

**Audit of Certain USAID/Haiti
Fiscal Year 1999 Financial Operations**

**Audit Report No. 1-521-00-002-F
March 2, 2000**

**Regional Inspector General
San Salvador**



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

March 2, 2000

MEMORANDUM

FOR: USAID/Haiti Director, Phyllis Dichter-Forbes

FROM: RIG/A/San Salvador, Timothy E. Cox

SUBJECT: Audit of Certain USAID/Haiti Fiscal Year 1999 Financial Operations (Report No. 1-521-00-002-F)

This memorandum is our report on the subject audit.

This report contains two recommendations for your action. Final action has been taken on Recommendation Nos. 1, 2.1, and 2.3 and therefore these recommendations are closed upon issuance of this report. A management decision has been made for Recommendation No. 2.2 and a determination of final action for this recommendation will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

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

Background

This report focuses on USAID/Haiti's procedures for processing advances and disbursements and its procedures for reporting on the status of its budget allowances to USAID/Washington. According to USAID/Haiti records, during fiscal year 1999, USAID/Haiti made 62 advances over \$1,500, with a total amount of \$5.2 million. USAID/Haiti records indicate that, during the same year, USAID/Haiti made 6,201 disbursements with a total amount of \$74.2 million.

USAID/Haiti's Controller's Office, which is the focal point in USAID/Haiti for financial operations, has 21 staff including a Controller, Deputy Controller, six financial analysts, six voucher examiners, one payment coordinator, four accountants, and two secretaries.

Audit Objective

As part of its fiscal year 2000 audit plan, the Office of the Regional Inspector General for Audit/San Salvador performed an audit to answer the following audit objective:

- Were USAID/Haiti's advances, disbursements, and year-end balances properly processed and reported?

Appendix I describes the audit scope and methodology.

Audit Findings

Were USAID/Haiti's advances, disbursements, and year-end balances properly processed and reported?

USAID/Haiti's advances, disbursements, and year-end balances were properly processed and reported, except that advances exceeded the recipients' immediate disbursing needs and certain payments were not in full compliance with the underlying contracts or agreements.

With respect to advances, based on an examination of sample transactions as described in Appendix I:

- Advance requests were approved by project officers.
- Advance requests were reviewed and approved by Controller's Office personnel consistent with USAID policies and procedures.
- Advances were correctly certified by Controller's Office staff.
- Amounts advanced were in agreement with the supporting documentation.

With respect to disbursements, based on a review of sample transactions as described in Appendix I, USAID/Haiti:

- Correctly annotated vouchers with the date they were received by USAID/Haiti.
- Made payments on time.
- Made sure that invoices were arithmetically correct.
- Ensured that payments were made to correct payees.
- Recorded payment information correctly in its accounting system and payment tracking system.

Also, based on a review of amounts reported by USAID/Haiti for one appropriation, year-end balances were properly reported and disbursements were reconciled with disbursing office accounts.

However, as discussed in the following sections, USAID/Haiti made advances that exceeded the recipients' immediate disbursing needs and some payments were not in full compliance with the underlying contract or agreement.

Advances Exceeded 30 Days' Cash Needs

USAID's Automated Directive System (ADS) Section 583.5.3a limits USAID cash advances to immediate disbursing needs, which are defined as 30 days' cash needs (i.e., the amount that the recipient would need to cover its disbursing needs for a 30 day period).

However, 17 of the 20 advances we reviewed were for amounts in excess of 30 day's cash needs. Of the total advanced amount of \$3.7 million, \$2.5 million was in excess of 30 days' cash needs. For example:

- One advance provided \$126,484 in funding covering a period of four months to the Centre de Formation et d'Encadrement Technique. Although the contract provided only for monthly advances, the Mission advanced funds covering the entire four-month first session of a training program.
- Another advance was a \$1.6 million advance to the World Bank under the Modernization of Public Enterprises Program in Haiti. This advance covered estimated expenses for the period May to September 1999, a period of five months. We also noted that as of November 30, 1999 (i.e., after seven months), over \$600,000 of this advance remained unliquidated. USAID/Haiti officials noted that this advance was for a high profile program and that the Deputy Chief of Mission at the U.S. embassy in Haiti asked them to make this advance in furtherance of U.S. Government interests. This advance accounted for most of the excess interest cost mentioned in the next paragraph.

Advances exceeded 30 days' cash needs because USAID/Haiti's policy for advances was not in accordance with USAID policy contained in the ADS. Because the amount of the advances exceeded the amounts permitted by USAID policy, we estimate that the U.S. Government incurred \$31,090 in unnecessary interest expense.¹

¹ Unnecessary interest expense results when the U.S. Government borrows funds to make advances. Our estimate is calculated as follows. For each advance, we reviewed USAID/Haiti documents to see what period of time the advance was intended to cover. Any periods in excess of one month were considered excess, and the total amount of the advance was pro-rated to determine the excess amount. We used the 5 percent interest rate for Treasury borrowings that was in effect during fiscal year 1999. The calculation for each advance was: excess advance amount x months in excess of one month x (0.05/12).

Recommendation No. 1: We recommend that USAID/Haiti implement an advance policy that is in accordance with USAID's advance policy limiting advances to 30 days' cash needs.

Some Payments Did Not Comply With Contract or Agreement Provisions

USAID contracts, grants, and cooperative agreements are all contractual documents that impose requirements on USAID's contractors and grantees. USAID policies require that vouchers be subjected to a detailed examination before they are paid. Among other things, the examination must determine whether certifications required by the obligating document are made and signed, that the amounts and items claimed are in agreement with the basic documents authorizing the claim, and that the goods or services were actually delivered or performed as directed.² In some cases, USAID/Haiti payments were not subjected to a sufficiently detailed examination.

For 9 of the 40 payments reviewed, the payment request was not in full compliance with the underlying contract or agreement. Of these nine cases, two payments were not in compliance for substantive reasons: the payments should not have been made at all. The remaining seven payments were not in compliance because the payment requests were not in the correct form: that is, required documents or certifications were not provided with the payment requests. Details are provided below (note that one payment is discussed twice because there were two reasons why it was not in compliance):

- For one payment of \$4,779 under a time and materials contract where the contractor was entitled to be paid a fixed rate for days actually worked, the contractor did not tell USAID/Haiti how many days were worked and, therefore, should not have been paid at all. (Similar problems were found for \$39,321 in other payments that were not part of our sample.)
- USAID/Haiti processed a \$8,930 payment to a contractor based on a voucher prepared and signed by the USAID activity manager rather than by the contractor. There was no documentation in USAID/Haiti's files indicating that the contractor ever billed USAID and, therefore, the contractor should not have been paid until a bill was received. (Similar problems were found for \$80,135 in other payments that were not part of our sample.)
- Three payments totaling \$196,751 included non-expendable property valued at \$17,688 for which the contractor was required to submit vendor's invoices in order to be reimbursed for the cost of the property. However, vendor's invoices were not submitted. Therefore, the cost of the non-expendable

² USAID Financial Management Bulletin No. 8, pages 10 and 19.

property, plus associated indirect costs, for a total of \$18,541, should have been disallowed from the payments to the contractors.

- Five payments totaling \$97,015 lacked required contractor certifications. These certifications dealt with such matters as certifying that all costs submitted for payment by the contractor had been paid or will be paid when due during the normal course of business and that all required contracting officer approvals had been obtained by the contractor. These required certifications help protect USAID's interests when payment disputes arise.

For the first two cases discussed above, it was difficult to determine exactly why the problems occurred because the responsible activity manager had left the mission. However, it appeared from the written record that the activity manager was not familiar with the contract provisions and, therefore, did not insist that the contractors follow them. Controller's Office staff stated that they asked for additional support for the payments but ultimately agreed to process the payments since the activity manager had approved them.

For the other cases described above, the payments were processed because responsible staff in the Controller's Office were not familiar with the relevant contract provisions. They needed additional training in contract and grant requirements. It would also be useful to make all of the Federal Acquisition Regulation and USAID Acquisition Regulation provisions more easily available to the voucher examiners in the Controller's Office.

Recommendation No. 2: We recommend that USAID/Haiti:

- 2.1 reach a management decision on the \$44,100 (unsupported costs) paid under Contract Nos. 521-0256-O-00-8107 and 521-0256-O-00-8108 without any indication of the number of days worked by the contractors and recover from the contractors the amounts determined to be unallowable,*
- 2.2 provide training on contract and grant requirements to staff responsible for reviewing and approving payment vouchers, and*
- 2.3 make Federal Acquisition Regulation and USAID Acquisition Regulation provisions more easily available to staff in the Controller's Office.*

Management Comments and Our Evaluation

USAID/Haiti agreed with the report findings and recommendations. In response to Recommendation No. 1, USAID/Haiti sent letters to grantees who had advances in excess of 30 days' needs informing them that their advances were being adjusted to 30 days' needs. In response to Recommendation 2.1, USAID/Haiti requested

additional supporting documentation from the contractors and subsequently determined that the entire \$44,100 in unsupported costs was allowable. In response to Recommendation No. 2.2, USAID/Haiti developed a training plan for staff responsible for reviewing and approving payment vouchers. Finally, in response to Recommendation No. 2.3, USAID/Haiti provided internet access to staff in the Controller's Office so that the staff can consult the latest revisions of the Federal Acquisition Regulations and the USAID Acquisition Regulations.

Based on the information above, final action has been taken on Recommendation Nos. 1, 2.1, and 2.3 and therefore these recommendations are closed upon issuance of this report. A management decision has been made for Recommendation No. 2.2 and a determination of final action for this recommendation will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

Scope and Methodology

Scope

The Office of the Regional Inspector General/San Salvador conducted an audit of certain USAID/Haiti fiscal year 1999 financial operations. The audit was performed in accordance with generally accepted government auditing standards at USAID/Haiti's offices from November 29, 1999 through December 10, 1999.

As part of the audit, we obtained an understanding of the controls over the advance process, payment process, and reconciliation process. We determined whether the controls were placed in operation, and we assessed control risk. We also assessed compliance with the Prompt Payment Act and Office of Management and Budget Circular No. 125. We did not assess compliance with any other laws and regulations applicable to the audit objective.

The audit examined USAID/Haiti's fiscal year 1999 financial operations related to cash advances, disbursements, and reporting on the status of its budget allowances. It did not cover any other USAID/Haiti financial operations.

Methodology

The audit objective was to determine if USAID/Haiti's advances, disbursements, and year-end balances were properly processed and reported.

In examining advances, we reviewed a stratified random sample of 20 advances made by USAID/Haiti during fiscal year 1999. The population of all advances over \$1,500 made during fiscal year 1999 and the sample of 20 advances we reviewed are compared in the following table:

Population	Number	Amount (millions)
Advances of \$150,000 or more	9	\$2.9
Advances from \$1,500 to \$150,000	53	\$2.3
Total	62	\$5.2

Sample	Number	Amount (millions)
Advances of \$150,000 or more	9	\$2.9
Advances from \$1,500 to \$150,000	11	\$.6
Total	20	\$3.5

For each sample item, we reviewed documentation and interviewed USAID/Haiti personnel to verify that: (1) the request for advance was approved by the project officer, (2) the Controller's Office certified the advance for payment, (3) the voucher was reviewed and approved by the Controller's Office personnel consistent with USAID/Haiti and USAID policies and procedures, (4) the advance was requested by

the recipient, (5) the amount advanced agreed with the supporting documentation, and (6) the period covered by the advance was in accordance with USAID policies.

In examining disbursements, we used queries developed by USAID/Haiti's Chief Accountant to obtain from the Mission Accounting and Control System a list of all disbursements by USAID/Haiti during fiscal year 1999. We did not perform any specific audit procedures to verify that this list was complete but during the audit we were alert to any possible indications that the list might not be complete. We divided the list into two groups of disbursements:

- Program-type disbursements that represent costs of USAID assistance programs and typically represent relatively high value, non-routine expenses.
- Administrative-type disbursements that represent relatively low value, routine expenses. Many, although not all, of these disbursements are for Mission operating expenses.

We made this distinction by including all operating expense disbursements, as well as payments under travel authorizations, personal services contracts, participating agency service agreements, payment requests, and certain advices of charge in the latter group.

We then drew two samples of disbursements for detailed review. Since program-type disbursements present a higher degree of inherent risk, because of their relatively high value and non-routine nature, we drew a random sample of 30 program-type disbursements. Because administrative-type disbursements present a lower degree of inherent risk, we drew a judgment sample of 10 administrative-type disbursements for detailed review. The populations and samples reviewed are compared below:

Population	Number	Amount (millions)
Program-type disbursements	652	\$60.2
Administrative-type disbursements	5,549	\$14.0
Total	6,201	\$74.2

Sample	Number	Amount (millions)
Program-type disbursements	30	\$5.8
Administrative-type disbursements	10	\$0.1
Total	40	\$5.9

For the disbursements in the sample of program-type disbursements, we performed the following steps:

- Verified that the date the voucher was received was annotated on the face of the voucher.

- Traced each voucher through the payment process from the time it was received until it was paid, noting the dates it was received, certified for payment, and actually paid.
- Verified the arithmetical accuracy of each voucher.
- Compared the payment request with the terms and provisions of the underlying contract or agreement to verify that the payment request was in compliance with the contract or agreement.
- Compared the payee shown in the payment request to the payee shown in the contract or agreement.
- Verified that each payment was made within the time permitted for payment (generally 30 days unless the contract or agreement provides for a different payment period) and that interest was added to any late payments.
- Compared the information recorded in the Mission Accounting and Control System and payment tracking system for each payment to source documents to verify that the information was accurate.

For the disbursements in the sample of administrative-type disbursements, we compared the disbursement with the underlying contract, grant, or other authorizing document to verify that the payment was in compliance with the authorizing document.

In reviewing the year-end balances reported by USAID/Haiti, we traced the amounts reported by USAID/Haiti in its U101 report (Summary of Allowance Ledger Transactions and Reconciliation with the Disbursing Officer's Account) for one appropriation to the supporting documentation and verified the correctness of the amounts reported. This appropriation was selected judgmentally.

We also reviewed the reconciliation of the disbursements reported in the Mission Accounting and Control System with the disbursements reported by the State Department and Treasury Department disbursing offices as of August 31, 1999, and we calculated the number and absolute value of the unreconciled transactions as of September 30, 1999.

In performing the audit tests described above, we considered non-compliance exceeding 5 percent of the cases reviewed (by number) to represent material non-compliance.

**MANAGEMENT
COMMENTS**UNITED STATES GOVERNMENT
memorandum

DATE: February 10, 2000

**REPLY TO
ATTN OF:** Phyllis Forbes *Phyllis Forbes*
USAID/Haiti Mission Director

SUBJECT: Comments on the RIG Draft Audit Report No. 1-521-00-00X-F

TO: Timothy E. Cox
RIG/A/San Salvador

This memorandum constitutes USAID/Haiti response to the RIG Draft Audit Report No. 1-521-00-00X-F dated January 31, 2000 on certain USAID/Haiti fiscal year 1999 financial operations and contains our written comments on action planned or already taken to implement the recommendations described in the Draft Audit Report.

General Comment:

USAID/Haiti appreciates the time and effort that you and your staff took to perform the audit of certain USAID/Haiti fiscal year 1999 financial operations. After completing its review of the Draft Audit Report, the Mission has no comments to make with regard to the substance contained therein. In addition, we found that the recommendations noted in the Draft Report are both appropriate and actionable.

As you read our response below, it is clear that we are taking appropriate actions to resolve the findings that were uncovered during the audit. Therefore, we are in a position to request a management decision for the two (2) recommendations noted in the Draft Report.

Recommendation No. 1

We recommend that USAID/Haiti implement an advance policy that is in accordance with USAID's advance policy limiting advances to 30 days cash needs.

Status: Open

Action Taken:

USAID/Haiti has taken appropriate actions to implement RIG's recommendation by issuing a Mission Order No. 320 dated November 24, 1999, limiting cash advances for U.S. and local non-profit organizations and for international organizations to a period not exceeding 30 days. This Mission Order has been fully put into practice and all advances are now limited to the minimum amount for immediate disbursement needs up to 30 days from the date an advance is received until expended. In addition to that, letters have been sent to all organizations receiving advances informing them that their 90 days advance have been adjusted to 30 days effective immediately.

USAID/Haiti concurs with the estimated efficiently savings amount of \$31,090 of unnecessary interest expense. However, as it was pointed out to your attention by USAID/Haiti Mission Management, \$20,497 (66%) of interest expense was for an advance to the World Bank for a high profile privatization program and this special advance of \$1.6 million dollars was disbursed upon the U.S. Embassy/Haiti's request for the best interest of U.S. government foreign policy toward Haiti (614,896 X 0.05 / 12 X 8). For the remaining interest balance of \$10,593, it has been mission policy for years to provide 90 days advances to organizations. USAID/Haiti based upon actions taken to resolve Recommendation No. 1, is requesting that RIG consider that a management decision has been reached. (copy of Mission Order No. 320 along with copy of the letters are being faxed and DHL to you)

Recommendation No. 2

- 2.1 Reach a management decision on the \$44,100 (unsupported costs) paid under contract Nos. 521-0256-0-00-8107-00 and 521-0256-0-00-8108-00 without any indication of the number of days worked by the contractors and recover from the contractors the amounts determined to be unallowable.

Status: Open

Action taken:

The Economic Growth Office has requested additional supporting documentation (timesheets) from the contractors for purchase orders 521-0256-0-00-8107-00 and 521-0256-0-00-8108-00. The Audit Resolution Committee (ARC) chaired by the Contracting Officer have reviewed the additional supporting documentation and have determined that the questioned cost of \$44,100 are now allowable, reasonable and allocable in accordance with USAID regulations. USAID/Haiti, based upon actions taken to resolve Recommendation No. 2.1, is requesting that RIG consider that a management decision has been reached. (copy of supporting documentation is being faxed and DHL to you)

- 2.2 Provide training on contract and grant requirements to staff responsible for reviewing and approving payment vouchers, and

Status: Open

Action taken

USAID/Haiti has put in place for fiscal year 2000 a detailed training plan for the staff responsible for reviewing and approving payment vouchers. FM is also considering contracting out with an experienced consultant to conduct an in-house "voucher examination training course" for the payment specialists. A procedural checklist and an FM directives have been implemented for review and processing of vouchers by the

payment specialists. USAID/Haiti, based upon actions taken to resolve Recommendation No. 2.2, is requesting that RIG consider that a management decision has been reached. (copy of training plan, procedural checklist and FM directives are being faxed and DHL to you)

- 2.3 Make Federal Acquisition Regulation and USAID Acquisition Regulation provisions more easily available to staff in the Controller's Office.

Status: Open

Action taken:

This recommendation has already been implemented. All the Financial Management staff has now access to Internet and can consult the latest revisions of Federal Acquisition Regulation and USAID Acquisition Regulation provisions. A formal Internet training session will be provided by the Information Management Office during the month of March 1999.

In closing, USAID/Haiti would again like to express its appreciation for the manner in which the audit was conducted and the usefulness of the recommendations contained therein.