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**AUDIT OF USAID/ECUADOR'S COMPLIANCE WITH
FUND CONTROL LAWS AND REGULATIONS**

**Audit Report No. 1-518-87-34
July 27, 1987**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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July 27, 1987

MEMORANDUM

FOR: USAID/Ecuador Director, Frank Almaguer
FROM: RIG/A/T, *Loisage N. Gothard*
SUBJECT: Audit of USAID/Ecuador's Compliance with Fund Control Laws and Regulations

This report presents the results of audit of USAID/Ecuador's compliance with fund control laws and regulations. Please advise this office within 30 days of the actions planned or taken to implement the report recommendation.

Background

From September 27, 1983 through September 18, 1984 USAID/Ecuador obligated \$22 million for its Emergency Rehabilitation Project (No. 518-0046) through grant and loan agreements with the Government of Ecuador. The Mission was also authorized to obligate \$1 million in grant funds outside the project agreements for technical assistance, training, and logistical support for the project. Some of these obligations outside the project agreements resulted in fund control violations. Other violations occurred under two grants. Grant No. 518-0005-G-00-5077 with the Jose Joaquin de Olmedo Foundation was signed on July 15, 1985. Grant No. 518-0023-G-00-5065 with the Nature Foundation, funded under the Forestry Sector Development project (No. 518-0023), was signed August 12, 1985.

A definition of terms is useful for understanding the statutory and regulatory requirements for fund control. An appropriation is a statutory authorization to make payments out of the U.S. Treasury for specified purposes. An apportionment is a distribution by the Office of Management and Budget of funds available in an appropriation. An allotment of funds within AID authorizes a bureau or office director to incur obligations. A budget allowance authorizes a unit within the bureau or office (e.g., a field Mission) to incur obligations. An obligation results when an authorized official places orders for goods or services, awards contracts, or makes similar agreements for payment from the Agency's appropriations of funds. A disbursement is any payment by

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cash or check, whether an advance against future expenses or a reimbursement for expenses already incurred. Under AID's accrual accounting system, expenditures are recorded when services are rendered or goods received, whether or not payment has been made and whether or not an invoice has been received.

Section 3679 of the Revised Statutes (known as the Antideficiency Act) is intended to prevent obligations and expenditures in excess of or in the absence of fund authorizations. Section 1311 of the Supplemental Appropriations Act of 1955 describes the documentation which is required before an amount may be recorded as an obligation of the U.S. Government.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa conducted a limited scope financial and compliance audit of USAID/Ecuador's compliance with fund control laws and regulations. The audit objective was to assess compliance with fund control laws and regulations. The scope of the audit was limited to verifying apparent violations of fund control laws and regulations which were brought to our attention or otherwise disclosed during the audit. The audit covered disbursements of \$1.1 million made between October 1983 and September 1986.

Financial documents such as contracts, purchase orders, advance and liquidation vouchers, accounting ledgers, and reports were reviewed. USAID/Ecuador and AID/Washington officials were interviewed. The review of compliance and internal control was limited to the matters discussed in this report.

The audit was accomplished from December 1986 through April 1987, and was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit disclosed numerous cases in which USAID/Ecuador had violated fund control laws and regulations. However, the Mission brought several of these violations to our attention, and was in the process of strengthening its financial management when we began our audit. The audit finding describes what in our opinion are violations of the Antideficiency Act, violations of AID's fund control regulation, and a violation of Section 1311 of the Supplemental Appropriations Act of 1955. The first recommendation is that the Agency Controller report any violations of the Antideficiency Act to the President and the Congress, and instruct USAID/Ecuador to take whatever actions he deems necessary to correct the violations. The second recommendation (which is closed on the date of this report) is that USAID/Ecuador issue a Mission Order on fund control requirements.

Fund Control Laws and Regulations Were Violated - Several laws and regulations prohibit obligations and expenditures in excess of or in the absence of proper funding authorizations. They also specify what documentation is required to support amounts recorded as obligations of the U.S. Government. USAID/Ecuador incurred obligations against

appropriation No. 72-113/41035 after the appropriation had expired, and incurred obligations in excess of the amount available in allotment No. LFD3-84. It also paid contractors after the funds available under their contracts had been exhausted, made an advance before funds were obligated, and made advances in excess of obligations and commitments. Finally, it recorded amounts as obligations when in fact no obligations existed. While the Controller's Office was ultimately responsible for these violations, other Mission offices shared this responsibility. Controller's Office staff were poorly trained and supervised and some staff were not qualified to carry out their assigned responsibilities. As a result, funding limitations imposed by the Congress and by Agency management were exceeded.

Discussion - Section 3679 of the Revised Statutes (31 U.S.C. 1341 et seq., known as the Antideficiency Act) prohibits (1) incurring obligations and expenditures in excess of the amount available in an appropriation, and (2) incurring obligations and expenditures before an appropriation is made. While Section 3679 does not specifically prohibit making obligations against an appropriation after the appropriation has expired, the intent of the law, in our opinion, is to prevent obligations in the absence of an appropriation.

Office of Management and Budget Circular No. A-34, "Instructions on Budget Execution," requires that obligations or expenditures in excess of, or prior to the receipt of, any appropriation, apportionment, or allotment be reported to the President and the Congress.

AID's fund control regulation (Appendix 1A of Handbook 19) describes the Agency's system of management control over fund authorizations such as allotments, budget allowances, and obligations. The Agency Controller is responsible for determining whether violations of Section 3679 and the fund control regulation have occurred, and for recommending disciplinary action where appropriate. Overobligations and overexpenditures at the allotment level or above are considered statutory violations of Section 3679. Overobligations and overexpenditures below the allotment level are considered administrative violations of AID's fund control regulation.

Section 1311 of the Supplemental Appropriations Act of 1955 (31 U.S.C. 1501) provides that an amount shall be recorded as an obligation of the U.S. Government only when it is supported by documentary evidence of a binding agreement between an agency and another person, or evidence of one of several other types of liabilities.

USAID/Ecuador committed apparent statutory violations of Section 3679 by obligating funds after an appropriation had expired, and by incurring obligations in excess of an allotment. It violated AID's fund control regulation by continuing to disburse money against obligations which had already been completely liquidated, making an advance before funds had been obligated, and making advances in excess of obligations and commitments. It also recorded amounts as obligations when in fact no obligations had been incurred, thus violating Section 1311 of the Supplemental Appropriations Act of 1955.

Appropriation No. 72-113/41035 was available to the Agency only during fiscal years 1983 and 1984. However, USAID/Ecuador continued to obligate funds against this appropriation from October 1, 1984 through July 29, 1986 for support costs associated with its Emergency Rehabilitation Project. Net obligations (obligations minus deobligations) of \$41,539 were incurred during this 22-month period. Expenditures against these obligations were made, although we did not determine the exact amount of these expenditures. These obligations and expenditures appear to be violations of the Antideficiency Act.

USAID/Ecuador also overobligated budget allotment No. LFD3-84. Within this allotment, budget allowance No. LFD3-25518-HG43 gave the Mission authority to obligate up to \$1 million for support costs associated with the Emergency Rehabilitation Project. In fact, net obligations against this allowance had reached \$1,057,374 as of November 29, 1985. The Mission realized its mistake and began to deobligate funds (although new obligations continued to be made). However, because its records understated the amount of obligations incurred, not enough deobligations were effected, and \$1,003,947 was still obligated at the time of our audit. Expenditures never exceeded \$1 million. Since there was no unobligated balance available in the allotment to cover these overobligations, these also appear to be violations of the Antideficiency Act.

In several cases, the Mission continued to pay contractors working under the Emergency Rehabilitation Project after the funds available under their contracts had been exhausted. More than \$6,000 was disbursed without valid obligations. The Mission later corrected these problems by amending the contracts to increase the obligations. Since these payments exceeded the amounts the U.S. Government was contractually obligated to pay the contractors, the excess payments may have constituted violations of AID's fund control regulation.

Numerous administrative fund control violations occurred under grant No. 518-0005-G-00-5077 with the Jose Joaquin de Olmedo Foundation. The Mission advanced \$67,262 to the Foundation on July 11, 1985 -- four days before the grant agreement with the Foundation was signed. By October 31, 1985, the Mission had advanced the Foundation a total of \$152,262, which exceeded the amount obligated under the agreement (\$140,090) by \$12,262. On January 9, 1986 an amendment was signed which increased the amount of the agreement by \$22,500, to \$162,500. This amendment was to be recorded as a commitment of funds obligated through a separate grant (No. 518-0005-G-00-4124) with the Ministry of Agriculture. However, the amendment was never recorded in the Mission's accounting records. At any rate, the Mission exceeded obligations and commitments again on January 22, 1986 when it advanced the Foundation an additional \$14,300, bringing disbursements to \$166,562, or \$4,062 more than the amount of the amended agreement. Advances totaling \$38,959 were still outstanding at the time of the audit.

Under grant No. 518-0023-G-00-5065 to the Nature Foundation, the Mission disbursed funds in excess of the amount of the grant agreement. The grant agreement committed \$56,000 from the Forestry Sector Development

project, but the Mission advanced the Foundation \$61,500 (\$5,500 more than the amount of the grant agreement). USAID/Ecuador later recovered this \$5,500 from the Foundation.

Finally, several amounts were recorded in the Mission's accounting registers as obligations when in fact no binding agreement existed, violating Section 1311 of the Supplemental Appropriations Act of 1955. For example, the Mission's records showed a \$72,000 obligation for petty cash expenditures in support of the Emergency Rehabilitation project which was not supported by any type of documentation. The correct procedure would have been to issue open-ended purchase orders to suppliers, or, where this was not practical, to simultaneously record obligations and expenditures. In support of the same project, a \$4,000 obligation was recorded based on a project implementation order, which earmarks funds but is not a contractual obligation of the U.S. Government. No contract was ever signed, and therefore no obligation should have been recorded. In numerous instances, adjustments to existing obligations were made without required supporting documentation such as purchase order amendments or journal vouchers.

The Controller's Office was ultimately responsible for these statutory and administrative fund control violations. However, other Mission offices should have exercised their responsibility as project managers and overseers of program funds as part of an internal control system to ensure that allotments, appropriations, and contract payments did not exceed approved levels. Controller's office staff were not properly trained or supervised, and some staff were not qualified to perform their assigned duties. For example, the project accountants did not fully understand the difference between a reservation of funds and an obligation, made mathematical errors which remained uncorrected in the accounting registers over a period of years, and recorded obligations and deobligations without any supporting documentation. Also, transactions were recorded in the obligations status record in the wrong order, with incorrect dates, so that records had to be reconstructed to determine the amount obligated on any given date. The responsible Controller stated that he had placed too much faith in the abilities of his staff and that, in retrospect, he should have reviewed their work more closely.

The effect of these fund control violations was that systems designed to permit management control over U.S. Government expenditures were circumvented. That is, when obligations were made after the appropriation expired, funding limitations imposed by the Congress were violated. When obligations were incurred in excess of the allotment, and expenditures were made in excess of obligations and commitments, limitations imposed by Mission management were violated. When amounts were erroneously recorded as obligations, Mission management could not determine how much had actually been obligated on a given date.

To correct this situation, USAID/Ecuador should obtain a determination whether Section 3679 of the Revised Statutes was violated in the instances identified in this report from the Agency Controller, and take

whatever actions he deems necessary to correct these violations. Also, USAID/Ecuador needed to provide written guidance to its staff specifying the statutory and regulatory requirements for fund control.

Recommendation No. 1

We recommend that USAID/Ecuador:

- a) obtain a determination whether Section 3679 of the Revised Statutes was violated in the instances identified in this report from the Agency Controller, and if so, ensure that the violations are reported to the President and the Congress;
- b) take whatever actions the Agency Controller deems necessary to correct these violations; and
- c) provide its staff written guidance which describes the statutory and regulatory requirements for fund control and assigns responsibility for ensuring compliance with these requirements.

USAID/Ecuador generally agreed with the report, but proposed several changes to the finding and recommendations. Where appropriate, we have incorporated these changes. The Mission issued a Mission Order on fund control requirements on May 18, 1987, implementing part "c" of the recommendation which is closed upon issuance of this report. We also provided a copy of the draft report to the Agency Controller, but received no response.

AUDIT OF USAID/ECUADOR'S COMPLIANCE WITH
FUND CONTROL LAWS AND REGULATIONS

APPENDICES

memorandum

DATE: July 15, 1987

REPLY TO
ATTN OF

Frank Almaguer
Frank Almaguer, Director
USAID/Ecuador

O/CONF-87-322

SUBJECT:

Draft Audit Report of USAID/Ecuador's Compliance with Fund
Control Laws and Regulations

TO: Mr. Coinage Gothard, LAC/RIG/A

The Mission has reviewed the subject draft audit report and has the following comments, observations and recommendations for changes:

1. The title of the report refers to "fund control laws". There are policies, procedures, and regulations governing fund control, but the term "laws" may not be appropriate.

2. Page 3 (line 3)

Why was audit coverage only through September, 1986? Our understanding was that it covered activities well into FY 1987.

3. Page 3 (last paragraph, first and second sentences)

Mission suggests that the term "laws" be deleted and the term "procedures" be used instead. We also request that the second sentence be changed to read: "...brought these violations to our attention..."

4. Page 4 (first paragraph, penultimate sentence)

The Mission believes the sentence should be changed to read: "...other Mission offices should have exercised their responsibility as project managers and overseers of program funds as part of an internal control system to ensure that allotments, appropriations, and contract payments did not exceed approved levels."

5. Page 7 (last sentence)

The outstanding advance referred to in this sentence is tied to the larger issue of salary supplements, and this should be reflected in the audit report.

6. Page 10 (Recommendation No. 1)

The Mission believes that this recommendation should be directed to the Agency Controller, and that upon his

determination that statutory funds control violations have occurred, he directs the USAID Mission to take corrective actions as he determines necessary to deal with the problem. This would change recommendation 1a and 1b.

With regard to recommendation 1c, we believe this should be a separate recommendation addressed to the Mission. In fact, we have taken action to remedy this problem and have issued Mission Order 235, dated May 18, 1987 which provides Mission personnel with the recommended guidance. A copy of this Order is being forwarded to the RIG with this memorandum. We would like to have this Mission action reflected in the final report, or have the recommendation deleted.

Att.: a/s

OFFICE OF INSPECTOR GENERAL RESPONSE
TO MANAGEMENT COMMENTS

Note: The paragraph numbers below correspond to those used in USAID/Ecuador's response.

1. Several laws (among them the Antideficiency Act) prescribe requirements for fund control.
2. The audit did cover certain transactions which took place after September 1986. It would have taken several days, however, to reconstruct records and determine total disbursements under the Emergency Rehabilitation project at the close of the audit field work.
3. See response number 1. Also, the Mission brought many, but not all of the fund control violations discussed in this report to our attention.
4. The language proposed by the Mission has been incorporated later in the report.
5. In our opinion, the purpose of the outstanding advance is not relevant in the context of fund control requirements.
6. We have modified the recommendation as suggested by the Mission.

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