

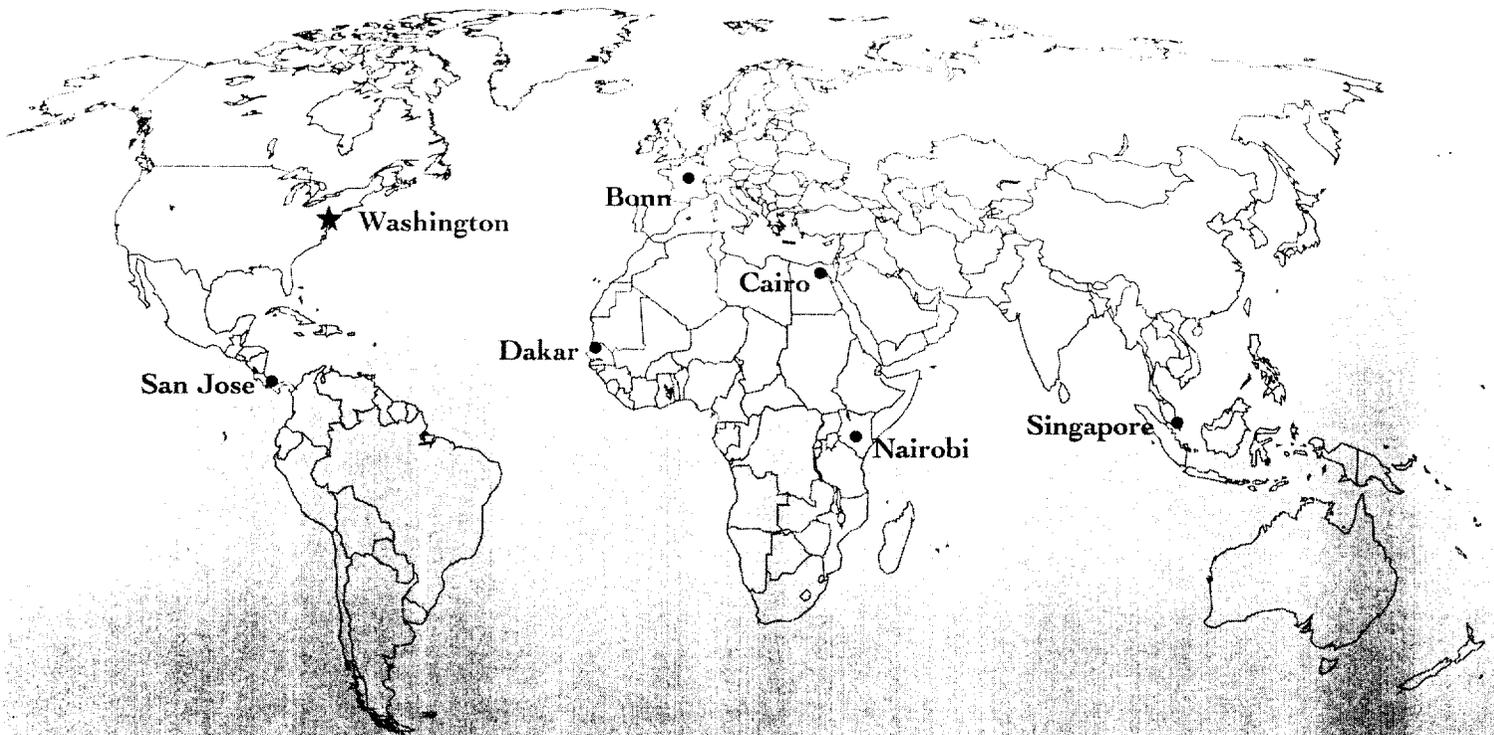
## Financial Audits

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# Audit of USAID's Foreign Service National Separation Pay Trust Fund Financial Statements for the Years Ending September 30, 1995 and 1994

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Report No. 0-000-96-012  
April 1, 1996



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

April 1, 1996

MEMORANDUM FOR AA/M, Larry E. Byrne

FROM: IG/A/FA, Bruce N. Crandlemire, Director

SUBJECT: Audit of USAID's Foreign Service National Separation  
Pay Trust Fund Financial Statements for the Years  
Ending September 30, 1995 and 1994

The Chief Financial Officers (CFO) Act of 1990 requires an annual audit of the financial statements for U.S. Agency for International Development's (USAID) 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, and this is the third year for which its financial statements have been prepared and audited under the CFO Act.

Office of Management and Budget (OMB) Bulletin No. 93-18 established March 1, 1996 as the date by which these financial statements were to be submitted. As set forth in a March 13, 1996 letter to OMB from USAID's Chief Financial Officer and Inspector General, these financial statements would not be submitted until April 1, 1996.

We conducted our audit in accordance with generally accepted government auditing standards and OMB 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 1995 financial statements present fairly, in all material respects, the financial position of the Trust Fund as of September 30, 1995;
- the testing of internal controls related to the Trust Fund did not identify weaknesses in their design or operation that we considered to be reportable conditions;
- the Trust Fund is not in compliance with its authorizing legislation because USAID has not fully funded its liabilities for accrued FSN separation pay; and

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- the performance measures established for the Trust Fund should be simplified to be more useful.

The noncompliance was the subject of a recommendation 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 a new recommendation in this report because management has advised us of planned actions in response to our past recommendations and has made substantial progress towards funding its accrued separation pay liability for FSN employees. Regarding performance measures, we are not making a formal recommendation and plan to work with management to achieve useful measures.

USAID Management agreed with our audit conclusions, and its comments on the draft audit report are attached as Appendix II.

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

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**Audit Report on USAID's  
Foreign Service National Separation Pay Trust Fund  
Financial Statements for the Years Ending  
September 30, 1995 and 1994**

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**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 fiscal year 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 fiscal year 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.

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**Auditor's Opinion**

We have audited the accompanying statements of financial position of USAID's Foreign Service National Separation Pay Trust Fund (Trust Fund) as of September 30, 1995 and 1994, 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 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 misstatement. 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, 1995 and 1994, 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*.

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## **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 procedures. 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; and
- 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 on 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.

In planning and performing our audit of the financial statements of the Trust Fund for the years ended September 30, 1995 and 1994, we obtained an understanding of the internal control structure. With regard to this structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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.

Our consideration of the internal control structure would not necessarily disclose all matters in the 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 material to the financial statements would not be detected within a timely period by employees in the normal course of their duties. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. However, we have reported to USAID management other matters and observations involving the internal control structure in a separate memorandum dated March 20, 1996.

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## **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 misstatement.

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 three 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 tests 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 reports for fiscal years 1994 and 1993, and management agreed that the pre-1992 amounts needed to be funded. While unfunded balances did decrease during fiscal year 1995, the Trust Fund remains materially underfunded as of September 30, 1995.

**USAID Has Made Progress In Reducing Its Unfunded Liabilities For Separation Pay**

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, 1995, USAID had deposited \$6.5 million of its total estimated liability of \$8.5 million—resulting in an unfunded liability of \$2.0 million. As shown below, this represents a consistent reduction in the unfunded liabilities during the past three years as of fiscal year end.

	<u>1995</u>	<u>1994</u>	<u>1993</u>
Unfunded Liabilities	\$1,969	\$3,347	\$5,979
Total Separation Pay Liabilities	\$8,471	\$9,056	\$8,732

Because the liabilities of some USAID missions remain unfunded or only partially funded, we believe that fully funding this amount in a timely manner will best be accomplished through a coordinated effort of USAID financial management.

We considered this instance of noncompliance in forming our opinion on whether the Trust Fund's fiscal year 1995 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 noncompliance does not affect our report dated March 20, 1996 on those financial statements.

Except as described above, our tests for compliance with the provisions of selected laws and regulations referred to in the third paragraph of this report disclosed no instances of noncompliance.

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### Consistency of Other Information

USAID management is responsible for providing reasonable assurance that data which support performance measures reported in the Program Overview are properly recorded and accounted for to permit preparation of reliable and complete performance information. The Program Overview contains a wide range of data, some of which are not directly related to the financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with management. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

In the course of this work, we advised management to consider a more simplified performance criteria focussing on (i) overseas Missions' full and timely funding of current and future years' liabilities and (ii) USAID's implementation of a funding plan for liabilities accruing prior to fiscal year 1992.

This report is intended for the information of the U.S. Congress and the management 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

March 20, 1996

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**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND  
STATEMENT OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 1995 AND 1994  
(in U.S. Thousands)**

	<u>1995</u>	<u>1994</u>
<b>ASSETS</b>		
<b>ENTITY ASSETS:</b>		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 6,502	\$ 5,709
Total Entity Assets	6,502	5,709
<b>NON-ENTITY ASSETS:</b>		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	<u>79</u>	<u>120</u>
Total Non-Entity Assets	<u>79</u>	<u>120</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,581</u>	<u>\$ 5,829</u>
<b>LIABILITIES AND NET POSITION</b>		
Liabilities Covered by Budgetary Resources:		
Governmental Liabilities:		
Funded Estimated Future Liability (Note 5)	\$6,502	\$5,709
Intragovernmental Liabilities:		
Other Funded Liabilities (Note 4)	<u>79</u>	<u>120</u>
Total Liabilities Covered by Budgetary Resources	6,581	5,829
Liabilities Not Covered by Budgetary Resources:		
Governmental Liabilities:		
Unfunded Estimated Future Liability (Note 3)	1,969	3,347
Total Liabilities Not Covered by Budgetary Resources	<u>1,969</u>	<u>3,347</u>
Total Liabilities	<u>\$ 8,550</u>	<u>\$ 9,176</u>
<b>NET POSITION</b>		
Future Funding Requirements	(1,969)	(3,347)
Total Net Position	<u>(1,969)</u>	<u>(3,347)</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 6,581</u>	<u>\$ 5,829</u>

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

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994  
(in U.S. Thousands)**

	<u>1995</u>	<u>1994</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>0</u>	\$ <u>0</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ <u>0</u>	\$ <u>0</u>
CASH PROVIDED BY FINANCING ACTIVITIES:		
Cash Provided:		
Transfers from Other Funds	\$ <u>2,866</u>	\$ <u>5,271</u>
Cash Used:		
Trust Fund Disbursements	1,994	2,195
Transfers of Cash to Other Funds (Note 4)	<u>120</u>	<u>352</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ <u>752</u>	\$ <u>2,724</u>
Fund Balance with Treasury, beginning of year	\$ <u>5,829</u>	\$ <u>3,105</u>
Fund Balance with Treasury, end of year	\$ <u>6,581</u>	\$ <u>5,829</u>

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

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND  
STATEMENT OF BUDGET AND ACTUAL EXPENSES  
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994  
(in U.S. thousands)**

	<u>1995</u>	<u>1994</u>
BUDGET RESOURCES	\$ 2,746	\$ 6,513
BUDGET OBLIGATIONS, DIRECT	<u>(2,600)</u>	<u>(6,513)</u>
TOTAL UNOBLIGATED BALANCE	<u>\$ 146</u>	<u>\$ 0</u>
ACTUAL EXPENSES	<u>\$ 1,994</u>	<u>\$ 2,195</u>

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

**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**  
**Statement of Financing Sources, Expenses and Fund Balances by Location**  
**for the year ended September 30, 1995 (in U.S. Thousands)**

<u>Location</u> (* indicates less than \$500.00)	<u>Balance</u> <u>09/30/94</u>	<u>1995 Funding</u> <u>(Note 6)</u>	<u>1995 Expenditures</u> <u>(Note 7)</u>	<u>Balance</u> <u>09/30/95</u>
Afghanistan	4	0	4	0
Bangladesh	170	74	0	244
Benin	0	56	0	56
Bolivia	439	277	163	553
Botswana	0	20	0	20
Burkina Faso	6	93	0	99
Cambodia (Note 4)	3	0	0	3
Cape Verde Islands	97	204	57	244
Chad	27	0	27	0
Chile	173	33	11	195
Colombia	65	48	35	79
Costa Rica	27	73	0	101
Ecuador	118	71	18	172
Egypt	532	235	122	645
El Salvador	296	216	84	427
Estonia	0	10	0	10
Ethiopia	18	21	0	39
Ghana	35	0	0	35
Guatemala	546	152	62	635
Guinea (Note 4)	24	0	0	24
Guinea Bissau	14	3	0	17
India	171	33	9	195
Indonesia	190	0	6	185
Ivory Coast (Note 4)	120	(120)	0	0
Japan	4	0	0	4
Jordan	84	239	14	309
Lebanon	13	11	0	23
Liberia	19	5	0	25
Mali	45	8	3	50
Mauritania	1	0	0	1
Mexico	11	32	0	43
Mongolia	2	0	0	2
Mozambique	328	194	0	521
Nepal	45	37	5	77
Niger	86	71	4	152
Nigeria	8	6	3	10
Pakistan	1,070	0	1,070	0
Panama	50	71	0	122
Paris-Inter AID Coord	3	4	0	7
Peru	57	224	190	91
Philippines	157	0	4	152
Sierra Leone	*	0	0	*
Singapore	4	1	0	4
Sri Lanka	78	37	8	108
Sudan	38	5	2	41
Tanzania	105	17	0	122
Thailand	327	237	26	537
Togo	21	0	21	*
Tunisia	51	2	10	44
West Bank/Gaza	15	29	0	44
Yemen	80	15	34	60
Zambia (Note 4)	52	0	0	52
<b>Total</b>	<b><u>\$ 5,829</u></b>	<b><u>\$ 2,746</u></b>	<b><u>\$ 1,994</u></b>	<b><u>\$ 6,581</u></b>

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

**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**  
**Statement of Financing Sources, Expenses and Fund Balances by Location**  
**for the year ended September 30, 1994 (in U.S. Thousands)**

<u>Location</u> (* indicates less than \$500.00)	<u>Balance</u> <u>09/30/93</u>	<u>1994 Funding</u> <u>(Note 6)</u>	<u>1994 Expenditures</u> <u>(Note 7)</u>	<u>Balance</u> <u>09/30/94</u>
Afghanistan	\$ 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 (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	0	52	0	52
<b>Total</b>	<b><u>\$ 2,753</u></b>	<b><u>\$ 5,271</u></b>	<b><u>\$ 2,195</u></b>	<b><u>\$ 5,829</u></b>

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

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 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 contents 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. The statement of financing sources, expenses and fund balances by mission and the statement of cash flows vary from the format prescribed by the Office of Management Budget (OMB) Bulletin 94-01. The formats have been modified because the program is a non-revenue producing trust fund and 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. The financial statements are 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 Trust Fund's use of budgetary resources.

**Reporting Entity**

Section 151 of fiscal year 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 amounts accrued and for current and future costs of separation pay for Foreign Service National employees. The reporting entity for these financial statements is the USAID Foreign Service National Separation Pay Trust Fund. In accordance with Treasury regulations, Trust Fund 72X8342 has been established with the 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, liabilities are recognized when 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 is from annual transfers from other USAID-controlled funds. The funding can be either operating expense type funds, (e.g., USAID Operating Expense, Housing Guaranty Operating Expense) or program funds.

**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**

Notes to the Financial Statements (cont.)

as of September 30, 1995 and 1994

**NOTE 1 (cont.)**

**Fund Balance with Treasury**

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

**NOTE 2. FUND BALANCE WITH TREASURY**

	Obligated	(in thousands)		Total
		Unobligated		
		<u>Available</u>	<u>Restricted</u>	
FSN Separation Pay Trust Fund	\$6,380	\$ 0	\$122	\$6,502
Intragovernmental Funds Payable	<u>55</u>	<u>0</u>	<u>24</u>	<u>79</u>
Fund Balance	<u>\$6,435</u>	<u>\$ 0</u>	<u>\$ 146</u>	<u>\$ 6,581</u>

The Fund Balance with U.S. Treasury per USAID of \$6,581,000 differs from the U.S. Treasury's TFS-6653 balance of \$7,200,000. The \$619,000 difference represents outstanding cash reconciliation differences as of September 30, 1995. Of this amount, \$879,000 relates to undisbursed expenses of the USAID/Pakistan office closure and is currently being reviewed for processing with the Department of State's USDO operation in Bangkok. All other material reconciling items represent timing differences between USAID and the U.S. Treasury.

**NOTE 3. FUTURE FUNDING REQUIREMENTS - DUE FROM MISSIONS FOR PAST SERVICES**

The amount of \$ 1,969,000 reported as unfunded balance is an amount based on a worldwide cable request to all missions to submit their estimated liabilities as of September 30, 1995. Missions which responded negatively are not listed.

<u>USAID Mission</u>	Future Funding Requirements		
	(in thousands)		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Bangladesh	\$ 128	\$ 167	\$ 221
Benin	10	21	0
Bolivia	2	0	406
Cape Verde	0	183	151
Costa Rica	0	86	77
Chad	0	0	30
Chile	94	73	0
El Salvador	62	150	404

**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**

Notes to the Financial Statements (cont.)

as of September 30, 1995 and 1994

**NOTE 3 (cont.)**

<u>USAID Mission</u>	Future Funding Requirements (Cont.)		
	1995	(in thousands) 1994	1993
Egypt	757	834	1,048
Ethiopia	0	11	18
Guinea Bissau	*	0	0
Ivory Coast	0	0	98
Japan	0	0	7
Jordan	12	227	335
Lebanon	84	68	58
Liberia	0	0	2
Mali	250	484	0
Nepal	188	219	208
Niger	29	42	80
Pakistan/Afghanistan	0	0	1,000
Panama	27	61	81
Peru	0	98	70
Philippines	(31)	5	0
Sri Lanka	*	11	27
Thailand	313	486	741
Tunisia	(10)	(1)	35
West Bank/Gaza	6	7	3
Yemen	48	183	79
Zambia	0	21	0
Total	<u>\$1,969</u>	<u>\$3,347</u>	<u>\$5,979</u>

(\* less than \$500)

**NOTE 4. OTHER FUNDED LIABILITIES**

The fiscal year 1995 balance of \$79,000 represents over-funding in the following programs: USAID/Cambodia of \$3,000; USAID/Guinea of \$24,000; and USAID/Zambia of \$52,000. Subsequent to the transfer of these funds into the Trust Fund, it was determined that the local compensation plans do not have voluntary separation pay benefits. Consequently, there was no need to transfer these funds and payment to the original funding appropriation will be made in fiscal year 1996.

The fiscal year 1994 balance of \$120,000 represented an over-funding in the USAID/Ivory Coast/WCA program. The payable was to the original funding appropriation and payment was made in fiscal year 1995.

**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**

Notes to the Financial Statements (cont.)

as of September 30, 1995 and 1994

**NOTE 5. TRUST FUND BALANCES**

	Unexpended Appropriations (in thousands)	
	<u>1995</u>	<u>1994</u>
Unobligated	\$ 122	\$ 0
Unexpended	<u>6,380</u>	<u>5,709</u>
Total	<u>\$ 6,502</u>	<u>\$ 5,709</u>

**NOTE 6. FISCAL YEAR 1995 FUNDING**

The amounts reported for 1994 and 1995 funding on the Statements of Financing Sources, Expenses and Fund Balances reflect the actual amount of funds that were transferred into the Trust Fund in fiscal years 1995 and 1994. It does not represent the amount of liability that was incurred in fiscal year 1995. If fiscal year 1994 and prior amounts were not transferred until fiscal year 1995 then these amounts are included in this column on the 1995 statement.

**NOTE 7. ACCRUED EXPENDITURES**

Accrued Expenditures by Object Classification:

	(in thousands)	
	<u>1995</u>	<u>1994</u>
<u>Object Class Description</u>		
Personal Services & Benefits	<u>\$1,994</u>	<u>\$ 2,195</u>
Total Expenditures by Object Class	<u>\$1,994</u>	<u>\$ 2,195</u>

**NOTE 8. OPERATING & 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 the support costs, no attempt was made to allocate such costs to the fund.

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**  

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**FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**  
**PROGRAM OVERVIEW**  
**September 30, 1995**

**The Foreign Service National Separation Pay Trust Fund**

The purpose of the Foreign Service National Separation Pay Trust Fund (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 compensation plans, require a lump-sum voluntary separation payment based on years of service and rate of pay at time of separation.

Section 151 of the fiscal year 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 fiscal year 1991. Prior to fiscal year 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.

**Executive Summary**

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. Instead, 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 missions who are reporting Trust Fund activity. This data is processed in the general ledger and is the basis for the preparation of financial reports.

The Trust Fund program has a fund balance of \$ 6,502,000 to cover the Trust Fund separation liabilities and an unfunded liability balance of \$ 1,969,000 for liabilities accrued prior to fiscal year 1992.

USAID is downsizing its worldwide operations and this involves the closing of several missions and termination of foreign service national employees. This resulted and will result in some large expenses that normally would not be incurred in such a short period of time. In

## **FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**

**Program Overview (cont.)**

**September 30, 1995**

regard to the Trust Fund, the amount of liability is limited to the amount of separation pay the foreign service national employees would be entitled to if their separation was voluntary. Also, payment out of the Trust Fund is limited to the available amount of funds in the Trust Fund 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 employees if the separation was voluntary would be channelled through this Trust Fund so that the Trust Fund does capture all costs related to voluntary separations. Although the agency will experience material close-out expenses related to foreign service nationals, the funding of these costs is an agency, and not Trust Fund, responsibility.

### **Performance Measures**

Because the Trust Fund is very limited in its purpose and objectives and since it is a very small program 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 financial reports 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**

One of management's objectives is to receive an unqualified opinion on the Trust Fund financial statements. Management plans to achieve this by maintaining an accounting system that is accurate, complete, traceable to supporting documentation, and capable of producing the required financial statements; and by adhering to a system of internal controls that are reasonable and cost effective considering the size and nature of the program.

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

## **FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**

**Program Overview (cont.)**

**September 30, 1995**

actual expenses. The statement of change in trust fund balances and the statement of cash flows vary from the format prescribed by the Office of Management Budget (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 USAID Financial Management's Bulletin 12 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 United States Disbursing Officers' (USDOs) accounts and any differences cleared within 60 days.
- All deposits will be allotted and obligated and reported on the U-101 report within same month as the deposit.

The financial performance results were good and the missions' compliance with these performance measures ensured more accurate and complete financial statements.

Most of the required annual deposits into the fund were completed and reported as obligations on the U-101 reports by July 1995 (73% by July, and the remaining 27% in August and September). The July due date was established as an internal goal so that, if necessary, there would be additional time to ensure that all required deposits and processing was completed before the fiscal year end on September 30th.

Based on responses from the overseas missions, their cash reconciliation performance measure was successful. Reporting missions did perform monthly cash reconciliations and took required action to clear any differences. Except for one program, all material year end cash reconciliation differences are timing differences which will clear in subsequent months. The one exception is the USAID/Pakistan program which has a material outstanding cash reconciliation balance which is not a timing difference between USAID and the Department of Treasury. It appears that USAID/Pakistan cash reconciliation balance involves accounting transactions not yet disbursed from the Trust Fund associated with the closing of the USAID/Pakistan mission in fiscal year 1995. Inquiries concerning this balance have been made to USAID/Thailand which is now the regional accounting office for USAID/Pakistan and it is expected that the outstanding balance will be identified and cleared.

All deposits transferred into the fund were allotted, obligated and reported on the U-101 reports. The only exceptions were several programs which had deposits totalling \$122,000 that were not reported as allotted and obligated on the U-101 report as of September 30. The

## **FOREIGN SERVICE NATIONAL SEPARATION PAY TRUST FUND**

**Program Overview (cont.)**

**September 30, 1995**

total of these unreported obligations was not material and represented less than 2% of the fiscal year 1995 obligations for the Trust Fund program.

### **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 fiscal year 1992. However, there exists an estimated unfunded liability balance of \$ 1,969,000 for liabilities accrued prior to fiscal year 1992. The \$ 1,969,000 balance is a decrease of \$ 1,378,000 from the fiscal year 1994 unfunded liability balance of \$ 3,347,000. 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 eight years or earlier if possible.

### **Conclusion**

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 USAID Missions concerning performance results, it is expected that this successful performance will continue. Cash reconciliations are a concern for Financial Management, and this area will continue to be closely monitored for this Trust Fund and all of its other programs. The cash reconciliation process involves three separate reporting entities—USAID Missions, overseas USDOs under the Department of State and the U.S. Department of Treasury—and reasons for unreconciled cash reconciliations could relate to any of these entities.

### **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 the books and records of the Trust Fund in accordance with the form and contents 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.

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## Objectives, Scope and Methodology

Management has the responsibility for:

- preparing the 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 Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

The objectives of this audit were to (i) express an opinion on whether the financial statements are fairly presented, (ii) consider the internal control structure to determine the nature, extent and timing of our testing, (iii) test for compliance with applicable laws and regulations and (iv) perform limited procedures with respect to other information presented with these financial statements.

In undertaking our audit of the Trust Fund, we planned and conducted an audit of its financial statements and considered management's internal controls over safeguarding of assets, assuring material compliance with budget authority and relevant laws and regulations, and assuring that there were no material misstatements in the principal financial statements.

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 controls over performance measures related 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 of 1982; and
- the most recent country compensation plans for three Missions.

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

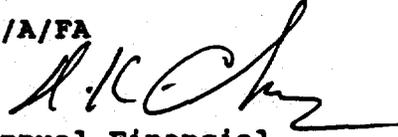
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U.S. AGENCY FOR  
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**MEMORANDUM**

**DATE:** MAR 27 1996  
**TO:** Bruce Crandlemire, Director, IG/A/FA  
**FROM:** Donald K. Charney, CFO, USAID   
**SUBJECT:** Draft Audit Report on FY 1995 Annual Financial  
Statement for USAID's Foreign Service National  
Separation Pay Trust Fund under the CFO Act

Mr. Larry E. Byrne and I have reviewed the draft audit report,  
and we have no comments.



U.S. AGENCY FOR  
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MEMORANDUM

March 26, 1996

TO: Bruce N. Crandlemire, IG/A/FA/OD

FROM: Caroline D. McGraw, M/MPI/OD 

SUBJECT: Audit of the FY 1995 Financial Statements of USAID's Foreign Service National Separation Pay Trust Fund

The subject audit indicated that USAID management is responsible for providing reasonable assurance that data supporting performance measures reported in the Program Overview of the Trust Fund are properly recorded and accounted for to permit reliable and complete performance information. The Inspector General (IG) "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 (of) a funding plan for liabilities accruing prior to fiscal year 1992".

The audit report further noted that financial performance results were good and the missions' compliance with these performance measures ensured more accurate and complete financial statements. The IG also expressed the expectation that the successful performance would continue.

The Management Bureau recognizes its responsibility of establishing, maintaining, monitoring and reporting on measurable performance goals. To that end, this Office is developing a Management Control Survey for FY 1996 that will be sent to each operating unit for completion this summer. This survey will not require units to conduct indepth management control assessments unless the responses to the survey dictate further analysis. We will include in our survey a number of questions that will enable management to assess the adequacy of its management controls over the FSN Separation Pay Trust Fund. The questions will be cleared by representatives from the Office of Financial Management as well as the IG's Office.

Listed below are the proposed questions which must be answered by each mission:

1. Do you have a system in place to ensure that the funding of current and future years' FSN Separation Pay Trust Fund is adequate to cover all USAID liabilities?

2. Have you implemented a funding plan for liabilities accruing prior to fiscal year 1992?

3. Does your system ensure that the correct FSNs were paid the proper amount of money in a timely manner?

We believe that the responses to these three questions should either ensure USAID that (1) its controls in this area are adequate or (2) an indepth management control review is required to begin correcting the problem. If the responses to the questions are favorable or affirmative, USAID will consider this simplified "performance measurement" to be sufficient. If the responses are negative, a review of the particular mission(s)' system would be required.

USAID's accounting system (AWACS) and the Agency's New Management Systems (NMS) should include performance measures to be used in evaluating our financial operations. As management becomes more familiar with the components of AWACS and NMS, we will reassess the need to continue requesting this information in a separate management control survey.

cc: Larry E. Byrne, AA/M  
Donald Charney, CFO  
Richard A. Levine, M/FM/CONT  
David Ostermeyer, M/FM/CAR