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Programs and Systems Audits

AUDIT OF A.I.D.'s PRACTICES REVIEWING AND REPORTING ON UNLIQUIDATED OBLIGATIONS

Report No. 9-000-92-013
September 30, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

AUDIT OF A.I.D.'S PRACTICES FOR REVIEWING AND REPORTING ON UNLIQUIDATED OBLIGATIONS

Audit Report No. 9-000-92-013
September 30, 1992

Agency for International Development
Washington, D.C. 20523

Assistant Inspector General
for Audit

SEP 30 1992

MEMORANDUM FOR FA/FM, Michael G. Usnick

FROM: AIG/A, John P. Competello

SUBJECT: Audit of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations (Audit Report No. 9-000-92-013)

This memorandum transmits our final report of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations. We have considered your comments on the draft report and have included them as Appendix V to this report.

Based on the comments you provided to the draft report, Recommendation No. 2.1 is closed. The remaining parts of Recommendation No. 2 as well as Recommendations Nos. 1, 5, and 6 are resolved and can be closed once planned corrective actions have been completed.

In your comments, you identify that $111.7 million of the $245.3 million identified in the report as invalid or unsupported unliquidated obligations has been deobligated and the remaining amount ($133.6 million) has been expended, determined to be valid, or required further review. You also noted that significant actions have been taken to determine the status of the $429.7 million in unliquidated obligations under expired obligations not covered by our audit. We appreciate your timely actions to resolve these recommendations as well as the other recommendations in this report.

Please provide us information within 30 days indicating any actions planned or taken to implement the open recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Attachment: a/s

Agency for International Development
Washington, D.C. 20523

Assistant Inspector General
for Audit

SEP 30 1992

MEMORANDUM FOR FA/B, Richard C. Nygard

FROM: AIG/A, John P. Competello

SUBJECT: Audit of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations (Audit Report No. 9-000-92-013)

This memorandum transmits our final audit report of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations. We have considered your comments on the draft report and have included them as Appendix VI to this report.

Report Recommendation Nos. 3.1 and 3.2 are for your action. These recommendations are resolved and will be closed when corrective action has been implemented. Please notify this office within 30 days of any actions planned or already taken to implement the recommendations.

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

Agency for International Development
Washington, D.C. 20523

Assistant Inspector General
for Audit

September 30, 1992

MEMORANDUM FOR GC, Howard M. Fry

FROM: AIG/A, John P. Competello

SUBJECT: Audit of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations (Audit Report No. 9-000-92-013)

This memorandum transmits our final audit report of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations. We have considered your comments on the draft report and have included them as Appendix VII to this report.

Report Recommendation No. 4 is for your action. This recommendation is resolved and will be closed when corrective action has been implemented. Please notify this office within 30 days of any actions planned or already taken to implement the recommendation.

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

EXECUTIVE SUMMARY

Background

Federal law and established A.I.D. procedures require that A.I.D. controllers in coordination with other A.I.D. offices (e.g., procurement and program offices) perform periodic reviews of unliquidated obligations to determine if the obligations exceed the requirements for which the funds were obligated and to promptly deobligate any excess funds. Also, Federal law requires each agency to provide an annual report to the President and the U.S. Treasury identifying the amount of the agency's unliquidated obligations. In response to an Office of Inspector General audit report in 1989, the A.I.D. Controller issued supplemental guidance to accounting offices emphasizing the need for better controls for reviewing unliquidated obligations including the need to prepare and retain complete work papers evidencing the reviews.

As a result of Congressional concerns, the A.I.D. Controller asked the Office of Inspector General in January 1992 to audit A.I.D.'s management of unliquidated obligations. We performed the audit at the Office of Financial Management (including three A.I.D./Washington accounting offices) and at five overseas missions to determine whether A.I.D. was properly reviewing and certifying to the validity of its unliquidated obligations. A.I.D. accounting offices reported that A.I.D.'s unliquidated obligations (as of September 30, 1991) totaled $10.8 billion. (See page 1.)

Audit Objective

We audited the Office of Financial Management (including three A.I.D/Washington accounting offices) and five overseas missions in accordance with generally accepted government auditing standards to answer the following question:

> Did A.I.D. review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures?

Our audit field work was conducted from March through August 1992. Appendix I contains a complete discussion of the scope and methodology for this audit including some scope limitations. (See page 2 and Appendix I)

Summary of Audit

Notwithstanding increased emphasis and guidance in recent years by the A.I.D. Controller to improve controls for reviewing and certifying to the validity of unliquidated obligations, reviews were not always performed in accordance with A.I.D.'s prescribed procedures and, as a result, our audit identified the potential to deobligate and/or reprogram $245.3 million. Also, A.I.D.'s annual reports for fiscal year 1991 to the President and the U.S. Treasury on unliquidated obligations erroneously included millions of dollars in unliquidated obligations that were not valid or were not properly supported. Other problems found included: obligations were not always limited to prescribed forward-funding levels; and financial transactions were not always recorded promptly and accurately as required by Federal regulations. In our opinion, the internal control weaknesses described in this report collectively constitute a material weakness as defined by the Office of Management and Budget; but, A.I.D.'s Management Control Review Committee has not identified them as such in its annual report to the A.I.D. Administrator on material weaknesses. (See below)

Audit Findings

Unliquidated Obligations
<u>Need to be Reviewed</u>

Although Federal law and established A.I.D. procedures require that unliquidated obligations be periodically reviewed to identify cases for deobligation, six of the eight accounting offices we reviewed did not perform the required comprehensive reviews or did not take action to promptly deobligate or reprogram excess funds. This situation occurred primarily because (1) there was inadequate coordination between the accounting offices and other A.I.D. offices such as procurement and project offices, (2) accounting officials saw no reason to deobligate excess funds until the funds could be reobligated for other purposes, and (3) accounting officials considered their staffing levels inadequate to perform the reviews as required by A.I.D. procedures. As a result, at least $245.3 million of the $718.4 million in unliquidated obligations reviewed were not valid or documentation was not available to determine whether the amounts were valid. (See page 4.)

A.I.D.'s Certification Process for
<u>Unliquidated Obligations Needs to be Improved</u>

Federal law and regulations require that each agency provide an annual report to the President and the U.S. Treasury identifying the amount of unliquidated obligations as well as a certification that these obligations do not exceed the requirements for which the funds were obligated. Although A.I.D. provided the reports for fiscal year 1991, the reports were not correct because five of the seven accounting offices we reviewed concerning this requirement did not report accurate data to the A.I.D. Controller on the validity of unliquidated obligations at those offices. The inaccurate reporting occurred because the offices did not follow A.I.D.'s prescribed procedures for reviewing unliquidated obligations and promptly deobligating known cases of invalid obligations. As a result, A.I.D.'s reports to the President and the U.S. Treasury for fiscal year 1991 erroneously included millions of dollars in unliquidated obligations that were not valid or were not properly supported. (See page 13.)

Forward Funding Needs to be
Limited to Prescribed Levels

The Foreign Assistance Act restricts obligations to not more than five years into the future and A.I.D. guidance prescribes that forward funding of projects should generally be limited to not more than two years of expected expenditures. Two of the four overseas missions we reviewed on this issue did not always adhere to the prescribed levels because the responsible officials believed that A.I.D.'s guidance did not constitute strict limitations and at one of the two missions were not aware of the five-year restriction. As a result, obligations exceeded the prescribed levels for 5 of the 21 projects we reviewed, including two projects for which the obligations exceeded the five-year limit authorized by the Foreign Assistance Act. Although the total obligations in excess of the prescribed levels could not be determined because A.I.D.'s forward-funding guidance was not clear on some issues and because USAID/Egypt had not in all cases developed financial implementation plans showing estimated yearly expenditures, the excess was in the millions of dollars. (See page 17.)

Obligation Data Need to be
Recorded Promptly and Accurately

Internal control standards issued by the U.S. General Accounting Office and included in established A.I.D. procedures require that transactions be recorded accurately and promptly. The accounting records at seven of the eight accounting offices included in our audit and at the A.I.D./Washington Office of Procurement did not meet these requirements. For example, either expiration dates or the amount of unliquidated obligations on the accounting records were not correct for 135 of the 325 obligation (and commitment) documents we reviewed. This problem occurred because the accounting and other A.I.D. offices (e.g., procurement and program) did not have procedures or did not effectively implement prescribed procedures for ensuring the accuracy of this data. As a result, A.I.D. does not have reliable data to effectively monitor the validity of unliquidated obligations, especially those under expired documents. (See page 21.)

Internal Controls and
Reporting Need to be Improved

The Federal Managers' Financial Integrity Act requires that material weaknesses in internal controls be reported to the President and the Congress. Although the problems identified in this audit collectively constitute a material weakness, they were not reported because A.I.D.'s Management Control Review Committee had not identified them as such in its annual report to the A.I.D. Administrator on material weaknesses. Furthermore, the Office of Financial Management and the accounting offices reviewed had not identified the internal control weaknesses we found. As a result, the problems affecting the review and certification of unliquidated obligations were not given the high visibility and close tracking of corrective actions that would help resolve them. (See page 27.)

Summary of Recommendations

To correct the problems discussed in this report, we are recommending 16 actions including the following:

- The Office of Financial Management should ensure that the responsible accounting offices determine the validity of the $245.3 million in unliquidated obligations we examined and, in coordination with other A.I.D. offices, deobligate any excess funds. (See page 4.)

- The Office of Financial Management, in coordination with the Office of Procurement, should establish procedures for better coordination and follow-up actions on identifying and deobligating excess funds under expired contracts and grants. (See page 4.)

- The Office of Financial Management should establish procedures to ensure that accounting offices in coordination with other A.I.D. offices (e.g., procurement and program offices) perform the required reviews of unliquidated obligations and report accurate information on unliquidated obligations to the A.I.D. Controller. (See page 13.)

- The A.I.D. Office of Budget should develop better guidance on the levels allowed for forward funding and instruct A.I.D. offices to adhere to the prescribed guidance. (See page 17.)

- The A.I.D. Office of General Counsel, in conjunction with USAID/Egypt, should determine the amount of obligations made at USAID/Egypt in excess of the five-year limit authorized by the Foreign Assistance Act and take appropriate action to deobligate the unauthorized obligations or take other appropriate actions to resolve this problem. (See page 17.)

- The Office of Financial Management should issue guidance and directions to ensure accounting offices address the validity of unliquidated obligations when performing their next internal control assessment. The Office should also recommend to A.I.D.'s Management Control Review Committee that the process of reviewing and certifying to the validity of unliquidated obligations be reported as a material weakness in its next annual report to the A.I.D. Administrator. (See page 27.)

Management Comments and Our Evaluation

In responding to the the draft report, A.I.D. management generally concurred with the findings and recommendations and has already taken action to implement some of the recommendations. For example, the Office of Financial Management has commented that $111.7 million of the $245.3 million identified in the report as invalid or unsupported unliquidated obligations had been deobligated and the remaining amount ($133.6 million) had been expended, determined to be valid, or required further review. The Office also commented on other recommended actions taken including: significant actions to determine the status of the $429.7 million in unliquidated obligations under expired obligations not covered by our audit; actions toward improving coordination with the Office of Procurement aimed at improving the review of unliquidated obligations and the deobligations of excess funds; and issuing guidance and instructions to accounting offices to improve their review and certification of unliquidated obligations. The Office of Financial Management requested that we include the following paragraph in the Executive Summary of this final report as their comments:

> We are in general agreement with the findings and recommendations of the audit. We have taken significant action since the 1989 audit to improve the quality of our review of unliquidated obligation balances, particularly the issuance of expanded guidance to the accounting offices. Also, in fiscal year 1991 the Agency deobligated a total of $370.6 million and in fiscal year 1992 the Agency has deobligated $196.8 million to date. While we agree the review and certificaion of unliquidated obligation balances needs further improvement, we also believe significant progress has been made in the last three fiscal years.

The Office of Budget and the Office of General Counsel have also initiated or agreed to take actions to implement recommended actions. For example, the Office of Budget has initiated action to have A.I.D. offices adhere to the prescribed forward-funding guidance. This Office also plans as an additional step to initiate annual end-of-fiscal year reviews of unliquidated obligations in relations to annual expenditure rates and provide the responsible offices with informations to determine if overseas missions are complying with the guidelines. The Office of General Counsel has agreed to take action to determine the amount of obligations made at USAID/Egypt in excess of the five-year limit authorized by the Foreign Assistance Act.

The comments received from the Office of Financial Management, the Office of Budget, and the Office of General Counsel are included in their entirety as Appendices V, VI, and VII, respectively. Their comments were considered in preparing this final report and are summarized after findings for which their comments apply.

Office of the Inspector General

Office of the Inspector General
September 30, 1992

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A.I.D. OFFICES REVIEWED IN THE AUDIT OF UNLIQUIDATED OBLIGATIONS

INTRODUCTION

Background

Federal law (31 U.S.C. 1501) directs that no amount be recorded as an obligation unless it is supported by documentary evidence of a binding agreement between a Federal agency and other parties to fund specific goods or services to be provided. Other Federal laws (31 U.S.C. 1108 and 1554) require that each Federal agency provide an annual report to the President along with the agency's appropriation request and to the Secretary of the Treasury (U.S. Treasury) identifying the amount of the agency's unliquidated obligations and a certification that these obligations do not exceed the requirements for which the funds were obligated. This unexpended balance of obligations is commonly referred to as the pipeline.

A.I.D. Handbook 19 (Chapter 2 and Appendix 1A) and the A.I.D. Controllers Guidebook prescribe that controllers in coordination with other A.I.D. offices (e.g., procurement and program offices) should continuously review unliquidated balances to determine if the obligations exceed the requirements for which the funds were obligated. The prescribed guidance further states that **any excess funds should be deobligated promptly.**

In response to an A.I.D. Inspector General audit in 1989 (Audit Report No. 9-000-89-007; dated July 10, 1989), which identified weaknesses in A.I.D. controls in reviewing the validity of unliquidated obligations and related certifications to the U.S. Treasury, the A.I.D. Controller issued supplemental guidance to accounting offices emphasizing the need for better controls for reviewing unliquidated obligations. These controls included the need to prepare and retain complete work papers evidencing the reviews.

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 needed for specific use is an open invitation for abusive financial practices. There is also concern because the excess funds could be deobligated and returned to the U.S. Treasury or reprogrammed for other projects. In response to Congressional concerns over the findings in the 1989 audit report, the A.I.D. Controller requested the A.I.D. Inspector General in January 1992 to conduct a follow-up review of the actions taken by the Office of Financial Management in response to the audit report.

A.I.D. controllers at 53 overseas missions and at four accounting offices in Washington, D.C. reported unliquidated obligations totaling $10.8 billion (as of September 30, 1991), which included $3.9 billion under the control of A.I.D./Washington accounting offices and $6.9 billion

Audit Objective

The Office of the Inspector General's Office of Programs and Systems Audits with the assistance of four Regional Inspectors General for Audit audited A.I.D.'s practices for reviewing and certifying the validity of its unliquidated obligations to answer the following audit objective:

- Did A.I.D. review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures?

To answer this audit objective, we tested whether A.I.D./Washington and selected overseas offices followed applicable internal control procedures and complied with certain provisions of laws and regulations. Our tests were sufficient to provide reasonable -- but not absolute -- assurance of detecting abuse or illegal acts that could affect the audit objective. When we found problem areas, we performed additional work to:

- identify the cause and effect of the problems, and

- make recommendations to correct the condition and cause of those problems.

Due to time constraints and the magnitude of problems found at several accounting offices (e.g., the large amount of unliquidated obligations reported under expired obligation documents at the A.I.D./Washington accounting offices), the audit focused primarily on unliquidated obligations under expired documents and to some extent on adherence to A.I.D.'s forward-funding guidance which generally limits obligations to cover estimated expenditures of two years. Appendix I contains a complete discussion of the scope and methodology for this audit including scope limitations.

REPORT OF AUDIT FINDINGS

Did A.I.D. review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures?

A.I.D. did not review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures.

To emphasize the need for more timely deobligation of excess obligations, the A.I.D. Controller issued supplemental guidance in 1989 and 1990 to accounting offices to improve controls in reviewing and certifying to the validity of unliquidated obligations. The guidance emphasized the importance of documentation files in support of obligations and commitments and the need to prepare and retain complete work papers evidencing reviews of unliquidated obligations and commitments.

Notwithstanding the above emphasis and supplemental guidance, accounting offices and other A.I.D. offices (e.g., procurement and program) have not effectively implemented the established A.I.D. internal controls including those prescribed in the supplemental guidance. The reviews of unliquidated obligations were not performed in accordance with prescribed procedures and, as a result, **our audit of unliquidated obligations under judgmentally selected documents identified the potential to deobligate and/or reprogram $245.3 million. Also, A.I.D.'s annual reports for fiscal year 1991 to the President and the U.S. Treasury on unliquidated obligations erroneously included millions of dollars in unliquidated obligations that were not valid or were not properly supported.** Other problems found included: obligations were not always limited to prescribed forward-funding levels; and financial transactions were not always recorded promptly and accurately as required by Federal law. Each of these problems is discussed in the following pages of this report as is the overall need to improve reporting of internal control weaknesses.

Unliquidated Obligations
Need to be Reviewed

Although Federal law and established A.I.D. procedures require that obligations be periodically reviewed to identify the potential to deobligate and/or reprogram excess funds, **six of the eight accounting offices we reviewed** did not perform the required reviews in accordance with prescribed procedures or did not take action (e.g., deobligate excess funds promptly) to resolve identified problems. This situation occurred primarily because (1) there was inadequate coordination between the accounting offices and other A.I.D. offices such as procurement and program offices, (2) accounting officials saw no reason to deobligate excess funds until the funds could be reobligated for other purposes, and (3) accounting officials considered their staffing levels inadequate to review all unliquidated obligations. As a result, at least $245.3 million of the $718.4 million in unliquidated obligations (including commitments) reviewed were not valid or documentation was not available at the time of our audit to determine whether the amounts reported were valid. In addition, there was another $429.7 million of unliquidated obligations under expired documents not examined by us that were reported for the three A.I.D./Washington accounting offices reviewed. Finally, A.I.D./Washington accounting offices records showed outstanding cash advances totaling $24.6 million under expired documents which the Office of Financial Management should appropriately recover or liquidate depending on the actual status.

<u>Recommendation No. 1:</u> **We recommend that the Office of Financial Management:**

1.1 ensure that the responsible accounting offices review and determine the validity of the $245.3 million in unliquidated obligations identified in this report as invalid or unsupported and, in coordination with other responsible A.I.D. offices, take appropriate action to deobligate or otherwise resolve cases of excess funding;

1.2 ensure that the responsible A.I.D./Washington accounting offices review the $429.7 million of unliquidated obligations reported under obligation documents reported as expired that were not covered in the audit and, in coordination with the Office of Procurement, deobligate any excess funds;

1.3 conduct a staffing study of the A.I.D./Washington Project and Non-Project Branches to determine proper staff size and composition, and pursue action to resolve any staff shortages;

1.4 in coordination with the Office of Procurement, establish procedures for better coordination and follow-up actions on identifying and deobligating excess funds under expired contracts and grants;

1.5 appropriately recover or liquidate the $4.5 million in outstanding advances under expired A.I.D./Washington obligations covered by our review for which the actual status could not be determined and determine the status and

take appropriate action to liquidate or recover the $20.1 million not covered by the audit; and

1.6 establish procedures for following up on outstanding cash advances under expired grants and cooperative agreements.

Federal law (31 U.S.C. 1501) directs that no amount be recorded as an obligation unless it is supported by documentary evidence of a binding agreement between a Federal agency and other parties to fund specific goods or services to be provided, and that these obligations not exceed the requirements for which the funds were provided.

A.I.D. Handbook 19 (Chapter 2 and Appendix 1A) and the A.I.D. Controllers Guidebook prescribe that controllers in coordination with other A.I.D. offices should continuously review unliquidated obligations to determine if the obligations exceed the requirements for which the funds were obligated. The prescribed guidance further states that **any excess funds should be deobligated promptly.** The Office of Financial Management issued additional guidance in October 1989 to overseas controllers and in May 1990 to A.I.D./Washington controllers emphasizing the need for continuous reviews of unliquidated obligations and commitments including the importance of documentation files in support of obligations and commitments and the need to prepare and retain complete work papers evidencing the reviews.

The additional guidance specifically stated that it was incumbent upon the controllers in coordination with other A.I.D. offices (e.g., procurement and program offices) to perform reviews of unliquidated obligations and commitments under expired documents to verify that the documents had expired and to deobligate and/or decommit any excess funds. For example, the guidance to overseas missions states that the controllers should perform at least quarterly reviews of expired obligation and commitment documents with unliquidated obligations and that the reviews include the following actions:

> A listing of the documents with expired (and soon to expire) termination dates should be transmitted to responsible Mission management officers requesting their review and determination as to extension of the termination dates or decommitment or deobligation.
>
> In reviewing the accrued expenditures, the Controller should note any absence of disbursement activity for an unreasonable period and alert Mission project management in writing, requesting justification for retention of the commitment.

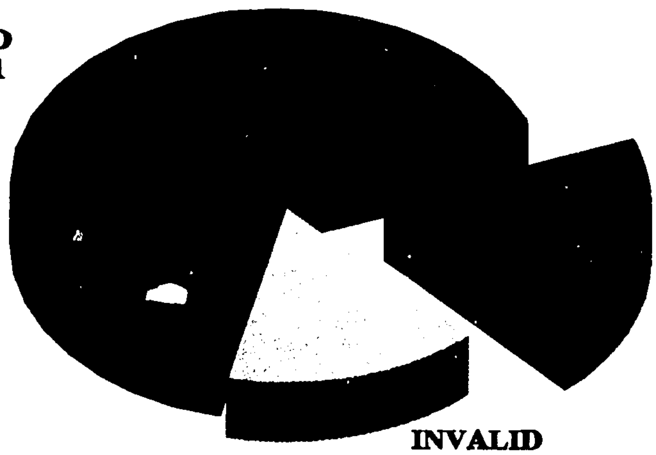
Although the guidance for A.I.D./Washington controllers does not require quarterly reviews of expired documents with unliquidated obligations, it does require review of expired documents to verify the accuracy of the expiration date and to take action in concert with the responsible A.I.D. program and procurement offices to either extend the expiration date or to decommit and/or deobligate any excess funds.

Accounting records of the eight accounting offices we reviewed showed unliquidated obligations totaling $1.2 billion under expired obligation (including commitment) documents. As illustrated below (and shown in Appendix II by accounting office), our review of these documents with recorded unliquidated obligations totaling $718.4 million showed a potential to deobligate and/or reprogram at least $245.3 million -- including $109.6 million which was invalid and $135.7 million for which required documentation was not available to support the need. [1]

Analysis of Unliquidated Obligations
Under Documents Reported as Expired
(in $ million)
As of April 1992

Total Tested: $718.4

VALID OR NOT EXPIRED 473.1



UNSUPPORTED 135.7

INVALID 109.6

The reasons for the high levels of unliquidated obligations under expired documents and the amounts that are invalid or not properly supported are that the three A.I.D./Washington accounting offices and three (i.e., Egypt, Dominican Republic and Togo) of the five missions accounting offices reviewed did not perform the required reviews of expired documents in accordance with A.I.D.'s prescribed procedures or did not take action (e.g., deobligate excess funds or extend expiration dates) to resolve identified problems. These problems occurred because (1) there was inadequate coordination between the accounting offices and other A.I.D. offices such as procurement and program offices, (2) accounting officials saw no reason to deobligate or decommit excess funds until the funds could be reobligated for other purposes, and (3) accounting officials considered their staffing levels inadequate to review all expired

[1] For purposes of this report, we have classified an unliquidated obligation as invalid when available documentation and/or discussions with responsible A.I.D. officials indicate the funds were no longer needed for which the funds were obligated and when there was never a valid obligation(e.g., an obligation was incorrectly entered into the accounting system). Unsupported unliquidated obligations are those in which documentation was not available to determine whether the funds were still needed. See pages 8 through 10 for examples.

documents. Examples of reasons for the problems at the overseas missions include the following:

- USAID/Egypt accounting personnel did not follow up with other USAID/Egypt and A.I.D./Washington offices or saw no reason to deobligate uncommitted balances on expired projects until the projects' terminal disbursement dates or until deobligation/reobligation authority had been granted by A.I.D./Washington.

- Although USAID/Philippines generally performed the required reviews of unliquidated obligations, there were cases when excess funds were not deobligated promptly. USAID/Philippine officials said that they wait until they receive deobligation/reobligation authority from A.I.D/Washington.

By far the most significant problems were at the A.I.D./Washington accounting offices for which records showed unliquidated obligations totaling about $1.0 billion under expired obligation documents. However, our review of these documents with recorded unliquidated obligations totaling $586.2 million showed that $358.0 million was under documents which the A.I.D./Washington accounting records identified as expired but in fact had not expired.[2] Since we examined the validity of unliquidated obligations only for expired documents at A.I.D./Washington, we did not do further testing to determine the validity of the unliquidated obligations under these active documents.

Our examination of the remaining $228.2 million in unliquidated obligations under the documents that had expired identified the potential to deobligate $217.4 million -- including $94.2 million not needed which should be deobligated and/or reprogrammed and $123.2 million for which documentation was not available to determine whether there was a valid need. The extent of the problems at the three A.I.D./Washington accounting offices reviewed is as follows:

- The A.I.D./Washington accounting records showed that the Project Accounting Branch had a total of $145.0 million in unliquidated obligations under expired documents as of April 30, 1992. Our judgmentally selected sample of these documents with unliquidated obligations totaling $49.2 million showed: $24.8 million was under documents which had not yet expired; $6.3 million was not needed and should be deobligated; and records could not be found to determine whether there was a need for $10.2 million. Based on available documentation and discussions with A.I.D. officials, the remaining $8.0 million is considered valid.

- The A.I.D./Washington accounting records showed that the Non-Project Branch had a total of $786.2 million under expired documents as of April 30, 1992. Our

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[2] The problem of financial related data not being recorded promptly and accurately in the accounting records is discussed on pages 21 through 24.

review of a selected sample of expired documents (i.e., all documents with reported unliquidated obligations of $1.0 million or more) with reported unliquidated obligations totaling $526.0 million showed: $328.9 million was under documents which had not yet expired; $82.5 million was not needed and should be deobligated; and records could not be found to determine whether there was a need for $111.7 million. Based on available documentation and discussions with A.I.D. officials, the remaining $2.9 is considered valid.

- The A.I.D./Washington accounting records showed that the Loan Management Office had a total of $83.4 million under expired documents as of March 31, 1992. Our review of a judgmentally selected sample of expired documents with reported unliquidated obligations totaling $9.7 million showed: $3.0 million was under documents that had not yet expired, $5.4 million was not needed and should be deobligated, and records could not be found to determine whether there was a need for the remaining $1.3 million.

The problems at the A.I.D./Washington offices occurred primarily because the Project Branch and Non-Project Branch did not perform reviews of unliquidated obligations under expired documents in accordance with A.I.D.'s prescribed procedures during fiscal year 1991 and had only begun to perform the required comprehensive reviews of unliquidated obligations at the time we started our audit in April 1992. The officials at these offices said that they did not have adequate staff to perform the reviews. For example, Non-Project Branch officials said the last staffing study was performed in 1988 and subsequent reorganizations and staff vacancies have precluded the Branch from conducting the required reviews of unliquidated obligations in accordance with Agency guidance. We did not attempt to determine the level of required staffing for these offices.

Some examples of unliquidated obligation problems under expired documents at the A.I.D./Washington accounting offices included the following:

- The A.I.D./Washington Non-Project Accounting Branch records showed unliquidated obligations of $15.7 million under a grant that expired in June 1987. When we could not find any documents for this obligation, Branch officials said there was no obligation document and that the obligation was incorrectly recorded in the accounting records. To correct the problem, the officials prepared a journal voucher to deobligate the $15.7 million and noted on the voucher "...deobligate since record should not have existed in [the] FACS [system]." We classified this $15.7 million as invalid.

- The A.I.D./Washington Non-Project Accounting Branch records showed unliquidated obligations of $1.3 million under a grant that expired in September 1987. When we requested the obligation file from a Branch official, we were told that no file existed. We were eventually provided with a memo that the Accounting Office sent to the Office of Procurement in May 1992 requesting the status of the obligation. The Procurement Office responded by stating that the $1.3 million was not needed and the obligation was invalid. We classified this $1.3 million as invalid.

- The A.I.D./Washington Non-Project Accounting Branch records showed $2.6 million as unliquidated obligations and as an outstanding cash advance under a grant that expired in December 1986. The earliest documentation concerning the status of these funds was in November 1991 when the Office of Financial Management's Payments Section contacted the grantee to obtain information on the unexpended balance. The grantee responded in January 1992 indicating that it did not have documents supporting what the funds were used for but did provide an audited financial statement showing that most of the funds had been transferred to some other organization. Although additional documentation was not received from the grantee to show that all of the advance was spent for grant purposes, an A.I.D. Project Officer prepared a "no pay voucher" in February 1992 to liquidate the entire unliquidated obligation and outstanding advance. In March 1992, the Payment's Section sent a letter to the grantee requesting documentation for the actual expenditures incurred for the approved project or a refund check for the unused advance. Although there was no evidence to support that the required documents were received, the Payment Section approved the "no pay voucher" and the accounting records were changed in May 1992 to show the entire $2.6 million as liquidated with no outstanding advance. Although this unliquidated obligation was liquidated during the time of our review, we believe that decision should be reassessed due to the lack of documentation to support the expenditures. Therefore, we still include this $2.6 million as an unsupported unliquidated obligation. There is no evidence that the Non-Project Accounting Branch had reviewed the validity of this unliquidated obligation even though the grant expired more than five years ago.

- The A.I.D./Washington Project Accounting Branch records showed unliquidated obligations totaling $900,000 under one grant which expired in December 1988. There was no evidence that the Accounting Branch reviewed this unliquidated obligations under this grant during 1991. When the Accounting Branch requested the A.I.D. program office in March 1992 for the status of the unliquidated obligations, the program office noted that the $900,000 was still valid. However, this $900,000 was actually invalid because in January 1988 the Accounting Branch created a new obligation document for these funds but had not deobligated the funds under the original document we examined. We classified the $900,000 as invalid.

- The A.I.D./Washington Non-Project Accounting Branch records showed unliquidated obligations of $1.1 million under one grant with an expiration date of April 30, 1985. A Branch official said he believed the funds had been spent but either the responsible A.I.D. mission in Chile did not report the expenditures to A.I.D./Washington or A.I.D./Washington did not record the expenditures. Based on our inquiry, the Office sent a cable to USAID/Chile requesting the status of the unliquidated obligation but had not received a reply by the end of our review. We classified the $1.1 million as unsupported.

In addition to the accounting offices not performing or documenting the required reviews of unliquidated obligations, **part of the problem at A.I.D./Washington resulted from problems in the procurement closeout process and a lack of coordination between the Office of Procurement and the Office of Financial Management.** As part of the procurement closeout process, established A.I.D. procedures (Contract Information Bulletin 85-7; dated November 12, 1985) require the Office of Procurement to confirm with the Office of Financial Management whether the final voucher has been received from contractors and grantees. If not, the Office of Procurement is supposed to request the contractor or grantee to submit the final voucher to the Office of Financial Management. We found that these procedures were not being effectively implemented.

For example, for 21 of the 47 expired contracts and grants in our sample administered by the Office of Procurement, and the responsible accounting office was the Project Accounting Branch, there was no evidence that the Office of Procurement had requested information from the Office of Financial Management on whether the final voucher had been received. Also, even when there was communication between these offices it was not effective in identifying and deobligating excess funds. Examples of the problems found include the following:

- For eight contracts with unliquidated obligations totaling $1.6 million for which the Office of Procurement requested the Office of Financial Management for a final status of the unliquidated obligations, the requests were not always timely (e.g., in four cases it took over a year) and/or the Office of Financial Management had not responded to the request. For example, for one grant that expired in December 1987, the Office of Procurement did not request the Office of Financial Management for the status of a final voucher until March 1991. Furthermore, there is no evidence that the Office of Financial Management had responded to this request even though the grantee had submitted its final invoice in December 1988. Available documentation indicates the recorded unliquidated obligation of $54,402 under this grant could have been deobligated over three years ago.

- The Office of Financial Management had notified the Office of Procurement that final vouchers had been received under five contracts and grants and that $1.3 million could be potentially deobligated; however, no action was taken by the Office of Procurement to deobligate the funds. For example, in July 1990 the Office of Financial Management notified the Office of Procurement that the final voucher was received under a grant that expired in June 1989 and that $687,056 could be deobligated. However, the obligation number provided by the Office of Financial Management could not be found in Office of Procurement's records and the Office of Procurement took no action to deobligate the funds or follow up on this matter.

Our office had previously reported in 1985 on delays in deobligating funds due to problems in the closeout process. That audit (Audit of Closeout of Expired Contracts; Audit Report No. 85-14; dated March 29, 1985) was performed at the A.I.D./Washington Office of Procurement and included contracts administered by 10 overseas A.I.D. missions. The audit noted that few, if any, contracts had been closed because A.I.D. management placed little importance on the closeout function. The audit cited two other reasons for the delays in identifying funds that could be deobligated: inadequate coordination between A.I.D. project officers and controllers in validating unliquidated obligations; and contractors and grantees often taking more than a year to submit final invoices.

In addition to the issue of inadequate reviews of unliquidated obligations under expired documents, **there were also problems at the A.I.D./Washington Office of Financial Management in following up on outstanding cash advances under expired documents with unliquidated obligations.** Although A.I.D. Handbook 19 states that a Bill of Collection should be issued 90 days after the expiration of a contract for any outstanding cash advance, there is no established policy for following up within a specified period on outstanding advances under expired grants and cooperative agreements.

For the expired documents with unliquidated obligations administered by the three A.I.D./Washington accounting offices, Office of Financial Management records (as of April 1992) showed outstanding cash advances totaling $38.0 million. Our review of expired documents where the records showed outstanding advances totaling $17.9 million indicated: $9.1 million was under documents that had not yet expired; $4.3 million had been liquidated by the time of our review; and documentation was not available to determine the status of the remaining $4.5 million. Examples of the status of the "outstanding advances" include the following:

- Available documents show one grantee has an outstanding advance of $82,049 under a grant that expired in June 1989. The only evidence of A.I.D.'s review of this advance includes: the Office of Procurement notified the Office of Financial Management in September 1989 that the grantee may have submitted its final voucher and that approximately $88,000 could be deobligated; the Office of Financial Management responded to the Office of Procurement in September 1989 that the $88,000 could not be deobligated because the recipient had an outstanding advance of $146,000; the Office of Financial Management requested the grantee in May 1991 to account for the outstanding advance of $82,049; and the Office of Procurement requested the Office of Financial Management in May 1992 whether the grantee had submitted a final voucher. Thus, although the grant expired in June 1989, A.I.D. does not know the status of the outstanding advance three years later.

- Accounting records show one grantee has an outstanding cash advance of $104,430 under a grant that expired in August 1987. Although the Office of Financial Management had received vouchers up through November 1990 claiming expenditures of $70,189 against the outstanding advance (leaving an outstanding advance balance of $34,241), the Office of Financial Management questioned these expenditures because the vouchers showed the expenditures were incurred after the expiration of the grant. At the end of our review of this grant, the status of the advance has not been resolved and the $104,430 remained "outstanding" five years after the expiration on the grant.

In conclusion, the Office of Financial Management needs to ensure the responsible accounting offices determine the validity of the $245.3 million identified in this finding as invalid or unsupported and take appropriate action to resolve this problem. See Appendix III for a listing of the obligation documents and the amount classified as invalid and unsupported for the three A.I.D./Washington accounting offices reviewed. Similar lists were provided in separate documents to the five overseas missions reviewed.

The Office of Financial Management also needs to (1) ensure the $429.7 million in unliquidated obligations under approximately 5,400 expired obligation documents reported for the A.I.D./Washington accounting offices that were not covered in our audit are reviewed and that any excess funds are deobligated and (2) determine the status and appropriately liquidate or recover the $4.5 million in outstanding advances identified in the audit for which documentation was not available to determine the actual status and the $20.1 million in outstanding advances not covered in the audit. Also, staffing studies should be made at the A.I.D./Washington Project and Non-Project Offices to determine proper staff size and action should be taken to resolve any staff shortages. We recognize that some of the problems related to unliquidated obligations are due to Office of Procurement problems in the procurement closeout process. Therefore, the Office of Financial Management and the Office of Procurement need to establish procedures for better coordination and follow-up actions so that excess funds under expired contracts and grants can be identified and deobligated.

Management Comments and Our Evaluation

The Office of Financial Management generally concurred with the finding and recommendations. Concerning Recommendation Nos. 1.1, the Controller stated that $111.7 million of the $245.3 million identified in the report as invalid or unsupported unliquidated obligations has been deobligated and the remaining amount ($133.6 million) had been expended, determined to be valid, or required further review. Concerning Recommendation No. 1.2, the Controller stated that the Office of Financial Management has taken significant actions to determine the status of the $429.7 million in unliquidated obligations under expired obligations not covered by our audit but was unable to provide specific details given the short time to respond the draft of this report. In response to Recommendations Nos. 1.3 and 1.4, the Controller stated (1) that a contractor would be hired to perform a review to determine the appropriate functions to be performed by the Office of Financial Management and the proper staffing levels levels/skills required to carry-out these functions and (2) the Office of Financial Management would take action for improving coordination with the Office of Procurement aimed at improving the review and deobligation process. In response to Recommendation Nos. 1.5 and 1.6, the Controller stated that he agreed with the recommended actions and (1) has or will follow up on the outstanding advances under expired obligation documents identified in this report and (2) will develop appropriate procedures to ensure that advances under grants and cooperative agreements are recovered during contract/grant close-out process.

Based on Office of Financial Management's comments, all six parts of Recommendation No. 1 are resolved and will be closed when the Office of Financial Management provides documentary evidence that the recommended actions have been completed including the deobligation of funds.

While the Office of Financial Management's comments to the draft report agreed that the report appropriately identifies weaknesses in the Agency's review and certification of unliquidated obligations, the Controller did not believe the report gave adequate recognition to the efforts undertaken to improve the quality of the review and certification process. The Controller noted that during the last two years (i.e., October 1990 through August 1992), the Agency has deobligated $567.4 million. The Controller also did not believe the report gave adequate recognition to the Office of Financial Management's actions to strengthen program accounting in A.I.D./Washington by resegmenting the Accounting Division to improve the management span of control over the unliquidated obligation portfolios and the resulting improvements in the operation of the Division.

A.I.D.'s Certification Process for
Unliquidated Obligations Needs to be Improved

Federal laws and regulations require that each agency provide an annual report to the President and the U.S. Treasury identifying the amount of unliquidated obligations as well as a certification that these obligations do not exceed the requirements for which the funds were obligated. A.I.D. procedures prescribe that these reports be based on the records retained and certifications made by the controllers at the individual accounting offices. Our audit showed that five of the seven accounting offices we reviewed concerning this requirement did not report accurate data to the A.I.D. Controller on the validity of unliquidated obligations at those offices because the offices did not perform the required reviews of unliquidated obligations in accordance with A.I.D.'s prescribed procedures or did not promptly deobligate known cases of invalid obligations. As a result, A.I.D.'s reports to the President and the U.S. Treasury for fiscal year 1991 erroneously included millions of dollars in unliquidated obligations that were not valid or were not properly supported.

Recommendation No. 2: We recommend that the Office of Financial Management:

2.1 establish procedures requiring each accounting office to provide a description of what was done to ensure the accuracy of information reported in its annual certifications to the A.I.D. Controller on the levels and validity of

unliquidated obligations and, if an office is not able to certify that the amount is correct, requiring the responsible official to explain the reason for not being able to do so;

2.2 **establish policies and procedures to determine when accounting offices should verify 100 percent of the unliquidated obligations individually or when statistical sampling should be used; and**

2.3 **establish procedures including time frames for promptly deobligating known cases of invalid obligations and identifying in the certifications to the President and the U.S. Treasury any known cases of invalid obligations that have not yet been deobligated.**

Federal laws (31 U.S.C. 1108 and 1554) require that each Federal agency provide with its annual appropriation request an annual report to the President and the U.S. Treasury identifying the status of obligations and a certification that these funds do not exceed the requirements for which the funds were obligated.

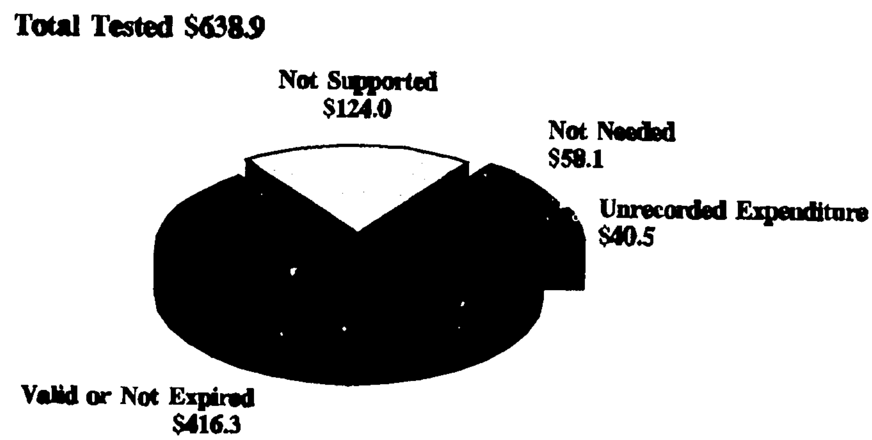
The General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Guidance) states that while it is incumbent upon agencies to provide the best information they can in statements of obligations provided to the President, the law neither specifies how officials making the certifications are to satisfy themselves that the amount certified is accurate nor requires agencies to verify 100 percent of the unliquidated obligations individually before certifying to the validity of the obligation balances. An alternative cited in Title 7 allows an agency to use statistical sampling for the purpose of giving qualified certifications of obligation balances. If this method is used, the certification should indicate that it was based on valid statistical sampling and the amounts certified are subject to some stated amount of error. If for any reason the agency cannot certify that the amount reported is correct, the official designated to certify should explain the reason for not being able to do so.

A.I.D Handbook 19 (Chapter 2 and Appendix 1A) and the A.I.D. Controllers Guidebook prescribe that controllers in coordination with other A.I.D. offices should continuously review unliquidated obligations to determine if the obligations exceed the requirements for which the funds were obligated. The Handbook (Chapter 2 [M]) further states that when reviews of unliquidated obligations disclose that all or a portion of the unliquidated balance is invalid and should be deobligated, a journal voucher or other accounting document is prepared, approved, and processed **prior to closing the accounts and preparing the fiscal year-end reports.** Chapter 2, Section 2P, states that the A.I.D. Controller's overall report is based on records retained and certifications made by the controllers at the individual accounting offices.

Our audit showed that **the controllers at the three A.I.D./Washington accounting offices and two (i.e., Egypt and Togo) of the four missions we reviewed had not provided the A.I.D. Controller with accurate information on unliquidated obligations.** The incorrect certifications by the controllers (accounting offices) resulted because the responsible officials did not perform the required reviews of unliquidated obligations in accordance with A.I.D.'s prescribed procedures or did not promptly deobligate known cases of invalid obligations.

We did not attempt to determine the full extent of the inaccurate information reported by the accounting offices and missions reviewed; but, based on our limited testing of selected unliquidated obligations totaling $638.9 million reported as of April 1992, we estimate that the fiscal year 1991 certifications by these offices were overstated or the required documentation was not available to support $222.6 million as illustrated below (and shown by accounting office in Appendix IV):

Analysis of Inaccurate Certifications as of September 30, 1991
(in $ million)



Examples of problems found include the following:

- The Headquarters Project Accounting Branch certified that valid unliquidated obligations as of September 30, 1991, totaled $1.4 billion. Our review of documents in support of reported unliquidated obligations of $49.2 million (as of April 1992) showed that this amount was either overstated or documents were not available to determine the validity of unliquidated obligations totaling $13.2 million including: $1.0 million that was erroneous due to accounting errors; $5.1 million that was not needed; and $7.1 million for which documentation was not available to determine the need. The inaccurate certification occurred because the Branch did not follow A.I.D.'s prescribed procedures for reviewing and documenting the review results for its fiscal year 1991 certification of unliquidated obligations.

- The Headquarters Non-Project Accounting Branch certified that valid unliquidated obligations as of September 30, 1991, totaled $2.1 billion. Our review of documents in support of reported unliquidated obligations of $526.0 million (as of April 1992) showed that this amount was overstated or documents were not available to determine the validity of unliquidated obligations totaling $195.6 million including: $38.2 million that was already spent but not recorded; $44.3 million that was not needed; and $113.1 million for which documentation was not available to determine the need. The inaccurate certification occurred because the Branch did not follow A.I.D.'s prescribed procedures for reviewing and documenting the review results for its fiscal year 1991 certification of unliquidated obligations.

- A review of unliquidated obligations by USAID/Egypt officials in fiscal year 1991 identified $3.3 million that according to a memorandum prepared by an accounting office official "... should be deobligated...". However, this amount was not deobligated within the fiscal year because, according to the memorandum, USAID/Egypt planned to utilize the deobligation/reobligation authority early in the next year.

A previous audit by our office in 1989 found that the Agency's certification for fiscal year 1987 submitted by the A.I.D. Controller also contained certain inaccuracies about the status of recorded obligations that could have been disclosed had responsible A.I.D. offices appropriately made the required reviews of unliquidated obligations.[3] Dollar-wise, most of the inaccurate certification was attributed to the A.I.D./Washington offices, but some overseas missions also played a key role by reporting inaccurate amounts to the A.I.D. Controller. Although the Office of Financial Management issued supplemental guidance to resolve the problems found in that audit, the guidance has not been effectively implemented and the problems continue to exist.

In conclusion, A.I.D.'s annual reports for fiscal year 1991 to the President and the U.S. Treasury on unliquidated obligations erroneously included millions of dollars in unliquidated obligations that were not valid or were not properly supported because accounting offices did not follow A.I.D.'s prescribed procedures for performing reviews of unliquidated obligations and for promptly deobligating known cases of invalid obligations. To prevent similar problems in future certifications, the Office of Financial Management needs to establish procedures requiring each accounting office to provide a description of what was done to ensure the accuracy of information reported in their annual reports to the A.I.D. Controller on the levels and validity of unliquidated obligations. If an office cannot certify that the amount reported is correct, the responsible official should explain the reason for not being able to do so and qualify the certification for any amounts known to be invalid. The Office of Financial Management also needs to establish procedures including time frames for promptly deobligating known cases of invalid obligations.

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[3] 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; dated July 10,1989.

Management Comments and Our Evaluation

The Office of Financial Management generally concurred with the finding and recommendations. Concerning Recommendation No. 2.1, the Controller issued instructions to all A.I.D. accounting offices to provide a description of what was done to ensure the accuracy of informations reported in their annual certifications on the levels and validity of unliquidated obligations and requiring them to explain any reason why the office cannot certify that the amounts reported are correct and valid. In response to Recommendation No. 2.2, the Controller stated that he was in generally agreement with the action recommended, but before proceeding with establishing policies and procedures, he will need the Office of Inspector General's input to determine appropriate sampling techniques and confidence levels which will pass an audit test. Concerning Recommendation No. 2.3, the Controller stated that the Office of Financial Management will take the lead in developing an Agency policy on the timing of deobligation actions in consultation with other A.I.D. offices as appropriate.

Based on Office of Financial Management's comments, Recommendation No. 2.1 is closed. Recommendation Nos. 2.2 and 2.3 will be closed when the Office of Financial Management provides documentary evidence that the recommended actions have been completed. We will work with the Office of Financial Management for determining the appropriate sampling techniques and confidence levels which will pass an audit test regarding Recommendation No. 2.2.

Forward Funding Needs to be Limited to Prescribed Levels

The Foreign Assistance Act restricts obligations to not more than five years into the future and A.I.D. guidance prescribes that forward funding of projects should generally be limited to not more than two years of expected expenditures. Two (Egypt and Togo) of the four overseas missions we reviewed on this issue did not always adhere to the prescribed levels because the responsible officials believed that A.I.D.'s guidance did not constitute strict limitations. One (USAID/Egypt) of the two missions also exceeded the five-year limit because the responsible mission officials were not aware of this restriction. As a result, obligations exceeded the prescribed levels for 5 of the 21 projects we reviewed, including two projects in which the obligations exceeded the five-year limit authorized by the Foreign Assistance Act. Although the total obligations in excess of the prescribed levels could not be determined because A.I.D.'s guidance was nt clear on some issues and because USAID/Egypt had not in all cases developed financial implementation plans showing estimated yearly expenditures, the excess was in the millions of dollars.

Recommendation No. 3: We recommend that the Office of Budget:

3.1 develop better guidance on the levels allowed for forward funding, and

3.2 instruct A.I.D. overseas missions to adhere to the prescribed guidance for

forward funding.

<u>Recommendation No. 4:</u> We recommend that the A.I.D. General Counsel, in conjunction with USAID/Egypt, determine the amount of obligations made at USAID/Egypt in excess of the five-year limit authorized by the Foreign Assistance Act and deobligate the unauthorized obligations or take other appropriate action to resolve this problem.

The Foreign Assistance Act (Section 635 [h]) states that a contract or agreement shall not commit A.I.D. to any contract or agreement at any time for more than five years. The A.I.D. General Counsel has determined that the Act does not limit the term of contracts and agreements to five years but that it does prohibit the obligation of funds for expected expenditures beyond five years into the future at any time.

A.I.D. management recognizes that unliquidated obligations are generally unproductive in advancing A.I.D. goals and, therefore, A.I.D.'s Office of Budget has prescribed guidance limiting forward funding generally to not more than two years of expected expenditures for new activities and one year of expected expenditures or the amount needed to maintain the rate of implementation for ongoing activities. The guidelines further recognize that there needs to be some flexibility to allow sufficient funding for large commitments such as construction contracts and for policy-conditioned forms of assistance. To provide a conservative assessment of whether the level of unliquidated obligations was excessive relative to this guidance, for purposes of this report we allowed activities to have up to two years of estimated expenditures plus full funding for the exceptions, such as construction, allowed in the guidance. Amounts beyond this were considered excessive.

Our review of 21 projects at four missions identified that two missions (Philippines and Bangladesh) had complied with the forward-funding guidance for the 11 projects examined with total unliquidated obligations of about $247.0 million (as of April 1992). The other two missions (Egypt and Togo) did not always adhere to A.I.D.'s forward-funding guidance or the five-year restriction under the Foreign Assistance Act.

At USAID/Egypt we examined the forward funding for a total of nine projects with total unliquidated obligations of $1.1 billion (as of March 1992). We concluded, based on available documentation and assertions by USAID/Egypt officials, that obligations adhered to prescribed levels for five of the nine projects with total unliquidated obligations of $516.8 million.

For the remaining four projects with recorded unliquidated obligations of $571.7 million, we estimate that the obligations exceeded the prescribe levels (either A.I.D.'s forward-funding guidance or the restriction under the Foreign Assistance Act) by at least $22.5 million. However, we could not quantify the total excess because A.I.D.'s forward-funding guidance was not clear on some issues and because USAID/Egypt had not in all cases developed financial implementation plans showing life-of-project funding by fiscal year even though such plans are required by A.I.D. Handbook 3 (Chapters 3 and 9).[4]

The above four projects included two for which the obligations exceeded the five-year restriction under the Foreign Assistance Act. For example, USAID/Egypt obligated a total of $200 million in fiscal years 1990 and 1991 which fully funded one project component with an estimated completion date of February 1999. Thus, **these obligations were to cover expenditures of up to nine years at the time of obligation.** We could not determine how much of the funds exceeded the five-year limit because USAID/Egypt officials had not developed financial implementation plans showing life-of-project funding requirements and could not provide us estimates of yearly expenditures through fiscal year 1999.

While we cannot estimate what expenditures will be incurred under this project in excess of the five-year limitation, we know that the bulk of the funds on this component have yet to be spent. As of March 1992, USAID/Egypt had committed only $11.7 million of the $200 million which was obligated in 1990 and 1991. Furthermore, USAID/Egypt's "Revised Plan for Expenditures for Active Projects" as of July 1992 shows planned expenditures for this project through fiscal year 1994 totaling only $116.2 million.

USAID/Egypt officials stated that they did not believe A.I.D.'s forward-funding guidelines were binding rules which must be followed and were not aware of the five-year limit authorized by the Foreign Assistance Act. The officials also stated, however, that they must obligate about $815 million a year, the level of current A.I.D. assistance to Egypt.

At USAID/Togo we examined one project with unliquidated obligations of $7.1 million and found that the obligations exceeded A.I.D.'s forward funding guidance by about $3.2 million. The project is a five-year project with an estimated completion date in fiscal year 1996. Although A.I.D.'s Annual Budget Submission (as of July 1992) for fiscal year 1993 showed estimated project expenditures totaling $3.9 million through fiscal year 1993, A.I.D. had obligated $7.1 million as of early fiscal year 1992. Thus, we estimate that these obligations exceeded A.I.D.'s forward-funding guidance by about $3.2 million. USAID/Togo officials stated that they believed the forward-funding guidance was merely general guidance and not strict limitations. They also stated that about $3.0 million of the obligated amount was originally to be obligated for another project which was delayed due to project design delays.

A problem in implementing A.I.D.'s forward funding guidance as well as estimating the funds in excess of A.I.D.'s guidance is that the guidance is not clear on certain issues. For example,

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[4] A.I.D. Handbook 3 (Chapter 3 including Appendix 3B and Chapter 9) require that financial plans showing estimated expenditures by fiscal year through project completion be developed during the project design stage and updated when delays or other changes occur. These Chapters further state that the financial plan must be developed in conjunction with the Implementation Schedule which will show when contracting and other activities are expected to take place and thereby precipitate financial commitment or payment obligations and, if A.I.D. expenditures are to be financed by separate appropriations, then a separate table should be added which indicates which inputs are to be financed with which appropriations.

the guidance states that for ongoing project activities obligations should be made for: **"Not to exceed 12 months of expenditures unless higher amount needed for large commitments, such as a construction contract."** The guidance does not identify when the obligations under an agreement with a recipient country should be made to cover planned construction contracts (or other contracts such as for technical assistance); e.g., just prior to advertising the proposals in the Commerce Business Daily or just prior to awarding the contract? In the case of the $200 million component discussed above, the responsible A.I.D. Mission Legal Advisor advised USAID/Egypt officials that the funds for the construction part of this component should be obligated when the proposals are advertised in the Commerce Business Daily; but, USAID/Egypt officials did not follow this advice and did not explain why. At the time of our audit, USAID/Egypt officials said they expect to advertise the proposal in December 1992.

In conclusion, our audit identified four projects where obligations exceeded the prescribed levels including two projects in which the obligations exceeded the five-year limit authorized by the Foreign Assistance Act. These problems occurred because some mission officials believed the A.I.D. guidance was merely general guidance and not strict limitations or could not satisfactorily explain why the guidance was exceeded. Also, A.I.D.'s guidance on forward funding needs to be better defined. Finally, A.I.D. needs to determine how to resolve the cases where the obligations exceeded the five-year limit authorized by the Foreign Assistance Act.

Management Comments and Our Evaluation

The Office of Budget and Office of General Counsel officials generally concurred with Recommendations Nos. 3 and 4, respectivly. Concerning Recommendation Nos. 3.1 and 3.2, the Office of Budget commented that it would look to ways to further improve A.I.D.'s forward-funding guidance and have already initiated internal discussions as to how to bring the guidelines to the attention of operating staff in the overseas missions and at A.I.D./Washington and to clarify the intent of the guidelines. The Office of Budget noted, however, that they did not believe that guidance alone is the answer to better management of the levels of A.I.D.'s unliquidated obligations (pipeline). As an additional step, the Office plans to initiate annual end-of-fiscal year pipeline assessments -- to review aggregate mission pipelines in relation to annual expenditure reates. These reports will permit A.I.D. regional bureaus to assess the degree of compliance by their field missions with Agency guidelines and to undertake corrective actions as appropriate. Concerning Recommendation No. 4, the Office of General Counsel commented that it would take prompt action, in conjunction with USAID/Egypt, to determine the amount of obligations made at USAID/Egypt in excess of the five-year limit authorized by the Foreign Assistance Act and to deobligate the unauthorized obligations or take other appropriate action to resolve this problem.

Based on the Office of Budget's and Office of General Counsel's comments, Recommendation Nos. 3.1, 3.2, and 4 are resolved and will be closed when the respective Offices provide documentary evidence that the recommended actions have been completed.

Financial Related Data Need to
be Recorded Promptly and Accurately

Internal control standards issued by the U.S. General Accounting Office and included in A.I.D. Handbook 19 state that transactions are to be recorded accurately and promptly. However, the records for seven of the eight accounting offices included in our audit and the A.I.D./Washington Office of Procurement did not meet these requirements. For example, either expiration dates or the amount of unliquidated obligations on the accounting records were not correct for 135 of the 325 obligation and commitment documents we judgmentally selected for review. This problem occurred because the accounting and other offices (e.g., procurement and program) did not have procedures or did not effectively implement procedures for ensuring the accuracy of this data. As a result, A.I.D. does not have reliable data to effectively monitor the validity of unliquidated obligations, especially those under expired documents.

Recommendation No. 5: We recommend that the Office of Financial Management:

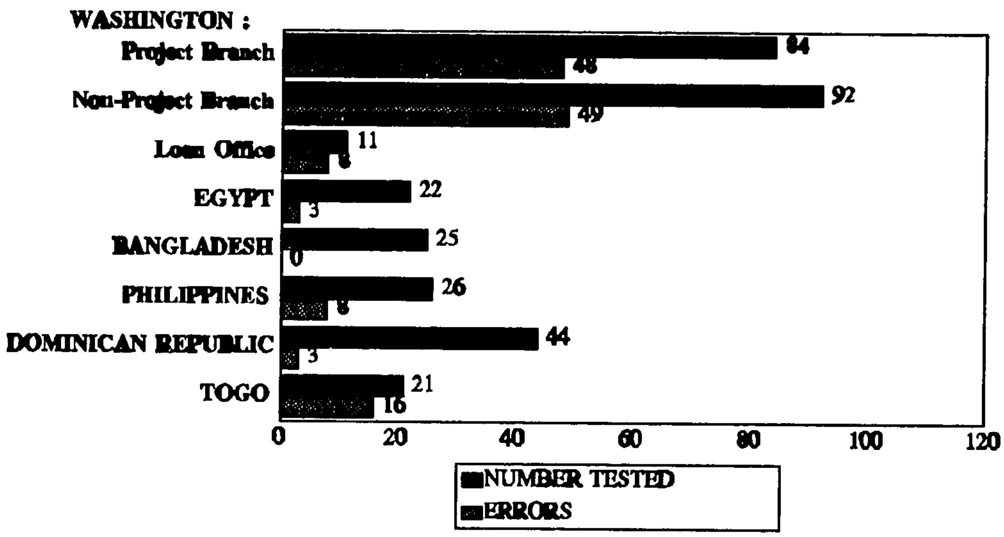
5.1 develop better procedures for ensuring that accounting offices obtain required data such as expiration date from other A.I.D. offices and that the data be input into the financial management accounting system, and

5.2 establish procedures for providing the Office of Procurement with periodic reports identifying expired contracts and grants with unliquidated obligations.

The General Accounting Office's Standards for Internal Controls in the Federal Government states that transactions and other significant events are to be promptly recorded and properly classified. A.I.D. Handbook 19 (Appendix 1.E., Section D.1.) states that financial management data should be recorded as soon as practicable after the occurrence of the event and be reasonably complete and accurate. The Office of Financial Management issued supplemental guidance in October 1989 to overseas controllers and in May 1990 to A.I.D./Washington controllers. This guidance emphasized the need for periodic reviews of expired obligation and commitment documents to verify the accuracy of the expiration dates and to take action in concert with the responsible A.I.D. program and procurement offices to either extend the expiration date or to decommit and/or deobligate any excess funds. The guidance also emphasized the importance of documentation files in support of obligations and the need to prepare and retain complete work papers evidencing the reviews.

The three A.I.D./Washington accounting offices and four of the five missions reviewed did not meet the above requirements. As shown below, our review of judgmentally selected obligation and commitment documents identified in the accounting records as expired as of March 31, 1992, showed inaccurate expiration dates or amounts of unliquidated obligations/commitments for 135 documents -- or 38 percent -- of the documents 325 documents reviewed: [5]

Analysis of Recorded Expired Obligation and Commitment Documents



Total Tested 325 Total Errors 135

Examples of inaccurate data included the following:

- For the A.I.D./Washington Project Accounting Office, data was not correct for 57 percent of the documents tested (48 of 84 documents). For example, the data system showed one grant with unliquidated obligations of $2.4 million expiring in April 1991 but the grant agreement showed an expiration date of June 1995. For another grant, the data system showed an expiration date of May 1990, but it had been amended in August 1989 to extend the expiration to September 1994.

- For the A.I.D./Washington Non-Project Accounting Office, data was not correct for 53 percent of the documents tested (49 of 92 documents). For example, the accounting records showed a grant made to the Government of the Philippines expired in February 1987 and had unliquidated obligations of $9.1 million. However, the actual amount of unliquidated obligations was zero. The Accounting Office had not posted a payment of $9.1 million that was made in December 1989.

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[5] The 135 documents include 116 documents where the expiration date was not correct and 19 documents where the unliquidated obligation amount was not correct.

This inaccrate accounting data resulted from the accounting offices and other A.I.D. offices not having procedures or not effectively implementing procedures to ensure the accuracy of the accounting records. For example, the A.I.D./Washington accounting offices did not always require procurement offices and missions to identify the expiration dates of obligation documents. Instead the accounting offices entered an arbitrary date (e.g., one year from the award date) into the accounting records. Also, the A.I.D./Washington and mission accounting offices as well as other A.I.D. offices (e.g., procurement and program offices) have not implemented prescribed procedures for coordinating with other offices to verify the accuracy of expiration dates and unliquidated obligation amounts for expired or soon to be expired documents. For example, accounting office officials said they are not always notified by other A.I.D. offices (e.g., procurement and program offices) when contracts and grants are amended to revise expiration dates. In some cases the accounting offices simply forgot to input the data into the accounting records.

In addition to the accounting offices not recording financial data promptly and accurately, we found that the Contract Information Management System (CIMS) maintained by the A.I.D./Washington Office of Procurement also does not contain accurate information which is partly the cause for many of the delays in identifying the status of unliquidated obligations and potential to deobligate excess funds. For example, the Office of Procurement uses the CIMS to identify expired documents to initiate the procurement closeout process which includes the deobligation of excess funds. However, of our sample of 49 expired contracts and grants identified in the Office of Financial Management's Financial Accounting and Control System (FACS) that were under the financial oversight of the A.I.D./Washington Project Accounting Office, we found that 20 of these contracts and grants were not included in the CIMS. Since the CIMS is the source for entering documents into the closeout process, the absence of these documents in the CIMS is a significant control problem in identifying potential invalid obligations.

Problems with the Office of Procurement's inventory of completed contracts was previously reported by us in 1985. That audit report (Audit of Closeout of Expired Contracts; Audit Report No. 85-14; dated March 29,1985) noted that the computer data base maintained by the Office of Procurement was inaccurate and incomplete. For example, the report identified that the expiration dates and obligation amounts recorded in the data base were wrong for at least 14 of the 23 contracts reviewed that were awarded by the Office of Procurement. Another example cited in that report was that the data base identified 39 expired contracts valued at $3.9 million for one overseas mission compared to the mission's records which showed 55 expired contracts valued at $11.9 million.

In conclusion, financial data at seven of the eight accounting offices reviewed were not recorded accurately. Therefore, the Office of Financial Management needs to develop better procedures for ensuring that accounting offices obtain required financial data and input the data into the financial management accounting system. The Office of Financial Management should also provide periodic reports to the Office of Procurement identifying expired contracts and grants with unliquidated obligations. Without accurate data, A.I.D. cannot effectively monitor the validity of unliquidated obligations under expired documents and ensure expired contract and grants are appropriately closed out.

Management Comments and Our Evaluation

The Office of Financial Management generally concurred with the recommendations. Concerning Recommendation No. 5.1, the Controller stated that as it relates to the A.I.D./Washington accounting offices, the Office of Financial Management will work with the Office of Procurement to develop periodic reports and will also issue guidance to the responsible Office of Financial Management staff on inputting the data into the Financial Accounting and Control System (FACS). The Controller also stated that if this recommendation relates to overseas accounting offices, the Office of Financial Management would instruct each overseas office to establish appropriate procedures to ensure the accuracy of the data in their accounting systems. Concerning Recommendation No. 5.2, the Controller stated that the Office of Financial Management will develop a report from the FACS that identifies expired obligation and documents and provide the report to the Office of Procurement for use in the closeout of contracts and grants.

Based on the Office of Financial Management's comments, Recommendations Nos. 5.1 and 5.2 are resolved and will be closed when the Office of Financial Management provides documentary evidence that the recommended actions have been completed. Concerning Recommendation No. 5.1, it does apply to overseas accounting offices.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objective, as well as recommendations to improve reporting on internal controls as required by the Federal Managers' Financial Integrity Act.

Scope of Our Internal Control Assessment

We performed our audit in accordance with generally accepted government auditing standards which require that we:

- assess the applicable internal controls when necessary to satisfy the audit objective; and

- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those applicable to the audit's objective and not to provide assurance on the auditees' overall internal control structure.

For the purpose of this report, we have classified the significant internal control policies and procedures applicable to the audit objective by category. For each category of control, we obtained an understanding of the design, when applicable, of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for the audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act (31 U.S.C. 3512[c]) and the Office of Management and Budget (OMB) implementing policies, A.I.D.'s management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal controls for Federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, it is not possible to predict whether internal controls will work in the future because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusion for Audit Objective

The audit objective was to determine if A.I.D. reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures. In planning and performing our audit, we considered the requirements of the Federal Managers' Financial Integrity Act, Standards for Internal Controls in the Federal Government prescribed by the U.S. General Accounting Office, Office of Management and Budget (OMB) Circular A-123, and appropriate internal control policies and procedures cited in A.I.D. Handbook 19, the A.I.D. Controllers Guidebook, and supplemental guidance documents issued by the Office of Financial Management in November 1989 and June 1990. For the purposes of this report, we have classified the applicable internal controls into the following categories:

- perform periodic review of unliquidated obligations (and commitments) to verify the validity of the unliquidated amounts, document those reviews, and take appropriate action to deobligate and/or reprogram any excess funds;

- make the required annual certification on the validity of unliquidated obligation;

- maintain obligation levels in accordance with A.I.D.'s forward-funding guidance; and

- record financial transactions promptly and accurately.

Our audit found that A.I.D. did not effectively review and provide certification to the President (through the Office of Management and Budget) and the U.S. Treasury of the validity of unliquidated obligations. These problems occurred primarily because the accounting offices we reviewed and other A.I.D. offices (e.g., procurement and program offices) did not follow established A.I.D. policies and procedures as noted below:

- six of the eight accounting offices did not effectively review unliquidated obligations (and commitments) under expired documents or did not take action to resolve identified problems (e.g., deobligate excess funds promptly);

- five of the seven accounting offices reviewed concerning the requirement for

A.I.D. to submit annual reports to the President and the U.S. Treasury on the status of unliquidated obligations did not provide accurate certifications to the A.I.D. Controller of the validity of reported unliquidated obligations for fiscal year 1991;

- two accounting offices obligated funds for longer periods than allowed under A.I.D. guidance or the Foreign Assistance Act;

- seven of the eight accounting offices reviewed did not accurately record financial transactions for at least five percent of obligation and commitment documents reviewed.

Although not part of the internal controls reviewed to answer the audit objective, we found additional A.I.D. internal control problems that were a cause or an effect of delays in identifying and deobligating invalid unliquidated obligations. These additional internal control problems include the following:

- The A.I.D. Office of Financial Management did not have adequate procedures for recovering or liquidating outstanding advances under expired obligation documents (e.g., grants and cooperative agreements).

- The A.I.D. Office of Procurement did not have adequate procedures for ensuring that its Contract Information Management System includes all expired procurement instruments (e.g., contracts and grants) and that these instruments are appropriately closed out.

- The A.I.D. Offices of Financial Management and Procurement did not have adequate procedures for reconciling similar data in their financial management systems.

Internal Controls and
<u>Reporting Need to be Improved</u>

The Federal Managers' Financial Integrity Act and implementing regulations issued by the Office of Management and Budget require that material weaknesses in internal controls be reported to the President and the Congress. Within A.I.D., the Management Control Review Committee (MCRC) is responsible for reviewing internal control assessments prepared by A.I.D.'s components and recommending to the Administrator which internal control problems should be reported as material weaknesses. In our opinion, the internal control weaknesses described in the sections above collectively meet the definition of a material weakness. The MCRC has not identified the problems affecting the review and certification of unliquidated obligations as a material weakness because the Office of Financial Management and the eight individual accounting offices we reviewed had not identified the internal control weaknesses we found. As a result, the problems affecting the review and certification of unliquidated obligations were not given the high visibility and close tracking of corrective actions that would help resolve them.

<u>Recommendation No. 6</u>: We recommend that the Office of Financial Management:

6.1 issue guidance and directions to responsible mission controllers and A.I.D./Washington accounting offices to specifically address the validity of unliquidated obligations when preparing the next report under the Federal Managers' Financial Integrity Act and to report material weaknesses; and

6.2 recommend to the Management Control Review Committee that they include the process for reviewing unliquidated obligations and preparing the certification of unliquidated obligations as a material weakness in its next annual report to the A.I.D. Administrator.

Federal law (31 U.S.C. 3512[c]) and the Office of Management and Budget (OMB) implementing policies, states that A.I.D.'s management is responsible for establishing and maintaining adequate internal controls that reasonably ensure that:

-- obligations and costs comply with applicable law;

-- all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and

-- revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

Section 3512(d) of the law requires that the head of each agency (1) prepare an annual report for the President stating whether the agency's internal controls provide effective control over, and accountability for, assets for which the agency is responsible and (2) describe any material weaknesses in its internal controls. If the agency's systems do not meet these standards, the head of the agency must identify the material weaknesses and describe how they will be corrected.

The Office of Management and Budget (OMB) Circular A-123 defines a material weakness as one which would:

> ... significantly impair the fulfillment of an agency component's mission; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or result in a conflict of interest.

An August 3, 1991 memorandum from the Office of Management and Budget states that since the above factors are judgmental and can be widely interpreted, each material weakness should meet one or more of the following additional criteria:

-- merits the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee;

-- exits in a major program or activity;

-- could result in the loss of $10 million or more, or 5 percent or more of the resources of a budget line item; or

-- its omission from the report could reflect adversely on the management integrity of the agency.

Within A.I.D., the Management Control Review Committee (MCRC) is responsible for reviewing internal control assessments prepared by A.I.D.'s components and recommending to the Administrator which internal control problems should be reported as material weaknesses.

In our opinion, the internal control weaknesses affecting the review and certification of unliquidated obligations meet the definition of a material weakness because they:

- significantly weaken safeguards against waste and unauthorized use of funds;
- could result in the loss of $10 million;
- merit the attention of the agency head/senior management, the Executive Office of the President, or the relevant Congressional oversight committee; and
- exist in a major program or activity.

The MCRC did not identify the problems affecting the review and certification of unliquidated obligations as a material weakness in its last annual report to the A.I.D. Administrator. This occurred because the A.I.D./Washington Office of Financial Management (including the three accounting offices we reviewed) and the five mission accounting offices we reviewed have not identified the internal control weaknesses we found in their internal control assessments performed in accordance with the Federal Managers' Financial Integrity Act for fiscal year 1991.

As a result, the internal control weaknesses affecting the review and certification of unliquidated obligations did not have the visibility and close tracking of corrective actions that come from designation as a material weakness. Therefore, A.I.D. needs to have better internal controls over the review and certification of the validity of unliquidated obligations and needs to ensure that unliquidated obligations are included as a material weakness in its next annual report to the A.I.D. Administrator.

Management Comments and Our Evaluation

The Office of Financial Management concurred with Recommendation Nos. 6.1 and 6.2. The Controller stated that the Office of Financial Management, in consultation with the Management Control Staff in the Directorate for Finance and Administration, will issue guidance and directions to responsible offices to specifically address the validity of unliquidated obligations when preparing the next report under the Federal Managers' Financial Integrity Act and to report material weaknesses. The Controller also stated that if the results of the reports from the offices indicate that the process for reviewing and certifying unliquidated obligations is an Agency level material weakness, the Office of Financial Management will make the appropriate rcommendation to the Management Control Review Committee.

Based on Office of Financial Management's comments, Recommendation Nos. 6.1 and 6.2 are resolved and will be closed when the Office of Financial Management provides documentary evidence that the recommended actions have been completed.

REPORT ON COMPLIANCE

This section summarizes our conclusions on A.I.D.'s compliance with applicable laws and regulations for reviewing and certifying unliquidated obligations.

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards which require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objective); and

- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested A.I.D.'s compliance with the following Federal laws and regulations as they could affect our audit objective: [6]

- 31 U.S.C. 1501 requirements for the recording of only valid obligations;

- 31 U.S.C. 1108 and 1554, and the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Guidance), requirements for providing annual reports to the President and the U.S. Treasury;

- The Foreign Assistance Act (Section 635 [h]) restriction on obligating funds for more than five years into the future;

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[6] Our audit was conducted primarily at the A.I.D./Washington Office of Financial Management (including three accounting offices) and at the accounting offices for A.I.D. missions in Egypt, Bangladesh, Philippines, Dominican Republic, and Togo.

- The General Accounting Office's <u>Standards for Internal Controls in the Federal Government</u> requirements for recording financial transactions promptly and accurately;

- the Federal Managers' Financial Integrity Act (31 U.S.C. 3512 [c] and [d]) requirements for maintaining and reporting on internal controls.

<u>General Background on Compliance</u>

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws or implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

A.I.D. controllers are responsible for reviewing unliquidated obligations to determine if they are still needed for which the funds were obligated and for initiating action to deobligate excess funds. The A.I.D. Controller is responsible for ensuring that the controllers perform the reviews and for providing an annual report to the President (through the Office of Management and Budget) along with the Agency's appropriation request and to the U.S. Treasury identifying the amount of unliquidated obligations and a certification that these obligations do not exceed the requirements for which the funds were obligated. The A.I.D. Administrator is responsible for preparing an annual report for the President stating whether the Agency's internal controls meet the Federal standards and describing any material weaknesses in the internal controls.

<u>Conclusions on Compliance</u>

The A.I.D. offices reviewed did not comply with certain requirements of laws and regulations as discussed below:

- The A.I.D. controllers at six of the eight accounting offices reviewed did not perform the required reviews of unliquidated obligations or did not take action to deobligate funds in excess of the requirements for which the funds were obligated as required by the 31 U.S.C. 1501 and the General Accounting Office's <u>Policy and Procedures Manual for Guidance of Federal Agencies</u> (Title 7--Fiscal Guidance). (See page 4.)

- The A.I.D. Controller did not certify accurate information on obligations to the President and the U.S. Treasury as required by Federal law (31 U.S.C. 1108 and

1554) and the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Guidance. (See page 13.)

- USAID/Egypt did not comply with the Foreign Assistance Act (635 [h])·which limits obligations to not more than 5 years into the future. (See page 17.)

- Seven of the eight accounting offices reviewed did not record obligation and commitment data promptly and accurately as required by the General Accounting Office's Standards for Internal Controls in the Federal Government. (See page 22.)

- Although the eight accounting offices reviewed performed assessments of internal controls for fiscal year 1991, the reviews were not adequate to provide reasonable assurance that the material weaknesses discussed in this report would be disclosed as required by the Federal Managers' Financial Integrity Act. (See page 27.)

- The A.I.D. Administrator did not report the Agency's review and certification of unliquidated obligations as a material internal control weakness to the President as required by the Federal Managers' Financial Integrity Act. (See page 27.)

SCOPE AND METHODOLOGY

Scope

The Office of the Inspector General/Programs and Systems Audits with the assistance of four Regional Inspectors General for audit audited A.I.D.'s review and certification of unliquidated obligations in accordance with generally accepted government auditing standards. We conducted the audit from March 27, 1992 through August 24, 1992. The audit covered A.I.D.'s systems and procedures relating to A.I.D.'s reviews of unliquidated obligations up to the time of the end of our field work (approximately August 1992) and its certification of the validity of unliquidated obligations as of September 30, 1991.

We conducted our field work at three accounting offices (Project Branch, Non-Project Branch, and Loan Management Division), the Bureaus for Latin America and Food and Humanitarian Assistance, the Directorate for Policy, and various offices in the Directorate for Finance and Administration located in Washington D.C. Additionally, we visited five overseas missions (Egypt, Bangladesh, Philippines, Dominican Republic, and Togo). We also met with officials at the Federal Reserve Board, Office of Management and Budget, and the Department of Treasury. Finally, we considered findings identified in previous audit reports (e.g., Audit Report No. 85-14 dated March 29, 1985 and Audit Report No. 9-000-89-007 dated July 10, 1989) that identified problems in A.I.D.'s review and certification of unliquidated obligations.

Due to time constraints and the magnitude of problems at several accounting offices (e.g., the large amount of unliquidated obligations reported under expired obligation documents at the A.I.D./Washington accounting offices), the audit scope did not include the following:

- At each of the accounting offices reviewed, the audit did not include unliquidated obligations for operating expenses.

- At the three A.I.D./Washington accounting offices and at USAID/Dominican Republic, the audit covered the validity of unliquidated obligations under only expired documents. We did not review the validity of obligations under documents that had not expired at the time of the audit.

- At USAID/Egypt we limited our review of forward funding to nine projects; but, based on A.I.D.'s Fiscal Year 1993 Congressional Presentation, obligations under other projects could exceed A.I.D.'s forward-funding guidance.

- At each of the accounting offices reviewed, the audit did not attempt to verify (1) the overall reliability of the computer generated data used to identify documents with unliquidated obligations and commitments nor (2) the amount of actual disbursements under those documents. The audit only tested available source documents located at the offices to verify that the reported expiration dates were correct and that there was some documentation to support the validity of the reported unliquidated obligation amounts for the items tested.

- The audit did not review A.I.D.'s compliance with Treasury Fiscal Manual (Section 4230) for verifying the accuracy of data provided by the U.S. Treasury nor did we attempt to verify the accuracy of the data provided in the annual reports for fiscal year 1991 to the President and the U.S. Treasury on the status of unliquidated obligations. We did, however, determine whether the controllers at seven accounting offices certified accurate data to the A.I.D. Controller on the validity of unliquidated obligations. We also confirmed with Office of Financial Management officials that if the records at the accounting offices were not accurate, A.I.D.'s annual reports to the President and the U.S. Treasury would also not be accurate concerning the validity of unliquidated obligations.

- At USAID/Dominican Republic we did not attempt to determine whether its annual certification for fiscal year 1991 on unliquidated obligations was correct.

Comparison of the audit samples to the audit universes at the locations we reviewed are provided in the Methodology section discussed below.

Methodology

The audit objective was to determine if A.I.D. reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures.

To accomplish the objective, we segregated our audit into four areas to determine whether unliquidated obligations and commitments were reviewed by the responsible accounting and other A.I.D. offices, A.I.D.'s certification and reporting to the President and the U.S. Treasury on the status of obligations as of September 31, 1991 were based on valid obligations, obligations adhered to A.I.D.'s forward-funding guidance aand the Foreign Assistance Act, and financial data for obligations and commitments were recorded promptly and accurately. For each of these areas, we examined the fiscal years 1990 and 1991 internal control assessments for the A.I.D./Washington Offices of Financial Management (including the three accounting offices reviewed) and Procurement and each of the missions we reviewed. We examined each assessment to determine if the control weaknesses identified in the audit were identified and reported by the respective offices.

Our methodology for auditing each of these areas follows.

Review of Obligations and Commitments

To audit this area, we used the respective accounting systems for each of the accounting offices reviewed to identify expired obligation and commitment documents and determined whether the validity of the unliquidated obligations had been appropriately reviewed and subsequently deobligated or reprogrammed in accordance with A.I.D.'s prescribed procedures. Although we reviewed only documents reported in the accounting records as expired, A.I.D.'s prescribed procedures require that all unliquidated obligations be reviewed and the essentially the same procedures are whether the document is active or expired. However, A.I.D. supplemented guidance issued in October 1989 and May 1990 placed additional emphasis on reviewing unliquidated obligations under expired documents.

We judgmentally selected obligation and commitment documents for projects and programs at the three A.I.D./Washington accounting offices and five overseas missions reviewed using the methodology below:

- For the Non-Project Branch, we selected obligations over $1 million which had expired terminal-disbursement dates (TDDs) or expiration dates, or individual expired disbursing-authorization dates.

- For the Project Branch, we selected obligations over $50,000 with expiration dates prior to September 1989 and obligations over $100,000 with expiration dates of September 1991 and earlier.

- For the Loan Management Division, we selected 11 loans for the four overseas missions which either had expired TDDs for the loan document or had an individual expired disbursing-authorization date for authorizations sent to the four missions.

- For the five overseas locations, we reviewed documents at both the obligation and the commitment level. We sampled unliquidated obligations and commitments, primarilly those with higer dollar values, which had either expired TDDs, expired project assistance completion dates, or expired commitment end dates. The five overseas accounting offices were selected to represent each of the Regional Inspectors General offices except for Nairobi and Europe. Our Nairobi and Europe offices did not participate because of other priority work requirements (Nairobi) and because of the relatively new programs (Europe).

The audit universe as of either March or April 1992 and sample size for the three A.I.D./Washington accounting offices and the five missions reviewed are identified below (in $ Millions).

Non-Project Branch

	Audit Universe	Audit Sample	Percentage
Expired Unliquidated Obligations	$786.2 M	$526.0 M	67%
Number of Expired Obligations	3,479	92	3%

Project Branch

	Audit Universe	Audit Sample	Percentage
Expired Unliquidated Obligations	$145.0 M	$49.2 M	34%
Number of Expired Obligations	1,972	84	4%

Loan Management Division

	Audit Universe	Audit Sample	Percentage
Expired Unliquidated Obligations	$83.4 M	$9.7 M	12%
Number of Expired Obligations	129	11	9%

Missions

	Audit Universe	Audit Sample	Percentage
Egypt	$109.4 M	$80.9 M	74%
Bangladesh	$ 9.3 M	$ 9.0 M	97%
Philippines	$72.2 M	$33.8 M	47%
Dominican Republic	$ 9.5 M	$ 8.0 M	84%
Togo	$ 1.8 M	$ 1.8 M	100%

We began by determining if the A.I.D./Washington accounting offices had implemented the Agency's expanded guidance on unliquidated obligation reviews of June 1990, and if the missions had implemented the expanded guidance published in October 1989. For Washington, the guidance prescribes continuous and annual reviews with supporting documentation requirements. For the missions, the expanded guidance requires continuous, mid-fiscal and year-end reviews in addition to required documentation and files which are to be kept for three years.

At A.I.D./Washington, for each unliquidated obligation in the samples above, we examined the review documentation and interviewed appropriate officials to determine if the guidance had been followed. We examined documents flows between various offices and interviewed officials in the Office of Financial Management's Cash Management and Payment Division, Office of Procurement, Directorate for Policy, Bureau for Food and Humanitarian Assistance, and Bureau for Latin America and the Caribbean in addition to the accounting offices. If we found that the expiration date was incorrect and the obligation had not expired, we did no further testing. We classified an unliquidated obligation as invalid when available documentation and/or discussions with responsible A.I.D. officials indicated that the funds were no longer needed for which the funds were obligated and where there was never a valid obligation (e.g., an obligation was incorrectly entered into the accounting system). If we were unable to determine the amount of the obligation because of lack of support, we classified the obligation as unsupported. We also interviewed officials in the Cash Management and Payment Division to verify if any valid claims had not been processed against unliquidated obligations which we found to be invalid or unsupported. We also interviewed officials in the Office of Procurement to determine if the grant or contract supporting the obligation had been closed out or whether the Office of Procurement had additional information concerning the validity of the obligation.

At the mission we began by examining the obligation and commitment review documentation and the project or non-project files. We then interviewed appropriate project, program, or accounting officials to determine if the unliquidated obligation was invalid and supported by required documentation and if the project or non-project was not undergoing revision and extension. For obligations and commitments we found to be expired with no plans for revision or extension, we classified them either as invalid or unsupported depending on whether adequate documentation existed to verify the unliquidated amounts.

When we found problems, we performed additional work. For example, if the records at the A.I.D./Washington accounting offices did not have current obligation and payment documents, we contacted other A.I.D./Washinton offices (payments, procurement, and program offices) to obtain the required documents.

Validity of Unliquidated Obligations
Reported as of September 30, 1991

The second area was to determine if the unliquidated obligations reported in the accounting records as of September 30, 1991 met the criteria of valid obligations. This is the date that the Agency certified to the validity of its obligations to the Treasury and also reported to the President (through the Office of Management and Budget). To accomplish this sub-objective, we used the same obligation documents included in our samples identified above for our "Review of Obligations and Commitments"; but, we performed additional tests necessary (e.g., examining documentations as it existed as of September 30, 1991) to determine if the obligations were also invalid and/or inadequately supported at this earlier date. We did not include unliquidated commitments under expired commitment documents in our initial sample because the reporting requirement does not apply to commitments. We met with officials at the Office of Financial Management to discuss their procedures for preparing the annual reports to confirm that the annual reports would not report accurate data on unliquidated obligations if the accounting offices reported inaccurate data in their individual certifications. We did not include this area in the scope of the audit for USAID/Dominican Republic.

Adherence to
Forward-Funding Guidance

The third area was to determine if obligations were made in accordance with A.I.D.'s forward-funding guidance and Section 635(h) of the Foreign Assistance Act. We limited our work in this area to four missions: Egypt, Bangladesh, Philippines, and Togo. We did not include A.I.D./ Washington because of time constraints and the large amount of unliquidated obligations under expired documents. We also did not include Dominican Republic due to time constraints.

We judgmentally selected 21 ongoing projects or non-projects at these missions. We examined the project or non-project files to determine the length of the implementation periods and the financial planning schedules for estimating expenditures and recording obligations. We compared the obligated balances to these projected expenditures for the next two years following the time of obligation. We also made appropriated adjustments for any large commitments such as construction contracts. Any unliquidated obligations in excess of the two-year projection for expenditures were considered excess.

We also reviewed the implementation periods and financial planning schedules for these projects or non-projects to determine if funds were obligated for implementation periods in excess of five years, which is th maximum set by Section 635(h) of the Foreign Assistance Act.

At the four missions we used different audit universes and samples than the ones used for the above audit areas because forward funding involves current active obligation documents and not expired documents. For the USAID/Philippines we reviewed four projects/programs with six obligation documents which accounted for $204.8 million, or 57 percent of the fiscal year 1991 and 1992 $361 million in obligations from which the sample was selected. For USAID/Bangladesh, we reviewed a total of five projects totalling $42.2 million which represents 76 percent of the total of $55.8 million in fiscal year 1991 obligation from which the sample selected. For USAID/Togo, we reviewed the only project initiated since fiscal year 1990, which had cumulative obligations of $7.1 million at the beginning of fiscal year 1992. For USAID/Egypt, we reviewed nine projects totalling $1.1 billion in unliquidated obligations, which represents about 50 percent of the total of all ongoing projects/programs with project assistance completion dates or terminal disbursement dates after April 30, 1992, the universe from which the sample was selected.

Prompt and Accurate Recording of
Financial Data for Obligations and Commitments

The fourth area was to determine if financial data pertaining to obligations and commitments were recorded promptly and accurately. To accomplish this area at A.I.D./Washington, we used the same samples selected above for "Review of Obligations and Commitments".

For each unliquidated obligation, we examined the project or non-project files and obligation review files to compare unliquidated obligations amounts and expiration dates recorded in the accounting records to information on obligation source documents. We also interviewed officials and obtained documentation from the Cash Management and Payment Division, Office of Procurement, Directorate for Policy, Bureau for Food and Humanitarian Assistance, and Bureau for Latin America and the Caribbean.

Because expiration dates are critical to performing reviews of unliquidated obligations, we compared expiration dates in source documents to those reported in the accounting records. We also compared the amount of unliquidated obligations supported by source documents to what was reported in the accounting records. The accounting records that we examined were from the Financial Accounting and Control System (FACS) maintained by A.I.D./Washington.

At A.I.D./Washington, we also examined data elements in the Contract Information Management System (CIMS) maintained by the Office of Procurement. We compared expired obligation documents reported in the FACS to determine if they were also recorded in the CIMS with the same expiration dates.

At the five missions, we generally used different audit samples than the above audit area. We compared the same two data fields in the individual Mission Accounting and Control Systems maintained by the each of the five missions to obligation or commitment source documents maintained by accounting and program or project officials. The samples are indicated in the following table.

Mission	No. of Expired Documents	No. of Documents Tested	Percentage
Egypt	425	22	5%
Bangladesh	Not Available	25	Not Available
Philippines	593	26	4%
Dominican Republic	205	44	21%
Togo	52	21	40$

Analysis of Unliquidated Obligation Under Expired Obligation Documents by Accounting Office (in $ millions as of April 1992)

Accounting Office	Total [7] Unliquidated	Total Reviewed	Total Invalid	Total Unsupported
Washington:				
Project	$ 145.0	$ 49.2	$ 6.3	$ 10.2
Non-Project	786.2	526.0	82.5	111.7
Loan	83.4	9.7	5.4	1.3
Egypt	109.4	80.9	8.5	11.7
Bangladesh	9.3	9.0	.9	.8
Philippines	72.2	33.8	1.1	0.0
Dominican Republic	9.5	8.0	3.8	0.0
Togo	1.8	1.8	1.1	0.0
Total	$1,216.8	$718.4	$109.6	$135.7

[7] Includes only unliquidated obligations and not commitments for the three Washington offices and Bangladesh. For the other offices, we reviewed unliquidated amounts under both obligation and commitment documents. Commitments are funds provided for specific purposes as part of an overall obligation. Thus, unliquidated funds under commitments are also recorded as unliquidated obligations.

SCHEDULE OF UNLIQUIDATED OBLIGATIONS REVIEWED
PROJECT BRANCH

Project Number	Obligation Number	AFC[1]	FY[2]	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Non-Expired Obligation as of 3/31/92	Expiration Date per FACS[3]		Expiration Date Correct?	Obligation Error	Error Explanation
1800015	EUR0015C00100700	AIX	91		$607,816			$607,816	9	91	No 6/30/92		
1800015	EUR0015C00100700	ES1	91		$1,148,130			$1,148,130	9	91	No 6/30/92		
1800039	MD1183003	AIX	91	$8,100,000	$8,100,000			$8,100,000	9	91	No 5/96		
1800039	MD1183002	AIX	91	$400,000	$400,000			$400,000	10	91	No 6/95		
1800249	ANE0178C00004100	AIX	91		$300,000			$300,000	9	91	No 9/92		
2980194	2760194C00697000	MEA	79		$298,428			$298,428	3	84	No 5/91		
3980048	DPE0604G00008300	DAA	86		$70,000	$70,000			6	89	Yes		
3980159	ANE0159C00806300	ESA	88		$221,441		$221,441		9	90	No 12/89		
3980159	NEB0172G00207500	ESA	86		$278,153			$278,153	8	90	No 8/26/92		
3980159	NEB0183G00407300	ESA	88		$134,820			$134,820[4]	7	91	No 12/91		
3980249	DAN1010G00511800	DHA	88		$139,119	$139,119			9	89	No 12/89		
3980249	PDC2028I01718600	DEA	90		$119,668			$119,668	7	90	No, overall contract 9/30/92		
3980290	ASB0290G00513300	ES5	86	$180,036	$180,036		$180,036		11	86	No 6/87		
3980355	ANE0355G00370000	DEA	87	$61,392	$161,392		$161,392		9	88	No 9/30/90		
3980362	MD8636740	ESA	88	$750,000[5]	$750,000		$750,000		9	89	Yes		
4390999	MD6663336	IPA	76		$102,433		$102,433		3	83	Unknown		

Project Number	Obligation Number	AFC[1]	FY[2]	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Non-Expired Obligation as of 3/31/92	Expiration Date per FACS[3]		Expiration Date Correct?	Obligation Error	Error Explanation
5040100	LAC0100G00005200	ESO	90		$167,451			$167,451	3	91	No 3/31/92		
5190794	LAC0794G00100500	ESO	91		$144,539	$1		$144,538	4	91	Yes		
5240305	LAC0305G00002800	DHA	90		$120,402		$45,329	$75,073	7	91	Yes		
5970007	LAC007G00532900	DHA	88		$322,756		$322,756		9	90	No 3/90		
5970022	BLA0000RAG316700	DNA	88		$418,673			$418,673	12	91	Yes		
5970029	5970029G00150300	DNA	87		$168,147	$168,147			6	90	Yes		
5980579	BLA0579RAG209300	DAA	84		$91,970		$91,970		12	84	No 4/85		
5980591	LAC0591G00901000	DSA	89	$82,050	$82,050	$82,050			6	89	Yes		
5980626	LAC0626G00300100	ES2	83		$119,518	$119,518			12	88	Yes		
6250966	AFR0966G00175100	DHA	91	$2,500,000[6]	$2,500,000			$2,500,000	12	91	Yes		
6250974	AFR0974C00602900	SSA	89		$323,680		$323,680		6	91	Yes		
6900213	AFR0213C00304400	DAA	84		$499,472	$499,472			9	89	Yes		
6980413	IETO413G00680400	DAA	84		$310,000		$253,815	$56,185	12	85	No Fiscal Year 87		
6980421	6980421G00000300	SSA	90		$1,547,011			$1,547,011	9	91	No 9/30/93		
6980421	6980421G00958600	SSA	90		$560,169		$560,169		9	91	Yes		
6980421	AFR0421G00200100	SS1	91		$1,126,773		$1,126,773		9	91	Yes		
6980438	AFR0438C00805900	SSA	90		$218,000			$218,000	9	91	No 10/30/92		
6980438	AFR0438C00805900	SS1	91		$475,000			$475,000	9	91	No 10/30/92		

Project Number	Obligation Number	AFC[1]	FY[2]	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Non-Expired Obligation as of 3/31/92	Expiration Date per FACS[3]		Expiration Date Correct?	Obligation Error	Error Explanation
6980438	AFT0438C00805900	SS1	91		$561,248			$561,248	9	91	No 10/30/92		
6980507	AFR0000G00803500	SSA	88	$150,000	$150,000		$150,000		12	89	No 8/31/89		
6980517	AFR0517G00903900	SSA	89	$164,254	$164,254		$164,254		6	90	No 9/89		
6980530	AFR0530G00908300	SSA	89	$220,000	$320,000		$320,000		9	91	Yes		
9260071	DHR0071RAG900700	DEA	89		$261,510			$261,510	7	90	No 6/29/92		
9260071	DHR0071RAG900700	DEA	90		$400,000			$400,000	7	90	No 6/29/92		
9260071	DHR0071RAG900700	DEA	91		$361,146			$361,146	7	90	No 6/29/92		
9300089	PDC0000I18613400	DEA	87		$51,424	$51,424			3	88	Unknown		
9300091	PDC0091C00909200	DNA	91		$173,335			$173,335	9	90	No 9/92		
9300092	PDC0091C00909200	DSA	91		$132,000			$132,000	9	90	No 9/92		
9300100	PDC0300C00615100	DAA	86		$85,682		$85,682		8	87	No 4/30/90		
9300200	5181005A00821100	DNA	91		$116,250			$116,250	10	90	No 9/93		
9300232	OTR0232C000508200	DSA	87		$423,085[7]		$423,085		0	0	No 9/88		
9300700	OTR0000G00513600	DAA	85		$1,251,428		$1,251,428		12	90	Yes		
9302256	BPC2256RCA423800	DAA	86		$247,946	$247,946			9	86	Yes		
9310054	DAN0054G00004400	DNA	91		$1,506,210			$1,506,210	6	91	No 6/92		
9310453	BST0453PHZ406800	DAA	85		$178,726		$178,726		6	88	Unknown		
9310453	BST0453PHZ406800	DHA	87		$523,190		$523,190		6	88	Unknown		

Project Number	Obligation Number	AFC[1]	FY[2]	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Non-Expired Obligation as of 3/31/92	Expiration Date per FACS[3]		Expiration Date Correct?	Obligation Error	Error Explanation
9311126	DPE1126G00701600	DHA	91		$2,500,000			$2,500,000[8]	12	91	Yes		
9311254	DAN1254G00002100	DNA	91		$2,397,782			$2,397,782	4	91	No 6/95		
9311310	DAN1310G00600800	DNA	91		$1,416,835			$1,416,835	7	90	No 4/27/92		
9311311	DAN1311G00601800	DNA	91		$394,212			$394,212	5	90	No 9/24/94		
9320955	DPE0955G00300500	DPA	90		$3,048,912[9]	$3,048,912			12	90	Yes		
9363028	DPE3028C00407[illegible]0	DPA	87		$751,177			$751,177[10]	1	90	Yes		
9363038	BST0502RHC205200	DPA	90		$833,199		$833,199		6	91	Yes		
9363045	DPEO6O4G00008300	DAA	86		$606,091	$606,091			6	89	Yes		
9320604	DPEO6O4G00008300	DAA	85		$10,966[11]	$10,966			6	89	Yes		
9364111	DAN4111G00904400	DNA	91	$331,250	$331,250			$331,250	12	89	No 12/91		
9364111	DAN4111G00106300	DNA	91		$450,000			$450,000[12]	3	92	Yes		
9364161	DAN4161G00000900	DNA	91	$158,003	$653,003			$653,003	2	91	No 7/94		
9365052	DAN5052C00909400	DNA	91		$80,114			$80,114	9	89	No 9/93		
9365116	DAN5116G00805100	DNA	88		$258,550			$258,550	9	91	No 9/24/94		
9365116	DAN5116G00805100	DNA	91		$119,998			$119,998	9	91	No 9/24/94		
9365116	DAN5116G00805100	DNA	91		$995,688			$995,688	9	91	No 9/24/94		
9365542	DPE5542G00604700	DAA	86	$95,000	$150,000	$55,000	$95,000		9	89	Yes		
9365542	DPE5542G007074	DSA	87		$18,893	$18,893[13]			4	90	Yes		

Project Number	Obligation Number	AFC[1]	FY[2]	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Non-Expired Obligation as of 3/31/92	Expiration Date per FACS[3]		Expiration Date Correct?	Obligation Error	Error Explanation
9365542	DPE5543G00707400	DSA	87		$149,996	$149,996			10	89	Yes	$149,996	Duplicate Obligation
9365542	PDC5542G00510400	DAA	85	$104,430	$133,253	$28,823	$104,430		8	87	Yes		
9365544	DPE5544G00603200	DAA	86		$150,000		$150,000		9	89	Yes		
9365547	DHR5547G00604100	SS1	91	$326,602	$338,983			$338,983	3	91	No 8/31/92		
9365547	DHR5547G00804600	DNA	88	$87,000	$238,670			$238,670	9	90	No 9/30/92		
9365967	8895967G00152200	DHA	88		$1,197,750			$1,197,750	9	89	No 9/92		
9369997	LAC9997C00404700	DSA	87		$54,403	$54,403			6	88	No 12/87		
9380230	PDC0230G00414000	DNA	87	$278,365	$278,365		$278,365		9	89	Yes		
9380230	PDC0230G00414000	DNA	88		$106,793		$106,793		9	89	Yes		
9381331	HSH1331G00802100	ASA	89	$500,000[14]	$500,000		$500,000		12	90	Yes		
9381350	HSH1350G00309500	ASA	85	$620,960[15]	$620,960		$620,960		6	87	No 9/87		
9381353	HSH1353G00700400	ASA	87		$900,000	$900,000			12	88	Yes	$900,000	Duplicate Obligation
9381381	HSH1381G00702800	ASA	87	$250,970	$250,970		$250,970		12	89	Yes		
9400008	DPE0008C00505800	DNA	90		$148,865			$148,865[16]	11	90	Yes		
	SAMPLE TOTAL			$15,360,312	$49,200,159	$6,250,761	$10,175,876	32,773,522			84 Total 46 No 34 Yes 4 Unknown	1,049,996	

1. AFC - Allotment Funding Code
2. FY - Fiscal Year of Funds
3. (FACS) Financial Accounting and Control System
4. Fully liquidated as of 4/92
5. Fully liquidated as of 7/92
6. Fully liquidated as of 3/92, but reported in FACS as outstanding
7. Audit sample included $59,000 under this AFC and FY. Remaining balance represents additional obligations under this same grant. These additional obligations may have different AFCs and FYs.
8. Fully liquidated as of 4/92
9. Audit sample included $2,402,842 under this AFC and FY. Remaining balance represents additional obligations under this grant. These additional obligations may have different AFCs and FYs.
10. Office of Procurement negotiating overhead rates
11. Included because of auditor analysis of this contract in conjunction with larger unliquidated obligation
12. Fully liquidated as of 3/92
13. Analyzed because of duplicate obligation
14. Fully liquidated as of 6/92
15. Fully liquidated as of 5/92
16. Extension allowed for resubmission of invoices due to several invoices being disallowed

SCHEDULE OF UNLIQUIDATED OBLIGATIONS REVIEWED
LOAN MANAGEMENT DIVISION

Loan No.	Expiration Date[1] per LAIS[2]	Expiration Date Correct?	Unliquidated Balance as of 3/31/92	Invalid Obligations as of 3/31/92	Unsupported Obligations as of 3/31/92	Valid/Non-Expired Obligation as of 3/31/92
388-T-016	6-30-90	Yes	$2,557,075	$2,557,075		
517-T-42A	3-30-91	No 12-30-93	2,657,964			$2,657,964
517-T-035	4-30-88	No 4-30-89	100,389	100,389		
517-V-044	6-30-91	No 9-30-92	177,583			177,583
517-T-043	6-30-91	No 9-30-92	113,029			113,029
517-T-045	3-30-91	Yes	315,066	315,066		
517-T-51B	9-30-89 [3]	No 6-30-91	1,711,665	1,711,665		
517-W-052	9-30-89 [3]	No 6-30-91	56,364	56,364		
517-W-52A	9-30-89 [3]	No 6-30-91	96,131	96,131		
517-W-053	6-30-90 [3]	No 6-30-92	570,030	570,030[4]		
492-Q-63A	9-30-89	Yes	1,333,408		$1,333,408	
Total		8 Incorrect	$9,688,704	$5,406,720	$1,333,408	$2,948,576

[1] Terminal Disbursement Date
[2] LAIS - Loan Accounting Information System
[3] Disbursement Authorization Expiration Date
[4] Financial Summary of U.S.A.I.D./Dominican Republic Portfolio report dated October 1, 1991 - March 31, 1992 reported as terminated

SCHEDULE OF UNLIQUIDATED OBLIGATIONS REVIEWED

NON-PROJECT BRANCH

Obligation Number	AFC (1)	FY (2)	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Not Expired as of 3/31/92	Expiration Date		Expiration Date Correct ?	Obligation Error	Error Explanation
MD2980194	MEA	79		$2,857,470			$2,857,470	9	87	Yes; Ongoing claim negotiation		
511E303714	CCX	85		$2,267,273	$2,267,273			9	87	Yes		
682E202705	CCX	85		$1,179,368	$1,179,368			9	87	Yes		
683E202772	CCX	85		$1,321,126	$1,321,126			9	87	Yes		
683E505701	CCX	85		$4,282,926	$4,282,926			9	87	Yes		
688E505716	CCX	85		$1,258,802	$1,258,802			9	87	Yes		
099E505111	CCX	85		$13,725,447	$2,000,000	$11,725,447		3	86	Yes	$2,000,000	Amendment #4 unrecorded
099E505291	CCX	85		$1,524,059		$1,524,059		3	86	Yes		
099E505293	CCX	85		$2,907,202		$2,907,202		3	86	Yes		
099E505772	CCX	85		$3,112,497		$3,112,497		3	86	Yes		
895E503030	CCX	85		$1,500,000	$1,500,000			3	86	Yes		
895E503031	CCX	85		$2,398,648	$1,233,659	$1,164,989		3	86	Yes		
650E505701	CCX	85		$1,968,818		$1,968,818		9	87	Yes		
683E505730	CCX	85		$2,432,468		$2,432,468		9	87	Yes		
895E505050	CCX	85		$304,772	$304,772			3	86	Yes	$304,772	Incorrect entries in FACS
613K 606B	ESA	85		$3,411,812	$3,411,812			8	91	No; 6/30/90		
615K 606B	ESA	85		$1,658,463			$1,658,463	6	91	No; 6/30/92		
391K 604A	ESA	85		$4,140,017			$4,140,017	1	91	No; 4/12/92		
391K 605A	ESA	85		$2,005,302			$2,005,302	12	89	No; 9/30/92		
V5071121	FDX	85		$1,133,930		$1,133,930		4	85	Yes		
597K 601	ESA	85		$10,000,000		$10,000,000		6	88	Unknown		
099E606153	CCX	86		$3,308,365		$3,308,365		6	87	Yes		
895E605050	CCX	86		$15,652,386	$15,652,386			6	87	No; nonexistant	$15,652,386	Obligation did not exist
663E606738	CCX	86		$1,469,813		$1,469,813		12	86	Unknown		
613K 606C	ESA	86		$1,600,978	$1,600,978			8	91	Unknown		
677K 602	ESA	86		$3,499,327		$3,499,327		12	87	Unknown		

Obligation Number	AFC (1)	FY (2)	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Not Expired as of 3/31/92	Expiration Date		Expiration Date Correct ?	Obligation Error	Error Explanation
OTR0000G00601200	FD5	86		$1,999,100	$1,999,100			12	86	Yes		
OTR0000G00604500	FD5	86	$2,588,292	$2,588,292		$2,588,292		12	86	Yes		
597K 601A	ESA	86		$10,000,000		$10,000,000		8	88	Unknown		
391K 604B	ESA	86		$1,069,535			$1,069,535	1	91	No; 4/12/92		
391K 605B	ESA	86		$1,785,321			$1,785,321	2	91	No; 9/30/92		
493K 601C	ESA	86		$1,630,007	$1,630,007			9	88	Unknown		
664K 601	ESA	86		$1,193,545	$1,193,545			12	87	Yes	$1,128,090	Error in FACS
612E707702	CCX	87		$2,083,906		$2,083,906		9	88	Unknown		
669K 609	ES7	87		$3,256,441	$3,256,441			9	90	Yes	$2,909,368	Error in FACS
663E707731	CCX	87		$1,640,140	$1,640,140			9	90	Yes		
MD1117015	TAX	87		$1,061,234		$1,061,234		3	82	Unknown		
PDC0000G00650100	IOA	87		$7,682,487			$7,682,487	7	90	No; Irrev. LOC		
PDC0000G00750100	IOA	87		$5,667,000			$5,667,000	7	90	No; Irrev. LOC		
391K 606	ES7	87		$4,529,357			$4,529,357	3	89	No; 9/30/95		
664K 602	ES7	87		$4,186,184	$4,186,184			9	88	Yes	$4,166,616	Error in FACS
895E707071	CCX	87		$2,500,000		$2,500,000		6	88	Yes		
PDC0000G00650100	IOA	88		$30,000,000			$30,000,000	7	90	No; Irrev. LOC		
612K 603A	ESA	88		$5,100,000	$5,100,000			3	89	Yes		
690T 601	SSA	88		$5,000,000			$5,000,000	0	0	No; 5/14/93		
099E808782	CCX	88		$1,093,609		$1,093,609		10	88	No; 9/30/89		
099E808841	CCX	88		$2,017,208		$2,017,208		9	89	Yes		
663E808731	CCX	88		$1,338,620	$1,338,620			9	90	Yes		
683Y 604D	SSA	88		$2,773,000			$2,773,000	0	0	No; 9/30/92		
TDP0000G00802300	TDA	88		$1,998,119	$1,998,119			12	89	Unknown	$1,985,935	Paid prior to TDD; not recorded in FACS
895E808072	CCX	88		$2,758,880	$2,758,880			12	89	Yes		
895E808081	CCX	88		$2,500,000		$2,500,000		12	89	Unknown		
PDC0000G00650100	IOA	89		$2,454,400			$2,454,400	7	90	No; Irrev. LOC		
620K 601A	ESO	89		$11,000,000		$11,000,000		12	90	Unknown		
615T 608B	SSA	89		$5,100,000			$5,100,000	9	90	No; 8/31/94		
683Y 601E	SSA	89		$5,000,000			$5,000,000	12	90	No; 12/30/92		
515X 610	ES9	89		$10,000,000			$10,000,000	12	90	No; 12/8/93		

Obligation Number	AFC (1)	FY (2)	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Not Expired as of 3/31/92	Expiration Date		Expiration Date Correct ?	Obligation Error	Error Explanation
492K 606	ES8	89		$12,642,542	$9,100,000		$3,542,542	12	90	No; 6/30/92	$9,100,000	Disbursement not recorded in FACS
391K 606B	ES9	89		$24,598,951			$24,598,951	1	91	No; 9/30/95		
620T 601	SSA	89		$10,000,000		$10,000,000		8	90	Unknown		
631T 602	SSA	89		$3,500,000		$3,500,000		3	90	Unknown		
688T 603	SSA	89		$2,000,000		$2,000,000		12	90	Yes		
492T 607B	DHA	89		$2,072,554			$2,072,554	0	0	No; 3/31/94		
497T 601A	DNA	89		$3,380,574			$3,380,574	12	90	No; 12/31/95		
612T603A	ESA	89		$2,785,000	$2,785,000			12	90	No; 8/91		
MD0303000	IOA	90		$34,437,956			$34,437,956	9	91	No; Irrev. LOC		
612T 603B	SSA	90		$7,000,000	$7,000,000			12	90	No; 8/91		
656T 604A	SSA	90		$20,284,756			$20,284,756	12	90	No; 6/30/93		
683T 606	SSA	90		$5,000,000		$5,000,000		12	90	Unknown		
525K 604	ESO	90		$42,000,000			$42,000,000	0	0	No; 7/3/92		
263K 620	ESO	90		$45,047,772			$45,047,772	9	91	No; 6/30/94		
391K 606C	ESO	90		$9,435,429			$9,435,429	3	91	No; 9/30/95		
685T 611	SSA	90		$4,500,000			$4,500,000	12	90	No; 6/30/92		
PDC0004G00005400	DNA	90		$1,000,000	$1,000,000			9	90	No; 12/30/90	$1,000,000	Paid prior to TDD; not recorded in FACS
BOF0000RAG509100	FDX	90		$1,361,927			$1,361,927	3	90	No; 9/30/95		
493K 602C	ESO	90		$2,539,000			$2,539,000	12	90	No; 12/30/92		
TDP0000G00016000	TDA	90		$1,500,000	$1,500,000			6	91	Yes		
099E000704	CCX	90		$2,549,143			$2,549,143	10	91	No; Irrev. LOC		
PDC0000G00620400	CCX	91		$1,396,056			$1,396,056	9	90	No; 9/30/94		
MD0303000	IOA	91		$30,000,000			$30,000,000	9	91	No; Irrev. LOC		
632T 602	SS1	91		$6,082,000			$6,082,0[illegible]	0	0	No; 8/31/97		
680K 601	ESA	91		$1,357,275		$1,357,275		0	0	Unknown		
681K 601C	ESA	91		$1,163,534		$1,163,534		0	0	Unknown		
641T 602A	SS1	91		$3,361,000		$3,361,000		0	0	Unknown		
513U 601	DHO	91		$3,500,000			$3,500,000	0	0	No; 1/11/93		
263K 625	ESA	91		$2,500,000		$2,500,000		0	0	Unknown		
650E101726	CCX	91		$1,539,200			$1,539,200	4	91	No; 9/30/93		

Obligation Number	AFC (1)	FY (2)	Outstanding Advance as of 3/31/92	Unliquidated Balance as of 3/31/92	Invalid Obligation as of 3/31/92	Unsupported Obligation as of 3/31/92	Valid or Not Expired as of 3/31/92	Expiration Date		Expiration Date Correct ?	Obligation Error	Error Explanation
263K 616	ES8	88		$740,391		$740,391		9	91	Yes		
263K 615	ES7	87		$539,049		$539,049		10	90	Yes		
263K 610	ESA	85		$870,453		$870,453		8	90	Yes		
263K 606	ESA	83		$1,576,634		$1,576,634		10	89	Yes		
492T 607C	DHX	90		$1,785,091			$1,785,091	9	91	NO;This is expiration date for DA 02; TDD is 12/31/93		
			$2,588,292	$525,973,941	$82,499,138	$111,699,500	331,775,303			Incorrect - 40 Unknown - 18 Correct - 34	$38,247,167	

1. AFC - Allotment Funding Code

2. FY - Fiscal Year

3. Total Documents Tested - 92

4. FACS - Financial Accounting Control System

5. LOC - Letter of Credit

6. DA - Disbursement Authorization

Analysis of Inaccurate Certification by Accounting Office (in $ millions as of September 30, 1991) [8]					
Accounting Office	Documents Tested	Amount Tested	Errors/ Unrecorded Expenditures	Invalid	Not Supported
Washington:					
Project	84	$ 49.2	$ 1.0	$ 5.1	$ 7.1
Non-Project	92	526.0	38.2	44.3	113.1
Loan	11	9.7	--	4.8	1.3
Egypt	13	9.4	1.3	2.4	2.2
Bangladesh	10	9.0	--	.2	--
Philippines	21	33.8	--	.6	--
Togo	21	1.8	--	.7	.3
Total	252	$638.9	$ 40.5	$58.1	$124.0

[8] These amounts do not include cases where USAID/Egypt made obligations exceeding five years which is in violation of the Foreign Assistance Act (Section 635 [h]). These cases are discussed on pages 17 through 20.

USAID

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SEP 28 1992

MEMORANDUM

TO: IG/A/PSA, Coinage N. Gothard, Jr.

FROM: FA/FM/C, Michael G. Usnick

SUBJECT: Audit of Unliquidated Obligations

We have reviewed the draft report on the audit of unliquidated obligations and have the following comments:

- The draft report appropriately identifies weaknesses in the Agency review and certification of unliquidated obligations; however, it does not give adequate recognition to the efforts undertaken to improve the quality of the review and certification. The draft report fails to recognize that the Agency deobligated a total of $370.6 million in FY 1991 ($112.2 in Washington and $258.4 at overseas missions). In addition, during FY 1992 the Agency has deobligated $100.2 million of funds subject to Section 515 of the F.A.A. through August 31, 1992 and another $96.6 million of funds subject to Section 517 of the F.A.A. through June 30, 1992.

  Further, the report does not adequately recognize FM management action to strengthen program accounting in A.I.D./W by resegmenting the Accounting Division to improve the management span of control over the unliquidated obligation portfolios and the resulting improvements in the operation of the Division. We believe these accomplishments should be recognized in order to present a more balanced report.

- On page 1 of the draft report, reference is made to a 1989 Comptroller General report on A.I.D.'s multi-billion dollar pipeline. The reference states that the size of the pipeline was an indication of the Agency's ineffective use of available funding and project implementation difficulties. The subject audit does not address this issue. Therefore, the reference should be excluded from the final report.

- Recommendation 1.1 - Following is a summary of actions taken to address the $217.4 million applicable to the Washington accounting offices. Because of the short time period given

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to respond to the draft audit report, we do not have information on the $27.9 million applicable to mission accounting offices.

	Millions
Expended	$ 38.6
Deobligated	111.7
Determined to be valid and supported	50.3
Requiring further review	16.8
Total	$245.3

We are reviewing the remaining $ 16.8 million for the Washington accounting offices to determine the appropriate action. Based on actions already taken, this recommendation should be closed on issuance of the report.

- Recommendation 1.2 - We agree with this recommendation. As a matter of fact, significant actions have been completed similar to those for recommendation 1.1; however, given the unusually short time given to respond to the draft report we are unable to provide specific details. We will provide this information after the closing of the fiscal year.

- Recommendation 1.3 - We generally agree with this recommendation. In the Agency's CFO 5-Year Financial Management plan submitted to OMB on August 31, 1992, we indicated that we would conduct a functional and staffing review of FM in FY 1993. The purpose of this review is to determine the appropriate functions to be performed by FM and the proper staffing levels/skills required to carry-out these functions. The review will be conducted by an outside firm through a contractual arrangement. The review will begin as soon as FY 1993 funding is made available.

  Based on the plan to conduct an overall functional and staffing review of FM in FY 1993, this recommendation should be closed on issuance of the report.

- Recommendation 1.4 - We agree with this recommendation. We plan to develop a report from the accounting system, FACS, which identifies expired obligations for FA/OP review and use in their close-out of contracts and grants. In addition, we will undertake discussions with FA/OP aimed at improving the review and deobligation process. We will keep the IG informed on progress in this area.

  Based on our plan, this recommendation should be closed on issuance of the audit.

- Recommendation 1.5 - We agree with this recommendation. However, we are unable to tie the $4.5 million amount stated in the recommendation to the schedules attached to the draft report. The outstanding advances for the obligations classified as invalid or unsupported in the attachments total

$6.3 million. Following is a summary of the status of the advances.

Expensed	$ 5.3
Corrected Accounting Error	.5
Outstanding	.5
Total	$ 6.3

Because of the short time given to respond to the draft report, we cannot provide details on the $20.9 million in advances not covered by the audit. We will provide this information after closing FY 1992 activity.

Based on the actions taken this recommendation should be resolved on issuance of the report.

o Recommendation 1.6 - We agree with this recommendation. Our normal advance follow-up procedures should not require a special sets of procedures for expired obligations. However, since the audit identified this as a problem, we will develop appropriate procedures to ensure that these advances are recovered during contract/grant close-out.

  Based on our plan, this recommendation should be resolved on issuance of the report.

o Recommendation 2.1 - We are in agreement with this recommendation. Attachment A is a cable sent to all controller posts requiring the information cited in the recommendation. This same information will be required from the Washington Accounting offices.

  Based on this cable, the recommendation should be closed on issuance of the report.

o Recommendation 2.2 - We are in general agreement with this recommendation. However, before proceeding with establishing polices and procedures, we will need the IG input to determine appropriate sampling techniques and confidence levels which will pass an audit test.

o Recommendation 2.3 - We are in general agreement with this recommendation. However, as noted in the draft report and discussions between our staffs, the timing of deobligation actions are not entirely within the control of the accounting offices. Both the program offices and procurement offices have key roles in this process. We will take the lead in developing an Agency policy on the timing of deobligation actions in consultation with other A.I.D. offices as appropriate.

  We will include in the Agency's FY 1992 SF-2108 appropriate qualifications for any known uses of invalid obligations that have not yet been deobligated.

Based on the above actions, this recommendation should be closed on issuance of the report.

- Recommendation 5.1 - As this recommendation relates to the Washington accounting offices, we have discussed the problem with FA/OP. They have agreed to work with us to develop periodic reports from CIMS that can be used to verify expiration dates in the Washington accounting system (FACS). We will also issue guidance to the responsible staff on inputting the data into FACS.

  As this recommendation relates to overseas accounting offices, we will communicate the audit finding to each office. We will instruct each office to establish appropriate procedures to ensure the accuracy of the data in the accounting system (MACS).

  Based on the above, this recommendation should be closed on issuance of the report.

- Recommendation 5.2 - See response to Recommendation 1.4.

  Based on our plan, this recommendation should be closed on issuance of the report.

- Recommendation 5.3 - While we are in agreement with this recommendation, we believe it is outside the scope and objective of the subject audit and should not be included in the report. Further, the IG is fully aware that this issue is addressed in our Financial Systems Plan through your staff's participation in the development of the Plan. Attached is the Plan for Financial Systems section of the CFO's Financial Management Status Report and Five Year Plan dated August 31, 1992 (Attachment B). The plan addresses compliance with OMB Circular A-127.

- Recommendation 6.1 - We agree with this recommendation. We will issue the required guidance and directions in consultation with FA/MCS.

- Recommendation 6.2 - If the results of the FMFIA reports from the Washington and mission accounting offices indicate that the process for reviewing and certifying unliquidated obligations is an Agency level material weakness, we will make the appropriate recommendation to the Management Control Review Committee.

Finally, we request that the following paragraph be included in the Executive Summary of the final report as managements comments:

> We are in general agreement with the findings and recommendations of the audit. We have taken significant actions since the 1989 audit to improve the quality of our review of unliquidated obligation balances., particularly the issuance of expanded guidance to the accounting offices.

Also, in fiscal year 1991 the Agency deobligated a total of $370.6 million and in fiscal year 1992 the Agency has deobligated $ 196.8 million to date. While we agree the review and certification of unliquidated obligation balances needs further improvement, we also believe significant progress has been made in the last three fiscal years.

We appreciate the professional and cooperative manner in which the auditors conducted this audit.

Attachments: a/s

USAID

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September 25, 1992

MEMORANDUM

TO: IG/A/PSA, Coinage N. Gothard, Jr.

FROM: FA/B, Richard C. Nygard

SUBJECT: Comments on Audit of Unliquidated Obligations

You asked for comments on your draft audit report concerning unliquidated obligations. As you indicate, your draft report has already taken into consideration the oral comments of our staff.

As we earlier indicated to your staff, we do not take issue with the findings of the audit, nor with the thrust of Recommendation No. 3, which recommends this Office develop better forward funding guidance and take steps to instruct overseas missions to adhere to the guidance. Indeed, we had already revised the forward funding guidelines in our spring guidance on preparation of the FY 1994 budget and we are prepared to look at ways it can be still further improved. We also agree that, to the degree that some field staff is unaware of these guidelines, as found in your audit sample, it is useful to review ways to bring the guidelines to broader attention of operating staff in the field and Washington and to clarify their intent. We have already initiated internal discussions as to how that might best be accomplished.

However, we do not believe that hortatory guidance alone is the answer to better pipeline management. Accordingly, we have advised both GAO and the Presidential Management Commission that as an additional step we plan to initiate annual end-of-fiscal year pipeline assessments -- to review aggregate mission pipelines in relation to annual expenditure rates. These reports will permit regional bureaus to assess the degree of compliance by their field missions with agency guidelines and, where excess unjustified pipeline is found, to undertake corrective actions.

Thank you for the opportunity to comment on the draft audit report.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

MEMORANDUM

September 25, 1992

To: IGA/A/PSA, Francis W. Glynn

Robt B Meighan

From: DGC Acting, Robert B. Meighan

Subject: Draft Audit Report on AID's Practices for Reviewing and Reporting on Unliquidated Obligations

Recommendation Number 4 of subject draft report recommends that the A.I.D. General Counsel, in conjunction with USAID/Egypt determine the amount of obligations made at USAID/Egypt in excess of the five-year limit authorized by the Foreign Assistance Act and deobligate the unauthorized obligations or take other appropriate action to resolve this problem.

Our office is in agreement with this recommendation, and we will take prompt action, in conjunction with USAID Egypt, to see that the necessary action is accomplished to satisfy the recommendation.

APPENDIX VIII

REPORT DISTRIBUTION

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