



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

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JUN 10 1977

The Honorable John F. Owens
Acting Assistant Administrator
Bureau for Program and Management Services
Agency for International Development



Dear Mr. Owens:

During the course of our recent review of AID's Loan Program, we made a particular effort to assess the progress made in automating loan accounting operations. We were pleased to note that meaningful progress has been made. Not only has all loan accounting been converted but the implementation problems identified during our prior review have apparently been resolved. These changes have created an automated accounting system which differs significantly from the manual system that we approved in 1968.

Although additional refinements may still be needed, we believe that sufficient progress has been made to warrant full documentation of the automated system to replace the existing loan accounting manual. That manual, as well as our approval of it, is now out of date because it pertains to a system that no longer exists. The current system provides automated individual loan records, automated general ledger and reporting activities, direct access to loan data through a time sharing system, and facsimile transmission of data from New York to Washington, D. C. Obviously, a system of this complexity requires a well-conceived design and firm controls to ensure reliability, and we would like an opportunity to examine it in its entirety to discharge our responsibility for systems approval.

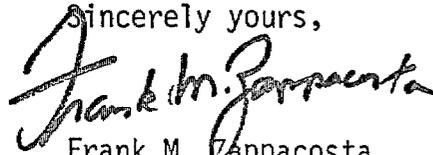
In this connection, we have noted that there continues to be a need for periodic internal financial audits of the Loan Program and for regularly recurring independent tests of source data and established procedures. Since the Office of the Auditor General was established in 1969, the only financial audit made of the program was of the fiscal year 1972 financial statements. Also, although the current loan accounting manual has always provided for semiannual internal check procedures to verify the validity of loan data introduced into and produced by the system, such tests were performed by AID for the first time in 1975.

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We regard adequate internal audit activities as an indispensable part of the controls that must be incorporated in all accounting systems. Without them, management cannot ensure that its accountability responsibilities are being effectively discharged.

Accordingly, we recommend that AID (1) reduce pertinent aspects of the current automated accounting system to a written description of procedures and controls, including provisions for periodic internal financial audits and independent tests of source data and established procedures, and (2) submit the documented system to the Comptroller General for approval.

Sincerely yours,



Frank M. Cappacosta
Assistant Director