Regional Inspector General for Audit
Singapore

AUDIT OF USAID/PHILIPPINES' CONTROLS OVER UNLIQUIDATED OBLIGATIONS

Audit Report No. 5-492-93-04
November 25, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. Agency For
International
Development

November 25, 1992

MEMORANDUM

TO: Thomas W. Stukel, Jr.
Mission Director, USAID/Philippines

FROM: James B. Durnil, RIG/A/Singapore

SUBJECT: Audit of USAID/Philippines' Controls Over Unliquidated Obligations (Audit Report No. 5-492-93-04)

Enclosed are five copies of the subject final report. Except for the effects, if any, of the qualification described below, our audit work found that controls over unliquidated obligations were adequate in many areas. For the items tested, the Mission properly reviewed unliquidated obligations/commitments as required by A.I.D. guidance, the Controller certified and reported the unliquidated obligations for fiscal year 1991, and forward funding levels were limited to prescribed levels. However, several areas could be improved. For example, invalid obligations and commitments were not always deobligated and decommitted promptly, transaction dates were not updated, and financial implementation plans were not revised as needed.

During the audit, USAID/Philippines was requested to provide a representation letter to confirm in writing certain information considered essential to answering the audit objective. USAID/Philippines officials provided some of the written assertions requested but would not specifically confirm in writing that to the best of their knowledge and belief A.I.D. policy and procedures were followed and all known irregularities and material instances of noncompliance were reported to the auditors. The absence of these representations constitutes a scope limitation which precludes us from providing an unqualified opinion in answering the audit objective.

Your comments are summarized after each finding and presented in their entirety in Appendix II. Based on these comments, recommendations 1 and 3 are resolved and can be closed when agreed to actions are completed, recommendation 2 is closed on report issuance, and recommendation 4 can be resolved when there is agreement on proposed action. Please provide us information within 30 days indicating any actions planned or taken on the open recommendations. I appreciate the cooperation and courtesies extended to my staff during this audit.

Attachments: a/s

EXECUTIVE SUMMARY

Background

USAID/Philippines' records indicate that it had $732 million in unliquidated obligations, as of September 30, 1991, for 55 projects and programs. By March 31, 1992, unliquidated obligations were $583 million for 54 projects and programs.

Audit Objective

We audited USAID/Philippines' controls over its unliquidated obligations to determine whether the Mission reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations and A.I.D. policies and procedures. (See pages 3 to 16)

The audit was performed from May 18, 1992 through July 31, 1992, and was performed in accordance with generally accepted government auditing standards except that USAID/Philippines would not provide us with a completely acceptable representation letter. The scope of this review, the methodology used to answer the objective, and the impact of not receiving an acceptable representation letter are discussed in Appendix I.

Summary of Audit

We requested USAID/Philippines officials to provide written representations which we considered essential to answering the audit objectives. USAID/Philippines provided us with some but not all of these written representations. Our conclusions are, therefore, qualified because Mission officials would not confirm in writing that, to the best of their knowledge and belief they followed A.I.D. policies and procedures and reported to the auditors all known irregularities and instances of material noncompliance. Considering the effects, if any, of this qualification, the audit did conclude that, for the items tested, USAID/Philippines reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations and A.I.D. policies and procedures.

The audit did find that improvements could be made on the following:

- About $578,000 in invalid obligations submitted for deobligation in February 1992 could have been deobligated sooner. (See pages 5 to 7)

- About $510,000 of commitments were invalid and about $1.7 million of expired unliquidated commitments could not be validated because supporting data to be provided by A.I.D./Washington was lacking. (See pages 7 to 12)

- Project Assistance Completion Dates and Commitment End Dates were not always recorded accurately. (See pages 12 to 13)

- Financial implementation plans were not revised as needed to reflect project implementation changes. (See pages 13 to 16)

Summary of Recommendations

This report contains the following recommendations to improve operations:

- Procedures should be established to ensure that invalid obligations are deobligated promptly and that financial implementation plans are revised as needed. (See pages 5 and 13)

- Steps should be taken to ensure that Project Assistance Completion Dates and Commitment End Dates are recorded accurately in the Mission Accounting and Control System. (See page 12)

- About $510,000 of invalid commitments should be decommitted and the validity of about $1.7 million of unliquidated commitments should be verified. (See page 8)

Management Comments and Our Evaluation

In responding to the draft report, USAID/Philippines agreed with findings numbers one and three and listed specific actions which would be taken to implement these recommendations. These two recommendations are resolved and can be closed when specific actions are taken.

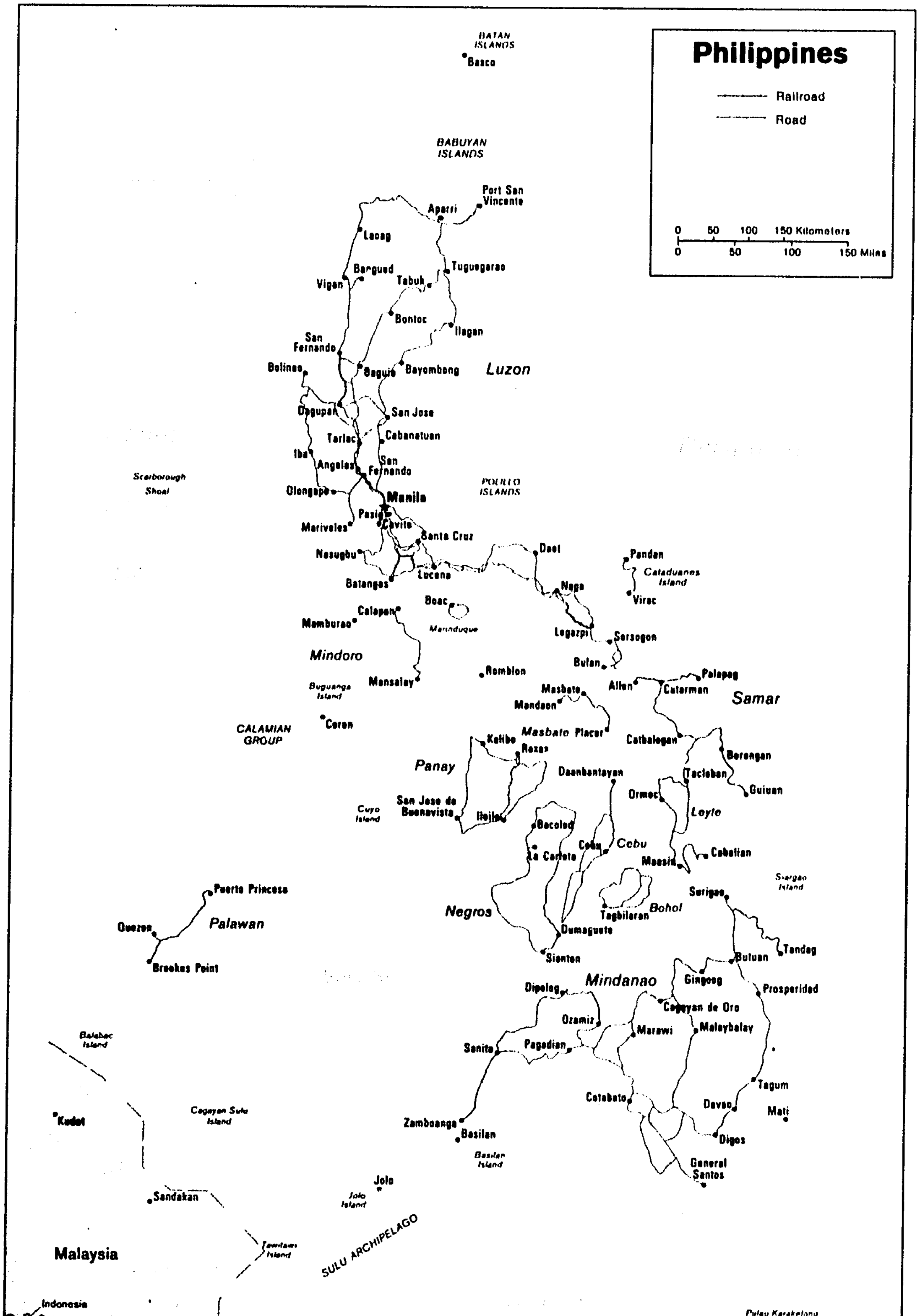
For Recommendation No. 2, the Mission did not agree with the need for decommitting certain accounts. However, the amounts involved have been either decommitted or expired. Therefore, this recommendation is considered closed.

USAID/Philippines disagreed with Recommendation No. 4, citing the overall financial implementation plans as only "cuff records", bearing no official status, and therefore not in need of periodic revision. The Mission also maintained that revisions to the Annual Budget Submission and the submission of Quarterly Project Status Reports constitute sufficient basis to change the amounts of an obligation. However, annual budget planning exercises and quarterly status reports are by definition more limited in scope and might not take into consideration overall long-range deviations from project spending plans such as a short-fall in host-country contributions or the changes illustrated in our three examples. Therefore, this recommendation is unresolved pending USAID/Philippines agreement with the proposed action.

The comments received from USAID/Philippines were carefully considered when preparing this final report. These comments along with our evaluations are summarized after each finding and presented in their entirety as Appendix II to this report.

Office of the Inspector General

Office of the Inspector General
November 25, 1992



Base 504521 9-80 (545164)

Table of Contents

INTRODUCTION

Background

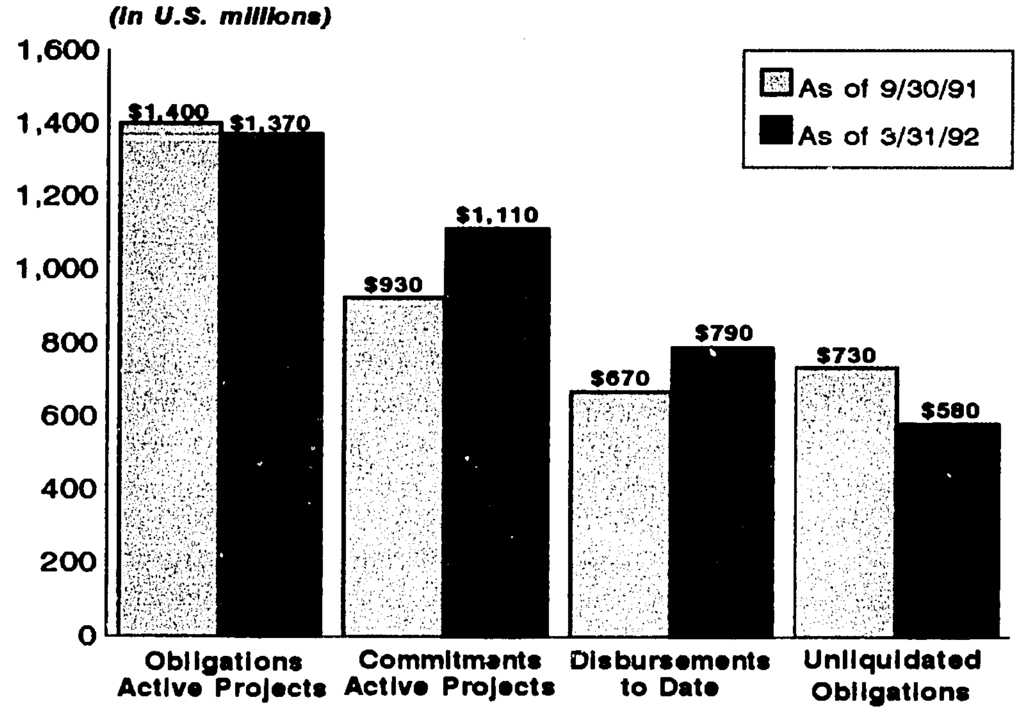
Federal Law (31 U.S.C. 1501) directs that no amount shall be recorded as an obligation unless it is supported by documentary evidence of a binding agreement between a Federal agency and other parties to fund specific goods or services to be provided. Other Federal laws (31 U.S.C. 1108 and 1544) require that each agency provide an annual report to the President (through the Office of Management and Budget) and to the U.S. Department of Treasury (U.S. Treasury) identifying the amount of unliquidated obligations and certifying that these obligations do not exceed the requirements for which the funds were obligated.

A.I.D. Handbook 19 (Chapter 2 and Appendix 1A) and the A.I.D. Controllers Handbook prescribe that controllers should periodically review unliquidated balances to determine if the obligations exceed the requirements for which the funds were obligated. The Handbooks further state that **any excess funds should be deobligated promptly.** Due 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 for reviewing the validity of unliquidated obligations and related certifications to the U.S. Treasury, the A.I.D. Controller issued supplemental guidance to accounting stations emphasizing the need for better controls.

In response to Congressional concerns about the issues identified in the 1989 audit report, the A.I.D. Controller requested, in January 1992, the A.I.D. Inspector General to conduct a follow-up review of the actions taken by the A.I.D. Controller's Office in response to the audit report. Also, the controls over reported obligations have long been a matter of concern to the Office of the Inspector General because these funds could be reprogrammed for other uses or deobligated and returned to the U.S. Treasury.

We reviewed the certification of unliquidated obligations reported to the U.S. Treasury, as of September 30, 1991, and the status of obligations and commitments, as of March 31, 1992. According to USAID/Philippines' records, there were $732 million in unliquidated obligations for 55 projects and programs as of September 30, 1991. As indicated below, by March 31, 1992, unliquidated obligations were $583 million for 54 projects and programs.

USAID/Philippines Project Financial Information



Audit Objective

The Regional Inspector General for Audit/Singapore audited USAID/Philippines' controls over its unliquidated obligations to answer the following audit objective:

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

In answering this audit objective, we tested whether USAID/Philippines followed applicable internal control procedures and complied with certain provisions of laws and regulations. Our audit tests were designed to provide reasonable assurance in answering the audit objective. However, due to a lack of a fully acceptable representation letter, we are able to provide only qualified answers to the objective. In those instances where problems were found, we performed additional work to identify the causes and effects of the problems and make recommendations for correcting the problems.

Appendix I contains a complete discussion of the scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

In accomplishing the audit work, we requested USAID/Philippines to provide a representation letter to confirm information considered essential to answering the audit objective. USAID/Philippines provided only some of the written representations requested. Mission officials would not confirm in writing that, to the best of their knowledge and belief, A.I.D. policies and procedures for the controls over the unliquidated obligations were followed and all known irregularities and instances of material noncompliance were reported to the auditors. Instead of confirming that they had reported all known irregularities and instances of noncompliance, Mission officials would only state that they had made available (to the extent available within the Mission) and not knowingly and purposely withheld information regarding any irregularities and instances of material noncompliance.

Our answers to the following audit objective and our assessment of related internal controls are therefore qualified because of the lack of these written representations. We are also unable to make firm conclusions on USAID/Philippines' compliance with applicable laws and regulations.

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

Considering the effects, if any, of the above qualification, we found for the items tested that USAID/Philippines properly reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations and A.I.D. policies and procedures. USAID/Philippines conducted periodic Section 1311 reviews (reviews of unliquidated obligation amounts in Mission program accounts) and certified valid obligations at the end of fiscal year 1991. However, these regulations and procedures were not always followed to ensure that invalid obligations and commitments were deobligated and decommitted promptly, advices of charge were reconciled in a timely manner, transaction dates were updated, and financial implementation plans were revised as needed.

USAID/Philippines reviewed periodically unliquidated obligations/commitments as required by A.I.D. guidance. Mission Accounting and Control System (financial system) reports were used for the reviews. For example, a "Project Element Status by Budget Plan Code" report was used to determine the validity of unliquidated obligations for one project. Notes were written in the report to show the decisions made. Journal vouchers prepared for deobligations were available to show actions taken. The journal vouchers were routed to the Chief Accountant and project offices for clearance. Accounting technicians dated and initialed journal vouchers before they were entered into the financial system.

The Supplemental Appropriations Act of 1954 (31 U.S.C. 1501) requires A.I.D. to provide an annual report to the President (through the Office of Management & Budget) and the U.S. Treasury identifying the amount of unliquidated obligations and certifying that these obligations do not exceed the requirements for which the funds were obligated. USAID/Philippines' Controller certified and reported the unliquidated obligations for fiscal year 1991 to A.I.D./Washington for inclusion in the annual report. Financial system reports, such as the "Comprehensive Pipeline Report by Earmarks", were used for the year-end Section 1311 reviews. The reports were maintained and documented to show the results.

A.I.D. guidance prescribes that forward funding (obligations for expected future expenditures) of projects should generally be limited to not more than two years of expected expenditures for new activities and one year of expected expenditures for ongoing activities. Obligations for USAID/Philippines' projects/programs were limited to prescribed levels. For example, for one project, estimated expenditures through September 30, 1992, equalled total obligations of $46.7 million. As of March 31, 1992, $34.8 million was expended for the project, or 74 percent of the total obligated amount. The remaining $11.9 million was expected to be expended by September 30, 1992, which is within the one year forward funding guideline for anticipated expenditures.

USAID/Philippines, however, did not: (1) deobligate promptly $578,000 identified as invalid obligations, (2) decommit promptly $510,000 identified as invalid commitments, (3) act in a timely manner to reconcile General Services Administration billings and advices of charge from A.I.D./Washington totaling about $1.7 million, (4) record accurately Project Assistance Completion Dates and Commitment End Dates, and (5) revise financial implementation plans as needed. These areas are discussed in detailed in the following section:

Invalid Obligations Need
To Be Deobligated Promptly

In accordance with U.S. laws and regulations and A.I.D. guidance, USAID/Philippines should not record obligations unless they are supported by documentary evidence and any excess funds should be deobligated promptly. However, about $578,000 of invalid obligations submitted for deobligation in February 1992 could have been deobligated earlier. This occurred because the Mission waited for authority from A.I.D./Washington to deobligate/reobligate the excess funds. As a result, $578,000 identified as excess were not available for other uses as soon as they could have been.

> **Recommendation No. 1: We recommend that USAID/Philippines establish procedures to ensure the prompt deobligation of invalid obligations.**

Federal law (31 U.S.C. 1501) directs that no amount shall 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 obligations will not exceed the requirements for which the funds were provided. A.I.D. Handbook 19, Chapter 2 and the A.I.D. Controllers Handbook prescribe that controllers should review periodically unliquidated obligations to determine whether the obligations exceed the requirements for which the funds were obligated. The Handbooks state further that any excess funds should be deobligated promptly.

In October 1989 and June 1990, the A.I.D. Controller issued additional guidance requiring at least semi-annual reviews of both unliquidated obligations and commitments, emphasizing the importance of documentation files in support of obligations and commitments and the need to prepare and retain complete workpapers evidencing the reviews.

USAID/Philippines had 21 projects/programs with expired completion dates as of March 31, 1992. These projects had total obligations of $429.4 million, total disbursements of $398.4 million, and unliquidated obligations of $31.0 million. Our review of seven expired projects with $27.8 million in unliquidated obligations revealed about $578,000 of invalid obligations identified by the Mission in three projects that were not deobligated promptly.

This occurred because the Mission held the invalid obligations pending receipt of fiscal year 1992 authority from A.I.D./Washington to reobligate the funds. The authority to deobligate/reobligate was received on January 16, 1992, and the Mission submitted a deobligate/reobligate plan to A.I.D./Washington for the invalid obligations on February 3, 1992. The actual deobligation of these funds occurred in May 1992. Details of the $578,000 identified as invalid obligations follow.

Schedule of Invalid Obligations

Project Number	Date Identified	Amount Identified
492-0365	05/91	$218,008
492-0341	07/91	208,280
492-0340	09/91	152,336
Total		$578,624

Project No. 492-0365. The $218,008 of funds obligated during fiscal year 1983 were identified as excess on May 10, 1991. The financial analyst did not prepare vouchers for deobligation because she believed that, after the Mission submitted its request to deobligate/reobligate to A.I.D./Washington in January 1991, additional requests to deobligate/reobligate could no longer be made. In fact, the Mission had until June 28, 1991, to submit additional requests. Later, in October 1991, the Controller's Office submitted a listing of possible deobligations for concurrence, including the $218,008 amount, to the Mission's Office of Development Resources Management (Program Office). However, the Program Office directed that funds obligated in fiscal year 1986 and prior be held pending the Mission's submission for and A.I.D./Washington's approval of deobligation/reobligation authority.

Project No. 492-0341. On July 12, 1991, the Controller's Office submitted a $208,280 deobligation voucher for clearance to the Program Office for these funds which were obligated during fiscal years 1983 and 1984. The Program Office approved the voucher for deobligation but directed that the voucher be held until the Mission received reobligation authority for the funds.

Project No. 492-0340. On July 17, 1991, the Controller's Office submitted a $85,287 deobligation voucher for clearance to the Program Office for these excess funds, which had been obligated during fiscal years 1983 and 1984. On August 7, 1991, the Program Office directed that the amount to be deobligated be held for reobligation purposes. On September 27, 1991, another $68,519 eligible for deobligation was identified. However, a voucher for this amount was not prepared for clearance because of the previous instructions from the Program Office. On January 29, 1992, a revised deobligation voucher totaling $152,336 (there was an adjustment to the two vouchers for a small amount of accrued expenditures) was prepared for Program Office clearance.

The Program Officer stated that once the June 28, 1991, deadline to request authority to deobligate/reobligate had passed, he held large (usually $10,000 or more) potential deobligations until the Mission received fiscal year 1992 deobligate/reobligate authority from A.I.D./Washington. This was done so that the Mission had an opportunity to reobligate its deobligations. When asked if this approach met the definition of deobligated "promptly" in accordance with A.I.D. guidance, the Program Officer stated that it was prompt since the potential deobligation was held only until the next annual deobligation/reobligation authority, not two or three years.

In conclusion, since these invalid obligations were identified in fiscal year 1991, they should have been deobligated when identified and not held for fiscal year 1992 reobligation authority. Had the Mission taken the appropriate action, $578,624 could have been put to better and more timely use.

Management Comments and Our Evaluation

USAID/Philippines agreed with the recommendation and commented that there exists a certain amount of confusion as to whether or not the deobligation of funds should be held up pending receipt of reobligation authority. The Mission assumes this matter will be addressed by A.I.D./Washington, and that appropriate guidance will be issued. Once this guidance is received, the Mission has stated it will issue appropriate Mission Notices. Based on this planned action, this recommendation is resolved on issuance of this report and can be closed when appropriate notices have been issued.

Some Commitments Need To Be Decommitted, Reprogrammed or Validated

Although USAID/Philippines decommitted invalid commitments in accordance with Federal and A.I.D. requirements, we identified the potential to decommit about $510,000 of the $32 million in unliquidated commitments reviewed. Also, the Mission does not have supporting data to determine whether about $1.7 million in unliquidated commitments are valid. This occurred because the Mission used invalid supporting documentation for one commitment, did not require supporting data for anticipated disbursements for another commitment, and was unable to reconcile advices of charge from A.I.D./Washington. As a result, $510,000 could have been decommitted and reprogrammed for better use.

Recommendation No. 2: **We recommend that USAID/Philippines:**

2.1 Decommit and reprogram the $510,000 of invalid commitments and

2.2 Verify with A.I.D./Washington the validity of about $1.7 million in unliquidated commitments.

Federal law (31 U.S.C. 1501) directs that no amount shall 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 service to be provided and that obligations do not exceed the requirements for which the funds were provided. A.I.D. Handbook 19, Chapter 2 and the A.I.D. Controllers Handbook prescribe that controllers should periodically review unliquidated obligations to determine whether the obligations exceed the requirements for which the funds were obligated. The Handbooks further state that any excess funds should be deobligated promptly. In October 1989 and June 1990, the A.I.D. Controller issued additional guidance requiring at least semi-annual reviews of both unliquidated obligations and commitments, emphasizing the importance of documentation files in support of obligations and commitments and the need to prepare and retain complete workpapers evidencing the reviews.

The A.I.D. Controller's guidance of October 1989 requires project accountants and project managers to develop accrued expenditures and Mission controllers to monitor the adequacy of commitment documents and the currency of termination dates in the agreements supporting obligations and commitments. The guidance states further that, in reviewing accrued expenditures, controllers should note any absence of disbursement activity for an unreasonable period and alert Mission project management in writing, requesting justification for retention of commitments.

Our review showed that the financial analysts used financial system reports, such as "Project Accrual Worksheets", for their Section 1311 reviews. Notes were written in the reports to show the decisions made. Documents, such as journal vouchers prepared for decommitment, were available to show actions taken. The journal vouchers were routed appropriately to the Chief Accountant and project offices for clearances. Accounting technicians dated and initialed journal vouchers before entering them into the financial system.

Although USAID/Philippines performed periodic Section 1311 reviews, our review of 19 commitments, with about $32 million in unliquidated commitments as of March 31, 1992, showed that about $510,000 in two commitments could have been decommitted as of September 30, 1991. These two cases are discussed below.

Excess Commitments by Project Number

Project Number	Unliquidated Commitments	Excess Amount
492-0396	$1,081,901	275,995
492-0343	233,773	233,773
Totals	$1,315,674	$509,768

Project No. 492-0396. On April 1, 1991, an implementation plan, including a training element totaling $387,589, was used as a commitment document. Its commitment end date was March 31, 1992. The Mission decommitted $111,594 on March 18, 1992, and planned to recommit it for a grant to a Foundation for training purposes, leaving a balance of $275,995. Discussions with the project management specialist disclosed that the project office was planning to decommit the balance and recommit it for the same grant to provide additional training services. This grant was being negotiated at the time of the audit.

According to the project management specialist, a decision was made in August 1991 to change the funding mechanism for the training component of this project from host-country contracts to A.I.D.-direct grants because the Philippines was not able to provide funding for the contracts. Accordingly, the $275,995 commitment was based on invalid supporting documentation as of September 30, 1991. The funding for the training component that was based on host-country contracting should have been decommitted and recommitted for A.I.D.-direct grant funding.

Project No. 492-0343. On September 30, 1991, an expired commitment had a balance of $233,733 which was not decommitted because the Philippine implementing agency indicated that expenditures were still anticipated. However, the agency provided neither an estimated amount nor supporting data for the anticipated expenditures. The financial analyst made an accrual of $100 for estimated expenses--an insignificant amount compared to the value of the commitment. This indicates that disbursements were not expected for the $233,733.

In June 1992 the financial analyst stated that, because of her workload, she had not performed a Section 1311 review for this project since September 30, 1991. She advised us that a Section 1311 review for this project would be performed during June 1992 and that the $233,733 would likely be decommitted during July 1992.

The two commitments discussed above were invalid and should have been decommitted as of September 30, 1991.

The Mission also does not have supporting data to determine whether $1,685,559 in expired commitments are valid for Project No. 492-0341. As of March 31, 1992, this project had $1,893,839 in unliquidated obligations. Of this amount, $1,685,559 was unliquidated for eight commitments under Project Implementation Orders/Commodities (PIO/C) and $208,280 was uncommitted (the $208,280 is discussed on page 6 of this report). Of the eight commitments, we reviewed four commitments totaling $1,641,391, or 97 percent of the unliquidated commitment amount. We did not review the other four commitments since the dollar value was minimal.

Schedule of Unliquidated Commitments

PIO/C	Commitment Start Date	Commitment End Date	Unliquidated Balance
20063	12/83	12/84	$135,522
20053	04/84	12/84	411,775
20069	04/85	10/85	786,112
30095	Unknown	Unknown	307,982
Others(4)	Various	Various	44,168
Uncommitted			208,280
Total			$1,893,839

Note: For PIO/C 30095, the document showed 'ASAP' for commitment start and end dates. The terminal disbursement date for this project was September 30, 1989.

The four commitments reviewed are PIO/Cs for delivery of commodities under a project. USAID/Philippines sent the PIO/Cs to A.I.D./Washington, which in turn sent them to the General Services Administration (GSA) as the basis for a commodities order. GSA then entered into a contract for the commodities to be shipped to the Philippines. GSA sent USAID/Philippines invoices indicating the PIO/C number on the invoice. According to a Project Management Assistant, GSA billed the Mission amounts larger than the commitments for some PIO/Cs and did not bill any amounts for other PIO/Cs. When USAID/Philippines did not pay some of the billings, A.I.D./Washington paid them and processed advices of charge to the Mission. From August 1987 to April 1992, USAID/Philippines sent one letter to GSA and eight cables and other correspondence to A.I.D./Washington asking for information to reconcile the billings. Additional advices of charge were received from A.I.D./Washington during this period, but the amounts could not be reconciled. The last cable the Mission sent to A.I.D./Washington was on April 20, 1992. As of July 15, 1992, the Mission had not received a response from A.I.D./Washington.

An official of the A.I.D. Controller's Office advised us that information needed to reconcile the balances would likely be available by September 30, 1992.

USAID/Philippines should have made inquiries to GSA and A.I.D./Washington soon after the commitment end dates of December 1984 and October 1985 to obtain data for the reconciliation of these commitments. Because the Mission did not request information in a timely manner, any invalid amounts in the $1.7 million in commitments have not been put to their most efficient use. Also, USAID/Philippines needs to decommit the $510,000 of invalid commitments so that these funds can be put to better use.

Management Comments and Our Evaluation

The Mission agreed with all of the factual statements made in this section, but did not agree as to the need for decommitting certain accounts. In the interim, however, the $510,000 referred to in Recommendation 2.1 has been decommitted or was in the process of being decommitted, and all of the $1.7 million in unexpired unliquidated commitments mentioned in Recommendation 2.2 has expired. Therefore, both parts of this recommendation are considered closed on issuance of the report.

The Mission maintained that a $233,733 commitment under project No. 492-0343 could not have been decommitted because the Philippine implementing agency had "contended" that there were additional expenses chargeable to the commitment. While we acknowledge that the Controller should consider such a claim on the part of the host government as one factor in a review of the validity of a commitment, it should not constitute per se sufficient evidence as to the validity of the commitment. Other evidence, such as the extremely small estimated accrual ($100), should have triggered further review. Such review would have shown that the funds were not needed (as proved to subsequently be the case).

With regard to the $1.7 million in unliquidated expired commitments, the Mission cites extenuating circumstances that, since 1987, A.I.D./Washington was unwilling to agree that funds were no longer needed to cover the costs and therefore the funds could not be decommitted. While we acknowledge that a possibility does exist that a supplier of commodities delivered in 1986 had still not been paid in 1992--six years later--it must be considered highly unlikely (especially in the absence of any evidence of complaint from any such unpaid suppliers). A more vigorous attempt to review such sizable balances during 1989-1991 than the relevant cable traffic revealed may have resolved this issue in a more timely fashion.

Project Assistance Completion Dates and
Commitment End Dates Need To Be Recorded Accurately

Contrary to internal control standards issued by the U.S. General Accounting Office and included in A.I.D. guidance, we found incorrect Project Assistance Completion Date in one of seven projects tested and incorrect Commitment End Dates in seven of 19 commitments tested. The dates in the financial records are incorrect because not all amendments to projects or commitments are being received by the Controller's Operations Division, where data are entered into the Mission's financial system. As a result, USAID/Philippines does not have reliable data to monitor the validity of unliquidated obligations/commitments.

> **Recommendation No. 3: We recommend that USAID/Philippines adopt procedures to ensure that the Mission Controller's Operations Division receives project and commitment amendments in order to effect changes to Mission Accounting and Control System reporting for Project Assistance Completion Dates and Commitment End Dates.**

The General Accounting Office's Standards for Internal Controls in the Federal Government states that transactions and other significant events are to be recorded promptly and classified properly. 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 are to be reasonably complete and accurate. Prompt recording and proper classification of transactions are needed so that sound financial management decisions can be made based on the accounting records and required certifications can be made in accordance with Federal law (31 U.S.C. 1501).

Our review of seven projects and 19 commitments showed that one completion date and seven commitment end dates were shown inaccurately in the financial reports. According to accounting technicians and the Chief of the Controller's Operations Division, where data are entered into the Mission's financial system, this occurred because they do not always receive the amendments to the projects or commitments from the Contracting Office. For example, financial reports showed the end date for one commitment as February 6, 1992, which was the correct date when the commitment was signed. However, on June 27, 1991, the date was extended to June 6, 1992. This change was not reflected in the financial reports as of May 19, 1992. This same situation caused incorrect dates to be shown for four of the other commitment end dates and the one completion date. For the two other incorrect commitment end dates, one was incorrect because the completion date was shown instead and no explanation was provided for the other.

In conclusion, USAID/Philippines was using unreliable data to monitor the validity of unliquidated obligations/commitments because amendments to projects and commitments were not being received routinely by the Controller's Operations Division. Therefore, USAID/Philippines needs to ensure that the Operations Division receives the amendments so that appropriate updates can be made to the Mission's financial system data.

Management Comments and Our Evaluation

USAID/Philippines agreed with the recommendation and plans to issue a Mission Notice advising all offices that documents which affect Project Assistance Completion Dates and Commitment End Dates be sent to the Operations Division for updating purposes. This recommendation is resolved based on planned action upon report issuance and can be closed when the notice has been issued.

Financial Implementation Plans Need To Be Revised

Appropriate revisions to financial plans had not been made, as provided for by U.S. General Accounting Office guidance and A.I.D. policy, for three of the six projects/programs reviewed. This occurred primarily because the Mission did not have procedures requiring financial plans to be revised to reflect project implementation changes. As a result, for the three projects/programs identified, USAID/Philippines did not have up-to-date financial data for determining whether planned funding requirements of projects and programs were valid.

> **Recommendation No. 4: We recommend that USAID/Philippines establish procedures to ensure that financial implementation plans in the project agreements are revised to reflect significant changes in estimated expenditures.**

The General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Guidance) states:

When the amount of an obligation is not known at the time it is incurred, the best possible estimate should be used to record the obligation. Where an estimate is used, the bases for the estimate and the computation must be documented. Appropriate adjustment must be made when events permit a more accurate estimate of the amount of the obligation and when the actual obligation is determined.

A.I.D. Handbook 3, Chapter 9, recognizes that projects take place within a dynamic environment and that revisions to plans will be the norm rather than the exception. It emphasizes that project management will have to make adjustments in its implementation methods, plans and schedules if it is to pursue effectively the achievement of project objectives under changing conditions. The Handbook also stresses the need for budgets to be reviewed and updated as soon as additional information becomes available to provide a current picture of expenditures to be made. A.I.D. Handbook 19, Chapter 2, stipulates that unliquidated obligations should be reviewed periodically using certain criteria and any excess funds should be deobligated promptly. One requirement is when project implementation has not progressed on schedule, consideration should be given to renegotiating the agreement and adjusting the obligation downward as required.

We reviewed six projects/programs with total obligations of $441.6 million incurred during fiscal years 1991 and 1992. Financial implementation plans in the project agreements were not revised as needed for three of the six projects/programs. The plans were not revised because the Mission did not have procedures requiring its technical offices to revise financial implementation plans. As a result, for the three projects/programs identified, USAID/Philippines did not have financial data for determining whether the planned funding requirements were still valid. Details of the three projects/programs without revised financial plans are discussed below:

<u>Project No. 492-0420.</u> The project agreement was signed in September 1987 with a budget of $90.0 million and a completion date of December 31, 1992. In September 1990, the budget was increased to $170.0 million. Included in this amendment was a revised financial plan. In February 1991, the completion date was extended again to December 31, 1994, and at this time four additional project elements were added. Despite the change to the dates and the addition of the four elements, the financial implementation plan in the project agreement had not been revised again to reflect the additional implementation time or the added project elements. The Project Specialist stated that he did not know that the financial implementation plan needed to be revised.

<u>Project No. 492-0456.</u> The project agreement was signed in September 1990, but project implementation was delayed because conditions precedent were not met by the Philippine Government. Although the original financial plan projected

expenditures of $21.8 million for fiscal years 1991 and 1992, as of March 31, 1992, total expenditures amounted to only $370,000. Total obligations amounted to $44.5 million. The financial implementation plan in the project agreement should have been revised to reflect the changes in project implementation. The Project Development Assistance Specialist stated that her office updates projected expenditures on a quarterly basis; therefore, revising the financial plan would be a duplication of effort. However, without a revised financial implementation plan, management does not have up-to-date information for decision-making purposes.

Program No. 492-0450. USAID/Philippines' management is considering a reduction in funding for this program from the original budget of $120 million to the current obligated amount of $60 million. No formal actions have yet been taken--only discussions. According to figures in the 1992 Annual Budget Submission, no additional obligations were anticipated and expenditures were estimated to be only up to the current obligations of $60 million. The Program Manager indicated that the financial plan was not revised because no official actions have been taken.

These situations resulted from a lack of Mission procedures requiring the revision of financial implementation plans to reflect changes in project implementation. In some cases the original plans were outdated or otherwise invalid for financial management purposes. Without a current financial implementation plan, the Mission does not have reliable data to estimate its forward funding, which is limited to one year of estimated expenditures for projects and two year for programs. Therefore, USAID/Philippines needs to revise its procedures to ensure that financial implementation plans in the project agreements are reviewed periodically and revised as needed to ensure that the planned funding requirements of projects and programs are still valid.

Management Comments and Our Evaluation

USAID/Philippines disagreed with our recommendation, citing a different perspective on our interpretation of criteria contained in GAO Policy and Procedures Manual Title 7. USAID/Philippines views the overall Financial Implementation plans as only "cuff records", bearing no official status, and therefore not in need of periodic revision. It further maintains that revisions to the Annual Budget Submission and the submission of Quarterly Project Status Reports constitute sufficient basis to change the amounts of an obligation.

We do not agree. Annual budget planning exercises and quarterly status reports are by definition more limited in scope and might not take into consideration overall long-range deviations from planned project spending plans such as a short-fall in host-country contributions or the changes illustrated in our three examples. We do agree however with the Mission position that such revisions can sometimes be accomplished through amendment of Project Implementation Letters or Project Amendments as well as through amendment of overall Project Financial Plans. We also acknowledge that not all estimated changes in expenditure levels would necessitate a revision in the overall plan. We, therefore, modified the recommendation which had been in the draft report. The recommendation is currently unresolved pending USAID/Philippines agreement with the proposed action.

REPORT ON INTERNAL CONTROLS

Scope of Our Internal Control Assessment

Our audit was performed in accordance with generally accepted government auditing standards except that USAID/Philippines management would not provide us with an acceptable representation letter stating that, to the best of their knowledge and belief, A.I.D. policy and procedures were followed (see page 3). The lack of such written representations constitutes a scope limitation sufficient to preclude an unqualified opinion about the internal control structure.

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

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and Office of Management and Budget implementing policies, A.I.D. 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 U.S. foreign assistance are to provide management with reasonable--but not absolute--assurance that resources use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and 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, predicting whether internal controls will work in the future is risky 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 the Audit Objective

The audit objective was to determine whether USAID/Philippines 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 Circular A-123, and appropriate internal control policies and procedures cited in A.I.D. Handbook 19, the A.I.D. Controllers Handbook, and supplemental guidance issued by A.I.D.'s Controller in November 1989 and June 1990. For the purposes of this report, we have classified the applicable internal controls into the following categories:

- Identify and deobligate, decommit and/or reprogram invalid obligations and commitments;
- Make the required annual certification on the validity of unliquidated obligations;
- Maintain up-to-date project/program financial implementation plans;
- Maintain obligation levels in accordance with A.I.D. forward-funding guidance; and
- Record financial transactions promptly and accurately.

For the items tested, USAID/Philippines' controls were applied consistently except:

- Invalid obligations were not deobligated promptly;
- Invalid commitments were not decommitted promptly;
- Project and commitment dates were not recorded accurately in Mission financial records; and
- Financial implementation plans were not updated as needed.

USAID/Philippines did not report the above weaknesses in the internal control assessment report required under the Federal Manager's Financial Integrity Act. USAID/Philippines should consider the significance of these weaknesses during the next internal control assessment and make a determination as to whether the weaknesses should be reported.

REPORT ON COMPLIANCE

Scope of Our Compliance Assessment

We conducted our audit in accordance with generally accepted government auditing standards except that USAID/Philippines management would not provide us with a written representation letter confirming, to the best of their knowledge and belief, that they reported all known irregularities and instances of material noncompliance (see page 3). In light of this qualification, the objectives of our review were to:

- Assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objective (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 of instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

We tested USAID/Philippines' compliance with the Supplemental Appropriation Act of 1954 (31 U.S.C. 1501), the Federal Managers' Financial Integrity Act, Office of Management and Budget Circular A-123, the Standards for Internal Controls in the Federal Government prescribed by the General Accounting Office, and the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Guidance), as these laws and regulations could affect our audit objective.

We also determined whether USAID/Philippines complied with the Supplemental Appropriations Act of 1954 requirements for certifying to the President and the U.S. Treasury on the level of valid unliquidated obligations as of September 30, 1991, and whether A.I.D. management complied with the Federal Managers' Financial Integrity Act in reporting material weaknesses in the Agency's internal controls to the President.

General Background on Compliance

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.

USAID/Philippines' Controller is responsible for reviewing unliquidated obligations to determine if the need, for which the funds were obligated, still exists and for initiating action to deobligate excess funds. The Controller is responsible for ensuring that reviews are performed and is to provide an annual report to A.I.D./Washington identifying the amount of unliquidated obligations and a certification that these obligations do not exceed the requirements for which the funds were obligated. The Mission Controller also is responsible for preparing an annual report stating whether the Agency's internal controls meet the Federal standards and describing any material weaknesses in the internal controls.

Compliance with Federal laws (31 U.S.C. 1501), Office of Management and Budget (OMB) Circular A-123, the Federal Managers' Financial Integrity Act and the General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7-Fiscal Guidance) is the overall responsibility of USAID/Philippines' management.

Conclusions on Compliance

Since Mission officials would not confirm in writing that all known irregularities and material instances of noncompliance were reported to the auditors, we cannot express an opinion that USAID/Philippines complied in all significant respects with the provisions referred to above. However, based on the information provided to us, no material instances of noncompliance with applicable laws and regulations came to our attention.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Philippines controls over its unliquidated obligations in accordance with generally accepted government auditing standards except that USAID/Philippines did not provide a completely acceptable representation letter. Mission officials would not confirm in writing that, to the best of their knowledge and belief, they followed A.I.D. policies and procedures, and reported to the auditors all known irregularities and instances of material noncompliance. Instead, Mission officials would only state that they had made available all information related to known irregularities and instances of noncompliance.

Without the above written representations from Mission officials, we cannot fully answer the audit objective and conclude whether the Mission maintained adequate internal controls or complied with applicable laws and regulations. However, based on the representation letter we did receive, we can report some positive conclusions. The problem areas that came to our attention can also be reported.

We conducted the audit from May 18, 1992, through July 31, 1992, at USAID/Philippines' offices in Manila. The audit covered the systems and procedures relating to the $732 million in unliquidated obligations, as of September 30, 1991, for 55 projects and programs. By March 31, 1992, unliquidated obligations were $583 million for 54 projects and programs.

To answer the audit objective, we obtained documents such as certification of unliquidated obligations, financial system reports, project agreements and its amendments, commitment documents, journal vouchers, and financial implementation plans. We reviewed the certification of unliquidated obligations; validated financial system reports against source documents; compared actual versus planned financial implementation plans; and reviewed Mission's system of internal controls as related to the audit objective. We also interviewed Mission officials to verify the evidence provided to us.

Methodology

The audit objective was to determine whether USAID/Philippines followed applicable U.S. Government laws and regulations and A.I.D. policies and procedures for reviewing and certifying unliquidated obligations. To accomplish this objective, we used a biased sampling methodology which was designed to select those project and program obligations and commitments that would have the greatest chance of being invalid. As of March 31, 1992, USAID/Philippines financial records showed total obligations of $1.4 billion, commitments of $1.1 billion, disbursements of $790 million, and unliquidated obligations of $583 million. Using this data base, the various levels of testing were:

<u>Obligation Level</u>

- Obligations and commitments for projects which have passed the Project Assistance Completion Dates or programs which have passed the Terminal Disbursement Dates (Table I),

- Obligations and commitments for projects with Project Assistance Completion Dates or programs with Terminal Disbursement Dates expiring within the three-year period ending March 31, 1995 (Table II) and

- Obligations for projects or programs started in fiscal years 1991 and 1992 (Table III).

<u>Commitment Level</u>

- Commitments that have passed the Commitment End Dates (Table IV) and

- Commitments without disbursements for six months (Table V).

Table I shows 21 projects/programs with expired Project Assistance Completion Dates and Terminal Disbursement Dates as of March 31, 1992. We reviewed seven projects/programs with unliquidated obligations totaling $27.8 million, or 89 percent of the $31 million of total unliquidated obligations.

For the seven projects/programs, we examined the applicable project agreement files to verify the accuracy of the completion and disbursement dates. For those obligations that did not have supported documentation, we interviewed project officers, project accountants, financial analysts and program officers to determine the reasons for the obligations not being deobligated.

TABLE I - PROJECTS/PROGRAMS WITH EXPIRED PROJECT ASSISTANCE COMPLETION DATES OR TERMINAL DISBURSEMENT DATES

	Audit Universe	*Audit Sample*	*Percentage*
Obligations	*$429.4 million*	*$359.1 million*	*83*
Unliquidated Obligations	*$31.0 million*	*$27.8 million*	*89*
Number of Projects/Programs	*21*	*7*	*33*

Sample Selection Criteria:

- *Unliquidated obligations of at least $1 million for projects/programs with expired Project Assistance Completion Dates.*

- *Unliquidated obligations of at least $100,000 for projects/programs with expired Terminal Disbursement Dates.*

There were 24 projects/programs (see Table II) with Project Assistance Completion Dates expiring within the three-year period ending March 31, 1995. We reviewed four projects/programs with unliquidated obligations totaling $245.5 million, or 62 percent of the total unliquidated obligations of $393.5 million.

We examined the applicable project files and interviewed project officials to determine whether the project financial implementation plans were revised as changes occurred. For the implementation plans that were no longer valid, we determined whether the estimated costs in the original plans had been revised to reflect the new project schedules. We also verified whether unneeded obligations had been deobligated or reprogrammed by examining the journal vouchers.

TABLE II - PROJECTS WITH PROJECT ASSISTANCE COMPLETION DATES OR PROGRAMS WITH TERMINAL DISBURSEMENT DATES EXPIRING WITHIN THE THREE-YEAR PERIOD ENDING MARCH 31, 1995

	Audit Universe	*Audit Sample*	*Percentage*
Obligations	*$736.9 million*	*$346.6 million*	*47*
Unliquidated Obligations	*$393.5 million*	*$245.5 million*	*62*
Number of Projects/Programs	*24*	*4*	*17*

Sample Selection Criteria: *Projects/programs with obligations of at least $30 million and the ratio of unliquidated obligations to the total obligations for each project/program is more than 50 percent.*

Table III shows 26 projects/programs with 227 obligations totaling $361.1 million during fiscal years 1991 and 1992. We reviewed four projects/programs which accounted for $204.8 million, or 57 percent of the fiscal year 1991 and 1992 obligations.

We examined project/program files to determine the length of the implementation periods and the financial planning schedules for estimating expenditures and recording obligations. We also determined whether any of the four projects/programs exceeded the forward funding limits as prescribed by A.I.D. guidance for both new and on-going activities. *Note: The samples selected in Tables II and III contained two identical projects; therefore, the actual number of projects tested were four, with total obligations of $441.6 million.*

TABLE III - OBLIGATIONS FOR PROJECTS OR PROGRAMS STARTED IN FISCAL YEARS 1991 AND 1992

	Audit Universe	*Audit Sample*	*Percentage*
Obligations	*$361.1 million*	*$204.8 million*	*57*
Number of Obligations	*227*	*6*	*3*
Number of Projects/Programs	*26*	*4*	*15*

Sample Selection Criteria: *Projects/programs with the largest obligation balances and an implementation period of more than two years.*

Table IV identifies 40 projects/programs with 570 commitments which had expired as of March 31, 1992. We reviewed 14 expired commitments with undisbursed amounts totaling $31.1 million, or 76 percent of the $41.1 million in total undisbursed commitments.

TABLE IV - EXPIRED COMMITMENTS FOR PROJECTS/PROGRAMS AS OF MARCH 31, 1992

	Audit Universe	*Audit Sample*	*Percentage*
Undisbursed commitments	*$41.1 million*	*$31.1 million*	*76*
No. of commitments	*570*	*14*	*2*
No. of Projects/Programs	*40*	*10*	*25*

Sample Selection Criteria: Undisbursed commitments of $250,000 or more.

We examined the source documents to verify the accuracy of the information in the Mission's financial records. We also interviewed appropriate project officials to determine whether the documents were valid and whether the undisbursed amounts were still needed for the purposes for which they were obligated.

Table V shows 26 projects/programs with 192 expired and unexpired commitments, which last had disbursements prior to October 1, 1991. We reviewed seven commitments totaling $2 million, or 56 percent of the $3.6 million of undisbursed commitments, for five projects/programs. *Note: The samples selected in Tables IV and V contained two identical commitments; therefore, the actual number of commitments tested were 19, with $32 million in unliquidated commitments.*

TABLE V - COMMITMENTS FOR PROJECTS/PROGRAMS WITH LAST DISBURSEMENT DATES PRIOR TO OCTOBER 1, 1991

	Audit Universe	*Audit Sample*	*Percentage*
Undisbursed Commitments	*$3.6 million*	*$2.0 million*	*56*
Number of Commitments	*192*	*7*	*4*
Number of Projects/Programs	*26*	*5*	*19*

Sample Selection Criteria: Undisbursed commitments of $100,000 or more.

To determine the validity of the commitments reviewed, we examined the document files, verified the accuracy of the information in the Mission's financial records and interviewed project officials. When we found invalid documents, we examined the Section 1311 review documentation to ascertain the reasons for retaining the commitment.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID / Philippines
APO AP 96440

Fax No.: 632-521-5241
Tel. No.: 632-521-7116

USAID

NOV 9 1992

MEMORANDUM

TO : Mr. James B. Durnil
Regional Inspector General/Audit, Singapore

FROM : Richard A. Johnson
Deputy Director, USAID/Philippines

SUBJECT: Mission Comments on Draft Report -
"Review and Certification of Unliquidated Obligations"

The Mission disagrees with Recommendation No. 2, which is a monetary recommendation dealing with $2.2 million in commitments, and Recommendation No. 4. Our comments indicate planned Mission action in response to Recommendation Nos. 1 and 3.

Attached are the Mission comments on the subject draft report and a Representation Letter signed by me covering the subject audit.

We ask that these comments and the Representation Letter be considered in finalizing the report, and be included in the final report as Annexes.

Attachments: As Stated

MISSION COMMENTS ON

AUDIT OF REVIEW AND CERTIFICATION OF UNLIQUIDATED OBLIGATIONS

Recommendation No. 1: We recommend that USAID/Philippines establish procedures to ensure the prompt deobligation of invalid obligations.

Mission Comment. There exists a certain amount of confusion regarding whether or not the deobligation of funds can be held pending reobligation authority. We assume this matter will be addressed in the overall report to Washington, and that appropriate guidance will be issued. Once this guidance is received, we will issue appropriate Mission Notices.

#1 Planned Mission Action: Upon receipt of final guidance from Washington, the Mission will issue a Mission notice following this guidance.

Based upon the planned action above, we request that Recommendation No. 1 be considered resolved. We will request closure after receipt of Washington guidance and issuance of an appropriate notice.

Recommendation No. 2: We recommend that USAID/Philippines:

2.1. Decommit and reprogram the $510,000 of invalid commitments and

2.2 Verify with AID/Washington the validity of about $1.7 million in unliquidated commitments.

Mission Comment on Text.

Page 10. Heading "Project No. 492-0396."

Paragraph 1. The implementation plan which was used as a commitment document was signed by both USAID and the GOP. As such, it represented a valid commitment.

Paragraph 2. The Controller is required to record and maintain on the books valid commitments, until they expire or until they are amended. The Project Technical Office states that while a change in implementation was being considered prior to September 30, 1991, no definite decision had been made until Fiscal Year 1992. If a definite decision had been made to no longer implement this portion of the project through host country auspices, a Project Implementation Letter or other appropriate document would have been issued to decommit the funds. Until this action is taken, it is not appropriate to enter a decommitment. Further, we cannot "recommit for AID-direct grant funding" as noted in the last sentence until a definite commitment document has been issued.

Page 10. Heading "Project No. 492-0343."

The implementing agency had contended that there were additional expenses chargeable to the commitment. Under these circumstances it is the position of the Mission Controller that funds should not be decommited unless we can ascertain that these claims are not valid. The fact that the analyst accrued only $100 is an indication of uncertainty about the claims, but this uncertainty is not sufficient to result in a decommitment.

Page 11 and 12. Heading "Unliquidated Expired Commitments."

The Mission does not disagree with any of the factual statements in this section. We do disagree with the premise that decommitment action should have been taken on the $1.7 million for commodities supplied by GSA. The Mission knows that the commodities were received in the Philippines. This obviously implies that a supplier needs to be paid for the commodities. Without a clear understanding that the amounts were no longer required to satisfy claims for the supplier, the Mission would have been remiss in decommiting the funds. The follow up with Washington never clearly satisfied this point. In fact, all these funds will be allowed to expire on September 30, 1992. Recent Washington guidance indicates that the allowances will be withdrawn for all "M" account funding as of that date. Subsequent claims against the funding will be satisfied from other accounts. All of the staff involved in these activities earlier than 1988 have subsequently transferred or left the Mission. Since we cannot discern with certainty the reasons why action was not started earlier than 1987, we cannot respond to the suggestion that follow up action should have been started earlier. With a final commitment date of October 1985, it is likely that the final shipments were not received until 1986, making follow up in 1987 reasonable. Further, it is not clear that earlier follow up would have resulted in the funds being decommited and "put to their most efficient use." To decommit these funds would have required that Washington agree that the funds were no longer needed to cover the costs of commodities from GSA, something that Washington has been unwilling to do since 1987.

On the basis of the above, the Mission does not agree with this recommendation. In fact, the two commitments in Project Nos. 492-0396 and 492-0343 have been or are being decommited. These actions are being taken in the normal course of events, and would have not been taken when suggested in the audit for the reasons noted. The commitments under Project No. 492-0341 will expire on

September 30, 1992, and the allowances will be withdrawn. This action is being taken due to the requirement for handling of "M" account funds, which leaves open the question of whether claims are still payable under the commitments. None of these actions are being taken in response to the findings of this audit, and for the reasons noted, would not have been taken much earlier in any case.

Recommendation No. 3: We recommend that USAID/Philippines adopt procedures to ensure that the Mission Controller's Operations Division receives project and commitment amendments in order to effect changes to Mission Accounting and Control System reporting for Project Activity completion Dates and Commitment End Dates.

USAID agrees with this recommendation, but given the volume of activity at the Mission, we do not find it unusual that a certain number of actions have taken place without documents reaching the Operations Division. We feel that while it is important to maintain correct data in the Mission Accounting and Control System (MACS), errors in this data do not significantly impact upon our "ability to monitor the validity of unliquidated obligations and commitments". Decisions regarding the validity of these items would be based upon reference to the source documents and carried out in coordination with the relevant office. Since we do agree that maintaining correct data in the system is nevertheless important, we will take action to improve the situation.

3 Planned Mission Actions. The Mission will issue a Mission Notice advising all offices of the importance of ensuring that documents which affect Project Activity Completion Dates and Commitment End Dates are sent to the Operations Division for purposes of updating the records.

Recommendation No. 4: We recommend that USAID/Philippines establish procedures to ensure that financial implementation plans are revised to reflect changes to existing plans.

Mission Comment. The Mission does not agree with this recommendation. The financial implementation plans referred to in the recommendation are those within the technical offices in charge of the project or activities. These implementation plans are considered "cuff records" and bear no official status. The official financial implementation plans are those contained in the Project/Program Agreements and the budget submissions, including the Annual Budget Submission and the Congressional Presentation. Further, the financial implementation plans are updated quarterly through the preparation and submission of Quarterly Project Status Reports (QPSRs), and it is these official review documents which provide an initial basis for changing the amount of an obligation.

Page 14. Reference to General Accounting Office Manual.

Section 611 (a) of the Foreign Assistance Act provides in part that "No agreement or grant which constitutes an obligation of the United States Government in excess of $500,000....shall be made....until engineering, financial, and a reasonably firm estimate of costs.... have been completed." This is the criteria against which the validity of an obligation is judged for AID grant agreements. The financial plan is developed in the preparation of the Project Paper, and virtually all projects are then funded on an incremental basis. The amount of an obligation in any particular year is determined based upon the amount of funding made available through Congress to provide for the incremental amount. On this basis, the amount of an obligation is known at the time it is incurred. Therefore, the reference "When the amount of an obligation is not known at the time it is incurred...." does not apply to the obligation of AID project agreements. The Mission does not believe that this particular reference is taken in the correct context.

Pages 14 and 15. Reference to Financial Implementation Plans.

During the implementation of a project, amendments to the official financial plan in the project agreement are made through Project Implementation Letters or through amendment to the Project Agreement. Financial estimates are updated quarterly through the Quarterly Project Status Report. When the financial status of the a project comes into question during implementation, the Mission reviews the project and makes a decision regarding the need for continued funding. The data contained in the Quarterly Project Status Report comes from the technical office, and it is this data which the Mission recognizes as the most current project financial implementation plan. Since these are updated quarterly, the Mission believes that it has met the criteria for maintaining current project financial implementation plans.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID / Philippines
APO AP 96440

USAID

Fax No.: 632-521-5241
Tel. No.: 632-521-7116

NOV 9 1992

REPRESENTATION LETTER

AUDIT OF REVIEW AND CERTIFICATION OF UNLIQUIDATED OBLIGATIONS

Mr. James B. Durnil
Regional Inspector General for Audit
U. S. Agency for International Development

Dear Mr. Durnil:

Your office has made an audit of the review and certification of unliquidated obligations by USAID/Philippines as of March 31, 1992. The audit was made to answer the following audit objective:

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

I have asked the Mission Controller to make available to you all records in our possession for the purpose of the audit. Based upon his representations to me in connection with the audit of the review and certification of unliquidated obligations, I believe those records are reasonably accurate and complete, and that they give a fair representation as to the status of the review and certification of unliquidated obligations.

I confirm that for the review and certification of unliquidated obligations, USAID/Philippines is responsible for:

- maintaining a system of internal controls,

- complying with applicable laws and regulations, and

- ensuring the fairness and accuracy of the mission's accounting and management information relating to the review and certification of unliquidated obligations.

32

Among other techniques we rely extensively on the audit reports of contracted private independent audit firms and A.I.D.'s Office of the Inspector General as a primary element of internal control, to determine compliance with applicable laws and regulations, and to ensure the accuracy of accounting and management information.

Based upon this reliance upon audits, representations made to me by the Controller and consultations with my staff, to the best of my knowledge and belief, as a layman and not as a lawyer, I confirm that USAID/Philippines has made available (to the extent available within the Mission) and has not knowingly and purposely withheld:

all the financial and management information associated with the subject under audit,

information regarding any irregularities, which we consider substantive, involving employees who have roles in the internal control structure related to the subject under audit,

information involving any instances of material error in the recording of financial or management information related to the subject under audit, and

information about any material noncompliance with AID policies and procedures or violations of U.S. laws or regulations, which would substantially impact on the subject under audit.

Following our review of your draft audit report and consultations with my staff, I know of no other facts as of the date of this letter (other than those expressed in our enclosed management comments to the draft report) which, to the best of my knowledge and belief, would materially alter the conclusions reached in the draft report.

The Mission Controller has represented to me that he is aware that USAID/Philippines management is relying on his knowledge and that of his staff as the basis for the representations in this letter and that he has read this letter and concurs with the representations. A copy of this letter with appropriate clearances evidencing this concurrence is available within the Mission.

A.I.D. Policy on the use of Representation Letters states "Representation Letters for audits on field programs should be requested only from Mission Directors, or in their stead from their Deputy, and not from members of the Mission staff in general." USAID/Philippines is following this guidance. It is for this reason that the Mission Controller is neither signing this letter nor submitting a separate Representation Letter.

I request that this Representation Letter be included as a part of the official management comments on the draft report and that it be published herewith as an Annex to the report.

Sincerely,

Richard A. Johnson
Deputy Director

APPENDIX III

REPORT DISTRIBUTION

	No. of Copies
U.S. Ambassador to the Philippines	1
Administrator (A/AID)	2
Mission Director, USAID/Philippines	5
Contracting Officer, USAID/Philippines	3
Assistant Administrator, Bureau for Asia	1
Philippines Desk Officer	1
Office of External Affairs (XA)	1
Office of Press Relations (XA/PR)	1
Bureau for Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Associate Administrator for Operations (AA/OPS)	1
Associate Administrator for Finance and Administration (AA/FA)	1
Office of Financial Management (FA/FM)	1
Asia/FPM	1
FA/MCS	2
FA/FM/FPS	2
POL/CDIE/DI, Acquisitions	1
Inspector General (IG)	1
Assistant Inspector General/Audit (AIG/A)	1
Deputy Assistant Inspector General/Audit (D/AIG/A)	1
Office of Policy, Plans and Oversight (IG/A/PPO)	3
Office of Programs and Systems Audits (IG/A/PSA)	1
Office of Resource Management (IG/RM)	12
Office of Financial Audits (IG/A/FA)	1
Office of Legal Counsel (IG/LC)	1
Assistant Inspector General for Investigations (AIG/I)	1
Regional Inspector General for Investigations/Singapore (RIG/I/S)	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Tegucigalpa	1
RIG/A/Vienna	1