

Financial Audits

Audit of USAID's Miscellaneous U.S. Dollar Trust Funds Financial Statements for the Years Ending September 30, 1995 and 1994

Report No. 0-000-96-013
April 1, 1996



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

April 1, 1996

MEMORANDUM FOR AA/M, Larry E. Byrne

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

SUBJECT: Audit of USAID's Miscellaneous U.S. Dollar Trust Fund
for the Years Ending September 30, 1995 and 1994

This is our final report on the audit of the financial statements for the U.S. Agency for International Development's (USAID) Miscellaneous Dollar Trust Fund for fiscal years 1995 and 1994.

The 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 14, 1996 letter to OMB from USAID's Chief Financial Officer (CFO) and Inspector General, these financial statements would not be submitted until April 1, 1996.

The USAID Office of Inspector General (OIG) is responsible for auditing the financial statements. To fulfill this responsibility, the OIG contracted with the independent certified public accounting firm of Deloitte and Touche, LLP to perform the audit under the oversight of the OIG. In addition, the OIG reviewed the presentation of management's performance information as contained in the Program Overview section of the report in accordance with OMB requirements.

Audits under the CFO Act are to be performed in accordance with generally accepted government auditing standards and OMB Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require the audit to provide reasonable assurance that the financial statements are free of material misstatement. The auditors are also to obtain an understanding of the relevant internal control policies and procedures designed to achieve control objectives; determine whether the controls had been placed in operation; and assess the control risks. The audit also includes tests of USAID's compliance with certain laws and regulations.

The Miscellaneous U.S. Dollar Trust Fund comprises the activity of two separate trust funds: (i) the U.S. Dollar Advances from Foreign Governments Trust Fund and (ii) the Gifts and Donations Trust Fund. The first fund records expenditures against receipts held in trust where USAID acts in a fiduciary capacity in carrying out specific programs in accordance with trust agreements. The second fund records the receipt of money,

property and services of any kind made available by gift, devise, bequest or grant, and expenditures against these receipts in accordance with applicable agreements in furtherance of USAID's objectives. Neither of these trust funds involve appropriated funds.

Deloitte & Touche, LLP was unable to express an opinion on the financial statements of the Miscellaneous U.S. Dollar Trust Fund for fiscal year 1995 because material account balances could not be independently confirmed and the auditors were unable to apply alternative procedures to verify these balances. Circumstances that precluded the application of necessary auditing procedures included political and legal situations in countries such as Nigeria, Vietnam, and Zaire and the inability of host countries to readily identify which government unit was responsible for managing the Trust Funds.

The auditor also noted an internal control matter relating to USAID's fiduciary role as recordkeeper for the Trust Fund. Specifically, USAID did not verify with host countries the receipts, expenditures and balances of the trust funds. We believe that such verification is not only a necessary control procedure, but also is explicitly required by some trust fund agreements. This condition is fully discussed on page three of the audit report.

To ensure that USAID's fiduciary responsibilities are carried out we are making the following recommendation:

Recommendation No. 1: We recommend that USAID's Chief Financial Officer establish procedures to assure that receipts, expenditures and balances of the U.S. Dollar Advances from Foreign Governments Trust Fund are periodically verified with the participating host governments.

USAID management is also 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 complete and reliable performance information. The 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 non-conformance with OMB guidance.

Management Comments and Our Evaluation

Management disagreed with recommendation no. 1 stating that "it is inappropriate for auditors to recommend that the USAID Office of Financial Management assure that balances of the U.S. Dollar Trust Funds are periodically verified with the participating host governments where foreign policy states otherwise." Management also stated that USAID was responsible for accounting for deposits, disbursements and balances that agree with Treasury.

We reaffirm the auditor's conclusion that it was unable to express an opinion of the fair presentation of the financial statements for the reasons previously discussed. In addition, we continue to hold that USAID lacks a key internal control by not having procedures to periodically verify trust account activity with host countries. Our recommendation is made to ensure that USAID establish procedures for carrying out its fiduciary responsibilities that it has already agreed to in the various trust fund agreements. In establishing those procedures, we suggest that USAID consult with the appropriate authorities for advice in the management of Trust Funds in countries—such as Vietnam, Zaire, and Botswana—where political and legal circumstances or the lack of a USAID presence make periodic verification very difficult in practice. (See Appendix I for the full text of management comments.)

I appreciate the cooperation and courtesies extended to both the staffs of the USAID Office of Inspector General and Deloitte and Touche, LLP during the course of this audit.

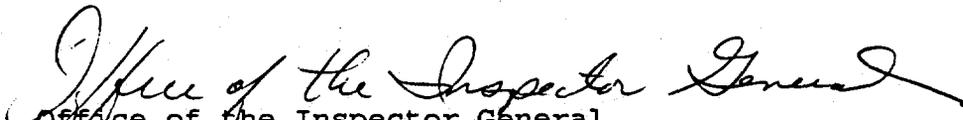

Office of the Inspector General
March 21, 1996

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**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**Financial Statements for the Years Ended
September 30, 1995 and 1994, and
Independent Auditors' Report**

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

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INDEPENDENT AUDITORS' REPORT

To the Administrator
and the Inspector General of the
U. S. Agency for International Development:

Summary

We were engaged to audit the principal financial statements, referred to in the table of contents, of the Miscellaneous U.S. Dollar Trust Funds (the Trust Funds) administered by the U.S. Agency for International Development (USAID) for the years ended September 30, 1995 and 1994.

We are unable to express an opinion on the principal financial statements because material Trust Funds balances could not be independently verified with host countries as of and for the year ended September 30, 1994. These balances are still outstanding as of September 30, 1995. Circumstances that precluded the application of necessary auditing procedures included political and legal situations, the fact that USAID no longer had a presence in the country, and/or the host countries could not readily identify which government unit was responsible for managing the Trust Funds. We were unable to apply alternative procedures to satisfy ourselves as to such Trust Funds balances.

While the circumstances described above may be beyond the control of USAID, the lack of sufficient evidential matter represents a pervasive limitation on the scope of our audits.

We noted a deficiency in internal controls that we consider to be a reportable condition under established standards.

We found no material noncompliance with selected provisions of applicable laws and regulations tested.

These conclusions and the scope of our work are discussed below.

Disclaimer on Principal Financial Statements

Because we were unable to apply alternative auditing procedures to satisfy ourselves regarding material Trust Funds balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on, the principal financial statements of the Trust Funds referred to above.

Miscellaneous U. S. Dollar Trust Funds
Independent Auditors' Report

Report on Internal Control Structure

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

- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the principal financial statements in accordance with the basis of accounting prescribed in OMB Bulletin No. 94-01;
- 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:
 - Laws and regulations that could have a direct and material effect on the principal financial statements; and
 - Any other laws and regulations that the OMB, entity management, or the Inspector General have identified as being significant 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 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 our engagement to audit the principal financial statements of the Trust Funds, we obtained an understanding of the internal control structure. With respect to the internal control 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 attempting to express an opinion on the principal financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the principal financial statements. The reportable condition noted is discussed below.

Miscellaneous U. S. Dollar Trust Funds
Independent Auditors' Report

Verification of Trust Fund Activity Not Performed by USAID

Before 1994, accounting for Trust Fund activities was handled through USAID field missions and no USAID unit in Washington was responsible for ensuring that these activities and fund balances were correct. Our 1993 audit showed that transactions were not properly recorded and reconciled with fund balances. As a result, fund balances for trust balances originating prior to 1994 could not be accurately established. This condition was reported as a material weakness in internal controls in our report on the financial statements of the Trust Funds for FY 1993. In 1994, USAID centralized accounting for the Trust Funds in Washington and began to reconcile balances to determine that transactions were properly recorded and balances reflected funds on hand. However, there is no evidence that USAID/W (Washington) or the Missions verified these reconciliations (receipts, expenditures and balances) with the host countries.

We consider the fact that USAID did not or could not verify Trust Funds receipts, expenditures and balances with the host countries to represent a reportable condition under the standards established by the American Institute of Certified Public Accountants. Without such verifications, USAID lacks a key control to verify that receipts, expenditures, and balances have been properly recorded. Since USAID is acting in a fiduciary capacity, periodic accounting of its activities to the host countries must be part of its internal control structure.

We understand that an accounting to ensure proper recording of transactions and balances by USAID to the host countries is feasible when USAID has a presence in country. However, where there is no active USAID presence in country, we recommend that USAID evaluate how the Trust Funds programs are managed for Botswana, Nigeria and Zaire, and other countries with inactive programs. We also recommend that USAID/W monitor that USAID Missions are verifying Trust Funds receipts, expenditures and balances periodically with the host countries for those countries with active programs.

Compliance with Laws and Regulations

Compliance with laws and regulations applicable to the Trust Funds is the responsibility of USAID's management. During our engagement to audit the principal financial statements, we performed tests of the Trust Funds' compliance with certain provisions of laws and regulations. However, the objective of our engagement to audit the principal financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Laws and regulations applicable to the Trust Funds include:

- Eligibility provisions of Title III of the Foreign Assistance Act of 1961, as amended;
- The Chief Financial Officers Act of 1990;
- The Budget and Accounting Act of 1950, as amended.

Miscellaneous U. S. Dollar Trust Funds
Independent Auditors' Report

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

Management's Responsibilities

Management has responsibility for:

- Preparing the principal financial statements in accordance with the comprehensive basis of accounting described in Note 1 to the principal financial statements;
- Establishing and maintaining an internal control structure; and
- Complying with applicable laws and regulations.

Management is also responsible for obtaining audit coverage that is broad enough to help fulfill the reasonable needs of potential users of the audit report. With respect to audit coverage of internal controls and compliance with laws and regulations, we were engaged to perform those procedures required in a financial statement audit conducted in accordance with generally accepted government auditing standards. Those procedures were not sufficient to provide a basis for expressing an opinion on internal controls or compliance. Had we been engaged to apply additional agreed-upon procedures or perform an examination of controls or compliance with laws and regulations, we might have discovered and reported deficiencies in internal controls or instances of noncompliance in addition to those reported above.

Independent Auditors' Responsibilities

Except as discussed in the following paragraph, we were engaged to audit the principal financial statements of the Trust Funds in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*.

Also, as requested by the USAID Office of the Inspector General (IG), the procedures we conducted did not address the requirement in OMB Bulletin No. 93-06 to obtain an understanding of the internal control structure and to assess risk with respect to management's policies and procedures for the preparation of performance information. This audit requirement was addressed by the IG.

Distribution

This report is intended for the information of the U. S. Congress, the management of USAID, and the Office of the Inspector General for USAID. This restriction is not intended to limit distribution of this report when it becomes a matter of public record.

Deloitte & Touche LLP

March 21, 1996



**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 1995 AND 1994
(In Thousands)**

	1995	1994
ASSETS		
NON-ENTITY ASSETS:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 14	\$ 5
Restricted Fund Balance with Treasury (Note 2)	<u>3,695</u>	<u>5,743</u>
	3,709	5,748
Governmental Assets:		
Advances	<u>21</u>	<u>53</u>
TOTAL NON-ENTITY ASSETS	<u>\$3,730</u>	<u>\$5,801</u>
LIABILITIES AND NET POSITION		
LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:		
Intragovernmental Liabilities:		
Accounts Payable, Federal	\$ 1	\$ 1
Governmental Liabilities:		
Accounts Payable	537	1,540
Other Liabilities Trust Fund Balance (Note 3)	<u>3,167</u>	<u>4,245</u>
TOTAL LIABILITIES	<u>3,705</u>	<u>5,786</u>
NET POSITION:		
Other:		
Gifts and Donations Fund Balances	25	15
Cumulative Results of Operations	<u>-</u>	<u>-</u>
TOTAL NET POSITION	<u>25</u>	<u>15</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$3,730</u>	<u>\$5,801</u>

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

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In Thousands)**

	1995	1994
INCOME FROM TRUST FUND ACTIVITY	\$ 1,474	\$ 6,345
GIFTS AND DONATIONS	<u>1</u>	<u>-</u>
TOTAL FINANCING SOURCES	1,475	6,345
TRUST FUND EXPENSES	<u>1,475</u>	<u>6,345</u>
RESULTS OF OPERATIONS	<u>\$ -</u>	<u>\$ -</u>
NET POSITION, BEGINNING BALANCE	\$ 15	\$ 296
RESULTS OF OPERATIONS	-	-
LESS NONOPERATING CHANGES	<u>10</u>	<u>(281)</u>
NET POSITION, ENDING BALANCE	<u>\$ 25</u>	<u>\$ 15</u>

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

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In Thousands)**

	1995	1994
CASH PROVIDED BY OPERATING ACTIVITIES:		
Results of Operations	\$ -	\$ -
Adjustments Affecting Cash Flow:		
Advances	31	(47)
Accounts Payable	(1,001)	(5,567)
Trust Funds	<u>(1,069)</u>	<u>(5,220)</u>
Net cash used in operating activities	(2,039)	(10,834)
CASH USED IN FINANCING ACTIVITIES:		
Transfer to Treasury	<u>-</u>	<u>(281)</u>
NET CASH USED IN OPERATING AND FINANCING ACTIVITIES	(2,039)	(11,115)
FUND BALANCES WITH TREASURY, BEGINNING OF YEAR	<u>5,748</u>	<u>16,863</u>
FUND BALANCES WITH TREASURY, ENDING OF YEAR	<u>\$ 3,709</u>	<u>\$ 5,748</u>

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

**U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
MISCELLANEOUS U. S. DOLLAR TRUST FUNDS**

**STATEMENTS OF BUDGETARY RESOURCES AND ACTUAL EXPENSES
YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In Thousands)**

	1995	1994
BUDGET RESOURCES (Note 1):		
U. S. Dollar Advances from Foreign Governments	\$2,803	\$4,107
Gifts and Donations	<u>25</u>	<u>15</u>
Total	<u>\$2,828</u>	<u>\$4,122</u>
BUDGET OBLIGATIONS (Note 1):		
U. S. Dollar Advances from Foreign Governments	\$ 491	\$1,700
Gifts and Donations	<u>1</u>	<u>1</u>
Total	<u>\$ 492</u>	<u>\$1,701</u>
BUDGET RECONCILIATION:		
Expenses:		
U. S. Dollar Advances from Foreign Governments (Note 4)	\$1,474	\$6,344
Gifts and Donations	<u>1</u>	<u>1</u>
ACTUAL EXPENSES	<u>\$1,475</u>	<u>\$6,345</u>

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

U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT MISCELLANEOUS U. S. DOLLAR TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 1995 AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

U. S. Dollar Advances from Foreign Governments - Section 607 of the Foreign Assistance Act (FAA) of 1961, authorizes the U. S. Agency for International Development (USAID) to accept advances of U. S. dollars from foreign governments and international organizations to facilitate the purposes of the FAA. In accordance with Treasury regulations, USAID has established a U. S. Dollar Advances from Foreign Governments Trust Fund to record expenditures against receipts held in trust. USAID acts in a fiduciary capacity in carrying out specific purposes and programs in accordance with bilateral agreements. The Treasury Symbol for this program is 72X8502 and the Office of Management and Budget (OMB) Control Number is 15-06-00-3-8502.

Gifts and Donations - Section 635(d) of the FAA, provides the principal authority authorizing the Agency to accept and use, in furtherance of USAID program objectives, money, funds, property and services of any kind made available by gift, devise, bequest, and grants. In accordance with Treasury regulations, USAID has established a Gifts and Donations Trust Fund (Account 72X8824), which records cash expenditures against deposit of funds into this account. The OMB Control Number is 15-06-00-3-8824.

The financial statement accounts of the two Trust Funds have been combined for purposes of the accompanying financial statements.

B. *Basis of Presentation*

The financial statements have been prepared to report the financial position and results of operations of the Miscellaneous U. S. Dollar Trust Funds (Trust Funds), as required by the Chief Financial Officers Act (CFO Act) of 1990. They have been prepared from account balances contained in the books and records of the Trust Funds in the financial statement formats contained in OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*, and the Trust Funds' policies, which are summarized below.

C. *Basis of Accounting*

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses 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.

D. *Fund Balances, with Treasury*

Fund balances with Treasury represent the total of the unobligated and unliquidated obligations as reflected in the USAID records. The balances are restricted for use in accordance with Trust Fund or

Donation agreements with the exception of \$14,000 of unconditional donations. The Trust Funds do not maintain cash in commercial bank accounts.

E. Financing Sources

Financing for the U. S. Dollar Advances from Foreign Governments Trust Fund is from advances received from foreign governments and/or international organizations. Appropriated funds are not used to finance this fund and the fund does not generate any revenue to supplement its financing amounts.

Financing for the Gifts and Donations Trust Fund is from either conditional or unconditional contributions from individuals or public organizations. Appropriated funds are not used to finance this fund and the fund does not generate any revenue to supplement its financing amounts.

As neither of the Trust Funds receive appropriations, liabilities cannot be classified meaningfully into those covered by Budgetary Resources and those not covered by Budgetary Resources, the disclosure required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. The presentation adopted is consistent with generally accepted accounting principles.

F. Income from Fund Activity

Income from Fund Activity reflects receipt of funds from Foreign Governments Trust Fund and the Gifts and Donations Trust Fund. Available fund balances are recorded as income and expense when used to acquire goods and services for participating countries.

2. FUND BALANCES WITH TREASURY

Fund Balances with Treasury are as follows (in thousands):

	Available	Restricted	Total
TRUST FUNDS			
U.S. Dollar Advances from Foreign Governments	\$ -	\$3,684	\$3,684
Gifts and Donations	<u>14</u>	<u>11</u>	<u>25</u>
Total	<u>\$ 14</u>	<u>\$3,695</u>	<u>\$3,709</u>

3. TRUST FUND BALANCES

The Trust Fund Balances are detailed as follows (in thousands):

	1995	1994
Unexpended Trust Fund Balances:		
Unobligated	\$2,311	\$2,407
Undelivered Orders	<u>856</u>	<u>1,838</u>
Total	<u>\$3,167</u>	<u>\$4,245</u>

The Trust Funds represent advances or donations received from foreign governments and international organizations for which USAID has a fiduciary responsibility. These fund balances do not represent equity to the U. S. Government.

For 1995 the Trust Fund Balances by country were (in thousands):

	Balance October 1, 1994	Deposits Received	Purchases Expended	Balance September 30, 1995
Government of:				
Bolivia	\$ 379	\$ -	\$ -	\$ 379
Zambia (Washington managed)	172	-	172	-
Zambia (Overseas managed)	22	-	1	21
Botswana	1,200	-	840	360
Pakistan	98	-	(1)	99
Bahrain	14	-	9	5
Nigeria	614	-	-	614
Kuwait	5	-	5	-
Zaire	411	-	-	411
South Vietnam	1,070	-	-	1,070
Others	62	-	1	61
United Nations Children Emergency Fund (UNICEF)	174	361	384	151
Reimbursable Training Program (Note 5)	<u>20</u>	<u>35</u>	<u>59</u>	<u>(4)</u>
	4,241	396	1,470	3,167
Unapplied Expenditures	<u>4</u>	<u>-</u>	<u>4</u>	<u>-</u>
TOTAL TRUST FUND BALANCES	<u>\$4,245</u>	<u>\$ 396</u>	<u>\$ 1,474</u>	<u>\$3,167</u>

For 1994 the Trust Fund balances by country were (in thousands):

	Balance October 1, 1993	Deposits Received	Purchases Expended	Balance September 30, 1994
Government of:				
Bolivia	\$ 8	\$2,300	\$1,929	\$ 379
South Korea	5	-	5	-
Zambia (Washington managed)	2,694	-	2,522	172
Zambia (Overseas managed)	49	-	27	22
Botswana	1,717	-	517	1,200
Pakistan	2,382	(1,667)	617	98
Bahrain	14	-	-	14
Nigeria	614	-	-	614
Kuwait	32	-	27	5
Zaire	204	207	-	411
South Vietnam	1,070	-	-	1,070
Malta	254	-	254	-
Others	216	-	154	62
United Nations Children Emergency Fund (UNICEF)	173	267	266	174
Reimbursable Training Program (Note 5)	33	18	31	20
	<u>9,465</u>	<u>1,125</u>	<u>6,349</u>	<u>4,241</u>
Other In-transit/Unapplied Expenditures	-	-	(4)	4
TOTAL TRUST FUND BALANCES	<u>\$9,465</u>	<u>\$1,125</u>	<u>\$6,345</u>	<u>\$4,245</u>

4. TRUST FUND EXPENSES

Trust Fund Expenses by object classification are as follows (in thousands):

Description	1995	1994
Travel	\$ -	\$ 1
Transportation of Commodities	-	1,929
Contractual Services	80	73
Supplies and Materials/Commodities	-	2,527
Equipment Not Capitalized	-	254
Grants, Subsidies, and Commodities	172	-
Other:		
(a) Participant Training Costs	379	395
(b) Overseas Managed Trust Funds	840	1,165
(c) Other Personnel Compensation	1	1
(d) Miscellaneous	2	-
Total Expenditures by Object Classification	<u>\$1,474</u>	<u>\$6,345</u>

5. REIMBURSABLE TRAINING PROGRAM

USAID manages several activities for training foreign students, funded by the Trust Funds of certain foreign governments. These costs are accounted for in the Reimbursable Training Program. The funding of Reimbursable Training Program costs was provided as follows (in thousands):

	1995	1994
Government of Kuwait	\$ -	\$ 3
UNICEF	<u>59</u>	<u>28</u>
Total	<u>\$ 59</u>	<u>\$ 31</u>

The types and amounts of expenses are as follows:

Personal Services & Benefits - RTP Contract Staff	\$ 59	\$ 17
Personal Services & Benefits - USAID Direct Hire Staff	<u>-</u>	<u>14</u>
Total	<u>\$ 59</u>	<u>\$ 31</u>

Amounts included above for Personal Services and Benefits - USAID Direct Hire Staff were paid out of USAID's operating expense appropriation. These costs were reimbursed to USAID's operating expense appropriation and were available for obligation in that appropriation.

* * * * *

MISCELLANEOUS U.S. DOLLAR TRUST FUNDS

Program Overview
September 30, 1995

The Financial Statements for the Miscellaneous U.S. Dollar Trust Funds (the Trust Fund) include the financial activities of two USAID Trust Funds. These are:

- The U.S. Dollar Advances from Foreign Governments Trust Fund; and
- The Gifts and Donations Trust Fund

In this section, each of these Funds are separately described. Amounts are expressed in actual dollars.

U.S. Dollar Advances From Foreign Governments

Section 607 of the Foreign Assistance Act (FAA) of 1961, provides USAID with the authority to accept advances of U.S. dollars from foreign governments and/or international organizations to facilitate the purposes of the FAA. In accordance with U.S. Treasury regulations, USAID has established a U.S. Dollar Advances from Foreign Governments Trust Fund account 72X8502 at the U.S. Treasury to maintain these deposits. USAID acts in a fiduciary capacity in carrying out specific activities and programs in accordance with bilateral agreements with foreign countries and draws from the foreign countries trust fund balance to pay for related expenditures.

The funds are not tied to a specific organization or program in USAID. The goal is to offer services that USAID already performs in other programs and has the technical expertise and resources to provide. The difference between these funds and other programs is that the funding is provided by foreign countries instead of by Congressional appropriation or revenue-generating services. These funds are derived from primarily a financing mechanism rather than a specific organization or program.

Active Trust Fund Programs Managed by USAID/Washington:

Government of Bahrain and Nigeria:

The Governments of the State of Bahrain, Civil Service Bureau, and the Government of the Federal Republic of Nigeria signed separate agreements with USAID in June 1981 and August 1977, respectively, to provide professional and administrative services for participants to receive training at various training institutions and facilities in the United States to meet manpower development requirements.

Governments of Bolivia and Zambia:

The Governments of the Republic of Bolivia and Zambia signed separate agreements with USAID in March 1992 to enhance food security. The sale of U.S. agricultural commodities generates local currency to (1) combat hunger and malnutrition and their

causes; (2) promote equitable and sustainable development; and (3) develop and expand export markets for agricultural commodities. The deposits of U.S. Dollar Trust Funds are used to pay for port-to-port and inland transportation of PL 480, Title III agriculture commodities (maize). The Zambia Trust Fund was closed in fiscal year 1995. The Bolivia Trust Fund will be closed in fiscal year 1996.

Government of Kuwait:

The Government of Kuwait signed an agreement with USAID in January 1993 to provide the professional and administrative services needed by Kuwaiti participants receiving human resource, management, development, and programming training at various institutions and facilities in the U.S. The Kuwait Trust Fund was closed in fiscal year 1995.

Government of South Korea:

The Government of the Republic of South Korea signed an agreement with USAID in March 1992 to provide professional and administrative services required by South Korean participants receiving training in the operational aspects of administering international development programs at various institutions and facilities in the U.S.

United Nations Children's Emergency Fund (UNICEF):

The United Nations Children's Emergency Fund (Training Component of the Mickey Leland Memorial Fund for Africa) signed an agreement with USAID in December 1990 to provide professional and administrative services for participants from various African countries receiving training in human resource development requirements at various institutions and facilities in the U.S.

Active Trust Fund Programs Managed by USAID Overseas Missions:

Government of Pakistan:

Monies received from the Government of Pakistan are for the placement, monitoring, tuition, fees, monthly maintenance, and management of Pakistani participants in U.S. educational institutions. The Academy for Educational Development under direct mission contract provides screening and monitoring of such participants.

Government of Botswana:

Monies received from the Botswanan Permanent Secretary to the Ministry of Finance and Development Planning are for long-term and short-term training in the U.S., long-term and short-term technical assistance, and general program support costs Botswanan trainees studying in the U.S.

Government of Zambia:

The Government of the Republic of Zambia signed an agreement with USAID in March 1993 to share the administrative costs of the United States Assistance Programs in the Republic of Zambia. The amounts deposited by the Government of the Republic of Zambia were made available for purchase of the USAID office in Zambia. Title to any tangible assets purchased from the Trust Fund account will ultimately be vested in the Government of Zambia.

Government of Zaire:

U.S. economic assistance to Zaire ceased with the civil insurrection of September 1991. At that time, the decision was made to dispose of all program and project funded personal property in the custody of the mission and the proceeds from disposal of this property were deposited into the fund. The Government of Zaire was made aware of this action by either an amendment to Project Agreements or by letters from mission officials. The funds are to be used as mutually agreed.

Performance Measures:

Because the U.S. Dollar Trust Fund is very limited in its purpose and objectives, and since it is very small 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.

However, it is still management's intention to develop basic financial performance measures to ensure that the activity is appropriately recorded, and individual Trust Fund balances are reconciled. The performance measures established are:

- The financial statements themselves;
- All receipts into the trust fund will be deposited and budget allowances prepared and recorded within 60 days of receipt;
- All cash disbursements and collections will be reconciled to Treasury and any differences cleared within 60 days;
- All interoffice payments (Advice of Charges) will be reviewed and processed within 60 days of original payment;
- Monthly status reports of deposits, disbursements, and current fund balance for each individual Trust Fund will be prepared and reviewed.

Miscellaneous U.S. Dollar Trust Fund

Program Overview (cont.)

September 30, 1995

Performance Measure Results:

Based on a review of the status of the U.S. Dollar Trust Fund as of September 30, 1995 USAID has been successful in its goal to ensure that financial activity was appropriately recorded and that individual Trust Fund balances were accurate and reconciled.

- All trust fund receipts were deposited and budget allowances issued as of September 30, 1995.
- All cash disbursements and collections were reconciled as of September 30, 1995, or 60 days later. The only exception was \$65,000 in outstanding cash reconciliation activities for USAID/Botswana. USAID/Botswana has made substantial progress in accounting for this difference and the reconciliation is expected to be completed in the next fiscal year. As of October 1995, the balance has been reduced to \$40,000.
- All interoffice payments (Advice of Charges) were processed as of September 30, 1995.
- Status reports for each individual Trust Fund were prepared each month and reviewed.

Financial Matters:

Financing for the Trust Fund is obtained from advances received from foreign governments and/or international organizations. Appropriated funds are not used to finance this fund and the fund does not generate any revenue to supplement its financing amounts. Apportionment of available funds by OMB is not required.

Financial Condition:

The financial condition of the Fund will fund current active programs. Commitments and obligation for new programs are incurred only after deposits by the foreign countries or international organizations are received by USAID and deposited into U.S. Treasury Account 72X8502. Funding is sufficient to cover the expenses related to the current programs.

Problem Area:

The key issue for financial statement reporting is trust fund balances for old and unsupported transactions with foreign governments. Records supporting a few old and inactive trust fund balances are poor and it is doubtful that the trust fund balances reflected in the financial statements will be independently confirmed by the trustees. The trust fund balances reflected in the financial statements do reconcile to the U.S. Department of Treasury's fund balance for the U.S. Dollar Advances from Foreign Governments program.

Conclusion

Program Performance:

Essentially, the success or failure of the program is determined by the foreign countries themselves, since the existence of the program is dependent on their financing. As long as USAID can provide the desired services, and there are countries and international organizations are willing to provide the financing through advances, the program will continue to function.

Financial Operations and Condition:

Ongoing financial operations of the program are satisfactory. The one area of some concern — the outstanding cash reconciliation balance for Botswana — has greatly improved and it is expected that all cash reconciliation balances will be cleared in fiscal year 1996.

Gifts And Donations Trust Fund

Section 635(d) of the FAA provides the principal authority authorizing USAID to accept and use, in furtherance of USAID program objectives, money, funds, property, and services of any kind made available by gift, devise, bequest, and grants. In accordance with U. S. Treasury regulations, USAID has established a Gifts and Donations Trust Fund account 72X8824 which records cash expenditures against deposit of funds into this account.

Conditional and Unconditional Gifts:

Donations to the Gifts and Donations Trust Fund are conditional (for a specific purpose) or unconditional (for general use). For conditional gifts, there are several criteria that must be met:

- USAID must comply with the conditions of the donation and still use the donation in furtherance of the purposes of the FAA;
- USAID must comply with the conditions of the donation in a reasonable and cost-efficient manner; and
- Acceptance of the donation will not result in, nor create the appearance of, a conflict of interest.

Currently, there are two conditional gift programs. One of the programs is the National Cash Register Corporation (NCR) donations of \$150,060. This donation was made in 1986 and was to be administered by USAID in USAID/Nigeria. At September 30, 1994, the undisbursed balance of this donation is \$10,060. The other is an annual donation received from a private individual as a memorial to a former employee which is to be used for a cash

award to a current USAID employee. A donation of \$1,000 was accepted and then awarded to a USAID employee in fiscal year 1995 and 1994.

Unconditional gifts of \$14,403 have generally been utilized by USAID's Office of the Administrator. Donated funds may be used by USAID for representational or entertainment expenses, provided those expenses further a valid USAID function. USAID may use donated funds for these purposes without regard to the limitations of Section 636(a) of the FAA or Section 508 of the Appropriations Act. In fiscal year 1995, the agency received a \$9,750 unconditional donation from the estate of a former employee.

Performance Results:

Because the Gifts and Donations Trust Fund is very limited in its purpose and objectives, and since it is very small 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.

Conclusion:

There are no material problems with the current Gifts and Donations Trust Fund Program.

Limitations of the Financial Statements

The financial statements have been prepared to report the combined financial position and results of operations of the two Trust Funds, pursuant to the requirements of the CFO Act of 1990.

While the statements have been prepared from the books and records of the Trust Funds in accordance with the form and contents specified by 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.

USAID



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Appendix I

MAR 29 1996

TO: IG/A/FA Director, Bruce N. Crandlemire
FROM: CFO, Donald K. Charney *D. Charney*
SUBJECT: Audit of USAID's Miscellaneous U.S. Dollar Trust Fund
for the Years Ending September 30, 1995 and 1994

The Office of Financial Management appreciates the opportunity to comment on the subject draft audit. We strongly disagree with the recommendation that the Chief Financial Officer is responsible for establishing procedures to assure independent confirmations of trust funds held by the Agency for International Development (USAID).

The source and purpose of the dollar trust funds varies by country. In some cases USAID has entered into trust fund arrangements to partner improved relations and to enhance development goals through the use of funds provided by the host country. In other cases the funds are generated as the result of program suspension. These trust funds serve political purposes and are returned to the host country, if and only if approved at a political level. The Office of Financial Management is not authorized to interpret non-existent agreements nor to repay host countries barred from payments by the United States Congress. Under these political circumstances, it is unreasonable to assume that USAID will be able confirm balances that USAID holds in a custodial relationship for the host country.

It is inappropriate for auditors to recommend that the USAID Office of Financial Management assure that balances of the U.S. Dollar Trust Funds are periodically verified with the participating host governments where foreign policy states otherwise. As the custodian of the account we are responsible for accounting for deposits, disbursements and balances that agree with Treasury. Verbal representations during the exist conference by the Deloitte and Touche auditors, and accepted by USAID's IG staff, confirmed auditor satisfaction with the accounting work of USAID accountants and indicated that the financial statements fairly represent the status of the U.S. Dollar Trust Fund account.

I request the recommendation be excluded from the final audit report as M does not accept the premise of confirmation as a prerequisite to an opinion confirming the accuracy of these financial statements. I am available to discuss this further.