accounts receivable by ensuring timely and effective recognition, servicing, follow-up, collection and write-offs of the receivables;
- determine whether A.I.D. periodically updated its interest charges on the outstanding receivables; and
- ascertain whether A.I.D. converted identifiable claims into Bills for Collection in a timely manner.

The field work was conducted in Washington, D.C., from August 15 through October 31, 1986, and covered A.I.D.'s administrative accounts receivable as of June 30, 1986. The work included: (i) reviewing a sample of 44 outstanding receivables totaling approximately \$5.7 million; (ii) reviewing accounting records and supporting documents at five A.I.D. billing units in Washington, D.C.; (iii) analyzing responses to questionnaires cabled to 14 A.I.D. billing units overseas; (iv) interviewing A.I.D. officials in the Office of Financial Management, the Office of Procurement and the Office of the General Counsel; and (v) reviewing 53 audit reports on A.I.D. financed contracts, issued by the A.I.D. Inspector General and two other federal audit agencies from April 1985 through June 1986. The audit was made in accordance with generally accepted government auditing standards.

Our findings and recommendations were discussed with A.I.D. officials in the Office of Financial Management, the Office of the General Counsel and the Office of Procurement. A draft

report was submitted for management comments which were considered in preparing this report. A full text of the comments is presented in Appendices 1 and 2.

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PART II - RESULTS OF AUDIT

OMB A-129 guidelines on managing accounts receivable are incorporated in A.I.D.'s written procedures. However, A.I.D. did not fully comply with the guidelines relating to: servicing, following up, collecting and writing off the receivables. Interest charges on the outstanding accounts were not updated and identifiable claims were not always converted into Bills for Collection in a timely manner.

The audit showed that, as of June 30, 1986, approximately \$5.5 million, or about 70 percent of A.I.D.'s outstanding receivables were more than one year past due. Fourteen of these accounts totaling approximately \$1.2 million were outstanding for periods ranging from 3 to 21 years. Eleven of the 14 accounts totaling approximately \$1 million were considered uncollectible, but were not written off. Comprehensive debtor information files were not maintained; outstanding balances were not subject to regular follow-up; and delinquent accounts were not assigned to collection agencies. Interest charges on overdue balances, totaling approximately \$1.2 million, were not recorded in A.I.D.'s accounts receivable system. Four claims, totaling approximately \$1.1 million, were not converted into Bills for Collection some 6 to 14 months after they were identified.

A.I.D. therefore needs to: (i) make an aggressive debt collection effort by implementing the OMB A-129 guidelines in all its billing offices; (ii) update its accounts receivable records for interest due on the outstanding accounts; and (iii) expedite the process of converting identifiable claims into Bills for Collection.

A. Findings and Recommendations

1. A.I.D Needs to Significantly Improve Its Management of Administrative Accounts Receivable

OMB A-129 Circular, which is incorporated in A.I.D.'s financial procedures, prescribes comprehensive guidelines on managing administrative accounts receivable. As of June 30, 1986, A.I.D. reported 1,634 such receivables totaling approximately \$7.8 million (Exhibit I). A.I.D. billing units had not fully complied with the guidelines on servicing, following up, collecting and writing off these receivables. Noncompliance was principally due to lack of sustained, systematic and coordinated efforts by the billing units to monitor the receivables and shortages of personnel. Consequently, approximately \$5.5 million, or about 70 percent of the outstanding accounts were more than one year past due. Of these, several were outstanding for periods ranging from 3 to 21 years, and those considered uncollectible had not been written off. Estimated interest charges of approximately \$1.2 million were neither billed nor recorded in A.I.D.'s accounts receivable system.

Recommendation No. 1

We recommend that the A.I.D. Office of Financial Management:

- a. instruct all A.I.D. billing units to take aggressive corrective action to ensure compliance with the prescribed guidelines on servicing, follow-up and collection of administrative receivables;
- b. write off uncollectible accounts;
- c. review and update outstanding accounts for interest charges;
- d. allocate adequate staff to A.I.D. billing units to manage the accounts receivable function efficiently and effectively.

Discussion

OMB A-129 guidelines on managing administrative accounts receivable include:

- (a) Maintaining comprehensive files containing history and status of each debt.
- (b) Establishing procedures for routine invoicing of amounts due and their timely collection.
- (c) Following up on past due accounts including three progressively stronger written demands for payment at not more than 30 day intervals.

- (d) Identifying delinquent accounts and assigning these to a collection agency or to the Department of Justice for litigation.
- (e) Implementing other collection measures such as referring delinquent accounts to the Internal Revenue Service for income tax refund offsets.
- (f) Writing off uncollectible accounts.
- (g) Assessing interest charges on outstanding receivables.

As of June 30, 1986, A.I.D. reported 1,634 outstanding accounts (Bills for Collection) totaling approximately \$7.8 million (Exhibit 1). From this list, 44 accounts totaling approximately \$5.7 million were selected for detailed testing which constituted all receivables exceeding \$20,000 and outstanding for more than 30 days. Nineteen of the accounts originated in 14 A.I.D. billing units overseas and 25 in five A.I.D. billing units in Washington, D.C. Results of the test showed widespread noncompliance with OMB A-129 guidelines.

Debtor files relating to the 25 accounts originating in Washington, D.C. were inadequate and incomplete. For example, the files did not contain the history and status of each debt, payment schedules and a chronological summary of contacts between A.I.D. and the debtors. It was difficult to determine what action, if any, was taken to collect the debts based on the information in these files.

Follow-up and collection efforts were not sustained and systematic. Written payment notices at prescribed time intervals of 30 days were not issued for any of the 44 receivables. Collection efforts were not uniform, but left to the discretion of each billing unit. For the most part, follow-up actions were limited to occasional correspondence and phone calls. When these efforts failed to produce results, all further action seemed to stop. For example, 9 accounts totaling \$345,000, represented amounts due to A.I.D. from other U.S. Government agencies. Although there should have been no problem in collecting these debts, 7 of the 9 accounts were between 12 and 30 months past due. Follow-up of these receivables had not proceeded beyond telephone inquiries to the debtor agencies by A.I.D. No explanation was available from the billing office for not sending written payment notices.

A.I.D. officials in the Office of Financial Management (M/FM) stated that lack of adequate personnel to coordinate the billing, follow-up and collection functions was a major problem. Since early 1985, M/FM did not have a full time employee to handle this function. In September 1986, an employee was assigned the task of identifying, following up and collecting delinquent receivables. According to M/FM officials, most A.I.D. billing offices did not have adequate staff to effectively manage their outstanding receivables.

In addition to routine follow-up efforts, OMB A-129 requires Federal agencies to employ other measures to collect delinquent receivables. These measures include: assigning delinquent accounts to private collection agencies or referring them to the Internal Revenue Service for income tax refund offsets. Of the 44 accounts reviewed, 40 totaling \$5.3 million were more than six months past due. However, A.I.D. did not assign any of these to a private collection agency or refer them to the Internal Revenue Service. Officials in the A.I.D. Office of Financial Management had considered hiring a private collection agency but ultimately no action was taken. A.I.D. officials acknowledged that they did not refer delinquent accounts to the Internal Revenue Service, although they were aware of this collection measure.

Eleven out of the 44 accounts totaling approximately \$1 million were identified by the A.I.D. billing offices as uncollectible. Although outstanding for periods ranging from 3 to 21 years, no action had been taken by A.I.D. to write off these debts. A.I.D. officials in the Office of the General Counsel stated that, because each of the 11 accounts were over \$20,000, Federal regulations required obtaining approvals from the Department of Justice in order to make the write-offs. A.I.D., therefore, could not take unilateral action. Since these accounts were uncollectible, A.I.D. should obtain the necessary approvals to write off the debts without further delay.

Interest charges on 29 of the 44 accounts, totaling approximately \$1.2 million on June 30, 1986, were not recorded in A.I.D.'s accounts receivable system. Officials in M/FM stated that it was A.I.D.'s practice to recover the interest charges at the time the account was fully paid. This practice causes A.I.D. to under report its receivables and is not in accordance with OMB A-129 guidelines on interest recognition.

As a consequence of A.I.D.'s lack of aggressive debt collection efforts and inadequate compliance with OMB A-129 guidelines, approximately 70 percent of A.I.D.'s outstanding receivables totaling \$5.5 million as of June 30, 1986, were more than one year past due. Accounts seriously delinquent and identified as uncollectible were not written off. Estimated interest charges of approximately \$1.2 million were neither billed nor recorded in A.I.D.'s accounts receivable system. Aggressive action needs to be taken in accordance with OMB A-129 guidelines to follow-up and collect the delinquent accounts, assess interest charges and obtain concurrence of the Department of Justice to write-off accounts deemed uncollectible.

#### Management Comments

The A.I.D. Office of Financial Management (M/FM) agreed that more aggressive collection action is required and stated that A.I.D. billing offices would be instructed to take the required action to ensure compliance with prescribed regulations.

M/FM took exception to some of the audit findings. They stated that only two debts totaling \$46,743 were uncollectible and pointed out that 53 percent of the outstanding receivables totaling \$4,172,197 were either claims against host country governments or those referred to the Department of Justice for further action. They felt that receivables of such a nature should be reclassified and removed from the accounts receivable ledger. M/FM further stated that although updating interest charges on a monthly basis was desirable, A.I.D.'s accounting system did not provide for periodic interest recognition on outstanding Bills for Collection.

#### Office of Inspector General Comments

Based on our review of documents at the A.I.D.'s billing offices, interviews with A.I.D. financial and legal officers, and information supplied by the overseas A.I.D. billing units, we believe that 11 accounts totaling \$1,020,074 are uncollectible. These accounts are outstanding for periods ranging from 3 to 21 years and A.I.D.'s collection efforts have produced no results. Therefore, A.I.D. should take immediate steps to write them off. We do not concur that delinquent accounts, whether due from host country governments, or referred to the Department of Justice, should be reclassified and removed from the accounts receivable ledger because neither A.I.D. regulations nor OMB A-129 guidelines recommend such a course of action. Therefore, A.I.D. billing offices should resolve these accounts within the framework of the accounts receivable system and in accordance with OMB A-129 guidelines. Also, interest charges on the outstanding receivables should be updated and recorded in A.I.D.'s accounts receivable system.

2. A.I.D.'s Inability to Issue Timely Bills for Collection on Identifiable Claims Resulted in Loss of Interest

A.I.D. is required to issue Bills for Collections (B/C) on claims established as a result of audit disallowances within established time frames. A review of 53 audit reports on A.I.D.-financed contracts, issued between April, 1985 and June, 1986, showed 4 claims totaling approximately \$1.1 million on which no B/C's were issued by A.I.D. some 6 to 14 months after completion of the audits, because A.I.D. contract officials did not process the claims within the prescribed time frames. According to A.I.D. officials, nonissuance of B/C's was attributable to the time-consuming process of negotiating the claims with the contractors. Had the claims been processed expeditiously, the U.S. Government could have earned up to \$98,000 in interest charges on the funds due.

Recommendation No.2

We recommend that the A.I.D. Office of Procurement reemphasize the need to expedite final settlement of costs questioned as a result of audit, so that claims can be finalized in a timely manner, funds collected and interest charged for amounts not collected.

Discussion

A.I.D. has established procedures for notifying debtors of claims, issuing B/C's to recover the claims and assessing interest charges. As soon as a firm claim is established, the A.I.D. office responsible for determining the claim is to request the A.I.D. billing office to issue a B/C or to withhold the amounts from future payments.

Appendix J of A.I.D. Handbook 14 has established procedures for processing costs questioned in audit reports on A.I.D.-financed contracts within specific time frames. The procedures state in part:

"3. Procedures: Upon receipt of an audit report that questions costs claimed by a contractor, the contracting officer shall take the following actions:

a. Administration

(1) Within 2 weeks after receipt of the audit report, formally notify the contractor by letter of the cost questioned. Include a statement to advise the contractor that any nonconcurrence with the questioned costs should be made known to the contracting officer promptly. If warranted in the circumstances, invite the contractor to

participate in negotiations to arrive at a mutually acceptable settlement of such costs. If no response has been received within 30 days following the initial notification to the contractor of the questioned costs, issue a follow-up letter to the contractor. If no response is received 20 days after the follow-up letter, the contracting officer makes a final determination of the disposition of the questioned costs, in the audit report, and issues in writing, the appropriate contracting officer's decision as authorized in the 'Disputes' clause of the contract and FPR 1-1.402.

"(2) If the contractor responds to the contracting officer's letter identifying questioned costs to be disallowed but an acceptable settlement is not achieved within a reasonable period of time, the contracting officer shall consider negotiations to have reached an impasse. The contracting officer shall then issue the appropriate decision as authorized in the 'Disputes' clause of the contract and FPR 1-1.402.

"(3) In the event a mutually acceptable settlement is reached, the contracting officer shall document the result of the negotiation and issue his/her decision as authorized in the 'Allowable Cost' clause of the contract and FPR 1-1.402. Reimbursements from the contractor as a result of negotiations shall be submitted directly to the AID Controller. As an optional alternative to issuance of a formal Bill for Collection ....., the Contracting Officer's decision may state that the agreed net settlement amount must be received by the AID Controller within 30 calendar days from the date of the decision, or a Bill for Collection will be issued and a late payment penalty will be assessed pursuant to U.S. Treasury Cash Management Regulations. A copy of the Contracting Officer's (sic) decision identifying the Contractor, the contract(s), the acceptable amount(s) to be refunded, and the audit report(s) and recommendations to be closed upon receipt of payment, will be sent to the Controller, with a request that the Contracting Officer be notified when the agreed net amount is received. If such payment is not received within thirty calendar days after the date of the Contracting Officer's decision, the Controller shall notify the Contracting Officer and issue a formal Bill for Collection."

To evaluate implementation of the above procedures, 53 audit reports on A.I.D.-financed contracts issued from April, 1985 through June, 1986, were reviewed. Of these, 4 claims totaling approximately \$1.1 million were identified, where A.I.D. officials did not establish claims against the contractors some 6 to 14 months after issuance of the audit reports. For one of the above claims, totaling \$726,168, a B/C was finally processed in September 1986, some 13 months after the audit report was issued and 16 months after initial notification of the questioned costs by audit officials to A.I.D. contract officers.

A.I.D. officials attributed the delays in processing the claims to the administrative process. Audits performed by other federal agencies, such as, Defense Contract Audit Agency and Department of Health and Human Services, had to be coordinated through these agencies. Also, government contractors had recourse to the Contract Appeals Board to challenge adverse audit findings. Consequently, the process of converting a claim to a B/C could take months from the time a claim was identified.

We agree that the process of settling claims can be time consuming, however, we feel that the negotiations should not be allowed to go on for uncontrolled periods. If agreement is not reached in a reasonable timeframe, a B/C should be issued and the collection process started. The regulations state that if an acceptable settlement is not reached within a reasonable period the "Disputes" clause should be invoked. We believe that the time taken by A.I.D. Contract Officers to negotiate the above four claims was excessive. Had these claims been expeditiously acted upon, A.I.D. could have billed up to \$98,000 of interest charges on the funds due.

#### Management Comments

The A.I.D. Office of Procurement (SER/OP) disagreed with our conclusion that claims against contractors were not established in a timely manner. SER/OP stated that A.I.D. was precluded from issuing a B/C until negotiations with the contractor on questioned costs were concluded and a firm claim established. They requested that Recommendation No. 2 be eliminated.

#### Office of the Inspector General Comments

We believe that the cost settlement process needs to be expedited. A.I.D. guidelines as stated in Handbook 14 (Appendix J) establish that costs questioned in audit reports should be resolved in reasonable periods of time or the "Disputes" clause invoked. Since a "reasonable period of time" may vary depending on the complexity of the issues involved, we have changed our recommendation to reemphasize the need to expedite final settlement of the claims.

## B. Compliance and Internal Control

### 1. Compliance

A.I.D. did not fully comply with OMB A-129 guidelines on servicing, following up, collecting and writing off administrative receivables. Examples of noncompliance are cited on pages 5 through 7 of this report. A.I.D., therefore, needs to make a sustained, systematic and coordinated effort to ensure compliance with the prescribed guidelines.

### 2. Internal Control

We made a study and evaluation of A.I.D.'s system of internal accounting control over administrative accounts receivable to the extent we considered necessary for financial and compliance audits. Our review disclosed the following weaknesses in internal controls:

- A.I.D. billing offices did not periodically mail updated statements of account to its debtors.
- Follow-up action on delinquent receivables was not satisfactory. Overdue accounts were not regularly followed up. When internal collection efforts failed to produce results, delinquent accounts were not assigned to private collection agencies.
- Accounts considered uncollectible were not written off.
- Interest charges on outstanding accounts were neither updated nor recorded in A.I.D.'s accounts receivable system.
- Timely action was not taken to convert identifiable claims into Bills for Collection.

Detailed descriptions of the above deficiencies and our recommendations for corrective action are presented on pages 9 through 11 of this report.

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PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

ANALYSIS OF A.I.D.'S ADMINISTRATIVE  
ACCOUNTS RECEIVABLE AS OF JUNE 30, 1986

| <u>Description</u>            | <u>Days Outstanding</u> |                  |                  |                  |                    | <u>Total</u>       | <u>Percent</u> |
|-------------------------------|-------------------------|------------------|------------------|------------------|--------------------|--------------------|----------------|
|                               | <u>0-30</u>             | <u>31-90</u>     | <u>91-180</u>    | <u>181-360</u>   | <u>Over 360</u>    |                    |                |
| Suppliers                     | \$ -                    | \$ -             | \$ 7,358         | \$302,511        | \$2,726,901        | \$3,036,770        | 38.5           |
| Contractors                   | 405,726                 | 20,454           | 31,976           | 35,712           | 430,216            | 924,084            | 11.7           |
| Cooperating<br>Countries      | 46                      | 11,193           | 268,235          | 27,860           | 598,349            | 905,683            | 11.5           |
| U.S. Govern-<br>ment Agencies | 1,125                   | 262,334          | 132,103          | 191,313          | 296,104            | 882,979            | 11.2           |
| IG Audits                     | 16,126                  | -                | 892              | -                | 737,233            | 754,251            | 9.6            |
| A.I.D. Employees              | 70,361                  | 29,169           | 17,826           | 67,057           | 557,506            | 741,919            | 9.4            |
| Miscellaneous                 | 197,016                 | 51,014           | 46,839           | 125,907          | 127,500            | 548,276            | 7.0            |
| Voluntary Relief<br>Agencies  | -                       | -                | -                | 33,332           | 39,708             | 73,040             | 0.9            |
| Participant<br>Training       | -                       | 16               | 858              | -                | 12,192             | 13,066             | 0.2            |
| Total                         | <u>\$690,400</u>        | <u>\$374,180</u> | <u>\$506,087</u> | <u>\$783,692</u> | <u>\$5,525,709</u> | <u>\$7,880,069</u> | <u>100.0</u>   |
| Percent                       | <u>8.8</u>              | <u>4.7</u>       | <u>6.4</u>       | <u>10.0</u>      | <u>70.1</u>        | <u>100.0</u>       |                |
| Number of<br>Accounts         | <u>482</u>              | <u>238</u>       | <u>173</u>       | <u>242</u>       | <u>499</u>         | <u>1,634</u>       |                |

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EXHIBIT 2

RESULTS OF AUDIT TESTS ON A.I.D.'S BILLS FOR COLLECTION

| <u>Period<br/>Outstanding</u> | <u>Bills<br/>Tested</u> | <u>Balance on<br/>6/30/86</u> |                | <u>Since Paid<br/>or Adjusted</u> |                  | <u>Referred to AID<br/>General Counsel</u> |                  | <u>Referred to<br/>Department<br/>of Justice</u> |                    | <u>Considered<br/>Uncollectible</u> |                    | <u>Estimated<br/>Unbilled<br/>Interest</u> |
|-------------------------------|-------------------------|-------------------------------|----------------|-----------------------------------|------------------|--|------------------|--|--------------------|-------------------------------------|--------------------|--|
|                               |                         |                               | <u>Percent</u> | <u>No.</u>                        | <u>Amount</u>    | <u>No.</u>                                 | <u>Amount</u>    | <u>No.</u>                                       | <u>Amount</u>      | <u>No.</u>                          | <u>Amount</u>      |  |
| to 6 Months                   | 4                       | \$ 418,559                    | 7.2            | 1                                 | \$268,235        | -  | \$ -             | -  | \$ -               | -                                   | \$ -               | \$ 1,046                                   |
| to 12 Months                  | 10                      | 2,855,423                     | 49.5           | -                                 | -                | -  | -                | 2  | 2,593,222          | -                                   | -                  | 497,157                                    |
| to 36 Months                  | 14                      | 956,270                       | 16.6           | -                                 | -                | -  | -                | -  | -                  | 1                                   | 114,285            | 160,567                                    |
| to 72 Months                  | 6                       | 663,888                       | 11.5           | -                                 | -                | 2  | 148,547          | 3  | 305,336            | 2                                   | 317,489            | 333,862                                    |
| over 72 Months                | 8                       | 588,300                       | 10.2           | -                                 | -                | -  | -                | -  | -                  | 8                                   | 588,300            | 256,072                                    |
| Information<br>Submitted      | <u>2</u>                | <u>288,067</u>                | <u>5.0</u>     | <u>2</u>                          | <u>288,067</u>   | -  | -                | -  | -                  | -                                   | -                  | <u>2,880</u>                               |
| <b>TOTAL</b>                  | <u>44</u>               | <u>\$5,770,507</u>            | <u>100.0</u>   | <u>3</u>                          | <u>\$556,302</u> | <u>2</u>                                   | <u>\$148,547</u> | <u>5</u>   | <u>\$2,898,558</u> | <u>11</u>                           | <u>\$1,020,074</u> | <u>\$1,251,584</u>                         |

EXHIBIT 3

RESULTS OF AUDIT TESTS ON A.I.D.'S  
COMPLIANCE WITH OMB A-129 GUIDELINES

| <u>Bills<br/>Tested</u> | <u>Balance on<br/>6/30/86</u> | <u>30-Day<br/>Follow-Up<br/>Letters</u> | <u>Assigned to<br/>Collection<br/>Agencies</u> | <u>Income Tax<br/>Refund<br/>Offsets</u> | <u>Bad Debts<br/>Written Off</u> |
|-------------------------|-------------------------------|---|--|--|----------------------------------|
| <u>44</u>               | <u>\$5,770,507</u>            | <u>None</u>                             | <u>None</u>                                    | <u>None</u>                              | <u>None</u>                      |

MEMORANDUM

February 9, 1987

TO: Mr. Mervin F. Boyer, Jr.  
RIG/A/W, Room 514, SA-16

FROM: *William Livengood*  
William Livengood, Chief  
M/FM/CAD, Room 517, SA-12

SUBJ: Audit of AID's Compliance with OMB Circular A-129  
Guidelines on Managing Accounts Receivables

REF: Boyer/Christensen letter dated December 23, 1986

Thank you for the opportunity to respond to the draft audit report.

Financial Management appreciates recommendation No. 1 and will instruct billing office to take more aggressive collection action to ensure compliance with prescribed regulations.

There are a number of additional points I would like to call to your attention. In particular it should be noted that of the eleven bills that were identified as uncollectible only two actually fall into the category of an uncollectible bill. These two bills amount to a total of \$46,743, all the other bills are either country bills (not considered uncollectible) or bills that were never referred to M/FM/CAD by the billing office. Considering the above FM requests the write-up on uncollectibles be revised.

FM agrees that aggressive collection action is required, however, we suggest that your write-up distorts the actual accounts receivable position. For example \$2,898,558 of the receivable you tested were referred to the Department of Justice for further action. Also, \$1,273,639 of the bills tested were issued to a host government. We suggest that these 16 bills that total \$4,172,197 and make up 53% of the total receivables be addressed separately. We suggest that the IG consider this point in the write-up and suggest you recommended that bills of this nature be reclassified and removed from the accounts receivable ledger. If you agree with the above your interest cost calculations should be recalculated. Also I question if Agency policy calls for the calculation of interest for host country bills.

We appreciated you pointing out that four bills that are listed as type 9 (employee) should be reclassified into the proper type. These bills total \$432,873 and should be reclassified. M/FM/CAD will request this action be taken and we will inform you of the new type in order that EXHIBIT I may be changed.

FM agrees that updating interest due on a monthly basis is most desirable but our current accounting system does provide for recording interest that frequently. We feel that at this time it would not be beneficial to change our procedures.

Please let me know if I can be of any assistance concerning the above.

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON DC 20523

MAR 6 1987

MEMORANDUM

To: RIG/A/W, Mervin F. Boyer, Jr. *[Signature]*  
Thru: SER/OP, Terrence J. McMahon *[Signature]*  
From: SER/OP/PS, Barry S. Knaut *[Signature]*  
Subject: Audit of AID's Compliance with OMB Circular A-129  
Guidelines on Managing Accounts Receivable

The draft report on the subject audit contains two recommendations for corrective action by management. Recommendation No. 2 was addressed to the Office of Procurement for action and requests that AID/OP establish guidelines which require AID contracting officers to notify contractors of disallowed costs or questioned costs and issue Bills for Collection (B/Cs) within established time frames.

This office supports your overall position that B/Cs should be issued in a timely manner, however we disagree that the Agency was tardy in issuing B/Cs as mentioned in the report. We feel that the report is misleading in that it recommends a Bill of Collection should be issued if the contractor does not respond within a 30-day period, and as a result of this premise your report indicates AID's tardiness in issuing B/Cs resulted in interest losses of \$115,400.

Our review of the 12 audit reports identified in your report as being delinquent in the issuing of B/Cs indicates that this position is not accurate. It has always been the [Agency's] normal practice in AID and to our knowledge throughout the government, to issue a bill of collection only after a firm claim has been established usually as a result of negotiation with the organization. This position is mentioned in Handbook 19, 7E5b, as follows:

b. Claim for Overpayment to, or Violation of Terms by, Contractor as Established by Site Audit

This type of claim usually results from adjustment of provisional to actual overhead, or from overpayments disclosed in the site audit. In accordance with audit

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procedures of the Office of Inspector General (IG), the contractor is first advised of the audit disallowance through the exit conference with the auditor. This is subsequently followed up by a letter from the contracting officer which provides 30 days for rebuttal or other commentary. (In some cases, additional time is also involved where contractors express disagreement and when overhead negotiations are scheduled.) In any event, the B/C is not issued until such time as the Billing Office is notified that a firm claim has been established and that it is proper to issue the B/C. In claims of this type, no interest charge is calculated, but the following clause should be included in the Bill for Collection: "(1) If payment is not received by AID on or before the due date, as indicated above, a late payment charge will be charged from the billing date through the date of payment at an annual rate of \_\_\_\_\_% on the total amount of this bill, or the unpaid balance if partial payments are made before the due date. (2) If full payment is not received by AID within 90 days from the due date, the following additional charges will be assessed: (a) charges to cover the costs of processing and handling this delinquent bill, and (b) a penalty charge of 6% per annum on the unpaid balance of this bill accruing from the next day of the due date. (3) The above late payment and penalty charges should be calculated by you and included in your remittance. You will receive an amendment to this bill from AID covering any costs of processing and handling the delinquent bill."

It should be noted that three of the twelve audit reports were assigned to the missions (not SER/OP) for action. The remaining nine reports were assigned to SER/OP. Of these, three reports indicated refunds due as the result of indirect rate adjustments. These types of adjustments are not usually recovered by B/Cs. Also, of these same nine reports, four reports are still in process of discussion/negotiation as of the February 15, 1987 status report and therefore any bill of collection cannot be issued until a firm claim is established. The other five reports were closed subsequent to the period under audit and the action taken by SER/OP was accepted by RIG/A/W.

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As stated we feel that the Office of Procurement does in fact request the issuance of bills of collection in a timely manner once the issues in the audit report have been resolved. We therefore request that Recommendation No. 2 be eliminated from your report. If you have any questions we will be happy to meet with you to discuss this matter further.

Report Distribution

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