

# USAID

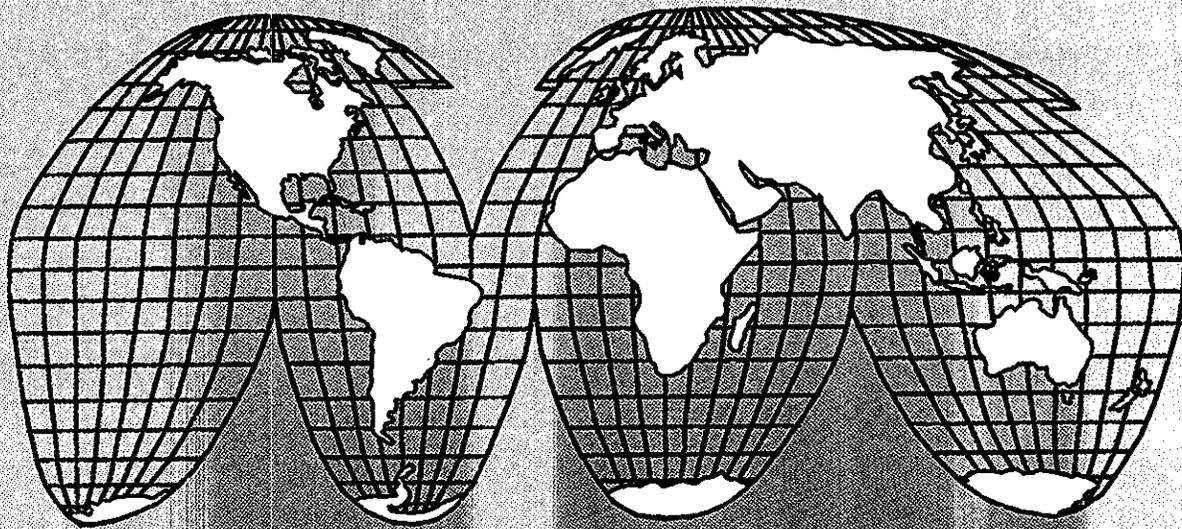
## OFFICE OF INSPECTOR GENERAL

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### Audit of USAID/Nigeria Fiscal Year 2000 Operating Expenses

Audit Report No. 7-620-01-001-F

July 31, 2001



U.S. Agency for International Development  
Dakar, Senegal

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*U.S. Agency for  
International  
Development*

*RIG/Dakar*

July 31, 2001

**MEMORANDUM**

**FOR:** Thomas Hobgood, USAID/Nigeria Director  
**FROM:** Dennis Bryant, Acting RIG/Dakar   
**SUBJECT:** Audit of USAID/Nigeria Fiscal Year 2000  
Operating Expenses (Report No. 7-620-01-001-F)

This memorandum is our report on the subject audit. We have considered your comments to the draft report and have included them in their entirety as Appendix II. The report contains five recommendations for your action. The draft report contained six recommendations. However due to its immaterial dollar amount, we removed one of the recommendations from the report and are including it in a separate management letter.

Based upon your comments to the draft report, management decisions have been reached for Recommendation Nos. 1.2, 2.1, 2.2, 3.1, 3.2, 4 and 5. A management decision has not been reached on Recommendation No. 1 because we modified the recommendation, based on additional information provided in your comments. Please provide written notice to us within 30 days of any additional information related to the actions planned or taken to implement this recommendation. Furthermore, in accordance with USAID guidance, M/MPI is responsible for determining when final action has occurred on all recommendations. Therefore, please coordinate final action with M/MPI.

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

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## **Summary of Results**

The operating expense funding provided to USAID missions finances the salaries and support costs of USAID employees as well as the general administrative costs of operations. We conducted this financially-related audit to examine Fiscal Year 2000 cash disbursements made for USAID/Nigeria's operating expenses.

Our opinion is limited to a judgmentally selected sample of \$1.3 million in operating expense disbursements (42%) out of a total of \$3.1 million disbursed in Fiscal Year 2000. The audit disclosed that USAID/Nigeria, except as noted in the following paragraphs, had managed and accounted for these selected operating expenses and its petty cash imprest fund in accordance with USAID policies and procedures.

The audit testing revealed that improvements in internal controls over operating expense funding are warranted to better ensure adequate management and accountability. To accomplish this, the audit report contains recommendations to address specific problems in the areas of (1) Foreign Service National payroll (page 6), (2) non-expendable property (page 8), (3) advances (page 11), (4) vehicle control (page 12), and (5) petty cash (page 13).

The audit also disclosed that there are a number of risk factors which increase the vulnerability of USAID/Nigeria's large rapidly expanding program, and these risk factors should be taken into consideration as decisions are made regarding USAID/Nigeria's operations. The risk factors are identified in Appendix I of this report in the Scope and Methodology section.

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## **Background**

Nigeria has been declared by the U.S. Department of State as one of four priority countries transitioning to democracy. USAID/Nigeria's transition strategy was approved by USAID's Africa Bureau in September 1999. Since then, the Mission has been working to address the key factors affecting the start-up and ongoing implementation of its programs. The key factors are: (1) personnel and financial resource levels, (2) planned move to Abuja, and (3) geographic coverage or the ability to manage programs in a country as large as Nigeria, with a population of about 114 million. USAID/Ghana is the accounting station and provides the necessary computerized accounting services.

USAID/Nigeria implemented a large program totaling approximately \$95.5 million in total funding in Fiscal Year 2000. The current funding for Fiscal Year 2001 is \$89.9 million, but this could later increase to as much as \$100 million. Our audit focused on the Mission's cash disbursements for "operational expenses" for which \$3.1 million was disbursed during Fiscal Year 2000.

To facilitate program operations, USAID/Nigeria is moving from its current location in Lagos to Abuja,<sup>1</sup> the new capital of Nigeria. Most of the Mission's counterparts, such as the Government of the Federal Republic of Nigeria (GFRN), other bilateral donors, and international organizations, are based in Abuja.

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**Audit Objective**

As part of its Fiscal Year 2000 audit plan, the Regional Inspector General/Dakar performed an audit to answer the following question:

**Did USAID/Nigeria manage and account for selected operating expenses and its imprest fund for Fiscal Year 2000 in accordance with USAID policies and procedures?**

The audit scope and methodology are presented in Appendix I.

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**Audit Findings**

**Did USAID/Nigeria manage and account for selected operating expenses and its imprest fund for Fiscal Year 2000 in accordance with USAID policies and procedures?**

For the items tested, the audit disclosed that USAID/Nigeria, except as noted in the following paragraphs, had managed and accounted for selected operating expenses and its petty cash imprest fund in accordance with USAID policies and procedures.

Except as discussed in the following paragraphs, the Mission performed, as appropriate, the following control functions: (1) purchase orders and receiving reports were prepared; (2) purchases were competitively bid, or justification supported those instances of noncompetitive bids and the prices appeared to be reasonable; (3) non-expendable property (NXP) purchases were tagged and added to the Mission's inventory of NXP items and (4) payments were properly approved, processed and made to the correct payees.

Foreign Service National (FSN) salary disbursements for seven payroll periods (occurring from September to December 1999) were not posted as transaction disbursements until April 2000. The problem occurred because the Paris Financial Services Center (FSC) did not charge payroll costs to the proper appropriation, which exacerbated the delays caused by reconciling items and the time lag between FSC transactions and the receipt of transaction information by USAID/Ghana. Thus, we are recommending that USAID/Nigeria, through its accounting station (USAID/Ghana), inform FSC/Paris of the late posting

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<sup>1</sup> USAID/Nigeria recently moved its offices from Lagos to Abuja, which is the new capital in Nigeria.

problem and request that, in the future, payroll costs be charged to the proper appropriation.

The audit disclosed two non-expendable property (NXP) related issues that should be resolved to improve the internal control environment. First, the Mission was using two receiving areas; in addition to the primary receiving area at the Embassy warehouse, there was another receiving area (referred to as an alternate or sub-receiving area). There were no formally defined procedures for the sub-receiving area as required. Although we could not determine why this occurred, the Mission subsequently stated they would prepare a Mission Order on NXP after their move to Abuja. Second, a private sale of Mission NXP was held by the U.S. Embassy<sup>2</sup> in Lagos without the required advertising and knowledge of the Mission Executive Officer (EXO). We are recommending the development of a Mission order on NXP to address these concerns.

A \$16,215 disbursement was incorrectly recorded in the Mission's records as an expense, instead of an advance. Consequently, the accounting records improperly reflected the transaction and the Mission did not know that the employee who had received these advance funds still needed to account for them. We believe this occurred because Mission personnel did not clearly understand how to account for the transaction. Therefore, we are recommending that the Mission develop a plan to monitor advances and develop a training plan for its personnel.

The Mission assigned responsibility to maintain an inventory of its vehicles to the dispatcher, thereby giving the same individual custody of the vehicles and responsibility for the vehicle inventory records. This resulted in an internal control weakness since the same person who had physical custody of the vehicles also maintained the vehicle records. We are recommending that the two duties be separated.

Some petty cash receipts related to telephone installation charges were photocopies rather than originals, as required. This occurred because some utilities and government service entities in Nigeria keep original documents when payments are made. In addition, documents may be lost or accidentally destroyed. We are recommending the establishment of a procedure to maintain originals, or an explanation be attached as to the reason for the photocopy.

Two additional issues concerning questionable billings and the liquidation of the sub-cashier fund are being addressed in a management letter. Also, the audit disclosed a procurement transaction that we referred to our Office of Investigations for further review.

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<sup>2</sup> The U.S. Embassy was formerly located in Lagos and is now located in the new capital city of Abuja, Nigeria. The U.S. Consulate is now located in Lagos, Nigeria.

### **FSN Salary Disbursements Should be Timely Posted**

FSN salary disbursements for payroll periods 20 through 26 in 1999 (occurring September 26, 1999 to January 1, 2000) totaling approximately \$53,000 were not posted as transaction disbursements until April 2000. The USAID/Nigeria FSN payroll is posted by the accounting station (USAID/Ghana) and the FSN payroll is a reconciling item. USAID/Ghana experienced some problems in posting USAID/Nigeria's FSN salary information because FSC/Paris did not charge the payroll costs to the proper appropriation, which delayed the posting of this information. Timely posting of significant transactions, such as payroll, is important to producing accurate financial reports, and the lack of timely reporting can distort the presentation and reporting of financial operations. Also, our audit of the FSN payroll function disclosed four FSNs during one payroll period who did not submit timesheets because they were in travel status. According to ADS 479.3, timekeepers are responsible for maintaining the proper time and attendance data for each assigned employee. To facilitate this process and reduce the possibility of abuse, all employees should complete timesheets, even when in travel status.

*The Standards for Internal Control in the Federal Government* issued by the General Accounting Office (GAO) states: "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

FSN salary disbursements for payroll periods 20 through 26 in 1999 (occurring September 26, 1999 to January 1, 2000) totaling the local currency equivalent of approximately \$53,000 were not posted as transaction disbursements until April 2000. USAID/Ghana is the accounting station for USAID/Nigeria. The USAID/Ghana Controller was aware of the problem of late postings of various transactions. The USAID/Ghana Controller explained that they post the USAID/Nigeria payroll transactions when they clear SF-1221 reconciling items at USAID/Ghana since USAID/Nigeria payroll transactions are always reconciling items. They are reconciling items because USAID/Nigeria was processing its payroll together with cash vouchers through the U.S. Embassy in Lagos.

USAID/Ghana obtains the details of all payments made by the U.S. Embassy on behalf of USAID/Nigeria from FSC/Paris. This occurs a month later through the SF-1221 reconciliation process. Therefore, due to the time lag, USAID transactions processed by the U.S. Embassy (including USAID's payroll) are more likely to become reconciling items. USAID/Ghana had a large number of

reconciling items and they had not, in the past, been giving priority to clearing and posting the USAID/Nigeria payroll transactions. More importantly, USAID/Ghana experienced problems in posting USAID/Nigeria's FSN salary information for the last quarter of calendar year 1999 because FSC/Paris did not charge the payroll costs to the proper appropriation. FSC/Paris charged payroll costs to an invalid account, which prevented USAID/Ghana from reconciling and posting the transactions. According to the Mission, this mistake added to an extra three-month delay in USAID/Ghana's efforts to reconcile and post the 1221 items on a timely basis.

The Controller further stated that they are making efforts to remain current on their SF-1221 reconciliation process, and they have substantially decreased their uncleared items from approximately 10,000 to 800, including payroll. The approach previously used by USAID/Ghana in clearing outstanding reconciling items was to clear out the oldest reconciling items first. The Controller believes that they can improve the status of late payroll postings, but the postings will not be made earlier than two months following the transaction, for the previously described reasons. Nonetheless, this would represent a substantial improvement over the current situation whereby payroll transactions for USAID/Nigeria were posted up to six months after disbursement.

According to the Controller, additional reasons for the late postings include: (1) in the vast majority of cases, appropriation data cited on the SF-1166<sup>3</sup> are incorrect, thereby causing additional impediments since the appropriation data needs to be corrected before posting; and, (2) postings of payroll are not done directly from the data received on the SF-1166 vouchers, because the vouchers are not in a format that can be directly posted to MACS. For example, payments to FSNs are made in local Nigerian currency (Naira) and have to be converted to U.S. dollars before posting. Therefore, worksheets are prepared for each payroll to facilitate the posting of transactions.

However, as a result of our audit, the USAID/Ghana Controller stated that they would rearrange their priorities for clearing and posting transactions. Thus, USAID/Nigeria payroll transactions would now receive priority. The payroll transactions are to be posted upon the date of the report from FSC/Paris. Giving priority would assure a timelier posting of the USAID/Nigeria payroll transactions.

Late postings of payroll information resulted in distorted and incorrect reporting of payroll accounting. We concluded that the position taken by the USAID/Ghana Controller to begin giving priority to payroll transactions is an appropriate means of addressing the issue of late payroll postings for USAID/Nigeria. Subsequent to our audit fieldwork, USAID/Ghana stated to us in an email message that, "For your information, we have now fully posted all

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<sup>3</sup> The SF-1166 is standard form used by Missions to submit requests for payments to the U.S. disbursing office.

the outstanding payrolls identified.” In its management comments to the draft report, the Mission stated that they have taken due cognizance of this condition. The Mission stated that they have taken efforts to ensure that the time lag between transactions processed by FSC/Paris is reduced to a reasonable period of two months. However, in our opinion, a letter to FSC/Paris, informing them of this late payment problem and the need to charge payroll costs to the proper appropriation, will serve to reduce the risk of future delays in payroll postings.

Regarding the issue of timesheets, the audit disclosed that FSNs do not always submit them when they are in travel status. According to ADS 479.3, timekeepers are responsible for maintaining the proper time and attendance data for each assigned employee. To facilitate this process, all employees should complete timesheets to document their entitlement to compensation and to what extent they should be paid. This is applicable even when an employee is in travel status or, for whatever reason, is not available at his normal work site. (There are some extreme situations, of course, when an employee cannot submit a timesheet due to some abrupt or unforeseen event and appropriate judgement is called for). The completion and submission of timesheets by all employees is an important element of internal control to assure that employees are accurately paid for the work performed. When timesheets are not properly completed and submitted by all employees, there is an increased possibility for the abuse of personnel and funding resources.

The following recommendations address the late posting and timesheet problems.

**Recommendation No. 1: We recommend that  
USAID/Nigeria:**

- 1.1 instruct its accounting station (USAID/Ghana) to inform the Financial Service Center/Paris of the late posting problem and request that, in the future, the Financial Service Center/Paris charge payroll costs to the proper appropriation, and**
- 1.2 establish a requirement that all employees complete and submit timesheets, even when they are away from the Mission.**

**Control Over Non-expendable  
Property Needs Strengthening**

During the course of the audit two internal control issues related to non-expendable property (NXP) were identified. First, the Mission was using an alternate or sub-receiving area and there were no formally defined procedures as required by 6 FAM 223.2 (Foreign Affairs Manual). Although we could not

determine why this occurred, the Mission was planning to prepare a Mission Order on NXP after their move to Abuja. Second, the U.S. Embassy in Lagos held a private sale of Mission NXP without the required advertising and knowledge of the Mission EXO, in contravention of 6 FAM 227.3-3. This occurred under the ICASS (International Cooperative Administrative Support Services) arrangement and the EXO could not explain why it happened. However, he is disappointed with the ICASS arrangement and the Mission plans to withdraw after the move to Abuja. Furthermore, we believe the move to Abuja could result in misplaced or lost NXP. Therefore, an immediate inventory should be taken, after the move, to resolve any unaccounted for NXP. The above issues have the potential to result in a partial loss of the Mission's NXP assets unless they are appropriately addressed.

In Fiscal Year 2000, USAID/Nigeria participated in the U.S. Embassy ICASS system for the warehousing, control, and accountability of their NXP. During the audit, the EXO informed us that, due to its high cost and their dissatisfaction with the arrangement, the Mission plans to withdraw from the USAID NXP function in ICASS after the move to Abuja. In anticipation of this change, the EXO has already located a separate warehouse facility in Abuja for the storage of the Mission's NXP. As described below, the audit disclosed two primary conditions related to USAID's NXP that, if addressed, would improve the internal control over its property. Furthermore, this section discusses other aspects of the Mission's NXP operation that could be better controlled by the issuance of a Mission Order on NXP.

For the first condition, the audit found that USAID/Nigeria was using a sub-receiving area to receive NXP at the USAID Mission, which is outside the primary NXP receiving area located at the U.S. Embassy. However, there were no written operating procedures on the receiving process for handling NXP at an alternate site, as required. According to 6 FAM 223.2, "The receiving activities of each establishment should be centralized. However, the PMO's<sup>4</sup> designation of a central receiving area does not preclude receiving and inspection at other areas. When sub-receiving areas are designated, written operating procedures shall include a method of informing the central receiving area of all receipts." Although the Mission is moving to the capital city in Abuja, it is possible they may establish an arrangement that will entail the usage of another sub-receiving area. If this becomes the case, then written procedures will need to be established. The audit could not determine why there were no written procedures for the sub-receiving area for the USAID/Mission in Lagos. However, the EXO later stated to us in an email message that, immediately after the move to Abuja, they plan to inventory the property and prepare a Mission Order pertaining to all aspects of NXP.

For the second condition, the Mission found that the Embassy, in June 2000, had sold some Mission NXP in a private sale without the required advertising, and

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<sup>4</sup> Property Management Officer

without the knowledge of the Mission EXO. This is prohibited by 6 FAM 227.3-3.d, which states: "Except where the nature or condition of the property does not permit, or when local conditions prohibit, advertising shall be used for all types of sales." The Mission EXO stated that the Mission NXP that was sold should have been advertised to the public and he should first have been notified.

During the exit conference, the EXO stated that the Mission received authorization from USAID's Office of Management Services in Washington to use the Assistant EXO, who is a Foreign Service National (FSN), as the Mission's Accountable Property Officer (APO). However, the Mission had not yet officially designated the Assistant EXO as the APO and was awaiting the move to Abuja before doing so. According to 6 FAM 221.2-2, the APO must be designated in writing by the property management officer (EXO). We believe this should be included as part of the Mission Order on NXP which the Mission intends to prepare.

It is reasonable to assume that the move to Abuja could result in some Mission NXP being misplaced, lost, or stolen. Therefore, an immediate inventory (after the move to Abuja) of the Mission's NXP will benefit the Mission by assisting them to identify any items which cannot be accounted for, and to promptly resolve any discrepancies. Normally, the Mission takes an inventory each year and the last one was in November 2000. During the audit, we suggested this and the EXO agreed that they would inventory all property immediately after the move. This is especially important since the Mission will be rapidly expanding in staffing and operating expense funding. Accordingly, the quantity and value of NXP items will also increase.

We concluded that it is in the best interest of USAID/Nigeria to document various NXP related issues, by developing a Mission Order for guidance to improve the control over their NXP. This should also reduce their NXP vulnerability and curtail the current potential for loss of valuable Mission assets. Although, in our opinion, a Mission Order cannot provide absolute assurance that errors will be prevented, it does serve to increase the level of assurance. Such a Mission Order would also serve to assist USAID/Nigeria in complying with the requirements of the FAM regulations.

Furthermore, we believe that the issuance of a USAID Mission Order on NXP is important so that the following issues can be addressed: (1) various NXP control procedures (such as those governing the NXP disposal process) should be in writing to avoid misunderstandings which oftentimes occur because of personnel changeover, relocations, and the lack of specific instructions, especially with the Mission no longer operating under ICASS, (2) formally defined procedures must be written for alternate or sub-receiving areas and, (3) the APO must be designated in writing and we believe this should be included in the Mission Order on NXP.

The following recommendations address the issue of inventory, sub-receiving area, disposal procedures, and the Accountable Property Officer.

**Recommendation No. 2: We recommend that  
USAID/Nigeria:**

- 2.1 conduct a full inventory of non-expendable property, as soon as possible after the move to the new office building in Abuja, and resolve discrepancies, and**
- 2.2 develop a Mission Order to address non-expendable property procedures, to include: property received in a sub-receiving area, disposal procedures for Mission property, and the designation and duties of the Accountable Property Officer.**

**Advances Should be  
Recorded Correctly**

Financial information should be correctly recorded. A \$16,215 advance to an employee for temporary quarters was incorrectly recorded as an expense. Consequently, the accounting records did not properly reflect the events that had occurred and the Mission did not know that the employee who had received these funds needed to account for how they were spent. This error arose because Mission personnel did not clearly understand how to account for the transaction. As a result, the accounting records were not properly stated.

The correct and timely recording of transactions and events is an important aspect of the financial system. The *Standards for Internal Control in the Federal Government* issued by the General Accounting Office (GAO) states: "Transactions and other significant events should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

The Foreign Affairs Manual (FAM) section 464.3-5 addresses Temporary Quarters Subsistence Allowance (TQSA) Advances and states: "When an advance for TQSA is granted, an accounts receivable must be set up to control the repayment of such an advance."

One of the disbursements we examined during our audit fieldwork was a \$16,215 advance payment for temporary quarters allowance, which was made on September 20, 2000. These funds were given to an employee who had recently relocated to Lagos, Nigeria from Washington, DC and provided the employee

with funds to pay for essential expenses, in this case temporary lodging expenses, until the employee's permanent quarters were available.

This \$16,215 disbursement was incorrectly recorded in the Mission's records as an expense, instead of an advance. Consequently, the accounting records did not properly reflect the events that had occurred and the Mission did not know that the employee who had received these funds needed to account for how they were spent. During the audit fieldwork, we brought this error to the attention of the Mission Controller and the transaction was reclassified as an advance on December 12, 2000.

We believe that this transaction was incorrectly recorded because Mission personnel did not clearly understand how to account for the transaction. A training program for financial personnel would be beneficial.

In our view, training is an issue for Mission consideration at this time. After the move to Abuja, the Mission program will be expanding and additional personnel will be hired. The importance of training new employees for their duties and responsibilities and the many complex operational and developmental issues cannot be overemphasized. Since the Mission will be adding a significant number of new employees in the near future, the prudence of a training plan is evident. In addition, the development of such a plan would allow the Mission to review, assess, and determine training needs for both existing and new staff in such areas as finance, procurement, etc.

The following recommendation is made to improve the Mission's management of advances and the development of a training plan to improve the skills of Mission personnel.

**Recommendation No. 3: We recommend that  
USAID/Nigeria:**

- 3.1 develop a plan to monitor all advances, and**
- 3.2 assess the training needs for their current and incoming Foreign Service National staff and develop a training program to ensure that they receive appropriate training for their respective responsibilities.**

**Internal Control over Vehicles  
Needs to be Improved**

ADS E536.5.14.b.2 states that a Mission Inventory Motor Vehicles System (MMVIS) is to be maintained and updated annually by each USAID Mission. USAID/Nigeria does maintain an inventory of all Mission vehicles. However,

this inventory is maintained and controlled by the dispatcher, who also has access to all the vehicles. This condition is contrary to one of the elements of internal control -- the segregation of duties; namely, record keeping and the custody of assets.

The *Standards for Internal Control in the Federal Government* issued by the General Accounting Office (GAO) contains examples of control activities. One category of controls is the segregation of duties, in which key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for recording information and handling the related assets.

The Mission assigned responsibility to maintain an inventory of the Mission vehicles to the dispatcher, thereby giving the same individual custody of the vehicles and responsibility for the vehicle inventory record. This condition does not achieve the goal of a segregation of duties. Consequently, in our opinion, internal control over vehicles needs to be improved.

We verified the existence of seven Mission vehicles, which were acquired in Fiscal Year 2000.<sup>5</sup> All seven vehicles were accounted for. However, there were errors in the inventory database. The serial numbers and/or the vehicle's registration numbers were not correctly recorded in the inventory database for all seven vehicles. These errors were brought to the attention of the dispatcher who made the necessary corrections. The information in the inventory database, for the vehicles acquired in FY-2000, is now correct. However, we are making a recommendation for the segregation of duties.

**Recommendation No. 4: We recommend that USAID/Nigeria segregate the control of the vehicle record-keeping function from the vehicle custodial function.**

#### **Original Petty Cash Receipts Should be Used**

USAID guidance requires that vouchers and payment documents be originals. ADS 630.2.c states: "Paying Offices (USAID Mission Controllers) must maintain appropriate internal controls to process payments in the correct amount, payable to the proper vendor, and within the time frame established by Prompt Pay Regulations." ADS 630.3.2.1.b titled "Systems to Avoid Duplicate Payments" states: "Paying offices must establish appropriate procedures to prevent duplicate payments. Vouchers, voucher schedules, and supporting documents must be identified during the payment process by an acceptable means that will prevent them from being paid again." ADS 630.3.3.3 states: "Payment documents must be originals and as specified in

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<sup>5</sup> The Mission has several other vehicles in their inventory. These vehicles were not counted because they were not in the audit period; that is, they were not acquired in Fiscal Year 2000.

the obligating document. If the original document is lost or destroyed, the certifying official must attach to the payment copy an explanation of the circumstances involved.”

We examined supporting documentation for disbursements made by the Mission sub-cashier. USAID/Nigeria does not have a cashier, but operates with a sub-cashier fund, which is part of the U.S. Consulate cashier in Lagos.<sup>6</sup> When the amount of cash in the sub-cashier fund is close to being exhausted, the fund is replenished by preparing a report of all the disbursements and making a submission to the Embassy cashier. These disbursements are recorded in the accounting records and are submitted to the Embassy cashier, who provides currency equal to the amount of the disbursements.

Seven of the 50 payment receipts (14 percent) that we examined from the sub-cashier fund were photocopies. These seven receipts were related to telephone installation charges. Mission personnel informed us that some utilities and government service entities in Nigeria keep original documents when payments are made. In addition, documents may be lost or accidentally destroyed. Although the absence of an original document may occur from time-to-time, the absence of an original document poses an increased risk of fraud and the possibility of a duplicate or false payment. Thus, to address this situation, we are making the following recommendation:

**Recommendation No. 5: We recommend that USAID/Nigeria establish a procedure to require original documents for all payments and, when an original is not available, an explanation of the circumstances involved should be prepared and attached to the copied document.**

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### **Management Comments and Our Evaluation**

USAID/Nigeria's comments on the draft report generally agreed with our findings and related recommendations. However, based upon additional information provided by the Mission in its comments, we made some minor modifications in our final report, which included clarifying the wording in Recommendation No. 1.1. In addition, due to the immaterial dollar amount involved, we removed our finding relating to the need to resolve questionable billings and are including this finding in a separate management letter.

Based upon the Mission's comments, we determined that management decisions have been reached for Recommendation Nos. 1.2, 2.1, 2.2, 3.1, 3.2,

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<sup>6</sup> The U.S. Embassy in Nigeria is located in Abuja, the capital of Nigeria. At this time the Embassy activities in Abuja are limited; for example, there is no cashier in Abuja. The Embassy cashier is located at the U.S. Consulate in Lagos. Before the U.S. Embassy moved to Abuja, it was located in Lagos.

4, and 5. A management decision has not been reached on Recommendation No. 1.1 because we modified the recommendation, based on additional information provided in management's comments. These comments are included in their entirety in Appendix II of this report and are summarized below.

The draft report had two parts to the first recommendation. In its management comments, the Mission provided additional information concerning the late posting of FSN salary information. We changed the report to reflect this additional information and modified the first part of our recommendation. Regarding Recommendation No. 1.2, the Mission stated that it would instruct all timekeepers and employees that they must submit time sheets even when they are away from post. This statement constitutes a management decision; the recommendation can be closed with the submission to M/MPI of a copy of the documentation requiring staff to submit timesheets when away from post.

Recommendation No. 2 consists of two parts. The Mission agreed with Recommendation No. 2.1 concerning a full inventory of property in Abuja. However, this inventory cannot take place until a warehouse has been leased. Regarding recommendation number 2.2, the Mission stated that the new EXO would develop a Mission Order on NXP procedures. Based upon these actions, the Mission has made management decisions regarding both parts of Recommendation No. 2. This recommendation can be closed when documentation is submitted to M/MPI to prove the inventory in Abuja has been completed and the Mission Order for NXP procedures has been implemented.

The draft report contained a finding and recommendation concerning questionable billings. This issue was removed from the report and is being addressed in a separate management letter.

Recommendation number 3 has two parts. Recommendation No. 3.1 concerns the development of a plan to monitor all advances. The Mission stated that they have now requested monthly copies of advance aging and status reports from their accounting station (USAID/Ghana), which will enable them to more efficiently monitor their advances and liquidations. Regarding Recommendation No. 3.2, the Mission stated that its Deputy Director would chair a Training Committee responsible for developing a training program for each new employee. These actions constitute a management decision. This recommendation can be closed when the Mission submits proof that it is receiving the advance reports and when it submits a copy of the training program to M/MPI.

Recommendation No. 4 recommends segregating the vehicle record-keeping function from the vehicle custodial function. The Mission stated that the incoming EXO would segregate these functions when he arrives; this action

constitutes a management decision. This recommendation can be closed when the Mission sends documentation to M/MPI evidencing these functions have been segregated.

For Recommendation No. 5, the Mission stated that it will require an original payment document or, if not available, an explanation of the circumstances involved before the cashier will make a payment. Based upon this action, the Mission has made a management decision regarding Recommendation No. 5. To close this recommendation the Mission should send a copy of the notice requiring original documentation to M/MPI.

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**Scope and  
Methodology****Scope**

We audited selected USAID/Nigeria operating expenses and the petty cash imprest fund in accordance with generally accepted government auditing standards. The audit was conducted at USAID/Nigeria in Lagos, Nigeria from November 29, 2000 to December 6, 2000 and from January 24, 2001 to January 31, 2001. Our audit also included a visit to the proposed USAID/Nigeria office in Abuja, Nigeria.

We performed a financially-related audit and reviewed a judgmental sample of USAID/Nigeria's operating expense disbursements made in Fiscal Year 2000 as described below in the methodology. Our scope included reviewing the Mission's procedures for processing purchases, receiving the items purchased, maintaining non-expendable property inventory, including vehicle records, processing disbursements and the Mission's petty cash fund. During the course of the audit information came to our attention indicating abuse or illegal acts. Thus, we considered the affect on the audit objective and consulted with the RIG/Dakar director and investigator to determine how to address the issues involved. As a result, our scope was expanded, in limited cases to include disbursement transactions initiated in FY 2000, but not finalized until FY 2001.

In performing the audit, we relied on the Mission Accounting Control System (MACS) reports for USAID/Nigeria operating expense disbursements and other financial information. We did not assess the reliability of this data.

**Methodology**

As part of developing the audit objective and performing audit fieldwork, we identified five risk areas for USAID/Nigeria: (1) The Mission is physically relocating from Lagos to Abuja. (2) The Mission staff will increase significantly and new employees will be hired in Abuja. (3) The Mission operating and program budget will increase significantly. (4) The Mission's accounting station is located in another country, at USAID/Ghana. (5) Nigeria is reported to be one of the more corrupt countries in the world. Based upon these conditions, we assessed the control risk at USAID/Nigeria to be high.

To assess management controls, we examined the procedures related to procurement, non-expendable property, payroll, and petty cash. Based upon our assessment of a high control risk and relevant management controls, we established an audit materiality threshold of one percent of the \$1.3 million selected for testing.

To answer the audit objective, we:

- Interviewed responsible personnel at USAID/Nigeria, USAID/Ghana, and selected vendors.
- Reviewed internal controls relevant to our audit objective.
- Judgmentally selected 21 disbursements totaling \$1.3 million in operating expense disbursements from the universe of 1,366 disbursements totaling \$3.1 million disbursed in Fiscal Year 2000. The sample of \$1.3 million represents 42% of the total \$3.1million disbursed. We examined relevant supporting documentation for the sample items.
- Performed a cash count of the Mission's two sub-cashier funds and examined documentation to support one of the replenishments for each fund.
- Our test of payroll disbursements included verifying each Foreign Service National employee (for a selected payroll period) as a valid employee of the Mission.

USAID/Nigeria provided, at our request, a satisfactory management representation letter.

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**Management  
Comments****USAID/Nigeria****Memo**

**From:** RIG/Dakar, Henry Barrett  
Sherry E. Stiggs, Acting Mission Director  
**Date:** 06/07/01  
**Audit of USAID/Nigeria's Fiscal Year 2000 Operating Expenses  
(Report No. 7-620-01-00X-F)**

USAID/Nigeria regrets the delay in providing our comments to the draft report. It arrived at the mission during the time the Deputy was on an extended TDY to Lagos, and the Director was in the U.S.

USAID/Nigeria and USAID/Ghana's comments to the six audit recommendations of the draft audit are as follows:

**Recommendation No. 1:**

- 1.1 USAID/Nigeria should develop an arrangement with their accounting station (USAID/Ghana) to give priority to posting payroll transactions as they occur, and
- 1.2 establish a requirement that all employees complete and submit time sheets, even when they are away from the Mission.

**USAID/Ghana's response is:**

We are of the opinion that the finding fails to take into account, several reasons for the delayed postings as stated below:

- 1) Our inability to post the September 26 - December 99 payroll was exacerbated by FSC/Paris not charging the payroll cost to the proper appropriation. From October 1 - December 99 they improperly charged payroll cost to an invalid account, which prevented us from reconciling and posting the transactions. Such action also resulted in a shortage of funds under the FY 99 appropriation. This had to be resolved through SF-1 081 to facilitate their transfer between

appropriations. FSC/Paris's mistake added to an extra 3- month delay in efforts by USAID/Ghana to reconcile and post the 1221 items on a timely basis.

- 2) USAID/Ghana receives SF-1221 from FSC/Paris one month in arrears.
- 3) The accompanying SF-1166 contains limited information, which is not complete for postings without further researching:
  - a) Total FSN payroll cost in US Dollars by appropriation symbols
  - b) Payroll cost in Naira for each employee with appropriation symbols
  - c) Payroll listing of employees with net paycheck amount and deduction.

Upon receipt of the incomplete information, USAID/Ghana sets up a worksheet to identify fund cite for each employee and also to reconcile the payroll cost amongst program and OE funded FSNs. Even if the posting are prioritized, the minimum time lag equals 2 months.

We have, however, taken due cognizance of the recommendation, efforts have been made to ensure that the time lag between transactions processed by FSC/Paris, and Mission is reduced to a reasonable period of two months. However, we cannot ensure that FSC/Paris will not make the same mistake the next year-end.

1.2 USAID/Nigeria agrees with the recommendation and will instruct all timekeepers and employees that they must submit time sheets even when they are away from post.

### **Recommendation No. 2**

USAID/Nigeria should conduct a full inventory of all non-expendable property, as soon as possible after the move to the new office building in Abuja, and resolve discrepancies , and

develop a Mission Order to address non-expendable property procedures, to include: property received in a sub-receiving area, disposal procedures for Mission property, and the designation and duties of the Accountable Property Officer.

**Response:**

USAID/Nigeria agrees in principle to the recommendation. However, a full inventory of USAID/Nigeria's NXP by USAID/Nigeria employees cannot be undertaken until USAID is allowed by State security personnel to lease a ware house in Abuja so that all NXP from several locations can be consolidated. The newly arriving long term USPSC EXO will be tasked to develop a Mission Order on NXP procedures.

**Recommendation No. 3<sup>7</sup>**

- 3.1 USAID/Nigeria should review the billings with the Regional Legal Advisor, Executive Officer and Controller to determine what costs, if any, were legitimately incurred and should be paid, and
- 3.2 issue a memorandum, to their staff, that outlines the responsibility to inform the EXO (or procurement official) of all communications with contractors or their agents, and such communications should also be documented in the procurement files.

**Response:**

USAID/Nigeria agrees to these recommendations. During the next TDY of the RLA, the billings in question will be reviewed and a resolution will be made by all the concerned parties in this matter. The in-coming EXO will issue the memo per recommendation 3.2.

**Recommendation No. 4<sup>7</sup>**

- 4.1 USAID/Nigeria should develop a plan to monitor all advances, and
- 4.2 assess the training needs of their current and in-coming Foreign Service National staff and develop a training program to ensure that they receive appropriate training for their respective responsibilities.

**Response:**

USAID/Nigeria and USAID/Ghana agree to the recommendations. USAID/Ghana's response is that it acknowledges an error occurred in the inputting into MACS of the correctly coded USAID/Nigeria advance. Adequate control system has now been put in place to prevent the recurrence of such mistake. MACS A -18 (Advance aging) and A08 (Advance status) reports will be sent monthly to USAID/Nigeria to enable them monitor advances and liquidations more efficiently.

<sup>7</sup> Recommendation No. 3 and its related finding were removed from the final report and are being included in a separate management letter. Responses to Recommendation Nos. 4, 5 and 6 now relate respectively to Recommendation Nos. 3, 4 and 5 in the final report

USAID/Nigeria has been assessing the training needs of all our new FSN employees, and have sent several FSNs to training at overseas locations. Now that we have all re-located to Abuja, the Training Committee, chaired by the Deputy Director, will be tasked to develop a training program for each new employee to ensure that s/he receive appropriate training for their respective responsibilities.

**Recommendation No. 5<sup>7</sup>**

USAID/Nigeria should segregate the control of the vehicle record-keeping function from the vehicle custodian function.

**Response:**

The in-coming EXO will review the division of functions within his office and will segregate the control of the vehicle record-keeping function from the vehicle custodian function.

**Recommendation No. 6:<sup>7</sup>**

USAID/Nigeria should establish a procedure to require original documents for all payments and, when an original is not available, an explanation of the circumstances involved should be prepared and attached to the copied document.

**Response:**

We agree with the recommendation and note that the photocopied telephone installation receipts were for telephone installation charges in Abuja paid through the Embassy sub-cashier advance to the EXO. Now that we are re-located in Abuja and have our USAID/Nigeria cashier reporting directly to FSC/Paris, more stringent cashier procedures are in place and if an original payment document is not available, an explanation of the circumstances involved will be prepared and attached to the copied document before the cashier will make payment.

USAID/Nigeria recognizes that regularly conducted audits are excellent management tools that should be used to identify issues that may need attention. We appreciate the opportunity to work with the RIG/Staff to help us identify minor adjustments that

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<sup>7</sup> Recommendation No. 3 and its related finding were removed from the final report and are being included in a separate management letter. Responses to Recommendation Nos. 4, 5 and 6 now relate respectively to Recommendation Nos. 3, 4 and 5 in the final report

need to be made in mission operations that are funded by Operating Expenses. We also appreciate the inclusion of our comments in the draft report.