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AUDIT OF
REGIONAL FINANCE MANAGEMENT CENTER,
NAIROBI POLICIES AND PROCEDURES
FOR REVIEWING UNLIQUIDATED OBLIGATIONS

AUDIT REPORT NO. 3-615-88-04
November 3, 1988

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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November 3, 1988

MEMORANDUM FOR DIRECTOR, RFMC, Albert D. HULLIUNG
FROM: RIG/A/Nairobi, Richard C. Thabet
SUBJECT: Audit of The Regional Finance Management
Center, Nairobi, Policies and Procedures for
Reviewing Unliquidated Obligations

The Office of the Regional Inspector General for Audit/Nairobi has completed its audit of The Regional Finance Management Center, Nairobi, Policies and Procedures for Reviewing Unliquidated Obligations. Five copies of the audit report are enclosed for your action.

The draft report was submitted to you for comment and your comments are attached to the report. The report has three recommendations. The recommendations are considered resolved and will not be closed until completion of planned or promised actions. Please advise me within 30 days of any additional information related to actions planned or taken to implement the report's recommendations.

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

Background

The Regional Finance Management Center (RFMC) located in Nairobi, Kenya provided financial management services to various A.I.D. operations in Kenya including itself, USAID/Kenya, Regional Economic Development Services Organization for East and Southern Africa (REDSO/ESA) and Regional Housing and Urban Development Organization (RHUDO). These financial management services included periodically reviewing outstanding obligations. Under section 1311 of United States Public Law 83-663 and AID Handbook 19, RFMC was required to conduct continuous and detailed semi-annual reviews of all unliquidated obligations. The purpose of these reviews was to ensure that obligations existed only for current, ongoing and viable projects/activities.

In May 1988, USAID/Kenya established a Mission Controllership which started doing all the financial management functions for USAID/Kenya. RFMC continued doing its own financial management functions as well as for REDSO/ESA and RHUDO. According to RFMC records, at September 30, 1987, RFMC, REDSO/ESA and RHUDO combined had unliquidated obligation balances totalling \$15,814,474 for development projects, \$1,852,877 for operating expenses and \$961,673 for Program Development and Support (PD&S) funds.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Nairobi conducted an economy and efficiency audit of the policies and procedures for reviewing unliquidated obligations at the Regional Finance Management Center (RFMC). The overall audit objective was to determine how well RFMC was reviewing its own unliquidated obligations as well as those for REDSO/ESA and RHUDO. Specific objectives were to determine if RFMC (1) had established a system for reviewing the unliquidated obligations; (2) promptly identified and deobligated unneeded funds; and (3) protected A.I.D. assets against waste, abuse, mismanagement and exposure to fraud.

RIG/A/N auditors conducted the audit at RFMC during the period July 12 to August 23, 1988. The auditors interviewed RFMC officials, and reviewed appropriate Mission Accounting and Control System (MACS) reports, journal vouchers, and other related documents. The audit sample included unliquidated obligations as at September 30, 1987 totalling \$1,237,973 for expired development projects. The audit sample also included all unliquidated operating expense obligations for fiscal years 1978 through 1986 which amounted to \$432,741. During the period fiscal year 1978 through fiscal year 1982 unliquidated obligations totalled only \$585. The audit sample was selected on a judgmental basis of high dollar amounts and activity descriptions which indicated potential inappropriate treatment of obligations. Audit work on Program Development and Support (PD&S) funds was limited to a review of relevant workpapers of the RIG/A/N audits covering the use of such funds in REDSO/ESA and RHUDO.

The review of internal controls and compliance was limited to the issues discussed in the report. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

RFMC had not established a formal system for the biannual review of unliquidated obligations although there appeared to be some ongoing review. Funds no longer required were not

always promptly identified and deobligated. As a result, the annual controller certifications of unliquidated obligations, although there appeared to be some on-going informal review under the provisions of section 1311, were made without an adequately supported review file to determine the need for funding. Consequently, in the opinion of the auditors funds were unnecessarily subjected to waste and mismanagement.

RFMC had made improvements in its control and management of unliquidated obligations over the past year. These improvements began with the arrival of a new RFMC director. Specific improvements included (a) the review and closing of expired projects where the obligation was no longer needed; (b) accountant training on procedures for reviewing unliquidated obligations; and (c) a "clean-up" exercise over the operating expense unliquidated obligations for fiscal years 1982 to 1986 initiated in mid fiscal year 1988.

RFMC, however, did not establish a systematic process for reviewing unliquidated obligations and funds which were no longer needed were not promptly identified and deobligated. We, therefore, recommended that formal procedures and responsibilities be established and funds which were no longer needed be deobligated.

RFMC Did Not Always Promptly Identify and Deobligate Unneeded Funds - Both legislation and A.I.D. regulations require that a system for reviewing unliquidated obligations be established and that any funds not used and no longer required be promptly identified and deobligated. RFMC, however, had not conducted a systematic and adequately documented biannual review of unliquidated obligations to determine their continued need. This occurred because RFMC did not establish an effective system for periodically reviewing the continued need for unliquidated obligations. As a result, unsupported controller certifications were made and unliquidated operating expense funds totalling \$229,427 which were no longer needed were not promptly identified and deobligated.

Discussion - Section 1311 of Public Law 83-663 approved August 26, 1954 (31 U.S.C. 1501) required that Federal Agency's Controllers attest to the continued need for unliquidated obligations. A.I.D. Handbook 19 sections 2M, 2N and 2O required the continuing review of unliquidated obligations to identify those amounts no longer needed, and to promptly deobligate unneeded funds. These requirements further stated that special reviews of all unliquidated obligations were to be conducted semiannually, at each middle and end of each fiscal year. Each obligation having an unliquidated balance, along with the related supporting documents, was to be examined to determine the validity of the unliquidated balance. The reviews were meant to give an assurance that all recorded obligation balances were valid, accurate, complete and necessary for the purpose covered.

At September 30, 1987, about \$432,741, obligated by REDSO/ESA, RHUDO and RFMC for operating expenses in the fiscal years 1978 through 1986 had not been spent. During the period fiscal year 1978 through fiscal year 1982 unliquidated obligations totalled only \$585. The audit determined that about \$16,077 was no longer needed, as the related activities had been completed. These amounts were still unliquidated at the time of the audit. Another \$213,351 obligated during the same period remained in the books and was not reviewed and de-obligated until mid fiscal year 1988 when a clean-up exercise was done and determined they were not necessary. These unnecessary obligations resulted from unsupported upward adjustments, unexercised obligations and cost overestimates. The auditors also determined that double obligations contributed to this problem. In addition, unliquidated operating expense obligations for fiscal year 1987 had not been formally reviewed.

Another RIG/A/N audit concerning the use of Program Development and Support (PD&S) funds for REDSO and RHUDO (Audit Report Nos. 3-615-88-23 and 3-623-88-25) determined that PD&S funds totalling \$120,787 (RHUDO \$41,740 and REDSO/ESA \$79,047), obligated during the fiscal years 1984 through 1986, had not been spent and the activities for which they had been obligated were complete and the funds were no longer needed.

RFMC had not established a systematic process for periodically reviewing the continued need for unliquidated obligations. Although there were some ongoing reviews for unliquidated obligations, such reviews were informal and were done on a need basis. There were no written procedures for reviewing unliquidated obligations and documentation for the reviews done was inadequate. For instance, at the end of fiscal year 1987, a review was done on some of the expired and terminating REDSO/ESA and RHUDO projects. This review, however, only covered those projects which were old and obligated amounts did not look right. Also even in those old projects reviewed, not every obligation was reviewed. The review was, therefore, not as detailed as required by the regulations. Some program officials also stated that review for unspent funds was a lower priority than other activities required to be done due to the heavy workload of employees. Consequently, unliquidated obligations were not effectively reviewed to determine their continued need.

At September 30, 1987, RFMC attested to the validity of \$1,852,877 of operating expense unliquidated obligations. This attestation was made without proper review and included \$229,427 which was no longer needed. Some of these funds resulted from duplicated obligations and unsupported upward

adjustments. Through a detailed periodic review of unliquidated obligations, these funds could have been identified and reprogrammed during the fiscal years to which they related. The failure to promptly identify that these funds were no longer needed could have resulted in their loss of availability to the agency. Prior year funds recovered are not available for reobligation by the agency except for valid upward adjustments of prior-year obligations required during the reporting period.

Recommendation No. 1

We recommend that the Regional Finance Management Center Director:

- a. establish formal written procedures and responsibilities for reviewing unspent funds to ensure that they are valid, accurate, complete and necessary for the purpose covered;
- b. deobligate \$16,077 operating expense funds which are no longer needed; and
- c. review unspent fiscal year 1987 operating expense funds and deobligate any identified amounts which are no longer needed.

RFMC officials agreed in principle with the audit finding and recommendation. These officials suggested some word changes which were incorporated in this final report to the extent considered appropriate.

The Office of the Inspector General considers the report's recommendation resolved and will be closed upon completion of the recommended actions.

AUDIT OF
REGIONAL FINANCE MANAGEMENT CENTER,
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FOR REVIEWING UNLIQUIDATED OBLIGATIONS

APPENDICES

memorandum

DATE: October 18, 1988

REPLY TO
ATTN OF: REDSO/RFMC - A. Hulliung *AH*

SUBJECT: Audit of Unliquidated Obligations

TO: RIC/A/N, Richard C. Thabet

As requested in your memo of Sept. 29, our comments on subject draft report are as follows:

Page 2, Para 1, 2nd Sent. - Sec. 1311 does not require semi-annual reviews. The semi-annual reviews are a self-imposed AID requirement as set forth in HB 19.

Page 4, Para 1 - We do not understand the use of the term "ongoing informal reviews". The ongoing reviews were properly documented and conducted according to proper procedures. We feel the word "informal" should be deleted. The second sentence states categorically that funds no longer required were not promptly identified and deobligated. We feel that because there were ongoing reviews and documented deobligations the sentence should read; "Funds no longer required were not always promptly identified and deobligated". The fourth sentence states, under the provisions of section 1311, were made without an adequate review to determine the need for funding. Again, we find this statement to be very broad. The major thrust of the report is that a documented biannual review was not conducted. Therefore, we feel the sentence should read, "Under the provisions of section 1311, were made without an adequately supported 1311 review file".

Page 5, Para 1 - Caption should be changed to read "RFMC Did Not Always Promptly ---". The second half of the second sentence states that, RFMC had not reviewed unliquidated obligations to determine their continued need. There have been ongoing reviews and we, therefore, feel this is an overstatement. We, also, believe this sentence should read, adequately documented biannual review of unliquidated obligations. The draft report certainly does not support the last sentence regarding improper controller certifications. In the case of annual certification, hindsight is certainly not appropriate in judging the propriety of the certification. The certification must be based on judgements reached when considering the status of the obligation on the date of the certification.

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Page 6, Para 2 - Sentence 3 is confusing. How does one distinguish the \$16,077 from the \$213,351? Last sentence is incorrect as the FY87 unliquidated OE obligations had been subjected to review and numerous deobligations have been recorded.

Page 7, Para 1 - If reference is made to the PD&S audit, it should also be made clear that neither REDSO nor RFMC agreed with the findings in that report.

Page 8, Para 1 - last 2 sentences are not completely accurate. Prior year funds are available for reobligation (under Deob/reob authority) and for upward adjustments which are generally significant.

Page 8, Recommendation - Report should indicate that 1a) is accepted and that action has been completed on b) and c).

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