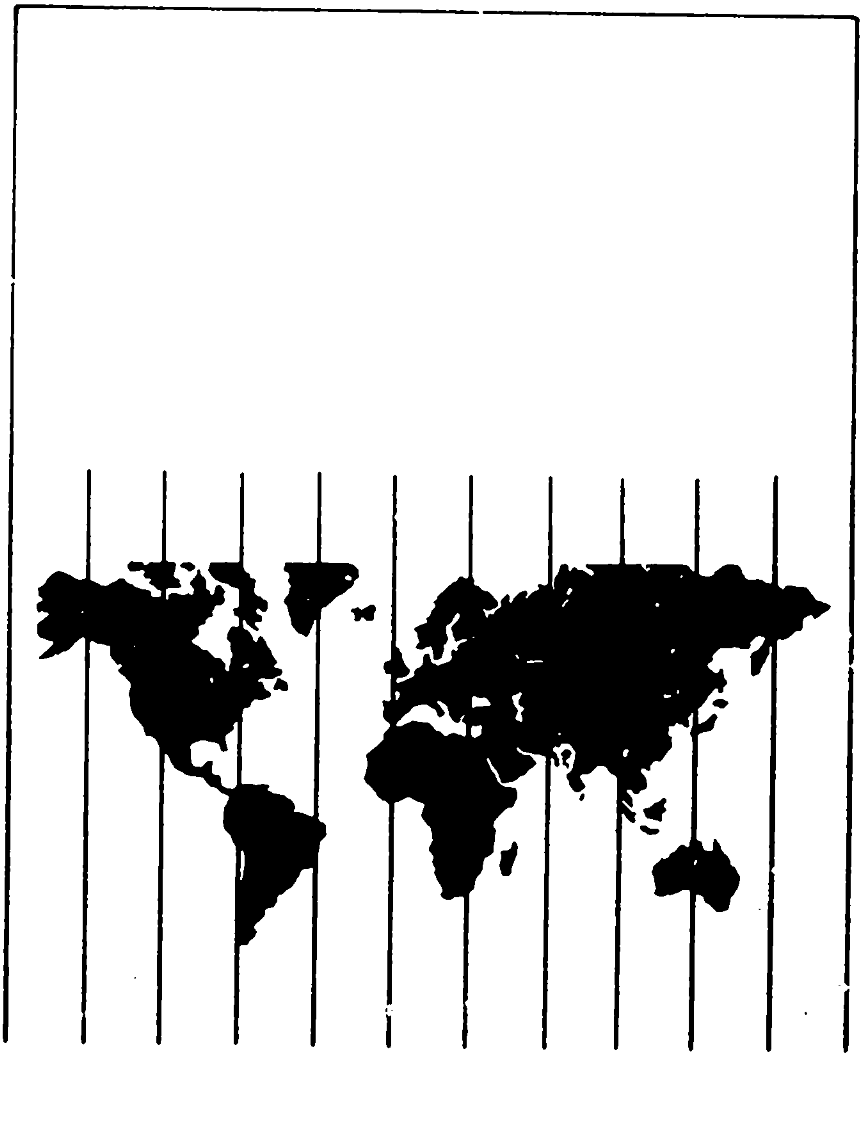
UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE INSPECTOR GENERAL



Office of

PROGRAMS AND SYSTEMS AUDITS

AUDIT REPORT ON A.I.D.'S COMPLIANCE WITH FEDERAL REQUIREMENTS FOR THE REVIEW AND CERTIFICATION OF UNLIQUIDATED OBLIGATION AMOUNTS

Audit Report No. 9-000-89-007
July 10, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

ASSISTANT INSPECTOR GENERAL
FOR AUDIT

July 10, 1989

MEMORANDUM FOR AA/PFM, Robert Halligan

FROM: AIG/A, James B. Durnil

James B Durnil

SUBJECT: Audit Report on A.I.D.'s Compliance With Federal Requirements for the Review and Certification of Unliquidated Obligation Amounts

The Inspector General's Office of Programs and Systems Audits has completed the subject worldwide review. A draft of the report was provided to your Bureau for review and comments. A copy of the response is attached to the report as Appendix 1. Five copies of the report are attached for your action.

The report contains 4 recommendations which are considered resolved. Please provide to the Office of Programs and Systems Audits within 30 days the actions planned or taken to close the recommendations.

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

FINANCIAL MANAGEMENT

"The validity of A.I.D.'s unliquidated obligations reported to the U.S. Treasury is questionable because of weak controls"

EXECUTIVE SUMMARY

A.I.D. certified to the U.S. Department of Treasury unliquidated obligations totaling $9.9 billion as of September 30, 1987. The $9.9 billion approximated two years of annual appropriations to A.I.D. in recent years.

Under Federal law and A.I.D. implementing regulations, the Agency's certification was assurance to Treasury that all reported obligations met the criteria for valid obligations as defined in the Supplemental Appropriations Act of 1955 (31 U.S.C. 1501). This determination regarding validity was to be based on a careful review, at least annually, of outstanding obligations.

The Office of Inspector General made an audit of A.I.D.'s Headquarters and eight selected overseas locations to determine whether a system was in place that provided a reliable basis for the required certification and whether unneeded obligations were being promptly identified and either reprogrammed or deobligated. The audit focused on A.I.D.'s three major appropriations: Operating Expenses, Development Assistance, and Economic Support Funds. We found that effective systems were not in place resulting in questionable certifications by the A.I.D. Controller as well as by Mission Controllers. Also, we found that Bureau and Mission officials were not inclined to take reprogramming and deobligation actions on expired commitments because without reobligation authority the funds would be lost to the Agency.

As a result of these problems:

- The outstanding operating expense obligation balance totaling about $1.4 million related to appropriations that expired in 1984 and earlier probably no longer represented valid obligations. For example:

  - About $292,525 was reserved for living expenses of U.S. dependents evacuated from Vietnam years ago.

  - About $252,000 represented expected payments to other U.S. government agencies for obligations established in 1982, 1983, and 1984. These payments were either already made or will not be necessary.

  - Another $93,000 was for short-term A.I.D. employee travel per diem that was already four years old.

- One hundred and thirty-nine expired loans had unliquidated balances totaling $67.4 million. Some of these loans expired as far back as 1982, and in some cases there had been no disbursements reported against the loans for more than five years.

- In the area of non-loan project and program assistance, the audit disclosed $43 million in unliquidated balances for projects, contracts, and grants that had expired. Over 90 percent of the balances tested had little supporting documentation on file that would permit verification of the accuracy and validity of the amounts. We concluded, on a test basis, that about $106 million lacked the necessary support.

- None of the eight overseas locations included in this audit had fully complied with A.I.D. certification review requirements. Required reviews were not made; reviews were made but not documented; and procedures were not in place to ensure that all obligations were reviewed. Accordingly, about $2.8 million was not promptly identified as unneeded and deobligated, including about $900,000 in operating expenses, a category in which A.I.D. Missions faced continuing shortages.

> In addition, the Regional Inspector General for Audit, Cairo identified about $35 million in unliquidated obligations that could have been deobligated had USAID/Egypt effectively implemented the mid-year and year-end review requirements.

To correct these problems, recommendations were made to establish clear guidelines on reviews of unliquidated obligations and the responsibilities of those involved in the process; to deobligate balances no longer required; and to examine all unliquidated balances for which final disbursement dates had passed or effective dates of obligation documents had expired.

The Office of Financial Management shared our concerns about the validity of unliquidated obligations and the year-end certifications. It said limited staff availability was one of the major reasons comprehensive reviews were not made in the past. The office agreed with the recommendations and outlined plans for Missions and Headquarters to complete actions on the recommendations by September 1989. The recommendations, therefore, were considered resolved with closure pending completion of the indicated actions. The Office of Financial Management also noted that the report should recognize that A.I.D. had deobligated $179.9 million in fiscal year 1987 and $295.6 million in fiscal year 1988. The office's full comments are included as Appendix I to this report.

Office of the Inspector General

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PART I - BACKGROUND, AUDIT OBJECTIVES AND SCOPE

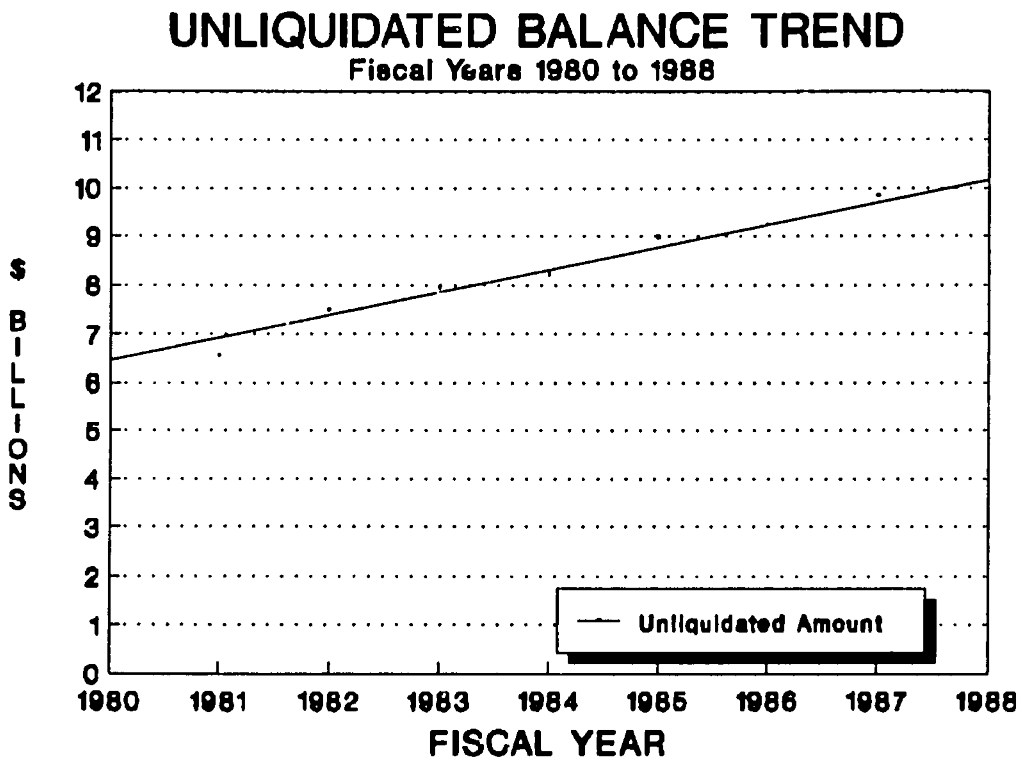
Background

A.I.D. Handbook 19, 2M provides that each accounting station will review the status of its obligated funds, periodically and at the end of each fiscal year. The purpose of these reviews is to ensure that amounts kept on A.I.D.'s books are accurate, valid, and required for the stated purposes, and to provide the basis for taking action to deobligate funds determined to be no longer needed. A.I.D. is specifically required to certify that all obligations reported to the U.S. Department of Treasury (Treasury) on its year-end closing statement meet the criteria of a valid obligation as defined in the Supplemental Appropriations Act of 1955 (31 U.S.C. 1501).

A.I.D.'s annual certification to the Treasury as of September 30, 1987 was prepared by the A.I.D. Controller on the basis of individual certifications by about 70 overseas Mission Controllers in the field and by the heads of three accounting stations in Washington. These accounting stations in the Office of Financial Management were the Program Accounting and Finance Division, the Loan Management Division, and the Washington Accounting Operations Division.

As of September 30, 1987, A.I.D. reported unliquidated obligations totaling $9.9 billion which included $4.3 billion under control of the Washington-based accounting stations and $5.6 billion controlled by overseas missions. The $9.9 billion approximated 1.8 years of annual appropriations based on the fiscal year 1989 level of about $5.5 billion, and involved appropriations dating back to at least 1979. As shown in Table 1 the amount of unspent funds in A.I.D. has risen steadily since at least 1980.

Table 1



Source: 1980 Thru 1988 Treasury 2108 Certifications

The large unliquidated balance was attributed by Financial Management officials to the unique developmental nature of A.I.D. programs and projects, that had an average implementation period of about seven years, and to the practice of obligating the full amount of multi-million dollar contracts, grants, and loans upon signing agreements.

The controls over reported obligations have long been a matter of concern to the Office of the Inspector General because the availability of Federal funds not targeted for a specific use is an open invitation for abusive financial practices. About 30 audits made by the A.I.D. Office of Inspector General between 1981 and 1987 reported findings related to the questionable validity of unliquidated obligations. The recurring theme in these reports was that projects had unneeded amounts which could have been reprogrammed or deobligated. Weak controls manifested in a 1988 A.I.D. Office of Inspector General investigation that disclosed $1.3 million had been embezzled by an A.I.D. employee from unliquidated prior-year obligation balances. The Comptroller General of the United States in addressing major management issues facing the new administration in 1989 reported that A.I.D.'s multi-billion dollar pipeline of obligated but undisbursed funds was an indication of its inefficient use of available funding and of its project implementation difficulties.

Inadequate monitoring of unspent prior-year appropriations transcended A.I.D. and was perceived by the Inspector General community as a government-wide problem. A survey made in 1982 by the Inspector General, Department of Housing and Urban Development, in reporting to the President's Council on Integrity and Efficiency, (PCIE) identified significant weaknesses among many Federal departments and agencies. For example, five agencies included in that survey reportedly had kept obligations approximating $19 billion which were not needed for accomplishing their intended objectives. These disclosures heightened concerns about compliance with statutory requirements affecting the deobligation of unneeded funds.

This audit was undertaken to address these concerns with the results provided to the PCIE and coordinated as part of a government-wide audit headed by the U.S. Department of the Treasury's Office of Inspector General.

Audit Objectives and Scope

The overall audit objective was to evaluate how well A.I.D. was complying with the requirement to review unliquidated obligations. Specifically, the audit was made to determine (1) whether a system was in place that provided a reliable basis for the required annual certification and (2) whether unneeded obligations were promptly identified and deobligated. The audit was made by the A.I.D. Inspector General's Office of Programs and Systems Audits, in coordination with the Regional Inspectors General for Audit, from Cairo, Dakar, Manila, Nairobi, Singapore and Tegucigalpa. This audit was the first comprehensive review of A.I.D.'s compliance with certain provisions of the Supplemental Appropriations Act.

The audit was made at the A.I.D./Washington Office of Financial Management and various project offices of the central Bureaus. The review was also made at selected overseas locations. The overseas locations audited included the Regional Finance Management Center in Nairobi and seven A.I.D. Missions in the Dominican Republic, Egypt, Guatemala, Indonesia, Kenya, Pakistan and Senegal. The unliquidated obligation balances covered for these locations, exclusive of Egypt, as of September 30, 1987 was about $681 million. The results of the overseas audits were reported in separate audit reports issued to each location by the respective Regional Inspectors General (Exhibit I). In a related audit the Regional Inspector General for Audit, Cairo, examined USAID/Egypt's procedures for reviewing about $2.3 billion in unliquidated obligations for projects and programs as of September 30, 1988.

We reviewed the statement of obligations submitted by A.I.D. on its Year-End Closing Statement, TFS Form 2108, as certified by the A.I.D. Controller as of September 30, 1987, to measure compliance with the requirements stipulated under the law. A statistical sample was made of obligation documents and paid vouchers to test the accuracy and validity of reported balances. The unliquidated obligation balances reported under the above year-end statement for headquarters activities amounted to $4.3 billion.

We selected, for review, three appropriations; development assistance, economic support funds, and operating expense appropriations, which at September 30, 1987 had unspent balances of $1.3 billion. In order to respond to the PCIE's sampling guidelines, the audit was limited initially to appropriations that expired before September 30, 1984. These appropriations consisted of 1,221 transactions totaling $665 million in unliquidated obligations. These transactions were grouped by their program categories; i.e., loans, grants, and operating expenses, and 101 transactions totaling $414 million, were judgmentally selected as follows:

	Sample Population ($000)		Sample Tested ($000)		
	Item	Amount	Item	Amount	Percentage of Dollars Tested
Loans	142	$497,238	33	$299,313	60
Grants	550	166,737	9	114,017	68
Operating Expenses	529	1,399	59	980	70
	1,221	$665,374	101	$414,310	62%

On a dollar value basis, the $414 million was about 31 percent of the total selected appropriation account balances of $1.3 billion. The audit tests comprised about eight percent of the total individual obligation documents involved.

The audit included discussions with management and operating officials and a review of reports, records and files, and other accounting and management information. The audit work was conducted between September 1988 and March 1989 and included a review of internal control and compliance as pertained to reviews of obligations. The audit was made in accordance with generally accepted government auditing standards.

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PART II - AUDIT RESULTS AND RECOMMENDATIONS

A.I.D.'s Processes for Reviewing and Certifying Unliquidated Obligations Were Largely Unsatisfactory

A.I.D. implementing regulations provide that the Agency will establish a system for reviewing unliquidated obligation balances and that any funds determined to be invalid or no longer needed be promptly identified and deobligated. An amount recorded as an obligation of the U.S. Government must be supported by documentary evidence that it has been properly recorded and there is a valid need for the reservation of funds. The three A.I.D./Washington accounting stations with responsibilities for these reviews had not conducted systematic and adequately documented reviews of unliquidated balances to determine their continued need. In some instances, reviews had been or were being made but these reviews were mostly done on an isolated basis and related supporting documentation was inadequate.

Audits at eight of the approximate 69 overseas locations showed that none of the audited locations had complied fully with review requirements. To the extent that required reviews were made, the efforts were fragmented and unsatisfactory as a process.

These conditions existed at Headquarters and field locations because of ineffective direction and control in implementing the requirement for reviews and a perceived lack of incentives for identifying funds for possible deobligation.

The audit disclosed about $114.6 million in unliquidated obligation balances that were of questionable validity because the funds were no longer needed or dates for their use had expired; another $106.5 million was identified as having inadequate support to demonstrate the accuracy of the reported balances. These amounts could be considerably higher because not all field locations were covered during the audit, nor were most reported balances tested for accuracy or continued need. In any event, we concluded that the September 30, 1987 certification submitted by the Controller contained certain inaccuracies about the status of recorded obligations that could have been disclosed had Headquarters and Mission activities appropriately made the required reviews.

The Office of Financial Management shared these concerns and agreed with the report findings and recommendations. It provided details of its plans to address these matters including the systematic review of unliquidated obligation balances in the field and at Headquarters.

Recommendation No. 1

We recommend that the A.I.D. Controller issue a formal directive and guidelines that set forth management policy and procedures, and define the scope and level of responsibility at the Headquarters and Mission levels, for (a) performing reviews of unliquidated obligations, including retention of supporting documentation for disbursements; (b) identifying amounts for deobligation actions; and (c) documenting the results of these actions as required.

Recommendation No. 2

We recommend that the A.I.D. Controller deobligate A.I.D./Washington operating expense funds which are no longer required under prior-year appropriations that expired before September 30, 1984.

Recommendation No. 3

We recommend that the A.I.D. Controller (a) review all unliquidated obligation balances under the development assistance and economic support fund appropriations that had expired project and loan completion dates; (b) determine their validity and continued need; and (c) deobligate the unneeded funds as appropriate.

Recommendation No. 4

We recommend that the Assistant to the Administrator for Personnel and Financial Management evaluate the adequacy of staff and ensure that staff resources are available to make the required reviews of Headquarters unliquidated obligations.

A.I.D. Regulations Are Specific in Requiring Reviews of Obligations

The Supplemental Appropriations Act of 1955 (31 U.S.C. 1501 and 1108) requires that Federal agencies attest to the continued need for unliquidated obligations. General Accounting Office (GAO) Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Chapter 4, requires that each Federal agency review its unliquidated obligations periodically to assure itself that all and only those transactions meeting the criteria of valid obligations as defined in the law have been recorded. The regulations also require that the workpapers and records on which such validations are based shall be retained by the agency in a form that facilitates audit and reconciliation.

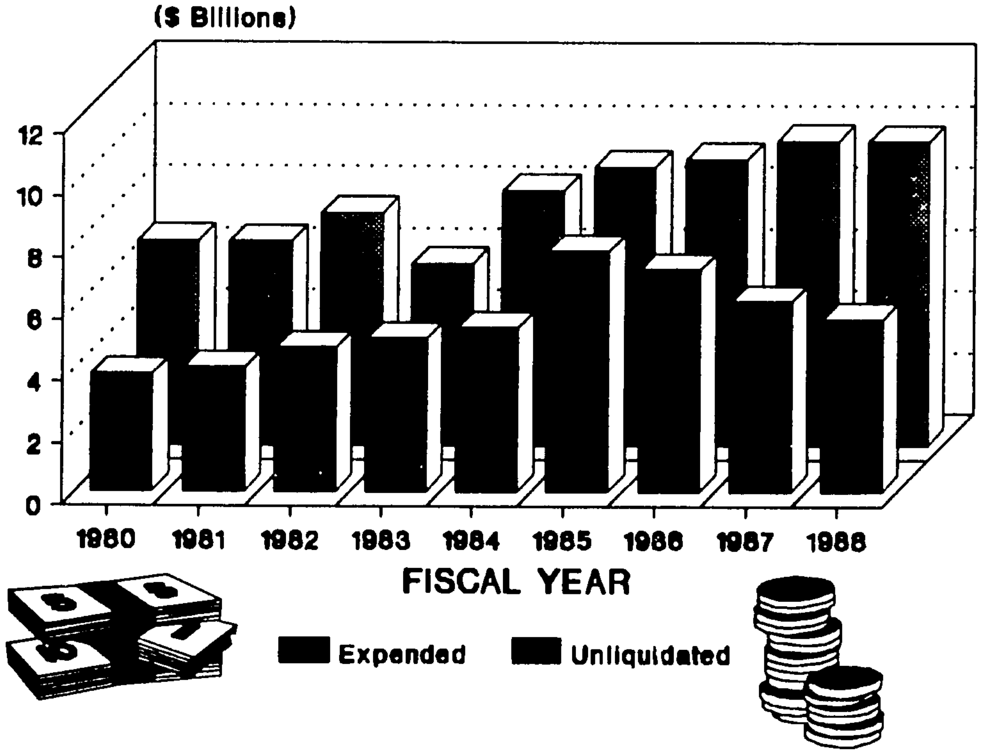
A.I.D. Handbook 19, Chapter 2, provides implementing guidance. It requires that the A.I.D./Washington Office of Financial Management devise and implement a comprehensive system for the control of obligations against allotments, including specifically the techniques for subjecting obligations to a continuous and comprehensive review process. The reviews are to ensure that any funds not used and no longer needed are promptly identified and deobligated. All A.I.D. accounting stations, central and overseas, should not only keep unliquidated obligation balances under continuous review, but also should make a special intensive review at each mid-fiscal year and a final review at the end of each fiscal year.

For project and program assistance activity, the Project Assistance Completion Date (PACD) provides a reference point for concluding A.I.D. assistance. Amounts obligated which are not needed to pay for goods and services delivered by the final PACD are to be considered unneeded and deobligated. The Terminal Date for Disbursement (TDD) is a final date for requesting disbursement, normally set as nine months following the PACD. No further disbursements are to be made after the TDD.

A.I.D. Headquarters Efforts to Comply With Regulations Were Not Effective Resulting In Questionable Validity of Many Obligation Balances

A.I.D. deobligated $179.9 million and $295.6 million in fiscal years 1987 and 1988, respectively. Nevertheless, Table 2 shows that A.I.D.'s unliquidated obligation balances are large and growing, a clear signal of possible accounting and control problems. These balances have risen steadily since fiscal year 1980. The fiscal year 1985 balance of $9.0 billion rose to $9.8 billion in 1988, a nine percent increase. Expenditures on the other hand decreased 29 percent from $7.8 billion to $5.5 billion during the same period.

EXPENDED VERSUS UNLIQUIDATED AMOUNTS



Reviews of unliquidated obligation balances by the three accounting stations intended to ensure the validity of these balances were ineffective or not conducted at all. Since at least 1985, these accounting stations had not made systematic and adequately-documented reviews for most of their operating expenses and program and project activities. In some instances, reviews were made, but only on an isolated basis. In no case was there an Agency-wide analysis or systematized approach taken. For the most part, these accounting stations had either not prepared or retained documentary evidence to show the extent of the reviews. The files did not show who made the reviews, the dates made, the records examined, the project officers contacted, the follow-up actions taken, and the conclusions reached regarding validity of balances or possible deobligation.

The Program Accounting and Finance Division attempted to undertake such a review in 1988, but with little success. This accounting station prepared special reports on the status of obligations from the automated central accounting system. They furnished the reports to the respective project offices in the central and regional bureaus with the request that the project offices review the obligations shown in the report, determine the validity, and report the results back to the accounting station. The accounting station needed the project officers' input to determine the continued need for each unliquidated balance. After almost seven months, however, most of the project offices had not responded to the request. Discussions with selected project officers confirmed that they had not made the requested review.

The Washington Accounting Operations Division, responsible for review of operating expenses, also had made no reviews, nor had they maintained adequate files in support of such unliquidated balances. Many supporting files were either destroyed or missing, particularly, for older periods. Officials responsible for maintaining the records at this station stated that it would be very time-consuming to conduct a reasonable review of unliquidated obligations for prior years because the condition of their files was such that it would require extensive research and cleanup.

In the Loan Management Division some limited reviews were made, but such reviews were informal or were done on an individual loan basis. These reviews were not as detailed as required by the regulations. The responsible officials commented that they had been busy converting their old loan accounting system into the Agency's new integrated accounting system and, as a result, they had little time to systematically review unliquidated obligations.

Separate audits at eight field locations showed that in some cases required reviews of obligations were not made and in other cases the reviews were made but not adequately documented.

In general, Washington and Mission accounting stations accorded a low priority to the review of unliquidated obligations. This was attributed to insufficient staff resources in relation to the assigned workload. In some cases, the responsible personnel were not aware of the nature and extent of the required reviews and documentation. In addition, control systems to ensure that accounting activities reviewed unliquidated obligations were ineffective or non-existent. For example, operating procedures were not always established or written guidelines issued for how to make the required reviews. Also, responsibility for making the reviews was not clearly assigned, particularly with respect to the respective roles to be played by the accounting stations and the project offices. During the audit, some accounting station personnel said that it was not their responsibility to do the reviews. They believed that these reviews should be performed more properly by the project officers. The project officers we interviewed, on the other hand, contended that they should not do the reviews because they did not routinely receive necessary accounting information from the accounting station.

According to Financial Management officials, the staffing situation in the Controller's office is particularly serious. The number of staff resources available to conduct reviews of unliquidated obligation balances and the many other duties associated with their functions appear to be inadequate. Also, there is a serious concern that the staff is of a sufficient professional level to conduct appropriate reviews. For example, only one junior accountant is available to provide the entire accounting services for the Commodity Import Program and Cash Transfer portfolios. In the Operating Expense area there are no experienced professional accountants.

Another reason for maintaining invalid and unneeded obligations in the accounts was the apparent disincentive to take timely deobligation actions. Under the existing procedures, deobligated funds were not always available for reobligation, and the request process for obtaining reobligation authority was lengthy. When a deobligation action is taken subsequent to the period of availability under authorizing appropriations, the deobligated funds are lost to A.I.D. However, when the period of availability has not expired or the appropriation otherwise allows it, A.I.D. may be able to use the deobligated funds for its program purposes. The uncertainty of obtaining reobligation authority made project officers reluctant to take deobligation actions.

In sum, there was a lack of effective central direction and oversight within the A.I.D. Controller's office in implementing the requirement at Headquarters and Mission levels for reviewing unspent obligations and taking steps to deobligate unneeded amounts.

The failure to conduct the periodic reviews resulted in A.I.D. maintaining a large amount of stale obligation balances on its books. About $218.3 million in Headquarters unliquidated balances kept on the books were invalid or otherwise not fully supported by proper records. This amount included about $1.4 million in operating expenses, $67.4

million in loan funds, and $149.5 million in project and program assistance funds.

Operating Expenses - The review of $980,725 of operating expense obligations, about 70 percent of the $1,399,924 balance, related to appropriations that expired in 1984 and earlier, showed that as of September 30, 1987, practically all of these amounts no longer represented valid obligations as defined by law.

For example $292,525 was shown as being unliquidated for obligations established against the fiscal year 1982 appropriation. There were no records supporting establishment of this obligation. Moreover, no disbursements had been made against it for five years up through fiscal year 1987. Financial Management officials explained that the obligation was established to pay the living expenses of U.S. dependents who had been evacuated from Vietnam. Those officials said the funds were no longer needed and they should be deobligated.

Another example was a total of $251,682 remaining in the expense category, Other U.S. Government Agency Reimbursements. These obligations dated back to 1982, 1983, and 1984, and were for expected payments to other U.S. government agencies for services performed or for employees assigned to A.I.D. temporarily. Financial Management officials said it was likely that the obligations had in fact been liquidated, but that the payment information had been charged to the wrong accounts. They believed that all these obligations no longer represented valid commitments and should be deobligated.

Finally, $92,520 was unliquidated for obligations established to pay for employee travel per diem. Nine individual obligations made up the balance under this expense code. In three cases, there were no records to support the obligations. In two other cases, there were no vouchers in the files to indicate the expected travel had been performed. In two cases, travel voucher expenditures were offset against the wrong travel authorization leaving the correct authorizations still on the books. In the last case an invoice had been submitted for payment, but the invoice was not recorded against the obligation. In fact, the invoice had been paid twice. Since all of these obligations were established for short term or relocation travel at least four years earlier, these obligations could not be considered valid any longer and should be deobligated.

With regard to these and other obligations under the operating expense category, the condition of Agency files was extremely poor. Many supporting files were missing. We were unable to get a clear and consistent picture of why supporting records were not available. Officials responsible for maintaining the records explained that the records were either destroyed or sent to storage, but were unable to provide documentation to support their position.

Based on (1) the audit tests made, (2) agreement with responsible Financial Management officials, and (3) given the fact that operating expenses by their very nature were short term, we concluded that the September 30, 1987 balance of $1,399,924 under the appropriations expired in 1984 and earlier did not constitute valid obligations of the Agency according to the definition of "valid obligations" contained in the governing legislation.

Loan Funds - As of September 30, 1987, we identified a total of eleven loans in our judgmental sample where the Terminal Disbursement Dates (TDD) had expired. These loans had unliquidated balances totaling $32.7 million. The loan files indicated that these undisbursed amounts were no longer needed. In light of the significant magnitude of these expired obligations in our sample, the review was expanded to cover all active loans through September 30, 1988. The additional coverage disclosed that loans with expired TDDs as of September 30, 1988 totaled 139 with $67.4 million in balances, both uncommitted and unliquidated.

These loans expired as far back as 1982 and in some cases there had been no disbursements reported against them for several years. For example, under a project assistance loan for an infrastructure support project in Swaziland, $101,671 was kept as an unliquidated obligation balance. But this loan had no activities reported since December 1982, more than six years ago. Actually, this project was completed in 1983 and there was no further funding requirement.

A small enterprises loan in Indonesia showed $2,350,000 as an outstanding obligation balance. This loan had been in an inactive status from the beginning of the loan agreement in August 1985 and was subsequently terminated. Notwithstanding, the obligation balance was still kept on the books.

Loan management officials stated they recognized the need to review expired obligations, but were unable to act on the matter for a variety of reasons. In some instances final invoices were not received and in others the loan management office was yet to coordinate with project officers in the field with regard to the closeout of these loans. The officials stated that their plans called for timely completion of these reviews but due to recent staff attrition, the work may not be completed sometime soon. Unless the reviews planned by the loan management office can establish the continued need for these expired obligations, about $67.4 million would not meet the statutory criteria of valid obligations.

In addition, the audit disclosed that 18 recipient countries had their A.I.D. loans rescheduled because they were unable to repay the principal and/or interest due. As of September 30, 1987, these 18 countries had undisbursed loan balances totaling $757 million. The auditors were concerned whether these undisbursed amounts could be considered continuing valid commitments because some loans had not been disbursed since they were agreed to and further draw-downs appeared questionable. Loan Management officials told us that the issue of valid obligations under these conditions was not addressed during any reviews of obligations. They suggested this was a policy matter that was outside the purview of Financial Management officials.

Project and Program Assistance Funds [1] As of September 30, 1988, the audit identified $43.0 million unliquidated obligation balances related to projects that had passed their stated completion dates. For example $1,869,558 was carried as an unliquidated obligation balance under the science and technology project, Training in Reproductive Health. Review of supporting records and discussions with the responsible accountant showed that the actual unliquidated balance remaining under this project was only $5,923. The balance of $1,863,635 had already been liquidated but the payment information had not been transferred from the old allotment system of record keeping to the new accounting system. Another example was an unliquidated balance of $667,548 shown under a Program Development and Support Fund for the Asia and Near East Bureau. The audit disclosed that all the obligation documents tested for this funding had expired.

For the majority of the unliquidated obligation balances under the category of project and program assistance funds, there was inadequate supporting documentation on file that would permit verification of the accuracy and validity of the balances. In numerous instances, amounts recorded as disbursements were not supported by readily available invoices or other payment instruments. About $106.5 million, or about 93 percent of the $114.1 million tested, had inadequate documentary support for establishing their accuracy and validity. For example, under a commodity import program agreement in Sudan, $11,642,570 was shown as an unliquidated obligation balance. The original program agreement was for $40,000,000 of which $28,357,430 was disbursed. To validate the unliquidated balance, we asked the responsible accounting station for documentation to support

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[1] For the purpose of this report, this category includes projects, programs and other activities that are funded under various grants and contracts.

the disbursement amount. The responsible accounting station, however, could only provide disbursement vouchers covering $1,190,170 of the $28,357,430. The accountants explained that the missing payment vouchers had either been misplaced in transit during a recent transfer of the paying center from New York to Washington or had been sent to central storage before the transfer. In either case there was no available record showing the whereabouts of these vouchers. This raised a question not only on the validity of the undisbursed loan balance of $11,642,570 but also on the propriety of the unsupported disbursement of $27,167,260.

Another example was an unliquidated balance of $57,283,916 shown for a commodity import program for Egypt. A total of 164 separate disbursing authorizations had been issued under this $300,000,000 agreement. We were unable to locate several of the files supporting the disbursements related to this grant.

The poor condition of the files related to the Sudan and Egypt agreements was almost identical in six of the nine agreement files tested in this aspect of the audit. Under these circumstances, we concluded that the accounting station's files did not contain sufficient documentation to establish the accuracy and validity of unliquidated balances totaling $106.5 million.

In sum, the audit showed that, as of September 30, 1988, A.I.D. maintained in its Headquarter's accounts a total of $218.3 million in operating expense, project, and program obligations that were either invalid, had expired, or were otherwise not supported by adequate documentary evidence that would establish their accuracy and validity as obligations. There was no evidence that these obligation balances had been reviewed by A.I.D. to establish their validity. Clearly, many of these amounts did not meet the applicable criteria. Had the required reviews been made in a timely manner, these funds could have been properly identified and appropriately reported.

We believe also that it is essential to maintain complete supporting documentation of all disbursements in a readily identifiable form. Without such documentation, assurance is lessened that the reported unspent balances are correct and that the funds were used as intended.

Mission Reviews Also Did Not Always Identify Questionable Balances Remaining on the Records

Eight overseas locations were examined in 1988 and 1989 by the Regional Offices of the Inspector General as part of the audit. The A.I.D. locations audited were: USAID/Senegal, USAID/Kenya, USAID/Pakistan, USAID/Guatemala, USAID/Dominican Republic, USAID/Indonesia, USAID/Egypt, and the Regional Finance Management Center, Nairobi.

The audit focus was on the unliquidated balances reported as of September 30, 1987. In the case of USAID/Egypt the audit focused on the September 30, 1988 balance. Audit tests included sampling transactions from operating expense appropriations and development projects. Essentially, the transactions sampled were drawn judgmentally from high dollar value transactions.

The audits showed that none of the overseas locations had complied fully with A.I.D. regulations. The findings included in the respective audit reports issued in 1988 are summarized in Exhibit I. Briefly, the audits identified instances where reviews of unliquidated obligations were not made, reviews were made but not documented, and procedures were not in place to ensure the timely and comprehensive review of obligations.

There were several causes for these conditions. Mission officials were not always aware that all unliquidated obligations were required to be reviewed, nor were they aware of the nature and extent of the required documentation. A lack of written procedures for making the required reviews contributed to the problems. Also, due to limited staffing, posts did not assign a high priority to validating unliquidated obligations and did not always make the required reviews.

As a result, about $2.8 million was not promptly identified from the 1988 audits as unneeded and deobligated for other uses. This amount included over $900,000 in operating expenses, a category in which A.I.D. continues to experience budgetary constraints. Another $10 million was tied up in a project that was not progressing as planned, and the auditors questioned the continued need for all of these funds.

The Regional Inspector General for Audit, Cairo in March 1989 similarly concluded with respect to about $35 million which could have been deobligated or reprogrammed that USAID/Egypt had not exercised adequate oversight and management controls to ensure effective implementation of continuous mid-year or year-end reviews of unliquidated obligations. Of the $35 million, $11.3 million was applicable to projects with expired project assistance completion dates and was subsequently deobligated. (Audit of USAID/Egypt's Procedures to Review Unliquidated Obligations, Audit Report No. 6-263-89-5, March 27, 1989.) Thus, the annual and semi-annual certifications expected to be provided by Mission Controllers based on rigorous reviews of the status of unliquidated obligations failed to meet requirements of the law and A.I.D. regulations. Limited assurance existed, therefore, that the unliquidated obligations certified by Controllers at the locations audited were, in fact, valid obligations.

Lack of Required Reviews Impacted on Certification Made to Treasury

In addition to questionable obligations remaining in the Agency's accounts, the lack of required reviews of unliquidated obligations resulted in an inaccurate certification to Treasury. The statement of obligations submitted by A.I.D. on September 30, 1987, included stale obligations that did not meet the criteria of valid obligations as defined under the law. Dollar-wise, most of the inaccurate certification was attributable to the Washington-based accounting stations, but the overseas review processes at individual missions also played a key role by reporting inaccurate amounts to the A.I.D. Controller. The inflated reporting of unliquidated obligation balances overstated the agency's cash requirements. Finally, inaccurate certifications of obligation balances constituted noncompliance with the statutory requirement that obligations reported in the year-ending closing statement be valid.

Management Comments

Responding to the draft report, the Office of Financial Management said it agreed with the report recommendations. It said it shared our concerns about the validity of unliquidated obligation balances and the annual certifications. Thus, the following actions were being taken:

- Mission Controllers had been instructed to undertake a comprehensive review of all prior year unliquidated operating expense obligations.

- A formal policy directive and guidelines would be developed covering Mission and Headquarters unliquidated obligations.

- A plan had been developed to review Headquarters operating expense and program unliquidated obligations by September 30, 1989.

- A plan had been developed to review all loans with terminal disbursement dates of December 31, 1988 or earlier by September 30, 1989.

Office of Inspector General Comments

The actions already taken or indicated are directly responsive to the report recommendations. It appears that the Office of Financial Management is committed to redressing past problems with regard to reviewing unliquidated obligations. Accordingly, the recommendations are considered resolved upon issuance of this report. Closure can take place when the indicated actions are completed.

Compliance and Internal Control

Compliance

A.I.D. was not in compliance with Federal and A.I.D. regulations governing the review of fund obligations. Specifically, accounting stations in Washington and in the field were not making the required reviews of unliquidated obligation balances to determine whether funds were still needed and whether obligations were valid. On the basis of the audit tests, we believe it is reasonable to assume that these compliance exceptions also apply to most of the untested accounting stations worldwide.

Internal Control

Internal controls related to the recording and reporting of financial information relative to unliquidated obligations were not operating effectively. There was no system which assured reviews were made, no standardized procedures to follow, and there was a lack of adequate control over documentation. Thus, there was more than an acceptable level of vulnerability to the possible mis-use of funds.

Office of Inspector General Audit Reports Issued in 1988 as Part of Worldwide Audit of Unliquidated Obligations

Audit Report Title and Number	Summary
Audit of USAID/Senegal's Policies and Procedures for Reviewing Unliquidated Obligations, Audit Report No. 7-685-89-04, December 12, 1988	The audit determined that unliquidated operating expense obligations were adequately reviewed, but documentation supporting the reviews of project funds was lacking.
Audit of USAID/Kenya's Policies and Procedures for Reviewing Unliquidated Obligations, Audit Report No. 3-615-88-03, November 3, 1988	Some ongoing reviews were made, but the Mission had not established a systematic process for periodically reviewing the continued need for unspent funds. Six hundred and seventy eight thousand dollars of unneeded operating expense obligations were identified that had not been deobligated on a timely basis.

Office of Inspector General Audit Reports Issued in 1988 as Part of Worldwide Audit of Unliquidated Obligations

Audit Report Title and Number	Summary
Audit of USAID/Pakistan's Procedures for Reviewing Unliquidated Obligations, Audit Report No. 5-391-89-1, November 18, 1988	The review procedures were found to be generally adequate. However, $10 million in grant funds were identified that related to a project that had not progressed as planned. The report commented on the fact that the obligation had been idle for several years and questioned the continued need for the funds.
Audit of USAID/Guatemala's Review of Unliquidated Obligations, Audit Report No. 1-520-89-04 December 16, 1988	The review of operating expense obligations was determined to be adequate, but there was insufficient documentation supporting the reviews of development assistance projects and program development support funds obligations. Approximately $40,000 of obligations reported in these categories were determined to be unneeded.

Office of Inspector General Audit Reports Issued in 1988 as Part of Worldwide Audit of Unliquidated Obligations

Audit Report Title and Number	Summary
Audit of USAID/Dominican Republic's Review of Unliquidated Obligations, Audit Report No. 1-517-89-06, December 30, 1988	The audit determined that reviews of unliquidated obligations did not meet the requirements of the Act or A.I.D. regulations. Specifically, not all obligations were reviewed and there was inadequate coordination between the Controller's staff and project officers in the reviewing process.
Audit of USAID/Indonesia's Policy and Procedures for Reviewing Unliquidated Obligations, Audit Report No. 2-497-89-04, November 10, 1988	The audit determined that the Mission did not conduct a review of project assistance obligations at fiscal year-end 1987. As a result, approximately $1.9 million in unliquidated obligations, which could have been deobligated, were certified as needed.

Office of Inspector General Audit Reports Issued in 1988 as Part of Worldwide Audit of Unliquidated Obligations

Audit Report Title and Number	Summary
Audit of Regional Finance Management Center, Nairobi Policies and Procedures for Reviewing Unliquidated Obligations, Audit Report No. 3-615-99-04 November 3, 1988	Some ongoing reviews of unliquidated obligations were performed, but a systematic process for periodically reviewing the continued need for unspent funds had not been established. Unneeded operating expense obligations totalling $229,000 were consequently not identified and deobligated.

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

JUN 1 2 1989

MEMORANDUM FOR IG/PSA, MERVIN F. BOYER, JR.

FROM: PFM/FM, Michael Usnick

SUBJECT: Draft Inspector General Report on A.I.D.'s Compliance with Federal Requirements for the Review and Certification of Unliquidated Obligation Amounts

We have reviewed the subject report and are in agreement with the recommendations. We share the concern expressed in the report about the validity of our unliquidated obligations and my year-end certification. Therefore, we have taken the following actions:

- State 166160 (copy attached) was sent to all Mission Controllers instructing them to undertake a comprehensive review of all prior year unliquidated operating expense obligations. The cable included expanded review guidance.

- I have instructed the FM Policy and Financial Systems Office to develop a formal directive and guidelines as stated in Recommendation No. 1 covering AID/W and USAID unliquidated obligations.

- The FM Accounting Division has developed a plan to review AID/W OE and program obligations. This review will be completed by September 30, 1989. This action will include the OE obligations covered in Recommendation No. 2.

- The FM Loan Division has developed a plan to review all loans with a TDD of December 31, 1988 or earlier. This review will be completed by September 30, 1989.

While the audit report is accurate in stating that we have not conducted a systematic review of unliquidated obligations, it does not recognize that significant deobligations have taken place. For example, in FY 1987 we deobligated $ 179.9 million and in FY 1988 we deobligated $295.6 million. We believe the report should recognize that deobligations have taken place.

As stated in the draft report, staffing constraints is one of the major reasons comprehensive reviews have not been conducted. These constraints continue to exist both in AID/W and the Missions. While we have initiated actions to address the problem, it will not be resolved in the short term. Therefore, it must be recognized that the more resources we use to review unliquidated obligations will mean less resources available to address other financial management issues.

Finally, I would like to express my appreciation to your audit team that conducted this review. Their collaborative style produced a excellent report with recommendations that when fully implemented will enhance the financial management of the Agency funds.

Please call Sandy Owens on 32104 if you have any questions.

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AIDAC FOR ALL CONTROLLERS FROM USNICK

E.O. 12356: N/A
TAGS:
SUBJECT: REVIEW OF UNLIQUIDATED OPERATING EXPENSE OBLIGATIONS

1. THE PURPOSE OF THIS MESSAGE IS TWOFOLD:

-TO REQUEST ALL MISSIONS TO IMMEDIATELY UNDERTAKE A REVIEW OF PRIOR YEAR UNLIQUIDATED OPERATING EXPENSE OBLIGATIONS TO IDENTIFY THOSE THAT WOULD BE SUBJECT TO DEOBLIGATION AND REPORT THOSE RESULTS TO A.I.D./W.

-TO ISSUE EXPANDED GUIDANCE TO MISSIONS ON THE REVIEW OF UNLIQUIDATED OPERATING EXPENSE OBLIGATIONS.

2. BY THE END OF FY 1989 WE INTEND TO UTILIZE DEOB/REOB AUTHORITY FOR THOSE PRIOR YEAR OPERATING EXPENSE OBLIGATIONS THAT WOULD BE SUBJECT TO DEOBLIGATION. TO ACCOMPLISH THIS MAJOR UNDERTAKING IN AN ORDERLY FASHION WILL REQUIRE A GOOD DEAL OF COORDINATION HERE IN A.I.D./W AND A CONSCIENTIOUS EFFORT IN THIS EXERCISE ON YOUR PART.

3. AS PART OF THE PROCESS, WE WILL HAVE TO NOTIFY CONGRESS NO LATER THAN JULY 15, 1989 OF OUR DEOB/REOB INTENTIONS. TO MEET THIS DEADLINE I AM INSTRUCTING ALL

REVIEW OF PRIOR YEAR UNLIQUIDATED OPERATING EXPENSE OBLIGATIONS AND IDENTIFY THOSE OBLIGATIONS THAT WOULD BE SUBJECT TO DEOBLIGATION. IN CONDUCTING THIS REVIEW, THE EXPANDED GUIDANCE ON REVIEW OF UNLIQUIDATED OBLIGATIONS CONTAINED IN THIS CABLE SHOULD BE FOLLOWED WITH PARTICULAR ATTENTION PAID TO THE REVIEW DOCUMENTATION REQUIREMENTS.

4. ADDITIONALLY, AS PART OF THIS EXERCISE I AM REQUESTING CONTROLLERS TO IDENTIFY AND REPORT THOSE UNLIQUIDATED OPERATING EXPENSE OBLIGATIONS FOR WHICH AN EXPECTED AOC FROM A.I.D./W HAS NOT BEEN FORTHCOMING AND IS LONG OVERDUE (MORE THAN ONE YEAR). THE CONTROLLER SHOULD BE REASONABLY SURE THAT THE EVENTUAL RECEIPT OF THE OVERDUE AOC(S) WOULD RESULT IN A FULLY-LIQUIDATED OBLIGATION. NORMALLY, THESE UNLIQUIDATED OBLIGATIONS WOULD NOT BE SUBJECT TO DEOBLIGATION AT THIS TIME. HOWEVER, DUE TO A SERIOUS BACKLOG OF AOC PROCESSING IN

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A.I.D./W, WE ARE CONSIDERING TAKING ACTIONS TO RESOLVE THE PROBLEM. WE WILL BE FURTHER ADVISING YOU ON OUR PLANS IN A LATER MESSAGE.

5. THE RESULTS OF THESE REVIEWS SHOULD BE CABLED TO DAVID OSTERMEYER, PFM/FM/OS NO LATER THAN JULY 1, 1989. AN EARLY RESPONSE WOULD BE APPRECIATED. THE CABLE FORMAT SHOULD SHOW THE AMOUNT OF UNLIQUIDATED OBLIGATIONS THAT WOULD BE SUBJECT TO DEOBLIGATION (NOT INCLUDING THOSE DISCUSSED IN PARAGRAPH 4), THE AMOUNT OF UNLIQUIDATED OBLIGATIONS SUBJECT TO DEOBLIGATION THAT ARE PENDING LONG OVERDUE AOCS FROM A.I.D./W (ONLY THOSE DISCUSSED IN PARAGRAPH 4), AND THE TOTAL UNLIQUIDATED OBLIGATIONS SUBJECT TO DEOBLIGATION, BY BUDGET PLAN CODE (BPC). NO OTHER FORMAL DEOBLIGATION ACTION SHOULD BE TAKEN BY CONTROLLERS AT THIS TIME. YOU WILL BE ADVISED IN A SEPTEL AS TO WHEN FORMAL REPORTING OF DEOBLIGATION ACTIONS ON THE U-101 WILL BE REQUIRED.

6. THE CABLE FORMAT SHOULD BE AS FOLLOWS:

UNLIQUIQUED OBLIGATIONS SUBJECT TO DEOBLIGATION

BPC	REGULAR	PENDING AOCS	TOTAL

7. A RECENT IG AUDIT ON THE AGENCY'S UNLIQUIDATED OBLIGATION REVIEW PROCESS FOUND THAT REVIEWS WERE NOT BEING CONDUCTED IN A SYSTEMATIC MANNER AND REVIEW DOCUMENTATION WAS LACKING. AS A RESULT OF THIS AUDIT, THE OFFICE OF FINANCIAL MANAGEMENT IS CURRENTLY REFINING DEOBLIGATION CRITERIA AND THE OVERALL SECTION 1311 REVIEW PROCESS FOR BOTH OPERATING EXPENSE AND PROGRAM FUNDS. IN THE NEAR FUTURE, ALL CRITERIA AND PROCESSES WILL BE FULLY OUTLINED AND INCORPORATED INTO THE HANDBOOKS AND CONTROLLER GUIDEBOOK. IN THE MEANTIME, GUIDANCE AND REQUIREMENTS FOR THE OVERALL REVIEW IS PROVIDED IN HANDBOOK 19, THE CONTROLLER'S GUIDEBOOK, AND THIS CABLE SHOULD BE USED AS ADDITIONAL GUIDANCE IN THE MISSION'S REVIEWS OF UNLIQUIDATED OBLIGATIONS.

8. THE FOLLOWING GUIDANCE COVERS OPERATING EXPENSES (OE) ONLY. PLEASE REFER TO HANDBOOK 19 CHAPTER 11 FOR COMPLETE GUIDELINES CONCERNING CATEGORIZATION OF COSTS.

9. A SYSTEM FOR THE CONTINUOUS REVIEW OF UNLIQUIDATED OBLIGATIONS, FOR BOTH CURRENT AND PRIOR YEAR FUNDS, SHOULD BE IN PLACE THROUGHOUT THE YEAR. A YEAR-END SUMMARY REVIEW SHOULD BE MADE AND DOCUMENTED TO ASSURE VALIDITY OF ALL UNLIQUIDATED OBLIGATIONS AND THE ON-GOING DOCUMENTATION OF THE CONTINUOUS REVIEW.

10. AN ACCOUNTING SUMMARY REPORT (MACS IN MOST MISSION OPERATIONS), WHICH LISTS ALL OE UNLIQUIDATED OBLIGATIONS, IS THE BASIC WORKING DOCUMENT FOR THE REVIEW. FOR THOSE MISSIONS NOT UTILIZING THE MACS SYSTEM, AN APPROPRIATE WORKSHEET LIST OF ALL UNLIQUIDATED OBLIGATIONS SHOULD BE CREATED BY THE MOST APPROPRIATE AND EXPEDIENT MEANS. THIS WORKSHEET SHOULD PROVIDE SUFFICIENT INFORMATION TO FULLY DOCUMENT THE REVIEW OF EACH OBLIGATION.

11. THE OBLIGATION DOCUMENTATION AND LIQUIDATION RECORDS SHOULD BE EXAMINED BY THE CONTROLLER, IN COORDINATION WITH THE APPROPRIATE MANAGEMENT OFFICER WHO SHARES RESPONSIBILITY FOR BUDGETING AND USE OF THE OE FUNDS. A DETERMINATION AS TO WHETHER THE OBLIGATION MEETS THE TEST OF VALIDITY UNDER SECTION 1311 CRITERIA SHOULD BE MADE FOR EACH OBLIGATION.

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12. THE SECTION 1311 CRITERIA INCLUDE:

(1) THAT A VALID AND BINDING AGREEMENT IN WRITING HAS BEEN EXECUTED;

(2) THE OBLIGATION IS FOR A PURPOSE AUTHORIZED BY LAW; AND

(3) THE OBLIGATION WAS INCURRED BEFORE THE EXPIRATION OF FUNDS AVAILABILITY AUTHORITY.

13. THE REVIEW PROCESS SHOULD INCLUDE VERIFICATION THAT THE OBLIGATION HAS BEEN PROPERLY ISSUED IN ACCORDANCE WITH A.I.D. REQUIREMENTS; THAT IT CONTAINS SPECIFIC LANGUAGE AS TO ITS OE ACTIVITY OBJECTIVES, DURATION, AND OTHER RELATED FACTS; THAT THE ITEM IS FOR A BONA FIDE OPERATING EXPENSE, NOT PROJECT PURPOSE; AND THAT THE OBLIGATION HAS BEEN RECORDED IN THE CORRECT AMOUNT AND IS ADEQUATELY DOCUMENTED. THE VERIFICATION PROCESS WILL INVOLVE CLOSE COOPERATION WITH THE APPROPRIATE EXECUTIVE MANAGEMENT OFFICE AND OTHER RELEVANT OPERATION PERSONNEL, SUCH AS CONTRACT OFFICERS, FOR THAT SPECIFIC OBLIGATION'S ACTIVITIES.

14. WHEN THE EXAMINATION REVEALS THAT THE DELIVERY OR COMPLETION DATE OF THE OBLIGATION HAS EXPIRED AND IT APPEARS THAT SUFFICIENT TIME HAS ELAPSED FOR RECORDING ALL DISBURSEMENTS AGAINST THE OBLIGATION, ANY REMAINING UNLIQUIDATED BALANCE IS TO BE CONSIDERED FOR DEOBLIGATION. IN OTHER CASES, ALL OR A PORTION OF THE UNLIQUIDATED BALANCE IS CARRIED FORWARD AS A VALID UNLIQUIDATED OBLIGATION ON THE BASIS OF FACTS DETERMINED FROM EXAMINATION OF THE DOCUMENTATION. CRITERIA FOR DEOBLIGATIONS OF OE, LISTED IN SECTION II WHICH FOLLOWS, SHOULD BE USED IN THE REVIEW PROCESS.

15. PARTICULAR ATTENTION IS GIVEN TO THE REVIEW OF OBLIGATIONS FOR WHICH THE DELIVERY OR COMPLETION DATE HAS NOT EXPIRED AND THOSE FOR WHICH THIS DATE HAS BEEN EXTENDED, TO DETERMINE WHETHER ALL OF THE UNLIQUIDATED BALANCE WILL BE REQUIRED TO LIQUIDATE THE OBLIGATION. THIS ESPECIALLY PERTAINS TO PRIOR YEAR UNLIQUIDATED OBLIGATIONS. THE OFFICE INITIATING THE OBLIGATION AND/OR EXTENDING THE EXPIRATION DATE SHOULD BE INVOLVED IN DETERMINING WHETHER ANY ADJUSTMENT IN THE CURRENT UNLIQUIDATED BALANCE MUST BE MADE DURING THIS PORTION OF THE REVIEW. THIS VERIFICATION IS OF PARTICULAR SIGNIFICANCE WHERE LARGE-AMOUNT UNLIQUIDATED BALANCES ARE INVOLVED. SUPERVISORY MANAGEMENT WILL MONITOR THE OVERALL PROCESS AND CLOSELY REVIEW ANY FINAL PROPOSED DEOBLIGATIONS. EACH STEP IN THE 1311 REVIEW PROCESS SHOULD BE CAREFULLY DOCUMENTED.

16. CRITERIA FOR DEOBLIGATION: UNLIQUIDATED OBLIGATIONS COVERING OPERATING EXPENSE ITEMS SHOULD BE CONSIDERED FOR DEOBLIGATION UNDER THE FOLLOWING SITUATIONS. ANY DECISIONS TO OVERRIDE THESE CRITERIA MUST BE JUSTIFIED AND DOCUMENTED IN A MEMORANDUM TO THE MISSION CONTROLLER.

A. IF ALL THE GOODS, SERVICES, OR TRAINING UNDER THE OBLIGATING DOCUMENT HAVE BEEN RECEIVED: THE BALANCE, AFTER THE AMOUNT REQUIRED TO PAY FOR GOODS DELIVERED AND SERVICES PERFORMED BUT NOT YET PAID FOR IS SET ASIDE, SHOULD BE DEOBLIGATED. FOR CONTRACTS AND GRANT AGREEMENTS, THE CLOSING OUT PROCEDURES ARE PROVIDED IN FAR 4.804-5 (SEE CM ADMINISTRATIVE MEMO 85-7 DATED 11/12/85).

B. WHEN THE PROCUREMENT OF GOODS OR IMPLEMENTATION OF SERVICES, FUNDED BY OE, HAS NOT PROGRESSED ON SCHEDULE: CONSIDERATION IS GIVEN TO RENEGOTIATING THE AGREEMENT AND ADJUSTING THE OBLIGATION DOWNWARD.

C. WHEN THE EXPIRATION DATE OF THE SPECIFIC PROCUREMENT DOCUMENT HAS PASSED BY THE CLOSE OF THE FISCAL YEAR: THE BALANCE OF AN UNLIQUIDATED OBLIGATION WHICH EXCEEDS THE VALUE OF GOODS AND/OR SERVICES DELIVERED BUT WITHOUT PAYMENT SHOULD BE DEOBLIGATED.

D. WHEN THE EXPIRATION DATE OF ANY SPECIFIC OE OBLIGATING DOCUMENT HAS PASSED BY 18 MONTHS: THE BALANCE OF AN UNLIQUIDATED OBLIGATION MUST BE DEOBLIGATED IN ABSENCE OF DOCUMENTED JUSTIFICATION.

17. DOCUMENTATION REQUIREMENTS: THE REVIEW DOCUMENTATION IS BASED ON A MACS REPORT (REPORT NUMBER A05, "1311 ANALYSIS REPORT OF UNLIQUIDATED OBLIGATIONS") FOR FIELD MISSIONS. FOR THOSE MISSIONS NOT UTILIZING THE MACS SYSTEM AN APPROPRIATE WORKSHEET WITH A LIST OF ALL UNLIQUIDATED OBLIGATIONS SHOULD BE CREATED BY THE MOST APPROPRIATE AND EXPEDIENT MEANS. A LISTING SHOULD BE PREPARED OF UNLIQUIDATED OBLIGATIONS BY BUDGET PLAN CODE FOR BOTH PRIOR AND CURRENT YEAR ACCOUNTS AS OF THE CLOSE OF THE ACCOUNTING PERIOD ENDING MID- AND END-YEAR. THE TOTAL SHOULD BE RECONCILED WITH THE CONTROL ACCOUNT BALANCE FOR THE SAME BUDGET PLAN CODE.

18. THE LISTING OF UNLIQUIDATED OBLIGATIONS, USED AS A WORKING PAPER FOR THE REVIEW, SHOULD INCLUDE INFORMATION TO ASSIST IN THE REVIEW OF EACH ITEM SUCH AS: BUDGET PLAN CODE, OBLIGATION NUMBER, TYPE OF DOCUMENT, PURPOSE, EXPIRATION DATE, AMOUNT OF OBLIGATION, CUMULATIVE DISBURSEMENTS AS OF A GIVEN DATE, LAST DISBURSEMENT DATE, UNLIQUIDATED BALANCE AS OF A GIVEN DATE, AND REMARKS. A CLEAR, CONCISE STATEMENT SHOULD BE NOTED IN THE WORKING PAPERS UNDER THE CAPTION, "REMARKS", AS TO THE ACTION TAKEN WITH RESPECT TO EACH OBLIGATION LISTED, I.E., EITHER THE AMOUNT DEOBLIGATED OR BALANCE RETAINED AS VALID. THE WORKING PAPERS SHOULD NOTE THE DATE OF THE REVIEW AND THE REVIEWING OFFICERS, INCLUDING THE SUPERVISORY MANAGER FOR THE OVERALL PROCESS. DOCUMENTATION SHOULD BE KEPT FOR A PERIOD OF THREE YEARS. BAKER

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