

PD 111-111
J
AD 111-111

AUDIT OF
USAID/GUATEMALA'S REVIEW
OF UNLIQUIDATED OBLIGATIONS

Audit Report No. 1-520-89-01
December 16, 1988

U S MAILING ADDRESS
RIG/T
APO MIAMI 34022

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

TELEPHONES
32 9987
also 32-3120 EXT. 2701-2703

December 16, 1988

MEMORANDUM

TO : D/USAID/Guatemala, Anthony Caunarucci
FROM : RIG/A/T, *George N. Gothard*
George N. Gothard, Jr.
SUBJECT: Audit of USAID/Guatemala's Review of Unliquidated Obligations

This report presents the results of audit of USAID/Guatemala's Review of Unliquidated Obligations. Based on Mission's actions in response to the draft report, all recommendations are closed and no further actions are required. We appreciate the cooperation and courtesy extended our staff during the audit.

A. Background

Section 1311 of the Supplemental Appropriations Act of 1955 provides U.S. government Agencies with criteria for recording an obligation to ensure that it is supported by documentary evidence showing that: (a) a valid and binding written agreement has been executed, (b) it is authorized by law, and (c) it was incurred before the expiration of fund availability. The Act provides that a certification be made on the Agency's annual statement of obligations that they are in compliance with the requirements contained in section 1311.

A.I.D. delegated the responsibility for certifying that obligations meet the requirements of Section 1311 to the controllers at field installations. The controller does this by certifying on the Mission's U-101 Report that all obligations meet these requirements. Also, mission controllers are responsible for implementing and maintaining a system for controlling obligations against allotments, for making periodic reviews to ascertain whether obligations are valid, current, and required for the purpose intended, and taking action to deobligate excess funds.

As of September 30, 1987, USAID Guatemala reported project obligations of \$269 million, of which \$117 million was unliquidated, and operating expense obligations of \$900,314, of which \$443,770 was unliquidated.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed an economy and efficiency audit of USAID/Guatemala's approximately \$270 million project and operating expense obligations for the period that ended September 30, 1987. The audit objective was to evaluate the Mission's review of unliquidated obligations for operating expenses, development assistance projects, program development and support activities, and local currency trust funds. Specifically, the audit reviewed the Mission's system of internal controls over obligations and selected unliquidated obligations in its portfolio to determine if they were established and maintained in accordance with the requirements of Section 1311 of the Supplemental Appropriations Act and in compliance with A.I.D. regulations.

We selected operating expense obligating documents with unliquidated obligations over \$1,000 representing \$410,520 and judgementally selected 43 development assistance projects and program development and support activities based on Project Assistance Completion Dates representing approximately \$80 million in unliquidated obligations. We also reviewed previous years' unliquidated obligations balances of approximately \$556,000 of the Mission's \$2.1 million worth of local currency. Project records and financial and management evaluation reports were reviewed at USAID Guatemala offices and interviews were held with appropriate USAID staff. An internal control questionnaire for controlling unliquidated obligation balance was prepared. The review of internal controls and compliance was limited to the findings in this report. We did not perform a detail audit on projects and operating expense accounts. The audit was performed from August 1 to August 26, 1988, and was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit determined that USAID/Guatemala had established and maintained obligations in accordance with Section 1311 of the Supplemental Appropriations Act and had generally complied with A.I.D. handbook regulations and requirements.

USAID/Guatemala had performed a Section 1311 review of unliquidated obligations for operating expenses that identified each obligation and the amount unliquidated at September 16, 1987. Each obligation was reviewed and appropriate adjustments were made to deobligate \$50,520 in operating expenses recorded through four journal voucher entries posted on September 22, 1987. The Mission's review appropriately identified those unliquidated obligations that were required to be deobligated and those obligations that remained valid due to outstanding project goals and services not yet received or bills not yet presented for payment.

USAID/Guatemala had not maintained documentation for their section 1311 review of projects and program development and support activities. This report recommends that detailed records be maintained in accordance with record maintenance procedures and that the validity of certain contracts with unliquidated obligations be determined.

Supporting Documentation Needed To Be Maintained for Section 1511 Annual Reviews - A.I.D. regulations require that financial reports and unliquidated obligations, that are certified as valid at the fiscal year end, be supported by records to facilitate audit and reconciliation. USAID Guatemala had not maintained documentation for the Section 1511 review of unliquidated obligations for projects and program development and support activities at September 30, 1987. Due to the frequency of Mission's project activity reviews, Mission management did not believe it was necessary to maintain documentation to support their decisions. As a result, there was no documentation to support the validity of unliquidated obligations totaling approximately \$40,000 for four program development and support activities.

Discussion

Section 1511 of the Supplemental Appropriations Act of 1975 requires, in part, that the report of obligations contain a certification that obligations are supported by documentary evidence. The Mission certifies that the obligation report includes only valid obligations for payment of expenses properly incurred during period of availability or to complete contracts. The statute and handbook further require that certifications and records be maintained in a form that makes audits and reconciliations readily accessible.

The Mission had not properly maintained documentation for its review of unliquidated obligations for development assistance projects and program development and support funds. The audit reviewed unliquidated obligations for 13 development assistance projects representing approximately \$70 million and 25 program development and support activities representing approximately \$1.5 million. The appropriate authorization documents were reviewed and it was determined that the unliquidated obligations were valid at September 30, 1987, except in four program development and support contract activities that totaled approximately \$40,000. The four contracts are as follows:

<u>Obligation No.</u>	<u>Unliquidated Obligation</u>	<u>Completion Date</u>	<u>Remarks</u>
PIO/T 529-0000.1-3-60035	\$ 1,249	9-30-85	Project report delivered June 1986
PIO/T 529-0000.1-50055	2,361	9-30-85	Project report delivered August 1985
PIO/T 529-0000.1-70023	58	9-30-87	Project report delivered March 6, 1987

<u>Obligation No.</u>	<u>Unliquidated Obligation</u>	<u>Completion Date</u>	<u>Remarks</u>
PIO/T 520-0000,1-2-50024	35,937	2-19-86	Contract called for five advisors for the Government of Guatemala; however only one advisor performed services in 1985.
Total	<u>\$39,605</u>		

The project officials' considerations in identifying these as valid Mission obligations could not be determined since appropriate documentation had not been maintained. Project officials believed these balances should be deobligated since goals and services had been delivered and the contracts were terminated. However, they were not certain that all vouchers had been presented for payment. Project officials stated that they had not been requested to provide any information regarding these unliquidated balances.

Due to the lack of documentation of the section 1311 review for the fiscal year ended September 30, 1987, we were not able to determine the reason these were considered valid unliquidated obligations. Documentation was not maintained for projects and program development and support activities because of the Mission's continuing projects review during the year and according to the Controller no adjustments were necessary to deobligate funds at September 30, 1987.

Recommendation No. 1

We recommend that USAID/Guatemala:

- a. maintain detailed records of unliquidated obligations in accordance with record maintenance procedures and the reasons these obligations are considered valid to support the annual certifications for section 1311 reviews; and
- b. determine the validity of the unliquidated obligations for contracts PIO/T 520-0000,1-3-60035, 50055, 70023, and 50024 and take appropriate actions to deobligate those unliquidated obligations as necessary.

Mission officials agreed with the finding and recommendation and took appropriate actions on part a) of the recommendation to formalize fund control policies in a Mission Order and to maintain evidence of unliquidated obligation semi-annual reviews. With regard to part b), Mission officials provided documentation to show that the remaining funds for PIO/T 520-0000,1-50055, 70023, and 50024 were deobligated and that funds for PIO/T 520-0000,1-3-60035 remained a valid obligation pending resolution of previously disallowed costs. Based on the Mission's actions the recommendation is considered closed on issuance of this report.

Audit of
USAID/Guatemala's Review
of Unliquidated Obligations

APPENDICES

Attachment No.4 provides evidence that obligations PIO/T 520-0000.1-50055; 70023; and 50024 were deobligated. For obligation PIO/T 520-0000.1-3-50035 the documentation indicates that Texas Tech will send justification for claimed costs which were disallowed. Pending resolution of these costs, the unliquidated balance will be retained in the Controller's office records.

The Mission believes that based on actions taken, the requirements contained in each recommendation have been complied with and that your final report will give appropriate consideration to the information provided herein.

Should you need additional information before issuance of the final report, we will be pleased to submit it.

Attachments: a/s

Report Distribution

	<u>No. of Copies</u>
USAFID Guatemala Mission Director	5
AA/TAC	2
LAC/CONF	1
LAC/CAP/C	1
LAC/DP	1
LAC/EP	1
LAC/GC	1
AA/YA	2
CA/PR	1
MG	1
EP/CDF	3
BLA	1
CC	1
AA/M	2
OCM/ASD	2
IG	1
MG/A	1
ES/PIO	2
EG/PSA	1
EG/IC	1
EG/I	1
EG/MS/CGR	12
Other RIG/AS	1