

USAID

OFFICE OF INSPECTOR GENERAL

**Quick Response Audit of the Liquidation of Expenditures
under Grant No. 649-0141-G-00-4002-00 under Report No.
0-000-01-007-F**

**Audit Report (Report No. 0-000-01-007-F)
February 1, 2001**

**U.S. Agency for
International Development**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM FOR CFO, Michael T. Smokovich

FROM: IG/A/FA, Alvin A. Brown

SUBJECT: Quick Response Audit of the Liquidation of Expenditures under Grant No. 649-0141-G-00-4002-00 under Report No. 0-000-01-007-F

This memorandum audit report is our report on the liquidation of expenditures processed under Grant No. 649-0141-G-00-4002-00. In response to matters brought to our attention on October 26, 2000, we have conducted a Quick Response Audit of the \$4,010,082 liquidation of expenditures processed under Grant No. 649-0141-G-00-4002-00.

This audit was performed to determine whether USAID's Office of Financial Management followed adequate internal controls to process program advance vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00. We determined that USAID's Office of Financial Management did not follow adequate internal controls to process program vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00.

The intent of this report was to present this issue to you, as early as possible, so that your managers can implement timely corrective action. We will follow-up on the recommendation included herein during our audit of USAID's 2001 financial statements. Also, we intend to perform additional work on the voucher approval and payment process to determine if there are any other misstatements that should have been reported.

We have received and considered the CFO's response to our draft report and its recommendation. We made one recommendation for USAID's management action. Based on your comments, we accepted your decision as management decision. Please forward to me all information on your request to the Office of Management and Planning and Innovation for acceptance of the final management action related to the recommendation. We have included your comments in Appendix II.

I would like to express my sincerest appreciation for the courtesies extended by your staff to the auditors.

Background

On October 26, 2000, the Office of Inspector General (OIG) was informed that USAID's Office of Financial Management (M/FM) had improperly processed vouchers totaling \$4,010,082.

Effective June 1, 1994, USAID awarded \$2 million to the World Food Program Somalia (WFP/Somalia) under Grant No. 649-0141-G-00-4002-00. This grant was funded through the Letter of Credit Support System. In accordance with this agreement, USAID would provide funds to WFP/Somalia for immediate cash disbursements, upon request. In return, WFP/Somalia would provide quarterly Financial Status Reports for activities carried out under this grant and would account for funds expended to enable USAID to liquidate the obligation established for this grant. WFP/Somalia would also provide Federal Cash Transaction Reports to USAID's Cash Management Branch (AID/M/CMP) on a monthly basis. The former USAID Somalia Mission Director, or his designee, was the project officer responsible for the project management over this grant. These responsibilities required the project manager to serve as the liaison with WFP/Somalia, review project reports, and provide general project monitoring.

The grant agreement was amended on September 16, 1996, to increase the funding to \$4,010,082 and to extend the period of the grant from June 30, 1996, to June 30, 1997. The WFP/Somalia requested and received the additional \$4,010,082 as authorized by the agreement.

Audit Objective

Our audit was initiated in response to a request submitted by the former USAID Somalia Mission Director on October 26, 2000, to review the approval and payment process for vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00.

The objective of this audit is:

Did USAID's Office of Financial Management follow adequate internal controls to process program advance vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00?

Because of the urgency of this report, the scope of our audit was limited to the review of the specific vouchers in question for this grant. See Appendix I for a discussion of the scope and methodology for this audit.

Audit Finding

Did USAID's Office of Financial Management follow adequate internal controls to process program advance vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00?

We determined that USAID's Office of Financial Management did not follow adequate internal controls to process program vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00. According to the Office of Financial Management, the vouchers were mistakenly processed during an exercise undertaken to process all vouchers on hand. As a result, USAID's Office of Financial Management overstated advance-related expenditures by recording approximately \$4,010,082 of disapproved vouchers in its general ledger. USAID procedure states that concurrent with this processing of program vouchers they forward one copy of the program voucher to the project office to obtain the required Project Officers administrative review and approval.

Refer to the chronology of events below:

- On January 6, 1998, the former USAID Somalia Mission Director, Grant Project Officer, informed the World Food Program that he disapproved vouchers totaling \$4,010,082 submitted under Grant No. 649-0141-G-00-4002-00 and returned them to the USAID Office of Financial Management. The vouchers were disapproved because the World Food Program did not submit requested detailed financial information to the former USAID Somalia Mission Director in accordance with the financial reporting requirements outlined in the grant agreement.
- On January 23, 1998, the former USAID Somalia Mission Director, directed USAID's Cash Management Branch to adjust the Letter of Credit by reversing the expenditures of \$4,010,082 and re-establish the outstanding advance. The former USAID Somalia Mission Director informed the Cash Management Branch that he would give WFP another 30 days to submit new vouchers that conform to the terms of the grant. The entire \$4,010,082 of funding was to be de-obligated if WFP/Somalia did not submit new vouchers confirming their expenditures.
- On January 23, 1998, per the former USAID Somalia Mission Director's request, USAID's Cash Management Branch prepared a voucher and schedule to record a correction for errors that would reverse all previously processed vouchers totaling the \$4,010,082 under the grant. The reversal of the \$4,010,082 was posted to the general ledger on February 4, 1998.
- On March 4, 1999, USAID's Cash Management Branch reprocessed the disapproved vouchers valued at \$4,010,082.
- In December 2000, the OIG brought these matters to the attention of the USAID Office of Financial Management.

Recommendation No. 1: .We recommend that USAID’s Office of Financial Management reverse the disapproved vouchers and re-establish the \$4,010,082 as an outstanding advance.

Management Comments and Our Evaluation

In commenting on our draft audit report and its recommendations, the Chief Financial Officer has agreed with our audit findings and recommendation. The USAID Office of Financial Management will reverse the expenses and reestablish the \$4,010,082 advance.

SCOPE AND METHODOLOGY

SCOPE

We conducted our audit in accordance with generally accepted auditing standards that require that we plan and perform the audit to obtain reasonable assurance about whether the advance accounts audited are free from material misrepresentation.

Our audit was initiated in response to a request submitted by the former USAID Mission Director on October 26, 2000, to review the approval and payment process for vouchers submitted by the World Food Program under Grant No. 649-0141-G-00-4002-00. We obtained an understanding of the voucher approval and payment policies and procedures for program advances and related internal controls. Further, we determined whether USAID complied with its policies and procedures and related internal controls.

Because of the urgency of this report, the scope of this audit is limited to a review of vouchers totaling approximately \$4,010,082 submitted under World Food Program Grant No. 649-0141-G-00-4002-00. We relied on information provided by USAID, and the former USAID Mission Director and Grant Officer and the Office of Financial Management personnel.

INTERNAL CONTROL TESTING

Due to the limited scope of this audit, internal control testing was limited to those controls used to process and approve vouchers totaling approximately \$4,010,082 submitted under World Food Program Grant No. 649-0141-G-00-4002-00. We have assessed the overall audit risk and materiality level at low in regards to the overall effect on the financial statements. We intend to perform additional work on the voucher approval and payment process to determine if there are any other misstatements that should have been reported in our fiscal year 2001 audit.

METHODOLOGY

In accomplishing our audit objectives, we reviewed the voucher approval and payment policies and procedures and applicable internal controls for program advances, and conducted interviews with personnel from the USAID Office of Financial Management. In addition, we reviewed correspondence between the USAID Office of Financial Management

and the former USAID Somalia Mission Director, Grant Officer, and reviewed vouchers processed under Grant No. 649-0141-G-00-4002-00.



USAID MANAGEMENT COMMENTS

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

Date February 1, 2001

TO: IG/A/FA, Alvin A. Brown

FROM: M/DCFO, Elmer S. Owens

SUBJECT: Quick Response Audit of Liquidation of Expenditures Under Grant No.
649-0141-G-00-4002-00

We reviewed your draft report on the subject audit. We reversed the expenditure covered by the disapproved advance liquidation vouchers and reestablished the \$4,010,802.00 advance.

Cc: M/CFO, S. Owens
M/PE, Marcus
M/OP, Mark Ward
M/MPI, C. Turner
M/FM, D. Ostermeyer
M/FM/CMP, R Leonard
M/FM/CMP, J. Dubious