United States General Accounting Office

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Report to the Administrator, Agency for International Development

May 1993

FINANCIAL MANAGEMENT

Inadequate Accounting and System Project Controls at AID

149203

GAO United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial Management Division

B-245360

May 24, 1993

The Honorable James H. Michel
Acting Administrator, Agency for
International Development

Dear Mr. Ambassador:

This report presents the results of the financial management portion of our general management review of the Agency for International Development. The report discusses the operations of the systems that constitute the financial management structure of your agency, the key weaknesses in this structure, and the efforts your agency has underway to address and solve these weaknesses.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report.

We are sending copies of this report to the Director of the Office of Management and Budget; Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, House Committee on Government Operations, House Committee on Foreign Affairs, Senate Committee on Foreign Relations, House Appropriations Committee's Subcommittee on Foreign Operations, Export Financing and Related Programs, and Senate Appropriations Committee's Subcommittee on Foreign Operations; and other interested parties. Copies will be made available to others on request. Please contact me at (202) 512-9095 if you or your staff have any questions concerning the report. Major contributors to this report are listed in appendix III.

Sincerely yours,

David O. Nellemann

David O. Nellemann
Director, Defense System Audits

Executive Summary

Purpose

The Agency for International Development (AID) spends billions of dollars on economic and development assistance programs worldwide. This report discusses key accounting and reporting weaknesses in AID's financial management systems and evaluates AID's efforts to improve these systems. This report is the fourth of a series of reports that is being issued as part of GAO's overall general management review of AID.

Background

AID works with foreign countries to design programs to achieve foreign assistance objectives proposed by the President and approved by the Congress. For fiscal year 1993, AID received appropriations of about $7 billion to carry out economic and development assistance programs.

Currently, AID uses 45 headquarters and overseas financial management systems to account for, control, and report on resources used for its program and administrative operations. In 1990, AID initiated development of the AID Washington Accounting and Control System (AWACS), which it envisions will provide it with a modern financial management system that meets current governmentwide standards. AWACS is expected to replace many of AID's existing systems, reduce system maintenance costs, and provide timely, accurate data to support management decision-making.

Results in Brief

AID has experienced serious accounting system and financial reporting problems that precluded it from (1) reporting the use and status of all its appropriated funds, (2) ensuring that it had received property it had paid for and reliably reporting on its disposition, and (3) promptly and accurately responding to requests from the Congress and others for information on the costs of program operations. These problems occurred because AID's managers had not enforced established accounting and financial reporting procedures and devoted sufficient resources to resolving unmatched disbursements and clearing apparent over disbursements in certain appropriation accounts.

Also, AID had not satisfactorily managed financial system improvement projects, with the result that its systems did not provide up-to-date and reliable reports. Regarding the major financial system development effort underway, AID may be repeating past project management mistakes. Most importantly, it had not at the time of GAO's review developed a comprehensive project plan or instituted a steering committee to oversee it. As a result, the risk was high that the new system will not result in the financial management improvements anticipated.

Principal Findings

AID Could Not Reliably Report on the Use and Status of All Its Appropriated Funds

Primarily because its overseas offices did not promptly and accurately report their disbursements, AID could not ensure that these disbursements were made only against valid, pre-established obligations and that its recorded unliquated obligation balances were valid. As of September 30, 1992, AID had $418 million in disbursements that had not been matched with corresponding obligations and an estimated $915 million in unliquidated obligations, which had originated prior to fiscal year 1989 and were recorded in its expired appropriation accounts referred to as M accounts.

During fiscal years 1991 and 1992, in response to the National Defense Authorization Act for Fiscal Year 1991 (Public Law 101-510), AID researched its older obligations to determine whether they had been liquidated or should be canceled. This act phases out existing M accounts over a 3-year period and limits the period during which obligations of post fiscal year 1990 budget authority may be liquidated to 5 years after the related appropriations are no longer available for obligation. As a result, funding authority that is available for a definite period and supports an agency's oldest obligations will be canceled.

AID requested and received a Presidential waiver exempting it from the law for 1 year, and its appropriation acts have provided it with a means to avoid cancellation of obligated balances. However, AID had not resolved all unmatched disbursements in intransit accounts with the result that obligations could have remained on its books when, in fact, they had been liquidated. If these conditions persist, AID will continue to have inadequate assurance that its disbursements are proper and its recorded unliquidated obligation balances are reliable.

Property Was Not Reliably Accounted for

As of the end of fiscal year 1991, AID's property systems (1) overstated vehicle acquisitions by 44 percent and disposals by 14 percent, (2) reported more than 20,000 items valued at about $1.9 million that could not be located during a physical inventory, and (3) understated property balances in overseas offices by about $19 million. The errors occurred primarily because AID's overseas offices did not comply with AID's headquarters' reporting requirements. Because of this unreliable information, AID did not have assurance that it had on hand all property actually paid for and that property had not been misappropriated.

Incomplete, Error-Prone, Inadequately Documented Systems

AID's systems did not record and report financial and quantitative information on the resources used to carry out its programs. As a result, AID had to mount ad-hoc manual data compilation efforts, which could take weeks, in order to provide such information to program managers and the Congress.

A major cause of these problems was that AID's financial management systems did not fully use automated techniques to exchange information and, consequently, were error prone and inefficient. For example, 18 systems required the rekeying of information before it could be exchanged among related systems. Also, AID was impeded in improving its systems because they were inadequately documented and tested. AID did not have complete ADP system documentation for 20 of its 45 financial management systems, and for 22 systems, either testing had not been done or testing could not be confirmed. Without adequate documentation and testing, AID could not (1) ensure that its systems were being operated properly or that they contained adequate internal controls or (2) readily design modifications to correct known problems.

AID Did Not Have an AWACS Steering Committee

AID's top management did not effectively support and oversee two major prior system improvement initiatives. This contributed to the partial implementation of the two preceding major accounting systems. Most importantly, AID did not have a steering committee for its AWACS project. A steering committee can help ensure a system's successful implementation by (1) overseeing its development, (2) communicating top management's support, (3) determining system user needs and matching those needs with resources—and making appropriate trade-offs, and (4) providing management with continuity for the entire life of the project. In addition, AID had not developed a detailed AWACS development plan.

Recommendations

GAO's major recommendations call for the Administrator to direct the Chief Financial Officer to (1) devote the needed resources to matching disbursements with appropriate obligations as expeditiously as possible, (2) develop and maintain accurate property records and systems, (3) review and update documentation for systems in use, and (4) develop and implement a long-term plan for AWACS that establishes a steering committee.

Agency Comments

AID's comments on GAO's report are discussed and evaluated in chapters 2 and 3, and the full text of its comments are presented in appendix II. AID concurred with five of the six recommendations and partially concurred with the sixth. AID said that a major reason why it partially concurred with the report findings was because the report did not fully recognize its current actions to address and solve the financial management weaknesses discussed in the report. GAO acknowledged several improvement initiatives, but these had not progressed sufficiently for GAO to determine whether they would successfully deal with AID's financial management weaknesses.

AID partially concurred with GAO's recommendation to bring the documentation on its 45 financial management systems up-to-date; however, it will not devote the resources to update documentation on systems that will be phased out pursuant to its 5-year system improvement plans. GAO said this would be consistent with its recommendation.

Contents

Abbreviations

ARS	Accounts Receivable System
AOC	advice of charge
AID	Agency for International Development
AWACS	AID Washington Accounting and Control System
NXPS	AID Washington Nonexpendable Property System
AETA	American Electronic Time and Attendence System
ADP	automated data processing
AIMS	Automated Inventory Management System
CFO	chief financial officer
CIMS	Contract Information Management System
CEFMS	Corps of Engineers Financial Management System
CFR	Country Financial Reporting System
FMFIA	Federal Managers' Financial Integrity Act of 1982
FACS	Financial Accounting and Control System
GAO	General Accounting Office
GLARS	General Ledger Accounting and Reporting System
GMR	general management review
GSA	General Services Administration
IG	inspector general
LCSS	Letter of Credit Support System
LAIS	Loan Accounting Information System
MACSTRAX	MACS Voucher Tracking System
MACS	Mission Accounting and Control System
MIDAS	Mission Information Decision Assistance System
MVIS	Motor Vehicle Inventory System
NAPS	New American Payroll System
NPPS	Nigerian Participant Payment System
NEPA	Nonexpendable Property Management Accounting
OFM	Office of Financial Management
IRM	Office of Information Resources Management
OMB	Office of Management and Budget
PPS	Participant Payment System
PTIS	Participant Training Information System
PSIS	Personnel and Space Index System
PAIS	Project Accounting Information System
PMIS	Project Management Information System
RAMPS	Revised Automated Manpower and Personnel System
VMS	Vehicle Management System

Introduction

This report discusses serious, longstanding financial management problems at the Agency for International Development (AID) and the agency's plans for a comprehensive new financial management system. Since about 1980, AID has attempted to solve some of the problems we identified by implementing two major automated systems; it is currently designing a third major system. This is the fourth in a series of reports issued as part of our first general management review of AID. In one of those reports,[1] in September 1992, we reported to the Administrator of AID on steps that need to be taken to improve AID's Information Resources Management.

Background

The Foreign Assistance Act of 1961, as amended, authorizes AID to carry out four classes of foreign assistance programs: Development Assistance, Economic Support Funds, Special Assistance Initiatives for the Philippines and Eastern Europe, and a Central American Demobilization and Transition Fund. In addition, AID, in conjunction with the Departments of Agriculture and State, carries out the Food for Peace Program authorized by the Agriculture Trade Development and Assistance Act of 1959.

For fiscal year 1991, AID received about $6.9 billion in fiscal year 1991 spending authority for its programs and $515 million for operating expenses, its Inspector General (IG) activities, and its contribution to the Foreign Service Officers Retirement Fund. AID also assists in the planning, administrating, and managing of the Food for Peace Program, which totaled $1 billion in fiscal year 1991. AID operated under a continuing resolution for fiscal year 1992.

AID carries out its program responsibilities through a Washington, D.C., headquarters office and 100 overseas offices. The overseas offices are primarily responsible for working with foreign countries in designing programs to achieve foreign assistance objectives approved by the Congress and the President; providing the countries with funds to execute the programs; overseeing program execution; and reporting to AID headquarters on resource use and program results.

AID's overseas offices—missions and related offices—are generally collocated with and administratively supported by American embassies or consulates. While AID generally contracts with foreign governments and private organizations for physical space and utilities to house AID's

[1] Information Resources Management: Initial Steps Taken but More Improvements Needed in AID's IRM Program (GAO/IMTEC-92-64, September 29, 1992).

overseas operations, the Department of State's accounting and disbursing centers[2] makes disbursements in U.S. and foreign currencies on behalf of AID for items such as salaries for foreign service nationals and goods and services purchased from foreign suppliers. State then reports these disbursements to AID, which records them in its accounting systems. More detail on the overall organization of AID can be found in our April 1992 profile of AID.[3]

Objectives, Scope, and Methodology

Our review objectives were to (1) identify any problems with AID's current financial management structure and the causes of these problems and (2) determine if AID is adequately managing its new financial management improvement initiative—the AID Washington Accounting and Control System (AWACS).

We identified AID's major financial management problems through (1) evaluations of prior GAO, inspector general, and Federal Managers' Financial Integrity Act (FMFIA) reports, (2) observations of financial management operations and tests of selected transactions at AID headquarters offices in Washington, D.C., and in Rosslyn, Virginia, and at 12 AID overseas offices in Honduras, Guatemala, Belize, Mexico, Costa Rica, the Philippines, Bangladesh, Sri Lanka, Kenya, Niger, Egypt, and Jordan, and (3) discussions with cognizant AID officials.

We assessed AID's management of its AWACS development effort by reviewing related planning documents and discussing them with senior officials from AID's Office of Financial Management and Office of Information Resources Management. We also reviewed documents related to AID's two previous system improvement efforts to identify the problems that hindered those efforts and to see if AID was acting to avoid such problems in its AWACS development effort.

We conducted our review from October 1990 through July 1992 in accordance with generally accepted government auditing standards.

AID provided written comments on a draft of this report. These comments are summarized and evaluated at the end of chapters 2 and 3, and included as appendix II.

[2]The Department of State operates Regional Administrative Management Centers in Paris, Bangkok, and Mexico City, and also operates 21 financial management centers worldwide.

[3]Foreign Assistance: A Profile of the Agency for International Development (GAO/NSIAD-92-148, April 3, 1992).

Inadequate Accounting Control Over and Reporting of Appropriated Funds, Property, and Program Costs

AID had not matched all disbursements with related obligations and resolved appropriated fund accounts with apparent over disbursements with the result that its financial management systems did not include reliable information on the status of all its appropriated funds. Also, AID's financial management systems did not reliably account for, control and report on AID's property. Consequently, AID could not (1) ensure that it had reliably reported on the uses made and status of all its appropriated funds, (2) ensure that it had received property it had paid for and reliably report on its disposition, and (3) promptly and accurately respond to requests from the Congress and others for information on the costs of program operations. These financial management problems were longstanding, known issues at AID and they persisted because AID's Headquarters and overseas accounting systems did not function as intended and because AID's overseas offices were not effectively carrying out their financial management responsibilities.

Inadequate Reporting of the Status of Appropriated Funds

Treasury and OMB requirements state that agencies should monitor and control the status of their appropriated funds by (1) matching disbursements with corresponding obligations, (2) canceling obligations that no longer represent valid obligations, and (3) investigating and resolving cases where obligations appear to have exceeded funds available for obligation.

AID had not adequately performed these control procedures, especially those related to disbursements by its overseas offices. AID's Headquarters accounting system's reports on the status of its appropriated funds as of September 30, 1992, included

- disbursements, some dating back to 1982, of $418 million that had not been matched with corresponding obligations, and
- about $915 million in estimated unliquidated obligations that relate to fiscal year 1988 and earlier expired appropriated funds.

Also, as of September 30, 1991, AID had apparent over disbursements ($387,283 and $418,984) in two expired fund accounts that had not been investigated when our review began. Senior AID officials told us that, as of September 30, 1992, as a result of research initiated while our review was underway, the $387,283 credit balance in one appropriation account was reduced to $52,268 and the other credit balance of $418,984 increased to $437,375.

Senior AID officials told us that it had reduced its unmatched disbursements and obligations from their September 1991 levels. In addition, AID's CFO has emphasized to its bureaus and overseas offices the importance of obtaining accurate and complete data when authorizing disbursements. However, AID had done little to improve the efficiency of its manual and automated processes for reporting and accounting for disbursements or to strengthen related accounting controls. Until AID improves its ability to promptly match disbursements with related obligations, it will not have adequate assurance that cash is being disbursed only against properly authorized obligations.

Disbursements Unmatched With Related Obligations

AID had $672 million in unmatched disbursements as of September 30, 1991. During fiscal year 1992 AID increased its efforts to match these amounts with related obligations, and by September 30, 1992, unmatched disbursements had been reduced to $418 million.

Our tests of unmatched disbursements, which are maintained in suspense accounts until they can be matched with obligations and recorded in the proper cost account, showed that these unmatched disbursements resulted primarily from disbursements authorized by one AID office against obligations, or orders placed, by another AID office. For these kinds of transactions, the office authorizing the disbursement is to provide the relevant and required disbursement data to the office that established the obligation so that the obligating office can match the two and, thus, record that the obligation has been liquidated. The needed information is exchanged between offices via hard copy reports and/or magnetic diskettes or tapes and can include, among other things, date and amount of the authorized disbursement, payee, period covered, contract number, and accounting classification code. If any of this information is incorrect, the AID office that established the obligation may not be able to match the disbursement with the proper obligation, and must request corrected information from the AID office that authorized the disbursement.

This process can take weeks and may take months or years because of the time it takes to exchange documentation, particularly between overseas offices, and the difficultly of obtaining needed information from foreign governmental entities and foreign organizations, particularly in the third world. For example, we found the following:

- At one mission we visited, it took an average of 4 months to match three disbursements with obligations authorized by another mission and almost

5 months to match three disbursements with obligations authorized by headquarters.

- At another mission, 33 disbursements remained unmatched with corresponding obligations for about 4 years.
- At a third mission, officials told us that they continued to have problems with late disbursement information and with disbursements authorized under the wrong accounting classifications code.[1] They told us that the mission generally received disbursement information from headquarters between 3 and 5 months after the disbursements were authorized and that over 60 percent of the fiscal year 1989 disbursements authorized by AID headquarters were authorized under the wrong accounting classification.

AID officials told us that of the $418 million in unmatched disbursements, $274 million represented disbursements made during fiscal year 1992 and $144 million represented disbursements made during fiscal years 1982 through 1991. AID officials acknowledged the $144 million in older unmatched disbursements would require further research to reconcile and resolve.

The longer it takes to obtain correct information, the harder it becomes to match disbursements with corresponding obligations because, as time passes, records can be misplaced and staff members' recollections of the details of a particular transaction can fade.

Unliquidated M account Obligations

AID reduced its unliquidated obligations of expired appropriations from fiscal years 1988 and earlier from $1.9 billion on September 30, 1991, to an estimated $1.5 billion by September 30, 1992, by disbursing or canceling M account unliquidated obligations relating to fiscal year 1984 and earlier appropriations. After AID disbursed or canceled all unliquidated M account obligations for fiscal year 1985, AID's unliquidated M account obligations totaled about $915 million as of September 30, 1992. Although some of the $915 million in unliquidated M account obligations may still be valid because they are associated with long-term foreign assistance projects, others may no longer be valid because the orders they represent have been paid or canceled. Until these older obligations are investigated and resolved, AID will not be able to reliably report on the status of all its appropriated funds.

[1]An accounting classification code identifies the appropriation account, and/or subaccount, to which a transaction pertains and the proper account in the agency accounting system in which the transaction should be recorded.

In appropriations acts, the Congress states the period of time during which appropriated funds are available for obligation. Appropriations available for a definite period, such as 1 year, are called fixed-year appropriations. These appropriations expire at the end of the period, and they are no longer available to be obligated for new orders or contracts. Once an appropriation expires, deobligated amounts also are not available for new obligations.

Prior to November 1990, agencies maintained unliquidated obligations of expired fixed-year appropriations in accounts which retained their fiscal year identity for 2 years beyond the expiration date. After 2 years, the obligations were transferred to expired appropriation accounts, referred to as M accounts.[2] Unliquidated obligation balances in M accounts did not retain their fiscal year identity, and were available indefinitely to pay for the orders they represented unless they were canceled.

In November 1990, the Congress passed the National Defense Authorization Act of 1991 (Public Law 101-510). Among other things,[3] the Act phases out M account balances in existence as of November 5, 1990, according to the following schedule.

Table 2.1: Schedule for Phasing Out M Accounts

Fiscal year in which appropriations expired	Date by which M account balances must be canceled and withdrawn
1983 and earlier	March 6, 1991
1984	September 30, 1991
1985	September 30, 1992
1986-88	September 30, 1993

As we reported in May 1992,[4] AID officials recognized that they did not have time to perform the research that would be needed to resolve AID's large amounts of unmatched disbursements and obligations and, thus, determine the appropriate M account balances to be canceled and withdrawn. For this reason, they requested and received a presidential

[2]"M" accounts are successor accounts into which obligated balances of an appropriation were transferred at the end of the second full fiscal year following expiration and were merged with obligated balances from prior appropriations for the same purposes.

[3]The Act and its implementing OMB guidance require that agencies, beginning with appropriations that expired at the end of fiscal year 1989, maintain separate "expired accounts" for each fixed-year expired appropriation. Agencies then have 5 years to record, adjust, and liquidate obligations properly chargeable to these expired accounts. After 5 years, the accounts are closed and all balances canceled.

[4]Foreign Assistance: AID's Implementation of Expired Appropriation Account Legislation (GAO/NSIAD-92-189BR, May 20, 1992).

waiver[5] extending by 1 year the deadline for closing out the M account balances that otherwise would have been canceled on September 30, 1991. These balances totaled $420 million.

According to an official in AID's CFO office, AID's investigation of obligations against M account balances showed that for most fiscal year 1984 and earlier appropriations, the related orders had already been delivered and paid for, but the related transactions had not been recorded to reflect that the obligations had been liquidated. Also according to this official, as of September 30, 1992, AID had disbursed or canceled all of the $420 million M account balance from fiscal year 1984 and earlier appropriations. This left AID with an estimated $1.5 billion in M account unliquidated obligations at that time.

AID sought but did not receive a statutory waiver to further extend the deadlines for closing the M account balances due to be canceled on September 30, 1992. Accordingly, AID instructed its bureaus and missions to disburse or cancel by September 30, 1992, their unliquidated obligations from fiscal year 1985, totaling about $500 million. AID officials informed us that the unliquidated M account balance was, therefore, $915 million as of September 30, 1992.

Regarding its M account balances due to be canceled on September 30, 1993, AID said it would again request but probably not receive a waiver. However, it plans to use a provision contained in its annual appropriation acts that will allow it to reobligate M account balances due to be canceled under Public Law 101-510. Under this provision, AID is allowed to deobligate appropriations and then reobligate them for different programs within the current fiscal year. AID officials stated that AID follows all applicable legal requirements when it deobligates appropriations under this authority. However, as discussed above, AID's obligated balances did contain erroneous amounts. Unless these balances are verified, AID might inadvertently use its appropriation act authority with regard to obligations that have been paid but that have not been recorded as liquidated.

Since 1987, AID has received most of its funding in the form of "no-year, if-obligated"[6] appropriations. Because of this type of funding, the requirement to cancel unliquidated obligated balances under Public Law

[5]Presidential Determination 91-21, February 27, 1991.

[6]Beginning with fiscal year 1987, the annual appropriation act for AID has contained a provision specifying that certain funds appropriated as fixed-year funds "shall remain available until expended if such funds are initially obligated before the expiration of their respective periods of availability. . . ". Such funds are designated in this report as no-year, if-obligated appropriations.

101-510 will not affect the majority of AID's funding. However, if the weaknesses in AID's disbursement process persist, AID will continue to experience problems in expeditiously matching disbursements with related obligations, ensuring that disbursements are proper, and reliably determining the status of all its appropriated funds.

Apparent Overdisbursements Identified

We identified two instances where AID's account balances indicated that it may have expended more funds than it had obligated. Specifically, agency records for the M accounts for the Security Supporting Assistance program and the Sub-Saharan and Southern Africa program showed disbursements that exceeded obligation balances by $387,283 and $418,984, respectively, as of September 30, 1991. These apparent over disbursements could have resulted from proper payments for which there are recordkeeping errors. They also could have represented payments improperly charged to these M accounts. Accordingly, these recorded excess disbursements illustrate why it is important for agencies to maintain accurate records on the status of their appropriated funds. As a result of our questioning these balances, AID is currently investigating these two amounts.

Senior AID officials told us that the two credit balances of $387,283 and $418,984 in AID's M account were reported by AID to Treasury in its fiscal year 1991 Year-End Closing Statement and, due to staff constraints, had not been researched and resolved before our review of these statements.

As of September 30, 1992, AID had identified processing and accounting errors and reduced the $387,283 to a remaining credit balance of $52,268. With respect to the credit balance of $418,984, AID officials said that no appropriated funds were ever allocated to the related appropriation account.

Several overseas missions had processed disbursements against the appropriation account which was never funded, resulting in the $418,984 credit balance as of September 30, 1991. AID officials told us that they had identified each AID accounting station reporting disbursements against this unfunded appropriation account. During the research, AID identified subsequent errors that increased the credit balance from $418,984 to $437,375.

Inadequate Accounting Controls Over Property

AID did not reliably account for, control, and report on its property used at its Headquarters and overseas offices. AID's property includes motor vehicles, office equipment, computers, and household equipment and furniture used in its overseas offices and staff residences. The failure to reliably account for property precluded AID from (1) ensuring that property has not been diverted to unauthorized uses, (2) accurately reporting on the property in its possession, and (3) ensuring that it has received all property it has paid for. AID's accountability problems for property stemmed primarily from failures by its staff to follow prescribed accounting and reporting procedures for property.

Overseas Offices Did Not Properly Verify and Report Property Data

Our review of AID's Headquarters and overseas personal property systems disclosed the following serious accountability and reporting problems:

- The Motor Vehicle Inventory System (MVIS) recorded and reported unreliable information on AID's overseas fleets of motor vehicles. Thus, the information AID submitted to the General Services Administration for the governmentwide motor vehicle accountability and control system overstated AID's vehicle acquisitions by 44 percent and disposals by 14 percent for fiscal year 1989.
- The AID Washington Nonexpendable Property System (NXPS), that accounts for and controls property used at AID's Headquarters, listed over 51,000 items valued at $8.1 million. However, a 1990 physical inventory found only a little over 30,000 items valued at $4.5 million. After extensive research, more than 20,000 items valued at about $1.9 million could not be found or accounted for.
- The Overseas Nonexpendable Property System understated property actually on hand and used at AID's overseas offices by almost 7,000 items valued at about $13 million in 1990 and by almost 11,000 items valued at about $19 million in 1991. We determined this by comparing property recorded in detailed property records maintained by overseas offices and property recorded in the Overseas Nonexpendable Property System. We found that the detailed property records at the overseas offices we visited generally accurately reflected the property on hand.

The information in AID's inventory system for motor vehicles was unreliable because overseas offices did not follow prescribed reporting requirements on motor vehicle transactions. Specifically, overseas offices are supposed to report vehicle acquisitions and dispositions, as they occur, to Headquarters for entry into MVIS, but the overseas offices did not consistently comply with the reporting requirement; thus, the information in MVIS was out-of-date. Recognizing that overseas offices did not consistently report vehicle transactions during the year, AID Headquarters sends, from the MVIS data base, a vehicle inventory to each overseas office at fiscal year-end. The overseas offices are supposed to compare the MVIS vehicle inventory to their records, resolve any discrepancies, and return the annotated MVIS inventory along with supporting documentation. This year-end process takes about 6 months, during which time the MVIS data base is still out-of-date. Consequently, there was no assurance that AID's reports to GSA on its overseas motor vehicle fleet, due by the end of each fiscal year, were reliable.

Because the 1990 inventory of Headquarters property was the first physical inventory in 8 years, we could not determine why the large discrepancies existed between the Headquarters property inventory and the information recorded in the AID Washington Nonexpendable Property System. The last physical inventory of property at AID's Headquarters was in 1982, even though AID's policies require physical inventories of Headquarters Property every 2 years. AID's Headquarters staff attributed the large differences between the results of the physical inventory and the property records primarily to recordkeeping errors that occurred over the past 8 years. However, this could not be substantiated by documentary evidence and, consequently, AID could not be sure that these differences, in whole or in part, did not result from the theft or misuse of property.

The unreliable information in AID's Overseas Nonexpendable Property System was primarily due to the failure of overseas offices to consistently follow prescribed property reporting requirements. The Overseas Nonexpendable Property System is updated annually by Headquarters, using reports of property acquisitions, disposals, and items on hand—reports that overseas offices are supposed to submit to Headquarters by each November 15. Headquarters personnel had not enforced this requirement and, as a result, many overseas offices were late in submitting required property reports, many of which are not submitted and entered into the overseas property system until the March or April following the November 15 reporting date.

Further, some overseas offices did not submit required property reports at all. For example, for fiscal year 1990, 20 of AID's 80 overseas offices did not submit required property reports. As a result, AID's Overseas Nonexpendable Property System understated property actually on hand for fiscal year 1990.

Inadequate Financial Controls Over Property Purchased

AID did not record property purchases in its central property records based on payments made. Instead, it relied completely on the property records of its field offices to update its summary-level records. As a result, it could not be sure that all property paid for was received and recorded. When AID acquires an item of property, the obligation and related cash disbursement are recorded in AID's appropriated fund and cash accounts, but a related entry is not made in AID's nonexpendable property systems when cash is disbursed to acquire property. Instead, as previously discussed, AID's property systems were updated annually from reports received from its Headquarters and overseas offices.

In a financial management system that places property under financial control, a number of steps should be taken when cash is disbursed to purchase an item of property: (1) the cash account is reduced, (2) the cash disbursement is recorded in the appropriated fund accounts—obligations and expenditures, and (3) the cash disbursement triggers an entry in the general ledger summary financial control account to increase the asset account—nonexpendable property. Concurrently, an entry should be made in the detailed subsidiary nonexpendable property system, based on a receiving report, that lists, in quantitative and financial terms, all property paid for and received. Consequently, the accounts in the general ledger show, in summary financial terms, nonexpendable property paid for and the detailed subsidiary nonexpendable property system shows, in detailed quantitative and financial terms, nonexpendable property that has been received and that should be on hand.

Periodic comparisons should be made between the summary financial control account in the general ledger and the detailed subsidiary property system to help ensure that all property paid for was actually received and recorded in detailed records. Periodic physical inventories should be done to compare the property actually on hand with what should be on hand to help ensure that property is not misappropriated. However, based on our observations, AID's physical inventories were not used as a control mechanism to compare property items actually on hand with information recorded in property systems based on cash disbursements made to acquire property. Instead, field offices adjusted their detailed records to agree with physical counts and did not investigate discrepancies.

Systems Were Incomplete, Error Prone, and Did Not Provide Needed Information

In addition to the previously discussed inaccuracies in AID's financial records on the status of its appropriated funds and investment in property, its systems could not routinely provide reliable information on the use of its resources to carry out its programs. AID routinely resorts to ad-hoc special information gathering projects to respond to requests from the Congress and others on the costs of program operations. Such efforts can be inefficient and slow. For example, we requested AID to provide us the number and amounts of cash advances made under AID's foreign assistance programs by direct cash payments and letters of credit. We also asked for the number and amount of payables AID owes foreign countries. To obtain this information, AID headquarters had to initiate a special data gathering effort at its overseas offices. It took 2 months to deliver the information.

AID's financial systems cannot routinely provide needed, reliable information because (1) its two main accounting systems for Headquarters and overseas were not implemented fully in accord with their designs and (2) subsidiary systems supporting the two main accounting systems were not designed to automatically exchange needed information and, consequently, information must be rekeyed before it can be exchanged among related systems, thus increasing the incidence of errors. In addition, AID was impeded in correcting known problems with its financial systems because many were undocumented and untested. As a result, AID did not have a comprehensive, current understanding of how the systems in its financial management structure operate.

AID's Major Accounting Systems Were Not Fully Implemented

AID's nonappropriated fund and noncash resources—loans receivable, accounts receivable, and property—were not under central financial control through AID's two major accounting systems because AID did not fully implement their initial designs. The 1977 FACS initial design for a system at AID Headquarters included 37 applications, but only 24 were fully implemented as of October 1991. In 1988, AID decided not to fully implement the FACS initial design because full implementation would be too costly. The 13 modules that were not implemented would have provided for (1) a general ledger, which would have placed noncash resources, such as property under financial control, (2) loan receivable servicing, and (3) AID-wide financial reporting on program and administrative operations.

Similarly, the MACS initial design for a system at AID's overseas offices was not fully implemented. In 1982, the MACS modules for appropriated funds, operating expenses, and foreign assistance project disbursements became operational. In 1990, the MACS module for foreign currency transactions was made operational. Other modules in the MACS initial design for billing and collections, commodity imports, and nonexpendable property were abandoned because AID shifted resources from MACS to other system projects that were considered to be of higher priority.

Need to Rekey Data Increases Opportunity for Errors

FACS and MACS are supported by 43 subsidiary, detailed systems that authorize the use of resources to carry out administrative and program operations, initiate the issuance of loans and grants, and maintain detailed accountability and control over AID's noncash resources, such as property and commodities. To function effectively and to reliably support managers' information needs, these systems need to exchange information among themselves and provide information to FACS and MACS.

However, of the 45 systems (FACS and MACS and the 43 subsidiary systems), 13 automatically exchanged required information, 18 systems required rekeying of the required information before it could be processed further, and 14 systems did not receive information from or provide information to other systems. System descriptions are in appendix I.

Rekeying information is time-consuming and is conducive to introducing errors into the information. For example, AID's Cash Journal System prepared a monthly "Cash Journal Report" which listed, among other things, appropriation account codes, appropriation account numbers, cash receipts, and cash disbursements. The information on this report had to be rekeyed before it could be entered into and processed by AID's General Ledger System. Also, AID's overseas offices prepared monthly reports on allotments, cash advances, obligations, disbursements, and accrued expenditures which had to be rekeyed and entered into a system that prepared a "General Ledger Journal Voucher Report." We analyzed error reports prepared as a result of this rekeying process and determined that AID experienced an average monthly error rate of 26 percent in fiscal year 1991 in rekeyed information for the "General Ledger Journal Voucher Report."

1989 System Improvement Canceled

In order to reduce the need to mount ad-hoc information gathering efforts to respond to requests for financial information on assistance programs, AID decided in 1989 to design and implement an automated system to (1) extract program financial information from existing systems in AID's financial management structure, (2) edit the extracted information, and (3) re-array the information in ways to respond to requests for the financial aspects of program operations. This system was called the Mission Information Decision Assistance System (MIDAS). AID proceeded designing and developing MIDAS without a formal needs assessment that considered the capabilities of available computer hardware and the resources available to maintain the system. The project continued for 2 years and cost over $1.4 million. After a pilot test, central support of MIDAS was dropped in August 1991.

Through a review of project documentation and discussions with project managers, we determined that AID did not implement MIDAS because it was designed to operate on AID's current computer equipment which was available at only 12 of AID's 43 missions. In addition, this equipment was being phased out and replaced by equipment that could not support MIDAS. Also, the system was too complex for the overseas offices to implement, maintain, or use.

Senior AID officials told us that AID Headquarters decided to stop supporting MIDAS because AID did not have enough resources to move all overseas systems to new computer equipment procured for the overseas offices. Priority was given to moving MACS to the new computer equipment. Currently, MIDAS is only being run and used by AID's mission in the Philippines.

Lack of System Documentation Impedes Corrective Action

The 45 systems that comprised AID's financial management structure were largely undocumented and untested. Consequently, AID did not understand how its financial management structure functioned and could not efficiently develop and implement corrective actions.

Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires that agencies maintain complete and current system documentation. This documentation should be of sufficient scope and depth to provide managers, users, systems operation and maintenance personnel, auditors, and other evaluators with an understanding of the design and operation of each component in the system and how it interacts with or affects other components. Documentation of the operational systems must be appropriately safeguarded and must be periodically updated so that it reflects actual operations.

We reviewed the available system documentation and user manuals for all of AID's 45 financial management systems and found that for 20 of the 45 systems, ADP system documentation either did not exist or was substantially incomplete. We also found that for 22 of the 45 systems, either the system had not been tested or no one knew if it had been.

The lack of complete system documentation and information on system modifications and tests precluded AID from effectively and efficiently using and maintaining its financial management structure. For example:

- For one undocumented system, the chief system user and ADP specialist who were most familiar with the system left AID. The current system user was not trained in operating the system. After our review, AID did develop user documentation.
- For another system, the system user developed user documentation because this documentation was not prepared during system design, development, and implementation. The user left AID and took the documentation. At the time of our review, system users were relying on informal instructions that may not have fully or accurately described system capabilities.

Unused Systems

AID had an additional 17 automated systems in its inventory of active systems maintained by AID's Office of Information Resources Management, but these systems were no longer used because, among other reasons, they were complicated to use, were replaced by other systems, or produced unreliable information. In some cases, AID offices were not using these systems and had developed their own systems to meet their information needs. For example:

- The Bureau of Program and Policy Coordination was not using the Operating Expense System II, which was designed to record and report work force information to support AID's annual budget formulation process. The system, which cost $109,000 to design, is not being used because, due to programming errors, it produced unreliable information. To meet its information needs, the Bureau of Program and Policy Coordination designed and developed its own automated system on a personal computer.
- The Office of Inspector General was not using the Inspector General Purchase Order System, which was designed to initiate and process purchase orders. The system never functioned as intended and never produced reliable information. To meet its needs, the Office of Inspector

General designed and implemented its own purchase order system on a personal computer.

Conclusions

Overall, AID's financial management systems were fragmented and did not effectively control and accurately report on AID's appropriated funds, property, and the financial results of program operations. AID's field offices did not comply with reporting requirements necessary to provide adequate control over property. Further, AID had not matched all unmatched disbursement accounts and appropriated fund accounts with apparent overdisbursements. Also, AID's major accounting system and subsidiary systems were not integrated to facilitate transfers of data. Despite several efforts, AID had not succeeded in implementing new automated systems that address these problems. In addition, AID had difficulty in identifying and correcting the problems with its subsidiary systems because they were not adequately documented and tested.

Recommendations

To improve the efficiency and effectiveness of AID's overall financial management structure, we recommend that the Administrator of AID implement a series of short-term actions. Specifically, the Administrator should direct the Chief Financial Officer, in conjunction with the Office of Financial Management, Office of Information Resources Management, and appropriate AID headquarters and overseas offices to

- develop and implement a plan and timetable to match unmatched disbursements with appropriate obligations;
- verify property records by taking a physical inventory of all property on hand at Headquarters and at overseas offices, comparing the results to amounts recorded in AID's property systems, investigating and resolving discrepancies, and adjusting records as appropriate;
- ensure that the property data are kept up-to-date by enforcing existing requirements for (1) promptly entering property acquisitions and dispositions and (2) conducting annual physical inventories;
- review all financial management systems and revise system documentation and user manuals to reflect existing system designs; and
- eliminate from AID's system inventory those systems that are not used.

Agency Comments and Our Evaluation

In commenting on a draft of this report, AID said that on balance it agreed with our principal findings and recommendations, but took exception to "the conclusions that suggest the Agency does not have effective control systems to properly account for and report properly on its appropriated funds." AID agreed with the need to improve accountability and control at the headquarters level and stated that corrective actions were underway.

AID said that actions are underway to correct unmatched disbursement problems through a number of initiatives, such as developing an automated process for more prompt transfer of disbursement data between AID offices. It questioned our characterizing as "apparent overdisbursements" two appropriation accounts for which it had reported negative balances. Based on agency officials' beliefs, AID said that it probably had not exceeded its appropriation authority and that the reported status was more than likely attributable to accounting errors. AID said that it is now researching this matter. Finally, it said that its continued problem in matching disbursements from M accounts would solve itself on September 30, 1993, when existing legislation requires closing out those accounts.

We do not agree with AID on these matters. First, until AID substantially resolves the following matters, it cannot accurately report on the status of the affected appropriated funds: (1) its unmatched disbursements (particularly those that go back several fiscal years), (2) any apparent overdisbursements, and (3) its M account obligations. Second, regardless of whether AID's reported negative balances are characterized as accounting errors, any federal agency accounting system controls that allow disbursements against unfunded appropriation accounts are fundamentally flawed. Further, 80 percent of AID's current budget authority consists of obligations that are available for expenditure indefinitely. Since the difficulty in reconciling unmatched disbursements increases substantially over time, it is critically important that the accounts containing these obligations be reconciled promptly.

Regarding controls over property, AID agreed that it should improve property accountability. However, it said that it had, among other things, recently completed an inventory at headquarters and included property control plans in its CFO 5-Year Plan and its Agency-wide Strategic Information Plan. The plans should help guide AID in making system enhancements to bring its systems into compliance with the "Comptroller General's Accounting Principles and Standards."

Concerning our finding that AID's financial management system cannot routinely provide reliable data on the use of resources to carry out programs, AID told us it took corrective actions, such as initiating the

AWACS project to address its fragmented system structure and including plans, as part of its 5-year financial system plan, to eliminate (1) redundant systems and (2) the need to rekey data.

Finally, although AID did not fully concur with our recommendation that it document the financial management systems in use, it said that it planned to document those that were mission critical as well as those covered by its Information Systems Plan and the CFO 5-year Plan submitted to OMB. Those plans state and AID officials told us that existing systems included in the plans and those to be developed would be documented.

Planning for Future Financial Management Structure Is Inadequate

AID currently is developing an Headquarters accounting system intended to meet the accounting, internal control, and financial reporting needs of its headquarters. AID envisions that its AID Washington Accounting and Control System (AWACS), when fully implemented, will provide for full headquarters accountability and control over AID's appropriated funds, cash, and noncash resources, such as property and commodities. AWACS is also to be the centerpiece of AID's future financial management structure, which will include AID's subsidiary accounting systems. Federal agencies are required by the Chief Financial Officers Act of 1990 (Public Law 101-576) to develop long-term plans for implementing a comprehensive integrated financial management structure.

However, AID, at the time of our review, had not established (1) a comprehensive statement of the functions to be carried out by AWACS, including the subsidiary systems that will be needed to support AWACS and the key data flows among the systems, (2) a detailed plan for designing, developing, and implementing all the systems constituting its target financial management structure, including system technical requirements, milestone dates, and organizational responsibilities for doing the work, or (3) a formal management structure to guide and monitor execution of such plans. AID did not take these three actions for its two previous major system projects—the FACS and MACS projects—with the result that these two systems were not fully implemented in accord with their designs.

Financial Management System Design, Implementation Plan, and Project Management Requirements

The Chief Financial Officers Act of 1990 provides an overall framework for agencies to use in improving their financial management systems and operations. The CFO Act, as implemented by OMB, among other things, directs agencies to

- consolidate their accounting, budget formulation, procurement, and information resource management functions under the agency CFO and
- develop, under the auspices of their CFOs, (1) an integrated financial management system to satisfy governmentwide accounting, internal control, and financial reporting requirements, (2) financial performance measures for program and administrative requirements, and (3) a 5-year financial management improvement plan to support a 5-year governmentwide plan that OMB is required to develop.

A key action an agency can take to ensure that the design of an integrated financial management system will be brought to fruition is to put in place an effective top management steering committee, under the direction of the CFO, to guide and monitor the systems design, development, and implementation over the long-term. An integrated financial management system, as contemplated by the CFO Act, will take some time to establish, and top managers may change several times during this period. The steering committee can provide management continuity over the long-term and help the CFO ensure that (1) management decisions are documented and carried out, (2) project milestones are met, and (3) system designs are not inappropriately altered or incompletely implemented. In addition, the steering committee, throughout the life of each system project, should serve as a forum to surface, discuss, and help the CFO resolve design, development, and implementation issues. To be most effective, the steering committee should be chaired by the CFO or the CFO's designee and include senior managers from all organizational components of the agency.

Specifically, the steering committee should advise the CFO on preparation and implementation of

- the strategy for developing the agency's integrated financial management structure and the 5-year financial management improvement plan;
- the design goals and conceptual designs of each system that needs to be developed for the approved integrated financial management system; and
- detailed plans and related milestones for project management, funding, staffing, design, development, testing and implementation of each subordinate system making up the integrated financial management system.

Project Management Weaknesses Resulted in the Partial Implementation of FACS and MACS

AID system development project management weaknesses resulted in the partial implementation of the FACS and MACS system designs with the result that AID's nonappropriated fund and noncash resources are still not under summary financial controls, as discussed in chapter 2. Specifically, AID did not

- develop and implement complete requirements statements for the FACS and MACS systems,
- establish a steering committee to oversee FACS and MACS and how they related to other AID systems,
- fix responsibility for managing the FACS and MACS projects, and
- set milestone dates.

FACS Project Management Weaknesses

AID intended the FACS system, when fully developed and implemented, to be the agency's central Headquarters accounting system that would provide AID with comprehensive general ledger, financial control for all resources as well as needed internal and external financial management reports. FACS was to replace 26 of AID's existing financial management systems; take 42 months to design, develop, and implement; and cost $5.7 million. However, ultimately, FACS replaced only three systems, was 4 years late in implementation, and did not provide for an agencywide general ledger and financial control for nonappropriated fund and noncash resources, as intended. AID had spent $8.5 million, as of December 31, 1986, on FACS' initial development. By the end of fiscal year 1991, AID had spent an additional $23.5 million to design, develop, implement, and maintain FACS. At the time of our review, AID continued to spend about $1.7 million annually to make needed changes to FACS.

AID did not (1) establish a steering committee to oversee the FACS project, (2) clearly and comprehensively establish system requirements, or (3) assign sufficient staff to the project team. Thus, AID provided more than 3,000 comments and changes to the software developer's system design. However, because of the time and staff resources needed to address the 3,000 comments and changes, the software developer missed project milestones, did not resolve all problems in the FACS computer programs, and did not develop all system modules called for in FACS requirements statement.

Also, AID did not develop a FACS project management plan that (1) clearly delineated and assigned responsibilities for participating AID offices for all aspects of the FACS project and (2) clearly described how FACS would fit into AID's overall financial management structure and how it would exchange information with AID's other financial management systems. For example, between 1982 and 1984, AID reassigned responsibility for managing the FACS software development effort three times, which seriously disrupted the continuity of knowledge of the project on the AID project team.

MACS Project Management Weaknesses

AID intended MACS to be a comprehensive accounting system for its overseas offices that would provide financial control for all resources, financial management reporting at the overseas office level, and summary financial reporting to FACS. To achieve these goals, the initial MACS design provided for modules for appropriated fund accounting, operating expense accounting, project accounting, foreign currency, billing and collections, commodity imports, and nonexpendable property. Although the core modules of MACS—appropriated fund, operating expense, foreign currency, and project accounting—were implemented, the modules in the initial MACS design for billing and collections, commodity imports, and nonexpendable property were never designed and implemented. Consequently, MACS, as developed and implemented did not provide for summary financial controls over noncash resources used by AID's overseas offices.

The MACS project began in 1979 and, unlike the FACS project, did not use outside contractors to develop the system's conceptual design and manage the project. The MACS project was managed by an in-house project team which developed the overall conceptual design. Outside contractors were engaged to write the computer programs for the system modules and to analyze the computer programs after they were written.

Based on our review of documentation associated with the MACS project and on our discussions with AID officials, we found that the MACS initial design was not fully implemented primarily because AID did not have a comprehensive project management plan for the MACS effort that included (1) target implementation dates for each module in the MACS initial design, (2) firm assignments of responsibility for the MACS project overall and for each of the constituent modules of MACS, and (3) a means to include all user organizations in setting the MACS design and to resolve problems that arose during the system design, development, and implementation phases. In addition, as with FACS, AID top management had not established a means, such as a steering committee, to monitor all phases of the MACS project and resolve disagreements.

AID's Office of Financial Management (OFM) and the Office of Data Management were both involved in managing the MACS project, and, during the projects' life, overall management and responsibility for the MACS project shifted several times between offices, with the Office of Data Management taking over leadership of the MACS project at the end. Neither office extensively involved all MACS users in system design, development, and implementation decisions. After the initial three modules were implemented, AID reordered its priorities and did not fully develop the MACS initial design. As a result, AID's overseas offices' noncash assets are not under summary financial control.

AID Has Initiated Actions to Avoid Prior Management Deficiencies on the AWACS Project

Pursuant to the CFO Act of 1990, AID appointed a CFO in November 1991 and consolidated under his authority AID's budget formulation, budget execution and accounting, personnel, procurement, and information resources management. AID's CFO reports directly to the Administrator of AID. Also, in consonance with the CFO Act, AID prepared and submitted to OMB on August 28, 1992, a 5-year financial management improvement plan. The centerpiece of this plan is AWACS.

AID began its AWACS project in September 1990. At that time, AID envisioned that AWACS, when fully designed, developed, and implemented, would replace the partially implemented FACS system and would provide for a comprehensive general ledger and place all resources under summary financial control. In May 1992, the AWACS planning staff, which is headed by AID's Deputy Chief Financial Officer and is supported by a private consultant, recommended that AID acquire and modify the U.S. Army Corps of Engineers Financial Management System to meet the conceptual design objectives established by AID for AWACS. The AWACS planning staff estimated that, to meet the objectives established for AWACS, it would cost $33 million to modify and maintain the Corps of Engineers system over a 10-year period. AID submitted to OMB its plans to modify and use the Corps of Engineer's system and received OMB approval in June 1992.

AID started evaluating the Corps of Engineers system in October 1992 to determine the specific modifications needed to tailor it to meet AID's needs and to develop a plan to carry out the modifications. AID plans to complete system modifications in 1993, test the system during 1993 and early 1994, and make the system operational in June 1994.

However, during our review, AID had not determined precisely what functions AWACS is to perform nor adopted a detailed plan for the system's development. Instead, AID was relying on the Strategic Information Resources Management Plan developed by AID's Information Management Committee as the major planning document for AWACS. This plan lists the AWACS project along with overall system goals and objectives but does not present details regarding (1) objectives for the system, (2) functions to be performed, such as program financial reports to be prepared and the noncash and non-appropriated fund resources to be placed under financial control, (3) milestone dates for completing segments of the development and implementation effort, (4) organizational and management responsibilities for system functions, and (5) how AWACS will fit in with the other 45 systems currently in AID's financial management structure. Also, although agency officials said that they planned to establish a steering committee to guide AWACS, such a committee had not yet been instituted.

Conclusions

AID had not established an AWACS steering committee to ensure top management involvement or formulated detailed system development, testing, and implementation plans. Such steps would help assure that AWACS will not encounter the same problems as previous system development efforts.

Recommendations

We recommend that the Administrator direct the Chief Financial Officer to develop and implement a long-term plan for directing AWACS activities and ensuring continuity of management regarding this and related system development efforts. The plan should include establishing a steering committee, appointing a project manager, and specifying the goals, objectives, and scope of AWACS.

Agency Comments and Our Evaluation

AID basically agreed with our recommendation and stated that it is trying to improve the management structure for the AWACS project and emphasized that it is taking steps to avoid past mistakes. AID partially agreed with our other findings.

AID enumerated a number of actions it already had under way, had recently initiated, or planned to (1) further define the goals and conceptual design of AWACS, (2) document definitive plans for project management, and (3) analyze AID's 45 existing financial management systems to determine if and how they can be integrated into AWACS. While these steps are the necessary underpinnings for a solid basis for system development decisions, AID, however, had not yet decided on the detailed methods to design, build, and implement AWACS—that is, off-the-shelf software, a custom-designed system, or other agency software. Until this decision is made, we cannot assess whether AWACS will ultimately be implemented in full accord with its current conceptual design. Further, many of the steps AID said that it has taken for this project were just initiated but not completed during our audit.

Concerning the MACS project, AID said that it was developed in accord with AID's system development standards, that the core system is effective, and that while noncash assets are not under summary financial control, those resources are accounted for and controlled through manual procedures and semiautomated systems. Our major concern with MACS, as stated in the report, was that the modules for noncash resources were never designed and implemented. The manual procedures and semiautomated systems for noncash assets vary from AID office to AID office and are essentially nonstandard records and, consequently, are not part of an agencywide, coordinated financial management structure that can provide agencywide summary financial controls for these resources. We did not comment on the core modules. AID agreed that improvement in the accountability and control for noncash resources is warranted.

Descriptions of AID's Financial Management Systems

Below are brief descriptions of AID's financial management systems. The descriptions are as of the time of our review and are presented in the categories of accounting and financial reporting, asset management, budget, payment, payroll and personnel, procurement, and program and project reporting.

Accounting and Financial Reporting

Cash Journal System. This automated system records domestic receipts and disbursements. Staff manually transfer payroll data from the New American Payroll System and training data from the Participant Payment System to the Cash Journal System. Staff use source documents, such as a check cancellation notice or deposit receipt, to manually enter data in the Cash Journal System. The Financial Accounting and Control System electronically transfers data to the Cash Journal System. Data from this system is manually entered in the General Ledger System. The system electronically transfers data to the U-101 System and the General Ledger Accounting and Reporting System. The Cash Journal System automatically generates the "Statement of Transactions" which is submitted to Treasury.

Country Financial Reporting (CFR) System. This automated system reports the worldwide status of Foreign Assistance program funds. The system consolidates and sorts data to report financial activity for each recipient country. Budget allotments, obligations, expenditures, unobligated funds, and unliquidated obligations are electronically transferred from the Financial Accounting and Control System and the U-101 System to the CFR System. Data from the General Ledger System and source documents are manually entered in the CFR system. Data from the CFR system are electronically transferred to the Program Data Analysis Control File System.

Financial Accounting and Control System (FACS). This automated funds control system is the subsidiary ledger for Washington disbursements and collections. From source documents, staff manually enter allotment, obligation, invoice, disbursement, collection, and other data in FACS. Accounting data from the Mission Accounting and Control System, purchase order data from the Administrative Purchasing System, and training data from the Nigerian Participant Payment System are manually recorded in FACS. Payroll data are electronically transferred from the New American Payroll System. FACS generates over 400 reports. Data from reports are manually entered in the Project Management Information System and the General Ledger System. FACS data are electronically transferred to the Loan Accounting Information System, Cash Journal

System, U-101 System, Project Accounting Information System, Country Financial Reporting System, and to Treasury.

General Ledger Accounting and Reporting System (GLARS). This automated system is AID's general ledger for loan transactions. Staff use source documents to manually record data, such as loan initiation, write-offs, and interest accruals. Collection data in the Cash Journal System and accounting data in the Loan Accounting Information System are electronically transferred to GLARS.

General Ledger System. This automated system summarizes data at the appropriation fund level. Data in the Cash Journal System, U-101 System, and Financial Accounting and Control System, are manually recorded in the General Ledger System. Staff also use source documents to enter data in the General Ledger System. Data generated by the system are manually transferred to the Country Financial Reporting System.

Mission Accounting and Control System (MACS). This automated fund control system controls, accounts for, and reports on mission disbursements and collections. Staff use disbursement or collection source documents to manually record data in MACS. MACS electronically transfers fund availability and other data to the MACS Voucher Tracking System (MACSTRAX), a system that tracks voucher payments. After MACSTRAX records a payment, data are electronically transferred to MACS. MACS electronically transfers data to the Mission Information Decision Assistance System. MACS generates reports, and data from these reports are manually recorded in the U-101 System, the Participant Payment System, the Financial Accounting and Control System, the Project Accounting Information System, the Mission Operating Expense Budget System, and the Portfolio Database System.

U-101 System. This automated system summarizes mission financial data to prepare agencywide reports. The U-101 System is the subsidiary ledger for eight general ledger accounts. Data from reports generated by the Mission Accounting and Control System are manually entered in the U-101 System. Undisbursed funds data are electronically transferred from the Treasury. Data from the U-101 System are manually transferred to the General Ledger System. Data recorded in two systems (the Cash Journal System and the Financial Accounting and Control System) are electronically transferred in the U-101 system. The system electronically transfers data to the Country Financial Reporting System.

Asset Management

Accounts Receivable System (ARS). With the exception of loans, this automated system records worldwide amounts due AID. Missions submit a "Report of Billing and Collection Transactions" to headquarters, and staff manually record data in the ARS. Staff use source documents to manually enter headquarters billing and collection data in ARS. The Accounts Receivable System is a stand-alone system; it does not receive data from or transfer data to any other system.

AID Washington Nonexpendable Property System (NXPS). This automated system controls, accounts for, and summarizes headquarters nonexpendable property acquisitions, disposals, and inventory balances. Staff use source documents, such as a receiving report or an excess property and property-for-sale form, to manually record data in the system. During a physical inventory, staff use hand held bar code readers to identify property. These data are electronically transferred to NXPS, which then creates an automated reconciliation of the inventory counts to the NXPS data. The system generates an annual property report that is sent to the General Services Administration. NXPS is a stand-alone system; it does not receive data from or transfer data to any other system.

Automated Inventory Management System (AIMS). This automated system controls, accounts for, and summarizes worldwide ADP equipment acquisitions, disposals, and inventory balances. Staff use source documents, such as a purchase order, a receiving report, or a maintenance agreement, to manually enter data in AIMS. Also, missions submit updated inventory listings to headquarters and staff use this data to manually enter data in AIMS. This system is a stand-alone system; it does not receive data from or transfer data to any other system.

Expendable Property Management System. This automated system is used by missions to track expendable property ordered, received, and issued. The system produces several reports including a report detailing inventory not used for 1 year. This system is a stand-alone system; it does not receive data from or transfer data to any other system.

Loan Accounting Information System (LAIS). This automated system accounts for AID's loans. Collections, write-offs, interest, and details of loan agreements are manually entered in LAIS. Loan disbursement data are electronically transferred from the Financial Accounting and Control System to LAIS. Data in this system are electronically transferred to the General Ledger Accounting and Reporting System. Each quarter, the system electronically transfers loan data to Treasury.

Manual Foreign Currency System. This manual system converts foreign currency to U.S. dollar equivalents. Missions submit foreign currency data generated by the Mission Accounting and Control System to headquarters. Using Treasury supplied conversion rates, staff convert foreign currency reported amounts to U.S. dollars. These data are recorded in a Status of Foreign Currency Funds report and submitted to Treasury.

Motor Vehicle Inventory System (MVIS). This automated system records and summarizes missions' vehicle acquisitions and disposals, and generates quarterly inventory listings. Staff use mission supplied data to manually record data in MVIS. At year-end, MVIS generates a list of vehicles that headquarters sends to the missions for confirmation. Missions reconcile the list with their records and send the reconciliation to headquarters. Staff manually record the reconciliation data in MVIS. MVIS is a stand-alone system; it does not receive data from or transfer data to any other system.

Nonexpendable Property Management System. This automated system is an inventory management system to track all nonexpendable property, excluding vehicles, owned or used by missions. The system helps managers monitor the status and location of property from the time it is ordered and removed from inventory. Mission staff update the system using source documents such as a purchase order, a receiving report, an invoice, or a notice of disposal. Each mission decides whether to use the system. The nonexpendable property management system is a stand-alone system; it does not receive data from or transfer data to any other system.

Overseas Nonexpendable Property System. This automated headquarters system maintains a detailed list of each mission's inventory of nonexpendable property. Headquarters staff manually record disposal data in the system based on periodic reports submitted by missions. At the end of each fiscal year the system generates an inventory listing of property which is sent to each mission. Staff then update the listing based on the mission's physical inventory and submit to headquarters any corrections. Staff then manually record data in the Overseas Nonexpendable Property System to reflect missions' records. This system is a stand-alone system; it does not receive data from or transfer data to any other system.

Personnel and Space Index System (PSIS). This automated system accounts for and reports on headquarters' workspace, maintenance and renovation expenses, and space utilization data. Staff use source documents, such as floor plans, purchase orders, vouchers, space occupancy reports, and invoices to manually record data in PSIS. PSIS is the subsidiary ledger for maintenance and renovation expenses. PSIS is a stand-alone system; it does not receive data from or transfer data to other systems.

Real Property Management System. This automated system is used to manage and control government-held real property located at the missions. This includes property acquired by purchase, construction, or long-term lease. Mission staff use source documents, such as an invoice or a lease, to record data in the system. The system generates various reports to meet mission staff needs. The Real Property Management System is a stand-alone system; it does not receive data from or transfer data to any other system.

Vehicle Management System. This automated system records acquisition, disposal, operating cost, maintenance data, mileage, and other vehicle information. Data are recorded only for mission-owned vehicles that were financed with operating expense appropriated funds. Mission staff use source documents, such as purchase orders, vehicle usage reports, and disposal forms to manually record data in the system. The Vehicle Management System is a stand-alone system; it does not receive data from or transfer data to other systems.

Budget

Combined Operational Year Budget System. This automated system records budget data and obligated funds at the project and appropriation level. Budget data are electronically transferred from the Program Budget Data System while obligated funds are electronically transferred from the Project Accounting Information System. Staff manually record data, such as project numbers and titles, and project start and end dates. This system produces reports so that management can compare budgets with obligated amounts. Data are electronically transferred to the Portfolio Database System and the African Project Tracking System.

Full Time Equivalency System. This automated system is primarily used to report full-time equivalency workyears. Staff manually record overseas payroll data in the system while headquarters data are electronically transferred from the New American Payroll System. The Full Time Equivalency System generates biweekly reports used by managers and a monthly report that is sent to the Office of Personal Management.

Mission Operating Expense Budget System. This automated system records two categories of obligations made by missions. The first category is federal appropriations that were obligated for operating expenses. The second category is obligations of local government funds that were deposited in U.S. trust funds. Each mission submits to headquarters a monthly report that is generated by the Mission Accounting and Control System. Data from the reports are manually recorded into the Mission Operating Expense Budget System. The system generates reports for management use.

Portfolio Database System. This automated system records program budget and accounting data. Data generated by the Mission Accounting and Control System are manually recorded in this system. Data are transferred electronically from the Project Management Information System and the Combined Operational Year Budget System. The Portfolio Database System provides management with reports including a projected future obligations schedule to assist in meeting congressional spending goals.

Program Budget Data System. This automated system is used to collect, analyze, and revise project budget data before AID submits its budget to the Congress and OMB. Staff manually record budget data in the system. The Project Accounting Information System electronically transfers accounting data to the Program Budget Data System. The system's primary outputs—Congressional and OMB budget submissions—are electronically produced. The system also electronically transfers data to the Combined Operating Year Budget System.

Program Data Analysis Control File System. This automated system records allotments, obligations, and disbursements. Data recorded in this system are electronically transferred from the Country Financial Reporting System. The system generates a calendar year report that shows financial activity for each country receiving foreign assistance. This report is sent to Treasury.

Training Cost Analysis Generator. This system automates AID's training cost analysis process. The system helps managers estimate the cost to train citizens of host governments in the United States or other countries. Missions that use this system use source documents, such as training allowance rates, project data, and cost proposals received from potential contractors, to manually record data in the system. The system produces worksheets that managers use to evaluate contractors' training proposals and estimate training costs. This system is a stand-alone system that does not receive or transfer data to other systems.

Payment

Letter of Credit Support System (LCSS). This automated system records and accounts for letter of credit transactions. Staff manually record letter of credit authorizations, drawdowns, and repayments in the system. Data in the LCSS are manually transferred to the Financial Accounting and Control System. The system electronically transfers payment data to Treasury.

MACS Voucher Tracking System (MACSTRAX). This automated system is a voucher management system that records, tracks, verifies, and schedules vouchers for payment by a United States disbursing office. Staff use an invoice or other request for payment to manually record payment data in MACSTRAX. The Mission and Accounting Control System (MACS) electronically transfers to MACSTRAX data, such as those on fund availability. MACSTRAX's primary output is a diskette which is sent to a disbursing office computer system through a U.S. embassy. After payment, the disbursing office computer system transmits a diskette to the mission which electronically updates MACSTRAX and MACS. Headquarters started distributing MACSTRAX to missions during fiscal year 1991 and is scheduled to replace the Voucher Payable Tracking System and other voucher systems.

Nigerian Participant Payment System. This automated system tracks payments to Nigerian students in training programs. The Nigerian government transferred funds to a U.S. government trust fund to pay for anticipated training costs. As costs are incurred, staff prepare vouchers for payment and manually enter the data into the Nigerian Participant Payment System (NPPS). NPPS automatically generates a voucher tape which is sent to Treasury for payment. Payment data in NPPS are manually transferred to the Financial Accounting and Control System.

Participant Payment System (PPS). This automated system records funding, budget, and disbursement data for participants in AID sponsored training programs. The Participant Training Information System electronically transfers data to PPS. Using source documents, staff manually enter project, disbursement, and budget data in PPS. Accounting data from a Mission Accounting and Control System report are manually entered into PPS. Data generated by PPS are manually entered into the Cash Journal System.

Vouchers Payable Tracking System. This automated system tracks the status of vouchers submitted to missions for payment. Staff use invoices, vouchers, and other requests for payment to enter data manually in the system. The primary reports of the Vouchers Payable Tracking System show the status of vouchers by vendor, voucher examiner, and payment due date. This system is a stand-alone system; it does not receive data from or transfer data to any other system.

Payroll and Personnel

American Electronic Time and Attendance System (AETA). This automated system records AID employees' time and attendance. Headquarters staff manually record data in AETA which is then electronically transferred to the New American Payroll System (NAPS). Mission staff manually record data using different types of computer hardware. Regardless of the hardware used, mission data are electronically transferred to the Department of State's Diplomatic Telecommunications System Network. The data is ultimately transferred electronically in NAPS.

New American Payroll System (NAPS). This automated system processes AID's payroll. The system accounts for employee leave data; computes pay; and accounts for tax, retirement, and insurance withholdings. Time and attendance data are electronically transferred to NAPS from the American Electronic Time and Attendance System while personnel data, such as employee status and pay rate, are electronically transferred to NAPS from the Revised Automated Manpower and Personnel System. NAPS electronically transfers payroll data to the Financial Accounting and Control System, the Full Time and Equivalency System, and the Payroll Cost Accounting System. NAPS generated reports are manually recorded in the Cash Journal System. The system also electronically transfers pay data to Treasury.

Payroll Cost Accounting System. This automated system accumulates and summarizes payroll data. Biweekly payroll data are electronically transferred from the New American Payroll System. The Payroll Cost Accounting System sorts and presents data in various report formats, such as cumulative payroll costs by allotment, project, and organization.

Revised Automated Manpower and Personnel System (RAMPS). This automated system records work force data, such as that on position and ceiling management, staffing patterns, performance evaluations, promotions, assignments, training, and merit pay. Staff use source documents, including personnel actions, medical forms, updated salary schedules, and new position authorizations, to manually record data in RAMPS. Data in RAMPS, such as employee status and pay rate, are electronically transferred to the New American Payroll System. RAMPS electronically transfers data to the Office of Personnel Management to update the governmentwide central personnel data file.

Procurement

Administrative Purchasing System. This automated system automatically generates purchase orders for headquarter's procurements of $25,000 or less. Staff manually enter data, such as the date, quantity ordered, price, item description, and delivery instructions. The primary output of this system is an automatically generated purchase order. Using the purchase order, staff manually record data in the Financial Accounting and Control System.

Contract Information Management System (CIMS). This automated system records contract, grant, and other procurement data. Staff use source documents to manually enter data, such as contractor name, award date, and contract amount, in the system. Contract data are electronically transferred to the Project Management Information System. CIMS electronically transfers contract data to OMB each quarter to update the federal procurement data base.

Resources Utilization System. This automated system tracks hours worked by contractors who maintain AID systems. Each week staff manually enter data in the system based on contract employee time sheets. The Office of Information Resources Management uses the system to verify the accuracy of contractor invoices for maintenance services. The system is a stand-alone system; it does not receive data from or transfer data to any other system.

Program and Project Reporting

African Project Tracking System. This automated system records Bureau of Africa project data. Staff use source documents, such as a project implementation document, to manually record data in the system. Data from the Combined Operational Year Budget System are electronically transferred to the African Project Tracking System. Reports are the system's only output.

Food for Peace Title II System. This automated system maintains price and volume data on surplus agricultural commodities to be shipped overseas based on grants awarded under Title II of Public Law 480. Staff use source documents to manually record data in the system, such as estimated requirements and the quantity and cost of commodities shipped. The system's primary output is reports that are used by AID and the Department of Agriculture or incorporated into reports submitted to the Congress. This system is a stand-alone system; it does not receive data from or transfer data to any other system.

Mission Information Decision Assistance System (MIDAS). This automated system helps missions manage projects. Staff manually enter project planning and task data in MIDAS. Financial data in the Mission Accounting and Control System are electronically transferred to MIDAS. Project managers manipulate this data to analyze and monitor the implementation and financial status of projects. MIDAS does not transfer data to any other system.

Project Accounting Information System (PAIS). This automated system records project accounting information. Data from a Mission Accounting and Control System report are manually entered in PAIS, while data in the Financial Accounting and Control System are electronically transferred to PAIS. Data in PAIS are electronically transferred to two systems: the Program Budget Data System and the Combined Operational Year Budget System. The system's outputs are reports used by headquarters staff.

Project Management Information System (PMIS). This automated system records management information for science and technology projects. The system records congressional and AID mandated dollar controls; the required project documentation schedule; and funds planned, approved, and executed. Procurement data are electronically transferred from the Contract Information Management System to PMIS. Data from the Financial Accounting and Control System are manually entered in PMIS. Data in this system are electronically transferred to the Portfolio Data Base System.

Participant Training Information System (PTIS). This automated system generates statistical data on participants in AID funded training programs. Staff manually record project data, participant data, training facilities attended, and health and accident coverage data in the system. Data generated by the Participant Training Management System are manually recorded in PTIS. Data in PTIS are electronically transferred to the Participant Payment System. The system's primary output is reports.

Participant Training Management System. This automated system records the status of participants in AID funded training programs from the nomination of the participant through post training employment. Mission staff use source documents to record data in the system. The systems's primary output is reports. Data generated by this system are manually entered in the Participant Training Information System.

Comments From the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MAR 11 1993

Mr. Donald Chapin
Assistant Comptroller General
for Accounting and Financial Management
United States General Accounting Office
Washington, D.C. 20548

Associate Administrator for Finance and Administration

Dear Mr. Chapin:

I am pleased to provide A.I.D.'s formal comments on the draft GAO report entitled "Financial Management: Inadequate Accounting and System Development Controls at the Agency for International Development" (GAO/AFMD-93-19, December, 1992).

See comment 1.

As background, our agency is aware of the problems identified in the GAO report, and we have been working on them. We have made considerable progress in resolving these problems over the past two years while the GAO review was underway. Unfortunately, there is little recognition of this progress in the draft report. We believe the report should be revised to reflect the progress that has been made.

See comment 2.

On balance, we agree with the principal findings and recommendations. However, we take exception to the conclusions that suggest the Agency does not have effective control systems to properly account for and report properly on its appropriated funds. In addition, we believe that the AID/Washington Accounting and Control System (AWACS) project, our new primary accounting system for Washington, will succeed. We are taking appropriate steps to achieve its success and to avoid past mistakes. Our attached comments address these areas in more detail, and also respond to other report findings and recommendations.

See comment 3.

Now let's discuss "where we go from here". With respect to the problems identified in the GAO report, we plan to focus our efforts over the next year in three primary areas: (1) matching disbursements with obligations; (2) improving financial systems; and (3) AWACS implementation. We consider the property accounting problem to be relatively less critical, and we do not have the resources to address all the problems in the next year. Accordingly, we do not expect to make much progress on the property accounting issues in the next year.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

See comment 3.

As we have discussed with your people, our financial and systems people will be challenged to make progress on the three major priorities discussed above because they are already stretched thin in meeting other basic priorities: (1) maintaining effective current operations; (2) identifying and implementing efficiency improvements to permit us to do more with less in line with reduced operating expense budgets; and (3) implementing both the letter and spirit of the CFO Act.

See comment 3.

Nonetheless, we understand the importance of addressing and resolving the three most important problems identified in the GAO report. We will make this a priority for the next year. In our meeting with Mr. Nellemann, we discussed the possibility of a brief, focused GAO follow-up audit of these three areas next spring to assess our progress. After we complete detailed implementation plans for our work in these three areas, we will meet with Mr. Nellemann to discuss these plans and the value of a follow-up audit next year.

Thank you for your personal involvement in this process, as well as for the courtesies extended by your staff.

Sincerely,

R A Ames

Richard A. Ames
Chief Financial Officer

Enclosure: a/s

cc:A/AID, James Michel, Acting

GAO DRAFT REPORT - DECEMBER, 1992
(GAO/AFMD-93-19)

"FINANCIAL MANAGEMENT: INADEQUATE ACCOUNTING AND SYSTEM DEVELOPMENT CONTROLS AT THE AGENCY FOR INTERNATIONAL DEVELOPMENT

A.I.D. COMMENTS

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FINDINGS

FINDING A: INADEQUATE REPORTING OF THE STATUS OF APPROPRIATED FUNDS. The GAO draft report contends that A.I.D. has experienced serious accounting system and financial reporting problems that precluded it from reporting the use and status of all its appropriated funds. These problems occurred in part because A.I.D. had not devoted sufficient resources to resolving unmatched disbursements and clearing apparent overdisbursements in certain appropriation accounts.

See comment 4.

A.I.D. Response: Partially concur. We wish to address three specific areas in our response: in-transit accounts, M-account unliquidated obligations, and apparent overdisbursements. Before presenting our specific response, however, several broad comments are in order. Although we agree our financial management systems can be improved, and, indeed, are being improved, we believe the draft report conclusion is based on unrealistic criteria. In our opinion, the problems we have had in-transit accounts and M-accounts do not prevent us from adequately reporting on the status of A.I.D. funds at either the appropriation or obligation level.

See comment 2.

In-transit Accounts

See comment 2.

We agree that A.I.D. needs to improve its management of in-transit accounts, but believe that the problems we have experienced in management of the accounts do not prevent us from accurately reporting on the status of A.I.D. funds at the appropriation or obligation level.

See comment 3.

Disbursements from all A.I.D. locations are made only against valid, pre-established obligations. The accounting systems in both AID/W and overseas contain both automated and manual accounting controls over payments processed at their locations, regardless of whether they are the official accounting station or not. A.I.D. has in place systems and procedures to match payments with control record obligation balances prior to certification and disbursement. Controlling the potential liability for erroneous certifications for our certifying officers requires sound internal controls at the point of disbursement.

See comment 3.

A.I.D. has worked hard to improve its controls over disbursements made by accounting stations on behalf of the official accounting station. There are a variety of valid reasons why other locations serve as disbursing offices for the official accounting station. There are three types of disbursements that make up the bulk of our in-transit activity. First, U.S. private voluntary organizations and non-profit organizations are allowed interest free government advances to carry out work under A.I.D. projects and grants and this can be more efficiently handled at the Washington level since most of the organizations have home offices in the U. S. A.I.D. has developed an agency-administered letter of credit program to make these payments at the lowest possible cost to the U.S. Government. This successful program does, however, generate a large part of our in-transit disbursements. Second, the world-wide loan program is centralized in Washington for accounting purposes but much of the local cost financing of project elements has to be done in the field. Third, the Commodity Import Program is centralized in Washington for accounting purposes but much of the management and disbursement activity takes place under direct letters of commitment issued by the field missions. These three programs account for the bulk of the in-transit activity on an annual basis.

See comment 4.

The draft report on page 17 reports that A.I.D. has done little to improve the efficiency of its manual and automated processes for reporting and accounting for disbursements or to strengthen related accounting controls. We believe the statement "A.I.D. has done little...." is incorrect and inappropriate. While unmatched disbursements should be resolved in a reasonable period of time, the fact is that there will always be disbursements in-transit between the disbursing stations and the accounting stations. Further, we recognize this problem and have taken action to correct the weaknesses in the reconciliation of disbursement information:

- Reduced the dollar amount in the in-transit accounts from $672 million in September 1991 to $357 million in October 1992. This is a 47% reduction in 13 months resulting from the agency's emphasis on this issue.

- Reduced the elapsed time for distributing AOCs from headquarters to the field from 165 days in October 1991 to less than 25 days for 5 consecutive months, July through November 1992. We accomplished an 85% reduction in 9 months. Further, the 25 days is 5 days better than the FM goal for transmission of these documents (30 days after the close of the accounting month).

- Developed an automated process for transferring disbursement data between disbursing and accounting offices. This process required a formal documented, tested change to our overseas accounting system, MACS, as well as a personnel training initiative world-wide. Under the new system, data from missions with electronic mail capability is being received with 100% accuracy. Data transmitted through the Department of State cable system is received with less than 1% error rate. It is expected that all missions will be electronically transmitting their data before the end of FY 1993. This will save the rekeying of approximately 1200 pages of financial statements each month. Based on GAO's edit correction reports, GAO found that on 26% of these pages some kind of error occurred. Although we do not concur in GAO's conclusion that this translates to a 26% error rate since hundreds of figures were being rekeyed from each page with only an occasional error in one or more of the figures, we do think that the new system is an enormous improvement.

See comment 5.

- Initiated, during the period of the GAO audit field work, 23 formal modifications to the AID/W accounting system, (FACS) to improve the efficiency or control over the disbursement transfer process.

- Completed training classes for accounting personnel which included training on the disbursement transfer process.

- Established written management objectives to improve as a priority task the disbursement transfer process and devoted resources specifically to the task.

See comment 4.

In a sense, GAO may be establishing for A.I.D. an impossible reporting standard of completely matching disbursements with obligations for each reporting period or suffering the stigma of an "inaccurate reporting" charge. There is obviously room for significant improvements in matching disbursements with obligations on a more timely basis, but the seriousness of the charge of being unable to report on the use and status of all our appropriated funds because of the in-transit account needs to be examined on a Government-wide basis and uniform standards promulgated.

See comment 2.

See comment 6.

The draft report concludes that primarily because our overseas offices did not promptly and accurately report their disbursements, A.I.D. could not ensure that these disbursements were made only against valid, pre-established obligations and that its recorded obligations were valid. We do not concur in the view that our overseas offices are principally responsible for the in-transit accounts of $418 million in disbursements. Our overseas offices generally report <u>their</u> disbursements promptly and accurately and reconcile monthly with the disbursement amounts reported by the U.S. disbursing officers around the world.

See comment 3.

Contrary to the implication on page 17 in the draft report, A.I.D. records disbursements in its overseas accounting systems from the original vouchers and then reconciles the disbursements in its accounting system with disbursements made by the U.S. disbursing officer. The in-transit accounts are disbursements largely made in Washington that have not had supporting documents assembled and the charges transmitted to the official field accounting station for recording. The passage of time clearly makes the process of assembling documents supporting the disbursements and transmitting them to the proper accounting station more difficult.

See comment 4.

Based on our performance over the past year, we believe that delinquent preparation and dispatch of the disbursement documentation to the accounting stations are problems of the past. Not only has the timeliness of this process in Washington improved dramatically, but it is our impression that the quality of the work has also improved. The acceptance turnaround rate of disbursements by our field missions has improved and the level of complaints about missing documents has decreased.

See comment 4.
See comment 7.
See comment 2.

In addition to the financial and internal controls over obligations and unliquidated balances discussed earlier, A.I.D. produces quarterly management reports on an accrual basis to provide managers with financial reports that reflect project implementation status regardless of the point in the Agency's overall financial system that actual disbursements are effected, and where goods and services have been delivered but disbursements have not yet occurred. Consequently, we believe that A.I.D.'s financial systems do reliably control, account for, and report on the status of appropriated funds, both at the obligation and appropriation levels.

See comment 4.
See comment 8.

Unliquidated M-Account

The data in the Executive Summary links the $418 million in in-transit accounts with the $915 million in old "M" account unliquidated obligations. In fact, only a small portion of the $418 million in in-transit disbursements is from the "M" accounts. Further, this soon will no longer be a problem because M-account funding authority will be cancelled on September 30, 1993 in accordance with the National Defense Authorization Bill for Fiscal Year 1991. The inference that unliquidated balances exist under old "M" account appropriations solely because of our in-transit disbursement accounts should be clarified.

The discussion covering unliquidated M-account obligations on page 20 of the draft report is confusing. A.I.D. proposes the following sentence as a substitute for the first two sentences of

See comment 3.

this paragraph. We believe this sentence accurately reflects the status of our M-account balances.

> **"A.I.D. reduced its unliquidated obligations of expired appropriations from fiscal years 1988 and earlier from $1.9 billion on September 30, 1991, to $915 million on September 30, 1992, by disbursing or deobligating "M" account balances and cancelling any remaining FY 85 or older year end unliquidated balances."**

See comment 3.

Possible Overdisbursement

Based on the information A.I.D. has on the reasons for the negative balances in two of our old appropriation accounts, it is both inappropriate and premature to conclude that "overdisbursements" occurred until these two appropriations are fully researched. We believe the term "apparent overdisbursement" used by GAO on page 16 of its report should be deleted.

See comment 4.

We believe these two accounts have negative balances because of accounting errors. The largest negative cash balance of $437,375 is in an annual appropriation for which A.I.D. was not appropriated funds. In FY 91, our annual appropriation for this purpose was changed to a multi-year appropriation. We are virtually certain that the reasons for the credit balances for this account are the incorrect use of the Treasury symbol (72-111-1014 instead of 72-111/21014) on the accounting documents processed for payments. The detail for the $437,375 has been identified and action will be taken to resolve and correct these items with the various USAIDs and U.S. disbursing offices. If these accounting errors occurred, there was no overdisbursement.

See comment 9.

On page 27, the draft report reads: "During the research, A.I.D. identified errors that, when corrected, increased the credit balance from $418,984 to $437,375." The increase in the amount was not due to the correction of errors, but to the transactions that took place since September 30, 1991. This sentence should be changed to read: "During the research, A.I.D. identified subsequent errors that increased the credit balance from $418,984 to $437,375."

FINDING B: Inadequate Accounting Controls Over Property

GAO contends that A.I.D. does not reliably account for, control, and report on its property used at its headquarters and overseas offices, and that A.I.D.'s accountability problems for property stem primarily from failures by its staff, particularly in its overseas offices, to follow prescribed accounting and reporting procedures for property.

See comment 4.

A.I.D. Response: Partially concur. A.I.D. agrees that it should improve its accountability over property. The integrated financial management system outlined in our CFO 5-Year Plan and our Agency-wide Information Strategic Plan (ISP) will bring the Agency into compliance with the model described by GAO. In the meantime, however, much has been done to improve accountability over our property. At the Washington level, an inventory of nonexpendable property (NXP) has been completed, and discrepancies between the inventory and the NXP database are being resolved. The inventory is more accurate and comprehensive now than it has been in years, and we continue to make improvements through the use of barcodes and other control techniques.

See comment 10.

We disagree with GAO's assertion that we are accounting for property overseas improperly. It appears that the field work focused only on the inventory reports prepared for Washington, and did not examine the financial controls exercised at each post visited. A.I.D.'s overseas offices exercise control between the NXP control ledgers, physical inventories, and detailed subsidiary records. Our Controller Assessment program reviews how well the mission has reconciled the annual property inventory amounts to the control ledger and whether differences have been resolved. GAO agrees that the detailed property records at the overseas missions generally reflected accurately the property on hand. The fact that the reporting of the property details could be improved does not obviate the validity and reliability of the property control system in place overseas.

See comment 3.

A.I.D. acknowledges that the procedures for reporting overseas nonexpendable property were inadequate, and we changed the procedure in FY 1992. Inventories were compiled by hand records, sent to Washington, transferred into an automated system, sent back overseas for updating, reentered, and so forth. This human transferring of data back and forth resulted in reports that were never current. Our current procedure is to use the data submitted directly by the overseas mission, since we know the inventory records are accurate.

See comment 11.

The report also indicated that A.I.D. does not record property purchases in its central property records based on payments made, but rather relies on property records from the field to update its summary level records. As a decentralized agency that makes payments in the field, we have established procedures in the field to ensure that all property acquisitions are received and disposals properly recorded. Thus, reporting the financial totals of property on hand from the field should be sufficient. We agree that improvements are necessary in Washington.

FINDING C: Systems are Incomplete, Error Prone, and Do Not Provide Needed Information. The draft report contends that A.I.D.'s systems cannot routinely provide reliable information on the use of its resources to carry out its programs because (1) its two main accounting systems for Headquarters and overseas were not implemented fully in accord with their designs, and (2) subsidiary systems supporting the two main accounting systems were not designed to automatically exchange needed information and, consequently, information must be rekeyed before it can be exchanged among related systems. In addition, A.I.D. was impeded in correcting known problems with its financial systems because many were undocumented and untested.

See comment 4.

__A.I.D. Response:__ Partially concur. We agree in general with GAO's finding. These are areas we have been working on prior to the GAO audit effort. For example, the AWACS initiative was approved in September 1989, with a contract signed in mid-1990. We, therefore, cannot accept the finding as stated, since this section does not acknowledge the Agency's major initiative to correct the problems of its "fragmented" financial systems structure, nor report on areas of improvement. Further, this section appears to conflict with the GMR report on information resources management, given that financial management systems represent more than 80% (using OMB's definition) of the systems development efforts in A.I.D.

See comment 12.

See comment 13.

A.I.D. systems, such as MACS, provide many reports on the usage of funds by object class, project, etc., that have been validated by audit. Yet, the draft GAO report states that "A.I.D.'s systems do not record and report financial and quantitative information on the resources used to carry out its programs." This statement should be clarified or qualified. Moreover, the report has not defined "effective control". In addition, the statement that A.I.D. does not "accurately" report on appropriated funds is too sweeping and not in accordance with audits and reviews of MACS, which accounts for the bulk of A.I.D.'s program funds. A.I.D. IG audits have validated MACS as an effective system for administering and controlling the Agency's funds.

See comment 16.

The draft report states that systems are incomplete and not implemented in accordance with design, yet not only was MACS implemented as designed, it has evolved well beyond the original design and has been repeatedly validated in terms of both functionality and accuracy of data. The MIDAS system is cited as a "failed effort." In fact, MIDAS is still running today in the Philippines and other missions have requested it. The decision to suspend central support for MIDAS was based on the move to a new technical architecture. Much of the analysis and design, i.e., intellectual property, of MIDAS will be reused either in adapting MIDAS to the new architecture or in development of a new integrated application.

See comment 14.

See comment 4.

Rekeying of information was identified as a principle cause of inaccuracies. However, no mention was made of A.I.D.'s effort to implement data interchange among systems. For example, U-101 data are now being automatically transmitted between MACS and headquarters. The Agency is acutely aware of the OMB Circular A-127 policy on elimination of data reentry. The Agency's A-127 submissions to OMB for the past several years have highlighted the current condition and our plans for both eliminating data reentry and phasing out redundant systems. Moreover, our 5-year Financial Systems Plan specifically describes our approach, which is consistent with the objectives of AWACS identified in 1990.

See comment 15.

The draft report states that "A.I.D. is impeded in improving its systems because they are inadequately documented and tested." This statement is misleading and makes a common error in logic by generalizing from a specific case. The finding implies that A.I.D.'s systems are not documented or tested. GAO did not recognize that the two major financial systems were documented and tested nor note the progress made on other systems which have not yet been fully documented and tested adequately.

See comment 4.

See comment 16.

The draft report concludes that "A.I.D. does not have a comprehensive, current understanding of how the systems in its financial management structure operate," due to undocumented and untested systems. We believe that this statement ignores the substantial progress made in our AWACS and ISP efforts, which has created a corporate model of data for A.I.D. A.I.D.'s understanding of how the systems in its financial management structure operate has improved significantly in the last two years because of the business area analysis conducted for AWACS. Our understanding will continue to improve as efforts to implement the ISP continue.

FINDING D: PROJECT MANAGEMENT WEAKNESSES RESULTED IN THE PARTIAL IMPLEMENTATION OF FACS AND MACS GAO contends that A.I.D. system development project weaknesses resulted in the partial implementation of the FACS and MACS system designs with the result that A.I.D.'s nonappropriated fund and noncash resources are still not under summary financial control.

See comment 16.

A.I.D. Response: Partially concur. While we generally agree that project management weaknesses existed with FACS, we do not agree that they existed with MACS. MACS was jointly managed by the offices of Financial Management (FM) and Information Resources Management (IRM). This project received management oversight and attention at the highest levels and routinely involved working meetings with the directors of these two offices, and, when required, with the Assistant Administrator for Management. Further, MACS was designed and developed following the established A.I.D. Systems Development Standards adopted from the CARA Corporation. These standards identified a methodological approach for developing information systems and detailed planning documents.

See comment 16.

We disagree with the conclusion that MACS did not succeed because it was not fully implemented as designed, as well as the inference that, because of alleged management oversight problems, AWACS may fail due to the same factors. MACS has, in fact, been a very successful system. MACS is now on Release 17 and is being converted to a Unix environment. It was also implemented in accordance with its system design specifications, contrary to the finding in the draft report. The GAO itself reviewed and commented favorably on the preliminary MACS design in 1981, stating "We believe this is an outstanding presentation....the package could very well serve as a model...." Both I.G. audits and controller assessments indicate that MACS is functioning as intended and serving the needs of mission management reasonably well.

See comment 16.

The original MACS detailed systems design document refutes the assertion that MACS was not fully implemented. The system design called for a core system to be developed first. The additional modules referred to in the GAO report, such as property accounting and arrival accounting, were never part of the design. Originally, there was some thought given to potential future expansion and that the system was to have been designed with flexibility in mind. This was referred to in the MACS feasibility study, not "design" documentation. The fact that additional modules were not developed was because they were never officially sanctioned, not because MACS was not fully implemented according to its design. Whether the additional modules should have been developed or not is subject to debate. The developers of the MACS system never envisioned addressing all of the potential system capabilities that were considered during the feasibility study until the core system could be developed and successfully implemented.

See comment 16.

MACS has evolved beyond the original design and is over 11 years old. IG reports over the past two years give MACS an unqualified opinion with respect to its internal controls and functionality. In 1989, following a review of MACS in the Philippines, the A.I.D. Inspector General concluded in a note to the Acting Administrator that while the headquarters accounting system was problematic, the Agency could rely on MACS as an effective system for administering and controlling the bulk of the Agency's funds.

See comment 16.

Page 50 of the report concludes that because additional MACS modules were not implemented for noncash assets, they are not under a summary financial control system in A.I.D.'s overseas offices. This is a misleading conclusion, since other manual and semi-automated systems and procedures exist that provide some degree, and in many cases, adequate control over assets such as accounts receivable and non-expendable property. We agree, however, that improvements are warranted.

See comment 3.

We do concede that FACS failed, but it is important to discuss why it failed and what steps we have taken in the AWACS effort to avoid making the same mistakes. First, FACS was designed in the late 1970s, at a time when OMB was insisting that new accounting systems be fully automated, fully integrated, real-time, on-line systems. FACS was only one of numerous systems in the Federal Government that failed because it was too complex given the technology utilized during that period. FACS does work: but the 1.6 million lines of CICS-COBOL code and 1240 separate hard-coded programs within FACS make it extremely expensive and time-consuming to maintain. Second, FACS was developed based on a $5 million fixed-price contract. The contractor soon discovered that it was unable to deliver the system for that price, and replaced its senior programmers with very young and inexperienced ones to cut costs. Thus, the internal logic of the programming is very inefficient. Third, A.I.D. did not devote full-time project personnel to FACS. FM's senior managers attempted to oversee FACS on a day-to-day basis, but never succeeded. Finally, in 1989, A.I.D. made the decision to begin the AWACS development effort to replace FACS.

FINDING E: AID HAS INITIATED ACTIONS TO AVOID PRIOR MANAGEMENT DEFICIENCIES ON THE AWACS PROJECT GAO contends that, while steps are being taken to improve the management of AWACS, A.I.D. had not determined precisely what functions AWACS is to perform nor adopted a detailed plan for the systems development. Furthermore, A.I.D. had not established a steering committee to guide AWACS.

See comment 16.

A.I.D. Response: Partially concur. The GAO report concludes that the AWACS project has had no formal project management structure. We disagree. From the very beginning, A.I.D. took steps to ensure that AWACS not follow the same pattern as FACS. A project director was named, and agency senior managers knew that he is responsible for directing the effort. A March 19, 1990 briefing paper for the Acting Administrator's meeting with senior managers on AWACS makes very clear who was in charge of the project. Four additional full-time employees also were assigned to the AWACS project.

From inception, AWACS has had senior-level management oversight. The AWACS director has reported to the Agency Controller, who in turn has reported either directly to the Administrator or Chief Financial Officer. Currently, the Agency provides management oversight for AWACS through the CFO/Deputy CFO organizational structure and the Information System Plan Steering Committee.

See comment 16.

In addition to top management involvement, another major factor we believe will ensure the eventual success of AWACS and related financial systems is the methodology being employed. AWACS is using the Information Engineering Methodology, a top-down, comprehensive, and structured approach to systems development which the Agency has adopted for all future systems development efforts. The Information Engineering Methodology calls for progressive step-wise refinement of detail. Until a final decision is made on which development approach to take (i.e., commercial off-the-shelf, custom-designed, or "other-agency" software), we cannot develop a detailed plan for technical design and construction pursuant to the methodology. This decision will be made this Spring. In summary, the AWACS project has always had a plan for system development based on the best available information.

See comment 16.

The report states that "...during our review, A.I.D. had not determined precisely what functions AWACS is to perform nor adopted a detailed plan for the system's development." Again, we disagree. A.I.D. has spelled out AWACS functions in three substantial levels of detail. The first was in the Strategic Information Systems Plan for financial management which was completed in February 1991. The second was in the Appendix B of the AWACS' detailed cost benefit analysis, entitled "A.I.D. Specific Financial Systems Requirements" dated May, 1992. Finally, AWACS functions are described in nine detailed business area analyses: general ledger, funds distribution, funds usage, accounts receivable, accounts payable, cost accumulation, budget formulation, credit management, property accounting, and business area consolidation. These business area analyses were completed in phases beginning in October 1991 through October 1992. The complete integrated financial management system is discussed in the Agency's Financial Systems Plan contained in its CFO 5-Year Plan submitted in August 1992. AWACS plans have further been incorporated into the Agency-wide ISP completed in late 1992.

See comment 16.

Page 52 of the report states "This plan....does not present details regarding....how AWACS will fit in with the other 45 systems currently in A.I.D.'s financial management structure." At the time the GMR team conducted its field work relating to AWACS, it was too early to determine in detail how AWACS would fit into A.I.D.'s financial management structure. The Financial Systems Plan submitted as part of the 5-year CFO plan identified systems to be replaced by AWACS as well as the seven other projects required to achieve the Financial Systems Plan vision of an integrated financial systems structure. In December 1992, AWACS initiated a detailed analysis of the existing 45 systems to determine data migration strategies. Both the near term and long term disposition of many of the existing systems is dependent on the broader Agency Strategic Information Systems Plan.

See comment 3.

AWACS, in accordance with the Information Engineering system life-cycle development standards, has completed the first 2 phases, Information Strategy Planning and Business Area Analysis. The remaining two phases, Technical Design and Construction, are totally dependent upon the development approach selected by A.I.D. to be decided this Spring.

See comment 3.

Compared with FACS, which automated existing manual procedures, the AWACS project is defining information requirements independent of existing ways of doing business. In fact, we have spent considerable time in defining the nine Business Areas that constitute financial management in A.I.D. By using CASE tools and integrating AWACS with Agency data models, we intend to create an integrated financial management system as envisioned by OMB.

See comment 3.

Further, we have reduced both the risks and cost of developing a new automated system by electing to modify an existing system -- the Corps of Engineers' Financial Management System (CEFMS) -- to meet the specific requirements of A.I.D. Under development for five years, CEFMS is now being beta-tested at one site, and will soon be installed in eight other sites. The Corps has given us the complete system, and we have already successfully converted parts of CEFMS into our technology architecture.

See comment 3.

Because CEFMS was developed using structured design techniques, utilizes a modern relational data-base technology and is implementable in a client-server environment, CEFMS is a highly flexible system. This flexibility coupled with the robust functionality of CEFMS establishes a firm foundation for AWACS development. We are working closely with Commerce, USIA, and other agencies also interested in modifying CEFMS. OMB is very much aware of this approach and endorses it. Again, we expect to make a final "go/no-go" decision on adopting CEFMS for AWACS this Spring.

See comment 3.

A.I.D. senior program managers and officers have been actively involved in the development of AWACS. Numerous program officers participated in the nine Business Area Analyses. We are now entering the phase of making a go/no-go decision on CEFMS, and once system construction begins, there will be even more user involvement as we utilize Rapid Application Development and prototyping techniques.

See comment 16.

OMB's Office of Federal Financial Management, Treasury, and other agencies, have reviewed AWACS and given it high marks for its methodological approach and comprehensiveness. Therefore, we strongly disagree with GAO's assertion that A.I.D. may be making the same mistakes in its effort to develop AWACS that it made in developing FACS and MACS and that the risk is therefore high that the new system will not result in the financial management improvements anticipated. Finally, while we agree with GAO's recommendation for formalizing the management structure for AWACS and other related financial systems efforts, we do not agree that "planning for future financial management structure is inadequate", particular as regards to AWACS.

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RECOMMENDATIONS TO THE A.I.D. ADMINISTRATOR

o **RECOMMENDATION 1:** The GAO recommended that the Administrator direct the Chief Financial Officer to develop and implement a plan and timetable to match unmatched disbursements with appropriate obligations.

See comment 4.

A.I.D. Response: Concur. We agree that A.I.D. needs to improve its management of in-transit accounts and have included this as a priority item in our CFO 5-Year Plan submitted to OMB in August 1992.

The timetable in our 5-Year Plan for completion of improvements on the in-transit disbursement accounts is September 30, 1994. Our present objective is to have no in-transit disbursement amounts older than twelve months in our accounts. As described in our response, significant resources and improvements have already been made in this area in recent years. The dollar amount in the in-transit accounts has been reduced from $672 million in September 1991 to $357 million in October 1992. Our 5-Year Plan makes the assumption that sufficient resources will be available for completion of the milestones and deliverables.

o **RECOMMENDATION 2:** The GAO recommended that the Administrator direct the Chief Financial Officer to verify property records by taking a physical inventory of all property on hand at Headquarters and at overseas offices, comparing the results to amounts recorded in A.I.D.'s property systems, investigating and resolving discrepancies, and adjusting records as appropriate.

See comment 4.

A.I.D. Response: Concur, but we consider this (both recommendations #2 and #3) to be a lower priority effort. Note our comments in our cover letter to Mr. Chapin.

o **RECOMMENDATION 3:** The GAO recommended that the Administrator direct the Chief Financial Officer to ensure that the property data are kept up-to-date by enforcing existing requirements for (1) promptly entering property acquisitions and dispositions and (2) conducting annual physical inventories.

See comment 4.

A.I.D. Response: Concur. (note comment on Recommendation #2 above).

o **RECOMMENDATION 4:** The GAO recommended that the Administrator direct the Chief Financial Officer to review all financial management systems in use and revise system documentation and user manuals to reflect existing system designs.

See comment 4.

A.I.D. Response: Partially concur. We intend to update the documentation for our mission critical financial systems, and to fully document the new generation of corporate systems developed under the ISP. However, we do not believe we will have sufficient resources to update the documentation on all financial systems.

o **RECOMMENDATION 5:** The GAO recommended that the Administrator direct the Chief Financial Officer to eliminate from A.I.D.'s systems inventory those systems that are not used.

See comment 4.

A.I.D. Response: Concur. We have eliminated the seventeen systems noted in the draft report from the system inventory. As we implement the ISP, we will eliminate those systems that are replaced.

See comment 16.

o **RECOMMENDATION 6:** The GAO recommended that the Administrator direct the Chief Financial Officer to develop and implement a long-term plan for directing AWACS activities and ensuring continuity of management regarding this and related system development efforts. The plan should include establishing a steering committee, appointing a project manager, and specifying the goals, objectives, and scope of AWACS.

A.I.D. Response: Concur. While we accept the GAO recommendation for a formal AWACS charter, we disagree with the conclusions reached in the draft report that AWACS may not succeed because we have not finalized these process steps. On the contrary, our assessment suggests that AWACS is heading in the right direction and has a strong chance of succeeding as envisioned. A formal, long-term plan will further improve the odds. The AWACS project approach, however, differs markedly from the approach utilized in developing FACS.

The following are GAO's comments on the Agency for International Development's letter dated March 11, 1993.

GAO Comments

1. The actions that the Agency for International Development (AID) has taken on the financial management problems discussed in the report are presented in the agency comments sections in chapters 2 and 3 of the report.

2. Federal agencies are required to match all disbursements with related obligations to determine the status of their appropriated funds. AID's response to our report stated that it had $418 million in unmatched disbursements, almost $440,000 in potential overdisbursement, and $915 million in M account obligations as of September 30, 1992. Until AID verifies and appropriately acts on these items, it cannot fully determine and report on the use made and status of the appropriated funds for the fiscal years to which these items relate. With regard to the steps AID asserts it has taken to avoid project management mistakes on the AWACS project, these actions were initiated during our review and involved defining the conceptual design of AWACS. AID, however, has not yet decided on its detailed design and implementation approach for AWACS and, until the detailed approach is decided upon, we cannot assess whether the AWACS conceptual design can be effected.

3. No comment needed.

4. Discussed in agency comments section in chapter 2.

5. In calculating the 26 percent error, we first determined the total number of accounting entries on the 1,200 pages of financial statements each month. We then determined the number of these entries with keypunch errors, and computed the error rate by comparing these two numbers.

6. Our report did not conclude that AID's problems with unmatched disbursements occurred primarily because AID overseas offices did not promptly and accurately report their disbursements. Our report states that AID had not adequately performed control procedures, especially those related to disbursements by its overseas offices. The report points out that unmatched disbursements resulted from difficulties in exchanging disbursement data between overseas offices as well as between AID headquarters and overseas offices. Consequently, no change to the report is needed.

7. Our report focuses on controls over AID's accountability for appropriated funds at the appropriation account and allotment level. Management reports on a project level may provide reliable financial information for an individual project, but AID's unmatched disbursements preclude AID's overall accounting system from controlling and accounting for, agencywide, all of AID's appropriated funds.

8. The executive summary states that since AID has not resolved all unmatched disbursements in in-transit accounts, obligations on its books may, in fact, have been liquidated. AID, in its comments, agreed that a portion of the unmatched disbursements did relate to its M account obligations. Consequently, there is no need to revise the executive summary.

9. Report clarified.

10. Our report states that its focus is on AID's agencywide accountability and control over personal property used at both its headquarters and overseas offices. This agencywide accountability and control is maintained through the personal property systems operated at AID headquarters for motor vehicles, headquarters personal property, and overseas personal property. These headquarters systems, and not the property systems maintained at each overseas mission (which do not have an agencywide focus), are AID's official accountability systems for property.

11. Our report states that its focus is on AID's agencywide accountability and control over all personal property used throughout AID and not just on property accountability at AID's overseas offices. AID's central procedures for controlling and accounting for property did not support updating accountability records based on cash disbursements when property was purchased. Also, AID's property accounting systems did not reflect the property actually on hand.

12. GAO's AID general management review (GMR) report for information resources focused on the organization and structure of AID's Office of Information Resources Management and the overall methodologies used to design, develop, and implement ADP systems. Our report on financial management system issues focuses on AID's 45 financial management systems from design and operational points of view and not on all of AID's automated systems and its overall automated system design and implementation methodologies.

13. Our report does not question the ability of the MACS modules for accounting for and controlling AID's appropriated funds, which were effectively designed and implemented. The report points out, however, that the modules in the MACS initial conceptual design to account for and control noncash resources, such as property, were never designed and implemented and, as a result, MACS does not place all resources AID uses for program and administrative operations under summary financial control and financial reporting.

14. Our report states that MIDAS, as designed and implemented, could operate on computer equipment at only 12 of AID's 43 missions that needed MIDAS. The report also points out that MIDAS was too complex for overseas offices to implement, maintain, and use. AID's comments do not address these issues. AID's comments point out that MIDAS is run by its mission in the Philippines, which is acknowledged in our report, and that it suspended central support for MIDAS because overseas offices were getting new computer equipment, which is also acknowledged in the report. AID's comments do not address the issues regarding MIDAS that are discussed in the report.

15. The report assesses the degree of documentation and testing for all of AID's 45 financial management systems. No change is needed to the report.

16. Discussed in the agency comments section of chapter 3.

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Related GAO Products

Information Resources Management: Initial Steps Taken But More Improvements Needed In AID's IRM Program (GAO/IMTEC-92-64, September 29, 1992).

Foreign Assistance: AID's Implementation of Expired Appropriation Account Legislation (GAO/NSIAD-92-189BR, May 20, 1992).

Foreign Assistance: Management Problems Persist at the Agency for International Development (GAO/T-NSIAD-92-31, May 1, 1992).

Foreign Assistance: A Profile of the Agency for International Development (GAO/NSIAD-92-148, April 3, 1992).

AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, March 6, 1992).

Foreign Assistance: Obligated But Unspent Funds as of September 30, 1990 (GAO/NSIAD-91-238, June 18, 1991).

Foreign Assistance: Funds Obligated Remain Unspent for Years (GAO/NSIAD-91-123, April 9, 1991).

Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs (GAO/NSIAD-90-67, January 22, 1990).

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