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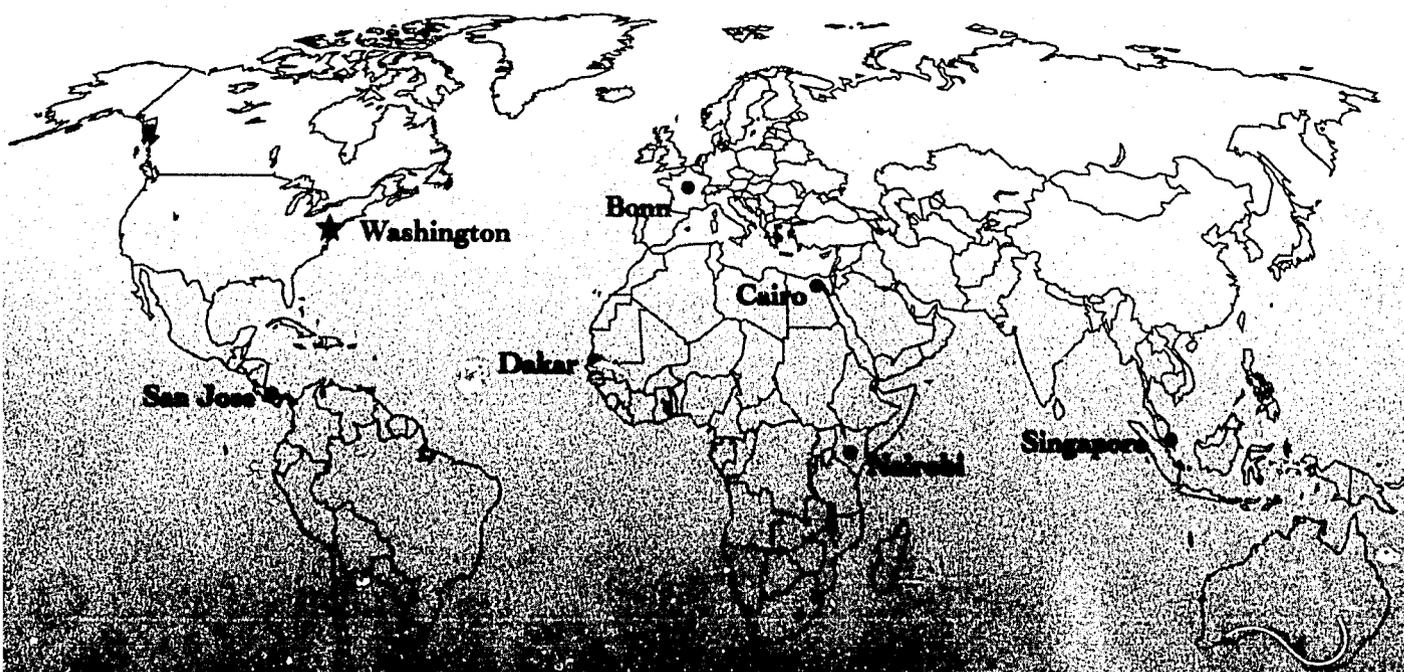
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Financial Audits

**AUDIT OF USAID'S
FOREIGN SERVICE NATIONAL
SEPARATION PAY TRUST FUND
FOR FISCAL YEAR 1994**

Report No. 0-000-95-006

February 28, 1995



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

February 28, 1995

Memorandum

FOR: AA/M, Larry E. Byrne
FROM: AIG/A, *for* *Thomas H. O'Connor* James B. Durnil
SUBJECT: Audit of the Fiscal Year 1994 Financial Statements for USAID's Foreign Service National Separation Pay Trust Fund

The Chief Financial Officers (CFO) Act of 1990 requires an annual audit of the financial statements for USAID's Foreign Service National (FSN) Separation Pay Trust Fund. USAID established the Trust Fund in fiscal year 1992 for annual funding of accrued voluntary separation pay for FSN personnel. This is the second year for which its financial statements have been prepared and audited under the requirements of the CFO Act.

We conducted our audit in accordance with generally accepted government auditing standards and Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements." The audit objectives, scope and methodology are discussed further in Appendix I.

Our audit showed that:

- The fiscal year 1994 financial statements present fairly, in all material respects, the financial position of the Trust Fund as of September 30, 1994;
- The internal control structure had one weakness which we considered a reportable condition, relating to a lack of centralized control and oversight for the Trust Fund;
- The Trust Fund is not in compliance with its authorizing legislation because USAID has not fully funded its liabilities for FSN separation pay; and
- The performance measures established for the Trust Fund -- as required under the CFO Act -- need to be simplified to be more useful.

The internal control weakness and noncompliance were the subject of recommendations by us in our audit report for fiscal year 1993 (Audit Report No. 0-000-94-06 dated June 30, 1994). We are not including new recommendations in this report because management has advised us of planned actions in response to our past recommendations which, when implemented, will

effectively correct these conditions. Regarding performance measures, we are not making a formal recommendation and plan to work with management to achieve useful, realistic measures.

Management Comments and Our Evaluation

In response to the draft audit report, management agreed with our conclusions and stated that they are in the process of finalizing procedures to strengthen oversight of the Trust Fund. Regarding unfunded liabilities, management stated its intention to commit resources as available, giving priority to fully funding Missions targeted for closing. Management's written comments on the draft report are included as Appendix II.

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

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Audit Report on the Fiscal Year 1994 Annual Financial Statement for USAID's FSN Separation Pay Trust Fund

Background

Under many local compensation plans in effect at overseas Missions of the U.S. Agency for International Development (USAID), foreign service national (FSN) personnel with a specified minimum period of service are entitled to receive a lump-sum separation payment when they resign, retire or otherwise voluntarily separate from USAID. The amount of payment is generally based on length of service, rate of pay at the time of separation and the type of separation.

Prior to FY 1992, Missions recorded obligations for separation pay at the time payments were made instead of when the separation pay was earned. As a result, no reserves were established to cover the liability for future payments. Legislation enacted in FY 1992 (PL 102-138 Section 151, 22 USC 4012(a)) required that a separate trust fund be established in the U.S. Department of Treasury for FSN personnel's voluntary separation pay. Funds are required to be deposited into the account each year sufficient to cover that year's accrued liability. Prior years' liabilities have been funded for some Missions but remain unfunded for others.

The Trust Fund operates under a decentralized management system, with transactions and accounting controlled primarily at the overseas Missions. Each Mission is also responsible for complying with the individual compensation plan applicable to its country. USAID's Central Accounting and Reporting Division of the Office of Financial Management (FM/CAR) is responsible for processing the overseas accounting information and preparing annual financial statements for the Trust Fund.

Auditor's Opinion

We have audited the accompanying statement of financial position of USAID's Foreign Service National Separation Pay Trust Fund (Trust Fund) as of September 30, 1994 and 1993, and the related statements of financing sources and expenditures, of budget and actual expenses, and of cash flows for the years then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these statements based on our audit.

Our audit was made in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts

and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the basis of accounting prescribed in OMB Bulletin Number 94-01, "Form and Content of Agency Financial Statements," which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust Fund at September 30, 1994 and 1993, and the financing sources and expenditures, budget and actual expenses, and cash flows for the years then ended in conformity with OMB Bulletin Number 94-01, "Form and Content of Agency Financial Statements."

Internal Control Structure

In planning and performing our audit of the financial statements of the Trust Fund for the year ended September 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

USAID management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedure. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements in accordance with applicable accounting principles,
- Transactions are executed in accordance with management's authorization,
- Funds, property and other assets are safeguarded against loss from unauthorized use or disposition,
- Transactions, including those related to obligations and costs, are executed in compliance with (i) laws and regulations that could have a direct and material effect of the financial statements and (ii) any other laws and regulations that the Office of Management and Budget and the Trust Fund's management have identified as being significant and for which compliance can be objectively measured and evaluated.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management.

As discussed below, we noted one weakness in the internal control structure and its operation that we consider to be reportable under generally accepted government auditing standards and OMB Bulletin No. 93-06. This condition was also reported, and was the subject of a recommendation by us for corrective action, in our fiscal year 1993 audit of the Trust Fund (Recommendation No. 1, Audit Report No. 0-000-94-06 dated June 30, 1994). USAID management agreed that the weakness should be corrected but has not yet implemented planned actions. The recommendation therefore remains open as of issuance of this report.

USAID Financial Management Still Needs Centralized Oversight of the Trust Fund

Accounting transactions for the Trust Fund are principally controlled by overseas Missions where FSN compensation includes voluntary separation payments. These transactions include calculation of year-end liabilities, amounts for deposit to the Trust Fund and payments from the Trust Fund to separating employees. Based on summarized figures reported monthly by participating Missions, financial managers in USAID/Washington then compile the Trust Funds' annual financial statements. However, USAID/Washington has no systematic process for verifying the accuracy and propriety of this information and, instead, relies solely on information as reported by the Missions. In our opinion, the decentralized nature of the Trust Fund presents a risk that transactions and computations may be treated inappropriately or inconsistently at the Mission level, resulting in misstated financial reporting without timely detection.

In response to our reporting of this control weakness in our fiscal year 1993 report, USAID's Office of Financial Management agreed to review Mission-level compliance with Trust Fund policies as part of its program of on-site assessment of Mission financial operations. However, this program was discontinued and no further action was taken to improve Trust Fund oversight. The Office of Financial Management has advised us that they are considering other cost-effective procedures, such as inclusion of Trust Fund activities in Mission's internal control self-assessments. Our recommendation will remain open pending management's implementation of corrective actions.

Our consideration of the internal control structure would not necessarily disclose all matters the in internal control structure that might be reportable conditions and, accordingly, would not

necessarily disclose all reportable conditions that are also considered material weaknesses. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material to the 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

USAID management is responsible for providing reasonable assurance that data which support performance measures reported in the "Program Overview" of the reporting entity are properly recorded and accounted for to permit preparation of reliable and complete performance information. OMB Bulletin Number 93-06 requires that auditors obtain an understanding of the internal control structure, as it relates to the American Institute of Certified Public Accountant's existence and completion assertions, and assess control risk relative to policies and procedures designed to provide reasonable assurance of achieving this objective. In the course of this work, we advised management to consider a more simplified performance criteria focussing on (i) Missions' full and timely funding of current and future years' liabilities and (ii) USAID's implementation a funding plan for liabilities accruing prior to fiscal year 1992.

Compliance with Laws and Regulations

Our audit was made in accordance with generally accepted government auditing standards and (OMB) Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

Compliance with laws and regulations is the responsibility of USAID's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of USAID's compliance with certain provisions of laws and regulations. Applicable laws included:

- the Chief Financial Officers Act of 1990,
- the FSN Separation Pay Trust Fund's authorizing legislation (22 U.S.C. § 4012 (a)),
- the Federal Managers' Financial Integrity Act (FMFIA) of 1982, and
- the most recent country compensation plans for five Missions.

Our objective was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

The results of our test of compliance indicate that, with respect to the items tested, the Trust Fund

complied in all material respects with the provisions referred to in the preceding paragraph of this report, except with regard to funding liabilities for voluntary separation pay accruing prior to fiscal year 1992. We noted this same noncompliance in our audit report for fiscal year 1993, and management agreed that the pre-1992 amounts needed to be funded. While unfunded balances did decrease during fiscal year 1994, the Trust Fund remains materially underfunded as of September 30, 1994.

**USAID Still Needs to Fund Separation Pay
Liabilities Accrued Prior to Fiscal Year 1992**

Authorizing legislation, 22 U.S.C. § 4012(a), mandated the establishment of the Trust Fund to provide separation pay for foreign national employees. The legislation required that the following should be deposited into the fund:

- all amounts previously obligated for accrued separation pay of foreign national employees . . . , and
- amounts obligated for fiscal years after 1991 . . . for current and future costs of separation pay of foreign national employees.

We consider the intent of the above legislation to be establishment of a trust fund into which USAID has deposited amounts accrued for all separation payments to FSNs who voluntarily leave USAID (i.e., through resignation or retirement). As of September 30, 1994, USAID had deposited only \$5.8 million of its total estimated liability of \$9.2 million, resulting in an unfunded liability of \$3.4 million for amounts accrued prior to establishment of the Trust Fund in fiscal year 1992.

While some Missions have received funding for prior years from their regional bureaus, on an *ad hoc* basis, and unfunded liabilities have decreased from \$6.0 million to \$3.4 million during fiscal year 1994, some Missions remain unfunded. We believe that fully funding this amount in a timely manner will best be accomplished through a coordinated effort of USAID financial management. To this end, we recommended in our prior audit of the Trust Fund (Recommendation No. 2, Audit Report No. 0-000-94-06 dated June 30, 1994) that the Assistant Administrator for Management develop a plan to fully fund the accrued separation pay liabilities. This recommendation remains open pending management action.

We considered the issue of not funding separation pay liabilities for prior years in forming our opinion on whether the Trust Fund's fiscal year 1994 financial statements are presented fairly, in all material respects, in conformity with OMB Bulletin Number 94-01, "Form and Content of Agency Financial Statements," and this instance of noncompliance does not affect our report dated February 17, 1995 on those financial statements.

Except as described above, our tests for compliance with the provisions of selected laws and regulations referred to on page 4 of this report disclosed no instances of noncompliance. With

respect to items not tested, nothing came to our attention that caused us to believe that the Trust Fund had not complied, in all material respects, with those provisions.

This report is intended for the information of members of the U.S. Congress and management officials of the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report, and the report will become a matter of public record.

Office of the Inspector General

Office of the Inspector General

February 17, 1995

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Foreign Service National Separation Pay Trust Fund
Statement of Financial Position
as of September 30, 1994 and 1993
(in U.S. Thousands)

ASSETS	<u>1994</u>	<u>1993</u>
Financial Resources:		
Fund Balance with Treasury (Note 2)		
-Unrestricted	\$ 0	\$ 0
-Restricted	5,829	3,105
Non-Financial Resources:	<u>0</u>	<u>0</u>
Total Assets	\$ <u>5,829</u>	\$ <u>3,105</u>
 LIABILITIES		
Funded Liabilities:		
Accounts Payable (Note 4)	\$ 120	\$ 352
Estimated Future Liability for Separation Payments (Note 5)	<u>5,709</u>	<u>2,753</u>
Total Funded Liabilities	<u>5,829</u>	<u>3,105</u>
Unfunded Liabilities:		
Estimated Future Liability for Separation Payments (Note 3)	<u>3,347</u>	<u>5,979</u>
Total Unfunded Liabilities	<u>3,347</u>	<u>5,979</u>
Total Liabilities	<u>9,176</u>	<u>9,084</u>
 NET POSITION		
Future Funding Requirements (Note 3)	\$ (3,347)	\$ (5,979)
Total Net Position	<u>(3,347)</u>	<u>(5,979)</u>
Total Liabilities and Net Position	\$ <u>5,829</u>	\$ <u>3,105</u>

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Foreign Service National Separation Pay Trust Fund
Statement of Cash Flows
for the years ended September 30, 1994 and 1993
(in U.S. Thousands)

	<u>1994</u>	<u>1993</u>
CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>0</u>	\$ <u>0</u>
CASH PROVIDED BY INVESTING ACTIVITIES	<u>0</u>	<u>0</u>
CASH PROVIDED BY FINANCING ACTIVITIES		
Cash Provided:		
Transfers from other funds	<u>5,291</u>	<u>2,279</u>
Cash Used:		
FSNSP Trust Fund Disbursements	2,195	51
Decrease in Accounts Payable	<u>352</u>	<u>0</u>
Net Cash Provided by Financing Activities:	2,724	2,228
Fund Balance with Treasury, beginning of year	<u>3,105</u>	<u>877</u>
Fund Balance with Treasury, end of year	\$ <u>5,829</u>	\$ <u>3,105</u>

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Foreign Service National Separation Pay Trust Fund
Statement of Budget and Actual Expenses
for the year ended September 30, 1994 and 1993
(in U.S. thousands)

	<u>1994</u>	<u>1993</u>
BUDGET RESOURCES	6,513	3,156
BUDGET OBLIGATION	<u>(6,513)</u>	<u>(1,562)</u>
TOTAL UNOBLIGATED BALANCE	<u>0</u>	<u>1,594</u>

BUDGET RECONCILIATION

Total Expenses	\$ 2,195	\$ 51
Add:		
(1) Capital Acquisitions	0	0
(2) Loans Disbursed	0	0
(3) Other Expended Budget Authority	0	0
Less:		
(1) Depreciation and Amortization	0	0
(2) Unfunded Annual Leave Balance	0	0
(3) Other Unfunded Expenses	0	0
Accrued Expenditures	<u>\$ 2,195</u>	<u>\$ 51</u>
Less Reimbursements	<u>0</u>	<u>0</u>
Accrued Expenditures	<u>\$ 2,195</u>	<u>\$ 51</u>

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Foreign Service National Separation Pay Trust Fund
Statement of Financing Sources, Expenditures
and Fund Balances by USAID Mission
for the year ended September 30, 1994
(in U.S. Thousands)

USAID Mission	Balance September 30, <u>1993</u>	FY 1994 Funding (Note 6)	FY 1994 Acc. Expenditures (Note 7)	Balance September 30, <u>1994</u>
Afghanistan - USAID Rep.	\$ 4	\$ 0	\$ 0	\$ 4
Bangladesh	25	172	27	170
Bolivia	168	713	442	439
Burkina Faso	6	0	0	6
Cambodia	0	3	0	3
Cape Verde Islands	0	97	0	97
Chad	0	27	0	27
Chile	5	168	0	173
Colombia	42	28	5	65
Costa Rica	19	11	3	27
Ecuador	121	14	17	118
Egypt	303	330	101	532
El Salvador	37	321	62	296
Ethiopia	0	18	0	18
Ghana	69	33	67	35
Guatemala	598	23	75	546
Guinea	0	24	0	24
Guinea Bissau	0	14	0	14
India	186	0	15	171
Indonesia	113	83	6	190
Ivory Coast-REDSO/WCA (Note 4)	44	76	0	120
Japan	0	4	0	4
Jordan	72	132	120	84
Lebanon	10	3	0	13
Liberia	0	19	0	19
Mali	34	35	24	45
Mauritania	1	0	0	1
Mexico	0	11	0	11
Mongolia	2	0	0	2
Mozambique	187	141	0	328
Nepal	31	22	8	45
Niger	0	87	1	86
Nigeria	1	7	0	8
Pakistan	280	891	101	1,070
Panama	28	22	0	50
Paris - Inter.USAID -Coor.	3	0	0	3
Peru	89	1,010	1,042	57
Philippines	0	190	33	157
Sierra Leone	0	*	0	*
Singapore	0	4	0	4
Sri Lanka	0	89	11	78
Sudan	0	38	0	38
Tanzania	67	40	2	105
Thailand	98	246	17	327
Togo	27	0	6	21
Tunisia	36	25	10	51
West Bank/Gaza	12	3	0	15
Yemen	35	45	0	80
Zambia	<u>0</u>	<u>52</u>	<u>0</u>	<u>52</u>
Total	\$ <u>2,753</u>	\$ <u>5,271</u>	\$ <u>2,195</u>	\$ <u>5,829</u>

*Less than \$ 500.00

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Foreign Service National Separation Pay Trust Fund
Statement of Financing Sources, Expenditures
and Fund Balances by USAID Mission
for the year ended September 30, 1993
(in U.S. Thousands)

USAID Mission	Balance September 30, <u>1992</u>	FY 1993 Funding <u> </u>	FY 1993 Acc. Expenditures <u> </u>	Balance September 30, <u>1993</u>
Afghanistan - USAID Rep.	\$ 4	\$ 0	\$ 0	\$ 4
Bangladesh	0	25	0	25
Bolivia	0	168	0	168
Burkina Faso	0	6	0	6
Chile - USAID. Rep.	5	0	0	5
Colombia	25	39	22	42
Costa Rica	6	13	0	19
Ecuador	16	110	5	121
Egypt	0	303	0	303
El Salvador	37	0	0	37
Ghana	0	69	0	69
Guatemala (Note 8)	193	410	5	598
India	39	147	0	186
Indonesia	113	0	0	113
Ivory Coast-REDSO/WCA	44	0	0	44
Jordan	0	72	0	72
Lebanon	0	10	0	10
Mali	0	34	0	34
Mauritania	0	1	0	1
Mongolia	2	0	0	2
Mozambique	0	187	0	187
Nepal	12	19	0	31
Nigeria	0	1	0	1
Pakistan	148	132	0	280
Panama	6	22	0	28
Paris - Inter.USAID -Coor.	0	3	0	3
Peru	94	0	5	89
ROCAP	0	6	6	0
Tanzania	0	67	0	67
Thailand	106	0	8	98
Togo	27	0	0	27
Tunisia	0	36	0	36
West Bank/Gaza	0	12	0	12
Yemen	<u>0</u>	<u>35</u>	<u>0</u>	<u>35</u>
Total	\$ <u>877</u>	\$ <u>1,927</u>	\$ <u>51</u>	\$ <u>2,753</u>

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

Foreign Service National Separation Pay Trust Fund
Notes to the Financial Statements
for the year ended September 30, 1994

Note 1. - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Foreign Service National Separation Pay Trust Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Foreign Service National Separation Pay Trust Fund in accordance with the form and content specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01 and the Trust Fund policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared from the Foreign Service National Separation Pay Trust Fund, pursuant to OMB directives, that are used to monitor and control the fund's use of budgetary resources.

Reporting Entity - Foreign Service National Separation Pay Trust Fund

Section 151 of the FY 1992 Authorization Act for the Department of State (P.L. 102-138) established a Foreign Service National Separation Pay Trust Fund in the U.S. Treasury for deposit and payment of current, future and previously obligated accrued separation pay. The reporting entity for these financial statements is the USAID Foreign Service National Separation Pay Trust Fund. In accordance with U.S. Treasury regulations, Trust Fund 72X8342 has been established with the U.S. Department of Treasury as the fund symbol for this program.

Basis of Accounting

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

Financing Resources

Financing for the trust fund program is from annual transfers from other USAID controlled funds. The funding can be either operating expense type funds, (e.g., USAID Operating Expense; Inspector General Operating Expense; Housing Guaranty Operating Expense;) or program funds.

Fund Balance with the U.S. Treasury

This represents the total of the unobligated and unliquidated obligations as reflected in USAID's records. The Trust Fund does not maintain cash in commercial bank accounts.

Note 2. Fund Balance with U.S. Treasury

(in U.S. Thousands)

	<u>Available</u>	<u>Restricted</u>	<u>Total</u>
FSNSP Trust Fund	\$ <u>0</u>	\$ <u>5,829</u>	\$ <u>5,829</u>
Fund Balance and Cash	<u>\$ 0</u>	<u>\$ 5,829</u>	<u>\$ 5,829</u>

The Fund Balance with the U.S. Treasury per USAID of \$5,829,000 differs from the U.S. Treasury's TFS-6653 balance of \$4,505,000. The difference of \$1,324,000 represents outstanding cash reconciliation differences as of September 30, 1994. Of this amount, \$1,269,000 is made up of the following four large differences in deposits as recorded by USAID and the Treasury: USAID/Pakistan \$826,000; USAID/Guatemala \$558,000; USAID/Bolivia \$505,000 and USAID/Egypt (\$620,000).

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Note 3. Future Funding Requirements - Amounts Due from Missions for Past Services

The amount of \$3,347,000 reported as the unfunded liability balance is an amount based on a worldwide cable request to all missions to submit their estimated liabilities as of September 30, 1994. The following are the unfunded amounts that were reported. Missions which responded negatively as having no unfunded liabilities are not listed.

<u>Mission</u>	Unfunded Liability (in U.S. Thousands)	
	<u>1994</u>	<u>1993</u>
Bangladesh	\$ 167	\$ 221
Benin	21	0
Bolivia	0	406
Cambodia	*	0
Cape Verde	183	151
Costa Rica	86	77
Chad	0	30
Chile	73	0
El Salvador	150	404
Egypt	834	1,048
Ethiopia	11	18
Ivory Coast	0	98
Japan	0	7
Jordan	227	335
Lebanon	68	58
Liberia	0	2
Mali	484	0
Nepal	219	208
Niger	42	80
Pakistan/Afghanistan	0	1,000
Panama	61	81
Peru	9	870
Philippines	5	0
Sri Lanka	11	27
Thailand	486	741
Tunis	(1)	0
Tunisia	0	35
West Bank/Gaza	7	3
Yemen	183	79
Zambia	<u>21</u>	<u>0</u>
Total	<u>\$ 3,347</u>	<u>\$ 5,979</u>

*Less than \$ 500

Note 4. Accounts Payable

The FY 1994 balance of \$120,000 represents an over-funding in the USAID/Ivory Coast-REDSO/WCA program. Subsequent to the transfer of this amount into the Trust Fund, it was determined that USAID/Ivory Coast-REDSO/WCA's local compensation plan does not have voluntary separation pay benefits. Consequently, there was no need to transfer these funds. The payable is to the original funding appropriation and payment will be made in FY 1995.

The FY 1993 balance of \$352,000 represented an over-funding by USAID/Guatemala due to its miscalculation of the amount that should have been transferred to the Trust Fund. The payable was to the original funding appropriation and payment was made in FY 1994.

Note 5. Fund Balances

	Unexpended Appropriations (in U.S. Thousands)	
	<u>1994</u>	<u>1993</u>
(1) Unobligated	\$ 0	\$ 1,242
(2) Unexpended	<u>5,709</u>	<u>1,511</u>
Total	<u>\$ 5,709</u>	<u>\$ 2,753</u>

Note 6. FY 1994 Funding

The amounts reported in this column reflect the actual amount of funds that were transferred into the Trust Fund in FY 1994. It does not represent the amount of liability that was incurred in FY 1994. If FY 1993 and prior amounts were not transferred until FY 1994, then these amounts are included in this column.

Note 7. Accrued Expenditures

Accrued Expenditures by Object Classification:

(in U.S. Thousands)

<u>Object Class</u>	<u>Description</u>	<u>FY 1994</u>	<u>FY 1993</u>
(1)	Personal Services and Benefits	<u>\$ 2,195</u>	<u>\$ 51</u>
(11)	Total Expenses by Object Class	<u>\$ 2,195</u>	<u>\$ 51</u>

Note 8. Operating and Administrative Expenses of the Trust Funds

All operating and administrative costs of the program are absorbed by USAID as a whole. Since the program is a decentralized program, no organization was overburdened and operation of the fund was absorbed into the regular workload of the existing staff. Due to the immateriality of support costs, no attempt was made to allocate such costs to the fund.

USAID MANAGEMENT'S PROGRAM OVERVIEW OF THE FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND

DESCRIPTION OF ENTITY

The purpose of the Foreign Service National Separation Pay Trust Fund is to fund and account for separation payments for eligible foreign service national employees (direct hire and personal service contractors), who voluntarily terminate employment. It is applicable only in those countries that, due to local law, require a lump-sum voluntary separation payment based on years of service and rate of pay at time of separation.

Section 151 of the FY 1992 Authorization Act for the Department of State (P.L. 102-138) required that a separate trust fund account be established in the Department of Treasury for foreign service national employees' separation pay. In accordance with U.S. Treasury regulations, a Foreign Service National Separation Pay Trust Fund (72X8342) was established for the U.S. Agency for International Development (USAID). USAID policy was written to require only obligation and deposit of funds to the Trust Fund for current obligations recorded after FY 1991. Prior to FY 1992, USAID did not recognize liabilities for accrued separation pay, and there were no obligated balances to transfer since USAID did not record obligations for separation pay until payment was due.

The Trust Fund operates under a decentralized system, with management and accounting handled at the overseas Missions. The Trust Fund is not a specific organization within USAID. Basically, it is a program intended to ensure proper funding and subsequent payment of separation costs related to USAID's foreign national personnel and serves as an accounting mechanism to centralize and control the funding and ultimate payment of these costs. The Central Accounting and Reporting Division of the Office of Financial Management (FM/CAR) maintains the consolidated financial reporting system which processes the overseas accounting information reported on the Summary of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Account Report (U-101 reports). There are currently about 50 USAID Missions which report Trust Fund activity. This data is processed in the general ledger and is the basis for the preparation of financial reports.

PERFORMANCE MEASURES

Because the Trust Fund is very limited in its purpose and objectives, and since it is very small as compared to other USAID programs, management has taken into consideration the cost benefits of developing and monitoring performance measures and the impact on other programs and responsibilities of the Office of Financial Management.

Program Performance

The nature of the Trust Fund, its reason for existence, goals and objectives are straightforward:

- To accurately and properly calculate the annual deposit amounts into the program.
- To make accurate and timely payments to eligible recipients.
- To provide a complete and useful picture of all agency FSN separation payments.

Based on responses from the overseas Missions, USAID was successful in meeting the established program performance goals. There were no material variances reported concerning these three measures. Missions are maintaining worksheets to support deposits to and disbursements from the Trust Fund, and any material miscalculations of required deposits or erroneous transfers to the Trust Fund were identified and corrected.

Financial Performance

The accompanying financial statements summarize the Trust Fund's financial position, the change in trust fund balances by mission, its cash flow, and a comparison of budget and actual expenses. The statement of change in trust fund balances and the statement of cash flows vary from the format prescribed by OMB Bulletin 94-01 for the statement of operations and changes in net position. The formats have been modified because the program is a non-revenue producing trust fund. The reports as presented are intended to provide more meaningful information than would be the case if the formats of OMB Bulletin 94-01 were used. In addition to these standard reports, the following financial performance measures have been established:

- All Missions' annual deposits will be completed by July 31, as mandated in FM's Bulletin 14C, and properly reported on the Summary of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Accounts (U-101) report.
- All cash deposits and disbursements will be reconciled by the overseas USAID controller offices to the U.S. Disbursing Officers' (USDOS) accounts, and any differences will be cleared within 60 days.
- All deposits will be allotted, obligated and reported on the U-101 report within same month as the deposit.

Financial Management Performance

It is management's objective to receive an unqualified opinion the Trust Fund's financial

statements. Management plans to achieve this goal by maintaining an accounting system that is accurate, complete, traceable to supporting documentation and capable of producing the required financial statements by adhering to a system of internal controls that is reasonable and cost effective considering the size and activity of the program.

The financial performance results were good. Missions did record allotments and obligations on the U-101 report within the same month as the deposit, and most Missions did accomplish and report the FY 1994 annual deposit by July 1994. (Some did not do this until August or September, but based on responses all are planning to meet the July deadline in FY 1995.)

The cash reconciliation performance measure was the one which was least successful, although most Missions did very well. As of September 30, 1994, the total outstanding cash reconciliation balance between USAID and the Department of Treasury was \$1,324,000, with \$1,576,000 under 60 days old and (\$252,000) over 60 days. This large difference is primarily related to four missions (\$1,269,000 of the \$1,576,000 difference). For those items which have not yet cleared, inquiries have been sent to the Missions for follow up action. However, the cash reconciliation process involves three separate reporting entities -- USAID Missions, the Department of State USDOs and the U.S. Department of Treasury -- and the reasons for the cash reconciliations could relate to any of these entities.

FINANCIAL CONDITION

Financing for the Trust Fund results from annual transfers from other USAID controlled funds. The funding can be either from operating expense or program funds, and apportionment of funds by OMB is not required.

The Trust Fund is a relatively new program, and its financial condition is sound insofar as funding requirements to cover liabilities incurred since FY 1992. However, there exists an estimated unfunded liability balance of \$3,347,000 for liabilities accrued prior to FY 1992, representing a decrease of \$2,632,000 from the FY 1993 unfunded liability of \$ 5,979,000. These liabilities will be funded over the long term when funds are available. It is management's intent to have a fully funded trust fund within nine years, or earlier if possible.

CONCLUSION/SUMMARY

The program performance for the Trust Fund has been successful and the financial operations of the program are working well. Based on responses received from Missions concerning performance results, it is expected that this successful performance will not only continue but plans are also in place to improve their performance where compliance was not fully met. Cash reconciliations remain a concern for FM Management, and this area will be closely monitored.

The program has a fund balance of \$5,829,000 to cover Trust Fund separation pay liabilities accrued since FY 1992 and an unfunded liability balance of \$3,347,000 for liabilities accrued prior to FY 1992.

USAID is currently downsizing its worldwide operations and this will involve the closing of several missions and termination of foreign service national personnel. This will result in some large expenses that normally would not be incurred in such a short period of time. In regard to the Trust Fund, the amount of liability is limited to the amount of separation pay the foreign service national personnel would be entitled to if their separation was voluntary. Also, payment out of the Trust Fund is limited to available funding, and any excess payment would be funded out of current year appropriated funds. Any amount which would have been due to the foreign service national personnel if the separation was voluntary would be channelled through the Trust Fund so that it captures all costs related to voluntary separations. Although USAID will experience material close-out expenses related to foreign service nationals, the funding of these costs are an agency, and not Trust Fund, responsibility.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the Trust Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990.

While the statements have been prepared from Trust Fund books and records in accordance with the form and content specified by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a sovereign entity, that any unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, or transfers from existing appropriations.

Objectives, Scope and Methodology

Management has the responsibility for:

- Preparing the principal financial statements in conformity with applicable accounting principles;
- Establishing and maintaining internal controls and systems to provide reasonable assurance that the broad control objectives of FMFIA are met; and
- Complying with applicable laws and regulations.

The three objectives of this audit were to (i) express an opinion on whether the financial statements are fairly presented, (ii) consider the internal control structure and (iii) test for compliance with applicable laws and regulations.

In undertaking our audit of the Trust Fund, we planned and conducted an audit of its principal financial statements and of internal controls over safeguarding of assets, assuring material compliance with budget authority and with laws and regulations we considered relevant, and assuring that there were no material misstatements in the principal financial statements. We also planned to test the Trust Fund's compliance with laws and regulations we considered relevant. But, we did not plan to evaluate all internal controls relevant to operating objectives as broadly defined in FMFIA.

We evaluated internal controls in the following areas:

- Mission disbursements to the Trust Fund;
- Payments from the Trust Fund to separating employees; and
- Financial statement preparation and reporting.

We also assessed internal controls relative to performance measures insofar as they relate to management's existence and completion assertions and control risks, and we assessed whether information in management's Overview section was materially consistent with the information in the principal financial statements.

We tested compliance with selected provisions of the following laws and regulations:

- The Chief Financial Officers Act of 1990 (P.L. 101-576);

- The FSN Separation Pay Trust Fund's authorizing legislation (22 U.S.C. § 4012 (a));
- The Federal Managers' Financial Integrity Act (FMFIA) of 1982; and
- The most recent country compensation plans for five Missions.

Our work was done in accordance with generally accepted government auditing standards and OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements."

Management Comments



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

FEB 28 1995

TO: James Durnil, AIG/A
FROM: Donald K. Charney, CFO *D.K. Charney*
SUBJECT: Draft Audit of USAID's Foreign Service National
Separation Pay Trust Fund for FY 1994

We have reviewed the draft audit report of the subject audit and are in full agreement with the findings provided.

As you know, we are currently finalizing procedures which will close the recommendations contained in the pervious audit report related to this subject. Upon closure of these recommendations, we believe the findings and concerns contained in this report will be fully addressed.

We sincerely appreciate the efforts and cooperation of your staff in finalizing this audit and in achieving the OMB March 1, 1995 goal for completion.