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Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt's Practices for Reviewing and Reporting on Unliquidated Obligations

Report No. 6-263-93-03
February 4, 1993

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

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

February 4, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/Cairo, Philippe L. Darcy

SUBJECT: Audit of USAID/Egypt's Practices for Reviewing and Reporting on Unliquidated Obligations (Audit Report No. 6-263-93-03)

Enclosed are ten copies of the subject audit report on USAID/Egypt's Practices for Reviewing and Reporting on Unliquidated Obligations.

We received your deputy's comments on a draft of this report and have included them as Appendix II to the report. Based on these comments, Recommendations Nos. 2 and 3 are closed. Recommendation No. 1 is resolved and will be closed when planned actions are completed. Please provide us information within 30 days on the actions taken to implement the recommendation.

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

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EXECUTIVE SUMMARY

Background

Federal law and established A.I.D. procedures require that A.I.D. controllers 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. The Foreign Assistance Act also limits the length of time that funds can be obligated at any time in the future to five years. Federal law also 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. Also, A.I.D. has issued guidelines on obligating funds.

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. As of April 30, 1992, USAID/Egypt had about $2.2 billion in unliquidated obligations, including about $109 million recorded under 22 expired obligations and 403 expired commitments. (See page 1.)

Audit Objective

We audited USAID/Egypt's practices for reviewing and reporting on unliquidated obligations in accordance with generally accepted government auditing standards. We conducted our fieldwork from May through August 1992 to answer the following audit objective:

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

Appendix I contains a discussion of the scope and methodology for this audit. (See page 2 and Appendix I.) Information obtained during this audit was also provided as input to a worldwide audit of A.I.D.'s unliquidated obligations performed by the Inspector General's Office of Programs and Systems Audits. The worldwide audit report, entitled "Audit of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations," was issued by the Inspector General on September 30, 1992 (Audit Report No. 9-000-92-013).

Summary of Audit

USAID/Egypt did not review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations and A.I.D. policies and procedures in four areas. USAID/Egypt did not comply with the Foreign Assistance Act when it obligated funds for two projects for periods exceeding the Act's five-year limit for such obligations. It also obligated funds for three projects in amounts exceeding A.I.D.'s forward funding guidelines by about $22 million. Our review of 13 expired projects' unliquidated obligations totaling $9.4 million found about $5.9 million that were invalid and should be deobligated. Our review of 22 expired commitments totaling about $71.5 million found that 3 commitments totaling $5.8 million had incorrect expiration dates and 5 others totaling $9.5 million were not current because A.I.D./Washington had not sent advices of charge to USAID/Egypt for several months following the expirations to confirm liquidations. Thus, USAID/Egypt obligated funds for periods exceeding the Foreign Assistance Act's five-year limit, prematurely tied up $22 million which were not available for other purposes, did not promptly deobligate $5.9 million in invalid obligations, and did not have accurate or current data for millions of dollars of unliquidated commitments. As of April 30, 1992, USAID/Egypt had about $2.2 billion in unliquidated obligations and about $1.1 billion in unliquidated commitments. (See page 3.)

Audit Findings

Obligations Exceeded the Foreign
<u>Assistance Act's Five-Year Limit</u>

The Foreign Assistance Act (Section 635(h)) states that a contract or agreement shall not commit A.I.D. expenditures at any time for more than five years. A.I.D.'s legal counsel has advised that this section does not limit the life of the contract or agreement but only the length of time that funds can be obligated at any time in the future to five years. USAID/Egypt did not comply with this section of the Act in September 1991 when it fully funded a component of one project and in February 1992 when it increased funding to the level of full life-of-project authorizations for this project and another whose terms extend until August 1997 and February 1999. These actions, which raised one project's obligations to $50 million and the other's to $391 million (including $200 million for the project component), committed part of the funds for periods extending from one half year to two and a half years beyond the Act's five-year limit. We believe this occurred because Mission officials were either unaware of or failed to obtain clarification of this requirement of the Act. As a result, USAID/Egypt obligated an unspecified but potentially significant amount of funds for periods exceeding the Act's five-year limit. (See page 4.)

Some Obligations Exceeded A.I.D.'s
<u>Forward Funding Guidelines</u>

A.I.D. has established "forward funding guidelines" for obligating funds for future project expenditures because it realizes that such obligations are unavailable for other purposes and limit the agency's ability to respond quickly to new priorities. Although the guidelines limit projects' funding generally to not more than two years of future expenditures, they allow higher amounts in cases involving large commitments such as construction contracts. However, the guidelines do not specify when -- i.e., how far in advance of contract award -- such obligations should be made. We reviewed nine active USAID/Egypt projects with unliquidated obligations of $1.088 billion as of March 31, 1992 and found three projects whose combined obligations of $522.7 million exceeded the guidelines' limits by about $22 million. We could not identify a specific cause why this occurred. However, Mission officials stated that USAID/Egypt must obligate $815 million in Economic Support Funds each year and that the Mission's legal counsel has advised that funds must be obligated when large commitments such as construction contracts are advertised. By exceeding guideline limits in these cases, USAID/Egypt prematurely tied up $22 million which were not available for other program purposes. (See page 6.)

Expired Projects' Invalid Obligations
Were Not Deobligated Promptly

Federal law 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. Federal law also requires A.I.D. to provide an annual report to the President and the U.S. Treasury identifying the amount of unliquidated obligations and a certification that the obligations do not exceed the requirements for which the funds were obligated. A.I.D. handbooks further direct controllers to continuously review unliquidated obligations and to deobligate excess funds promptly. We reviewed 13 expired projects' unliquidated obligations totaling $9.4 million as of April 30, 1992 and found about $5.9 million which were invalid and should be deobligated. USAID/Egypt had identified virtually all of this amount for deobligation at the time of our review, including at least $2.4 million which were invalid as of September 30, 1991. However, it had not deobligated the funds because it was awaiting authority to reobligate them under the deobligation/reobligation authority. As a result, about $5.9 million were not deobligated promptly in accordance with A.I.D. policy, and USAID/Egypt overstated its 1991 fiscal year-end obligations by at least $2.4 million. (See page 9.)

Expired Commitments Were Not Always
Promptly Reviewed and Followed-up

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. In 1989, A.I.D.'s Office of Financial Management issued guidance to overseas controllers directing them to perform at least quarterly reviews to verify the adequacy of commitment documents and the currency of the commitments' termination dates. We reviewed 22 expired commitments totaling about $71.5 million as of April 30, 1992 and found records showing that the commitment amounts and expiration dates were accurate and current in most cases. However, three commitments totaling $5.8 million had incorrect expiration dates, and five others totaling $9.5 million were not current because A.I.D./Washington had not sent USAID/Egypt advices of charge for several months following the commitments' expirations to confirm liquidations. The accounting data were not accurate or current in these cases in part because Mission accountants did not promptly follow up with project managers to confirm the expiration dates or with A.I.D./Washington to remind it of the missing advices of charge. As a result, USAID/Egypt did not have accurate or current data regarding several millions of dollars of unliquidated commitments. (See page 13.)

Summary of Recommendations

We recommend that USAID/Egypt:

- Establish controls to ensure no funds are obligated for periods that exceed the Foreign Assistance Act's five-year limit (See page 4.);

- Deobligate the $5.9 million identified as invalid obligations under the expired projects (See page 10.); and

- Tighten procedures to ensure expired commitments are promptly reviewed and followed up with appropriate Mission and/or A.I.D./Washington offices (See page 13.).

Management Comments and Our Evaluation

Management commented that it had taken or will take action to implement each recommendation. (See page 17.)

Office of The Inspector General

Office of the Inspector General

February 4, 1993

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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 1554) require that each 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 the obligations do not exceed the requirements for which the funds were obligated. Section 635(h) of the Foreign Assistance Act also states that a contract or agreement shall not commit A.I.D. expenditures at any time for more than five years.

A.I.D. Handbook 19 (Chapter 2 and Appendix 1A) and the A.I.D. Controllers Handbook prescribe that controllers should continuously 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. A.I.D. has also developed guidelines for obligating funds because it recognizes that such obligations are unavailable for other purposes and limit the agency's ability to respond quickly to new priorities.

As of April 30, 1992, USAID/Egypt had about $2.2 billion in unliquidated obligations, including about $109 million recorded under 22 expired obligations and 403 expired commitments. According to A.I.D.'s Office of Financial Management, under A.I.D.'s system, appropriated funds are "obligated with the execution of bilateral agreements which are, in effect, contracts between two sovereign governments. As contracts for goods and services are let, purchase orders executed, persons sent off for training, etc. under those agreements, funds are then considered to be 'committed.' (Such commitments are regarded as 'obligations' in usual federal accounting parlance.)"

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 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 stations emphasizing the need for better controls. In January 1992, in response to Congressional concerns over the findings in the 1989 audit report, the A.I.D. Controller also requested the A.I.D. Inspector General to conduct a follow-up review of the actions taken by the Office of Financial Management in response to the audit report.

Audit Objective

The Office of the Regional Inspector General for Audit/Cairo audited USAID/Egypt's practices for reviewing and reporting on unliquidated obligations to answer the following audit objective:

- Did USAID/Egypt 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/Egypt (1) followed applicable internal control procedures and (2) 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 significantly affect the audit objective and reasonable, but not absolute, assurance that our answers to the audit objective are correct. Appendix I contains a discussion of the scope and methodology for this audit. Our report on internal controls begins on page 19; our report on compliance on page 22.

Information obtained during this audit was also provided as input to a worldwide audit of A.I.D.'s unliquidated obligations performed by the Inspector General's Office of Programs and Systems Audits. The worldwide audit report, entitled "Audit of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations," was issued by the Inspector General on September 30, 1992 (Audit Report No. 9-000-92-013).

REPORT OF AUDIT FINDINGS

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

USAID/Egypt did not review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations and A.I.D. policies and procedures in four areas.

USAID/Egypt did not comply with Section 635(h) of the Foreign Assistance Act when it obligated funds for two of nine projects we reviewed for periods exceeding the Act's five-year limit for such obligations. It also obligated funds for three of the projects in amounts exceeding A.I.D.'s forward funding guidelines. As of March 31, 1992, these projects' unliquidated obligations totaling $522.7 million exceeded the guidelines' limits by about $22 million.

Also, USAID/Egypt did not promptly deobligate invalid obligations or effectively review expired commitments in accordance with applicable laws and policies which require the prompt deobligation of excess funds and the prompt and accurate recording of transactions. Our review of 13 expired projects' unliquidated obligations totaling $9,422,101 as of April 30, 1992 found $5,892,924 which were invalid and should be deobligated. Although the Mission had identified all but $198,607 of this amount for deobligation at the time of our review, including at least $2,403,708 which were invalid as of September 30, 1991, it had not deobligated the funds because it was awaiting authority to reobligate the funds under the deobligation/reobligation authority. As of April 30, 1992, USAID/Egypt's unliquidated obligations totaled about $2.2 billion.

We also reviewed 22 expired commitments totaling $71,485,390 as of April 30, 1992. The records showed that most commitment amounts and expiration dates were current and accurate. However, three commitments (totaling $5,837,122) had incorrect expiration dates and five others (totaling $9,456,131) were not current because A.I.D./Washington had not sent USAID/Egypt advices of charge (AOC's) for several months following the commitments' expirations to confirm liquidations. USAID/Egypt was also awaiting the receipt of AOC's -- again in some cases for several months -- for 12 other expired commitments totaling $2,217,856, which were part of the 13 expired projects' unliquidated obligations. As of April 30, 1992, USAID/Egypt's unliquidated commitments totaled about $1.1 billion.

USAID/Egypt should: (1) establish controls to ensure no funds are obligated for periods exceeding the Foreign Assistance Act's five-year limit, (2) take action to deobligate the $5,892,924 identified as invalid obligations under the expired projects, and (3) tighten procedures to ensure all expired commitments are promptly reviewed and followed up with appropriate Mission and/or A.I.D./Washington offices.

Obligations Exceeded the Foreign
Assistance Act's Five-Year Limit

Section 635(h) of the Foreign Assistance Act states that a contract or agreement shall not commit A.I.D. expenditures at any time for more than five years. A.I.D.'s legal counsel has advised that this section does not limit the life of the contract or agreement but only the length of time that funds can be obligated at any time in the future to five years. USAID/Egypt did not comply with this section of the Act in February 1992 when it increased funding to the level of full life-of-project authorizations for two of nine projects we reviewed whose terms extend until August 1997 and February 1999 and in September 1991 when it fully funded a component of one of the two projects. These actions, which raised one project's obligations to $50 million and the other's to $391 million (including $200 million for the project component), committed part of the funds for periods extending from one half year to two and a half years beyond the Act's five-year limit. We believe this occurred because Mission officials were either unaware of or failed to obtain clarification of this requirement of the Act. As a result, USAID/Egypt obligated funds for periods exceeding the Act's five-year limit.

> **Recommendation No. 1: We recommend that USAID/Egypt establish controls to ensure no funds are obligated at any time for periods that exceed the five-year limit authorized for such obligations by the Foreign Assistance Act.**

Section 635(h) of the Foreign Assistance Act states that, "A contract or agreement which entails commitments for the expenditure of funds available under chapter 1 (except development loans) and title II of chapter 2 of part I and under part II may, subject to any future action of the Congress, extend at any time for not more than five years." A.I.D.'s legal counsel has advised our office that this section does not limit the life of the contract or agreement but only the length of time that funds can be obligated at any time in the future to five years. The counsel noted that, "Many AID projects are incrementally funded and extend beyond five years. Each amendment to a project which obligates additional funds can add new money for a period not in excess of five years from the date of the amendment."

USAID/Egypt did not comply with Section 635(h) of the Foreign Assistance Act in February 1992 when it amended the grant agreements for projects 263-0194 and 263-0215, whose terms extend until August 31, 1997 and February 28, 1999, respectively, by increasing these projects' grants (obligations) to their full life-of-project authorizations of $50 million and $391 million, respectively. It also violated the Act in September 1991 when it amended project 263-0215's grant agreement by increasing obligations for project component 263-0215.06 to its full life-of-project authorization of $200 million. By fully funding these projects (or the project component) whose terms extend more than five years in the future from the date of funding, USAID/Egypt committed A.I.D. expenditures for periods in excess of the Foreign Assistance Act's five-year limit. For project 263-0194, this would be any expenditures planned for the period February through August 1997; for project 263-0215, any expenditures from February 1997 through February 1999; and for project component 263-0215.06, any expenditures planned for September 1996 through February 1999.

We were unable to determine the projected expenditure amounts for these periods because, contrary to A.I.D. handbook requirements[1], Mission personnel had not developed or updated financial plans and/or disbursement schedules for projects 263-0194 and 263-0215 through their completion dates. For example, a disbursement schedule contained in project 263-0194's project paper shows that the project will disburse $4,190,000 during fiscal year 1997 and $13,790,000 during fiscal years 1992 through

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[1] A.I.D. Handbook 3 (Chapter 3 including Appendix 3B and Chapter 9) requires that financial plans showing estimated expenditures by fiscal year through project completion be developed during the project's design stage and updated when delays or other changes occur. The handbook further states that the 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.

1994. However, when the Mission revised the project's planned expenditures for fiscal years 1992 through 1994 to $38,045,000 in its "Revised Planned Expenditures for Active Projects FY 92 - FY 94," it did not revise the figures for subsequent fiscal years, including fiscal year 1997. We do know, however, that the bulk of funds obligated for these projects have yet to be spent. As of March 31, 1992, project 263-0194's unliquidated obligations were $49 million (of the $50 million obligation total); and project 263-0215's were $361.9 million (of the $391 million total). As of April 1992, only $11.7 million of project component 263-0215.06's $200 million obligation had been committed, and the component had no disbursements through June 1992.

Regarding why funds were obligated in violation of the five-year limit established by Section 635(h) of the Foreign Assistance Act, a Financial Management official told us that a former Mission legal advisor had researched this requirement of the Act, but had not reached a conclusion or resolved the matter before leaving post. When we brought this matter to the attention of the Mission's acting legal advisor, she said the matter would not be resolved at USAID/Egypt but would be referred to A.I.D./Washington. Thus, we believe Mission personnel were either unaware of or failed to obtain clarification of this requirement of the Act. As a result, USAID/Egypt obligated an unspecified but potentially significant amount of A.I.D. funds for periods exceeding the Foreign Assistance Act's five-year limit for such obligations from one half year to two and a half years.

USAID/Egypt should establish controls to ensure no funds are obligated at any time for periods that exceed the five-year limit established for such obligations by the Foreign Assistance Act. In a September 30, 1992 report on "A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations," our Office of Programs and Systems Audits recommended 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 Act's five-year limit and deobligate the unauthorized obligations or take other appropriate action to resolve the problem.

Some Obligations Exceeded A.I.D.'s Forward Funding Guidelines

A.I.D. has established guidelines for "funding" (obligating funds for) future project expenditures (forward funding) because it realizes that such obligations are unavailable for other purposes and limit the agency's ability to respond quickly to new priorities. Although the guidelines limit projects' funding generally to not more than two years of future expenditures, they allow higher amounts in cases involving large commitments such as construction contracts. The guidelines, however, do not specify when -- i.e., how far in advance of contract award -- such obligations should be made. Our review of nine active USAID/Egypt projects with unliquidated obligations of $1.088 billion as of March 31, 1992 found three projects whose combined obligations of $522.7 million exceeded the guidelines' limits by about $22 million. Mission officials did not explain why this occurred. However, they stated that because of the "unique realities" of A.I.D.'s assistance program in Egypt, USAID/Egypt must obligate $815 million in Economic Support Funds each year and that the Mission's legal counsel has advised that funds must be obligated when large commitments such as construction contracts are advertised. By exceeding the guidelines' limits in three of nine cases reviewed, USAID/Egypt prematurely tied up $22 million which were not available for other program purposes.

This issue was addressed in the Inspector General's September 30, 1992 report on unliquidated obligations entitled "Audit of A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations." In that report, the Inspector General's Office of Programs and Systems Audits recommended that A.I.D.'s Office of Budget (1) develop better guidance on the levels allowed for forward funding and (2) instruct overseas missions to adhere to the prescribed guidance for forward funding.

A.I.D.'s "forward funding guidelines," issued by its Office of Budget in April 1991, state that funding for ongoing projects should be "no more than amount needed to maintain rate of implementation" and is "not to exceed 12 months of expenditures unless higher amount needed for large commitments, such as construction contracts." For new projects, the guidelines prescribe funding "not to exceed 24 months of expenditures..." In issuing these guidelines, the Office of Budget noted that, "Resources lingering in pipelines generally are unproductive in advancing the mission's or office's goals" and that, because of a "pattern in the past of overestimating expenditures...better expenditure estimates...are needed to complement efforts to ensure that sufficient funding is available for the Agency's highest-priority activities."

We judgmentally selected nine ongoing USAID/Egypt projects whose unliquidated obligations of about $1.088 billion on March 31, 1992 were about half of the Mission's total balance of unliquidated obligations and compared each project's balance with the guidelines. We considered balances that did not exceed two years of future expenditures as shown in the projects' financial plans or disbursement schedules and those that included full funding for large construction contracts to be within guideline limits. As shown in the following table, we found that three projects exceeded the limits by about $22 million. Although this amount is small compared to the $1.088 billion total, the dollar amount itself is significant.

List of Nine USAID/Egypt Projects Showing Amounts Exceeding Forward Funding Guidelines

Project	Completion Date	Unliquidated Obligations on 3-31-92	Amount Excess
263-0177	07-15-94	$19,948,000	
263-0102	08-08-94	$17,810,000	$4,913,000
263-0161.03	08-31-94	$34,022,000	
263-0173	09-30-94	$201,625,000	
263-0100	12-31-94	$142,885,000	$6,130,500
263-0160	04-12-95	$40,898,000	
263-0174	08-31-97	$220,259,000	
263-0194	08-31-97	$49,006,000	
263-0215	02-28-99	$361,992,000	$11,439,000
Total		**$1,088,445,000**	**$22,482,500**

For example, project 263-0100's balance of about $142.9 million is $6.1 million greater than the total prescribed by the guidelines. In 1991, two large construction contracts for $44.9 million and $40.4 million were awarded under the project. Adding these contracts' full values ($85.3 million) to the project's planned expenditures for the two years following March 1992 ($51.5 million) as shown in the project's April 1992 expenditure report (but excluding planned expenditures for the two contracts to avoid double counting) justifies a total obligation balance of $136.8 million. Since this amount is $6.1 million less than the actual balance of $142.9 million, we consider the $6.1 million difference to be in excess of the forward funding limits.

The USAID/Egypt Associate Director for Financial Management told us that the Mission tries to follow the guidelines but did not explain why they were not followed in the three cases. He stated that, because of the "unique realities" of A.I.D.'s assistance program in Egypt, USAID/Egypt must obligate $815 million in Economic Support Funds each year. He also stated that the Mission's legal counsel has advised that funds for large commitments such as construction contracts must be obligated when the contracts are advertised to the public. This may be an appropriate time to obligate the funds; however, the guidelines do not say when funds for "large commitments such as construction contracts" should be obligated -- e.g., when the contract is advertised, when it is awarded, or at some other time -- and months or years may elapse between project start-up, contract advertisement and contract award. Moreover, the Mission apparently did not always follow counsel's advice. In one case, it obligated $10 million for a construction contract under project component 263-0215.07 in September 1990, which was almost two years before the July 1992 date of contract advertisement. In another case, it obligated $76 million in August 1990 and $58 million in September 1991 under project component 263-0215.06 for a $134 million construction contract which project staff estimate will be advertised in December 1992 -- in other words, one to two years or more before the estimated date of advertisement.

Because A.I.D.'s forward funding guidelines do not specify when -- i.e., how far in advance of contract award -- obligations for large commitments should be made, we cannot conclude that USAID/Egypt exceeded guideline limits in these cases. However, we believe that "forward funding guidelines" that leave in doubt whether $144 million in obligations should be made months or years earlier or later are virtually useless. In the three cases cited earlier where the Mission exceeded guideline limits, we were able to calculate the excess amounts because there were no large construction contracts (project 263-0102), all such contracts had already been awarded (project 263-0100), and project components either had no such contracts (component 263-0215.05) or had already awarded them (component 263-0215.03). In these cases, by not following the guidelines, the Mission prematurely obligated $22 million which were not available for other program purposes.

We are not making a recommendation to the Mission in this area because the Inspector General's September 30, 1992 report on "A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations" has addressed this issue. In that report, the Inspector General's Office of Programs and Systems Audits recommended that A.I.D.'s Office of Budget (1) develop better guidance on the levels allowed for forward funding and (2) instruct overseas missions to adhere to the prescribed guidance for forward funding.

Expired Projects' Invalid Obligations
Were Not Deobligated Promptly

Federal law 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. Federal law also requires A.I.D.

to provide an annual report to the President and the U.S. Treasury identifying the amount of unliquidated obligations and a certification that the obligations do not exceed the requirements for which the funds were obligated. A.I.D. handbooks further direct controllers to continuously review unliquidated obligations to determine if they exceed the requirements for which the funds were obligated and to deobligate any excess funds promptly. Our review of 13 expired projects' unliquidated obligations totaling $9,422,101 as of April 30, 1992 found $5,892,924 which were invalid and should be deobligated. Although USAID/Egypt had identified all but $198,607 of this amount for deobligation at the time of our review, including at least $2,403,708 which were invalid as of September 30, 1991, it had not deobligated the funds because it was awaiting authority to reobligate the funds under the deobligation/reobligation authority. As a result, about $5,892,924 in USAID/Egypt funds were not deobligated promptly in accordance with A.I.D. policy, and USAID/Egypt overstated its 1991 fiscal year-end obligations by at least $2,403,708.

> Recommendation No. 2: **We recommend that USAID/Egypt take action to deobligate the $5,892,924 identified as invalid obligations under the 13 expired projects.**

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 the obligations do not exceed the requirements for which the funds were provided. Federal laws (31 U.S.C. 1108 and 1554) also require that each Federal agency provide with its annual appropriation request a report to the President and the U.S. Treasury identifying the amount of unliquidated obligations and a certification that the funds 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 continuously review unliquidated obligations 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. A.I.D. Handbook 19 (Chapter 2 [M]) 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. The A.I.D. Controllers Handbook states that once project funds are obligated in a Project Agreement they remain available for the project until expended unless it has been clearly established that there are funds in excess of total A.I.D. project budget requirements, in which case deobligation procedures are initiated and deobligation accomplished.

As of April 30, 1992, USAID/Egypt's accounting records listed about $2.2 billion in unliquidated obligations including $10,087,056 involving 22 expired projects. We judgmentally selected 13 of these projects with unliquidated obligations totaling $9,422,101 for review and found that $1,311,321 had been or would soon be disbursed, $2,217,856 involved expired commitments for which USAID/Egypt had been awaiting the receipt of advices of charge (AOC's) to confirm liquidations (See next report section.), and the remaining $5,892,924 were no longer valid obligations. (See Appendix III for a list of all 13 projects and a breakout of the unliquidated obligation amounts.)

USAID/Egypt had already identified all but $198,607 of the above $5.9 million for deobligation and reobligation at the time of our review, including $2,403,708 which was part of a balance of $3,293,308 which the Mission Controller reported "should be deobligated..." in a September 30, 1991 memorandum to another Mission office. The Mission, however, did not deobligate this amount at the fiscal year-end -- when the USAID/Egypt Controller certified over $2 billion as valid unliquidated obligations -- because the Mission planned, according to the memo, to "utilize the Deobligation/Reobligation Authority early in the next year..." In some cases, Mission accountants also told us they could not deobligate expired projects' <u>un</u>committed balances until the projects' "terminal disbursement dates" (which are normally nine months after the "project assistance completion date" -- i.e., the date when A.I.D.-financed assistance ends). However, in our opinion, the terminal disbursement dates are not relevant in such cases since uncommitted funds cannot be disbursed. Instead, based on the requirements of federal law and absent specific justification showing the funds are still needed, we believe such uncommitted obligations become invalid the day A.I.D. assistance ends.

Following are examples of invalid obligations which were not promptly deobligated in accordance with A.I.D. policy.

> In a June 1991 "FY 1991 Deob/Reob Notification" cable, USAID/Egypt notified A.I.D./Washington that it intended to deobligate and reobligate $13,975,867 including $45,629 on expired project 263-0105 and $106,427 on expired project 263-0110. A.I.D./Washington sent a return cable in July 1991 notifying USAID/Egypt that these amounts were "Section 517" or "no year" allowances which could be "deobligated by Mission without prior notification to Congress." A.I.D./Washington also sent a cable in August 1991 which specifically excluded these amounts from USAID/Egypt's reobligation allowance. Nevertheless, USAID/Egypt kept these obligations through September 30, 1991 and included

them once again in a March 1992 deobligation/reobligation notification cable. Accounting personnel told us they had no record of the July 1991 cable which we obtained from another Mission office. Nevertheless, we believe the August 1991 cable which specifically excluded these funds from USAID/Egypt's reobligation allowance should have alerted the accountants, as it did us, to the need to deobligate the funds by the fiscal year-end.

USAID/Egypt did not deobligate $147,174 on expired project 263-0097.01 by September 30, 1991 despite the project officer's urging that this be done. In a September 15, 1991 memo, the officer wrote that, "for the third time since I arrived in September 1989, I ask that the pipeline of $147,173 be deobligated" since "all activity under this project has ceased." The accountants told us that they could not deobligate the funds until the project's "terminal disbursement date" of June 21, 1992 or until the Mission received its deobligation/reobligation authority. We do not believe the project's terminal disbursement date is relevant since these funds are uncommitted under an expired project and therefore cannot be disbursed. In our opinion, based on the requirements of federal law, these funds became invalid on September 21, 1991, the day A.I.D. assistance ended.

USAID/Egypt did not deobligate or include the uncommitted balance of $26,654 on expired project 263-0033 in its March 1992 deobligation/reobligation cable although the project officer recommended the amount be deobligated in a January 1992 memo. An accountant explained that her office was awaiting the project's terminal disbursement date before proposing the amount for deobligation since USAID/Egypt must await A.I.D./Washington's approval to deobligate funds. We do not believe the project's terminal disbursement date is relevant since these funds are uncommitted under an expired project and therefore cannot be disbursed. In our opinion, based on the requirements of federal law, these funds became invalid on September 30, 1991, the day A.I.D. assistance ended.

USAID/Egypt had been trying to determine since February 1990 whether an expired commitment of $801,831 on expired project 263-0117 had been liquidated. Finally, A.I.D./Washington notified the Mission in October 1991 that, "incomplete records make it impossible to provide accurate figures for the closeout balance of the subject L/COM" and suggested the Mission "write off any unliquidated balance but not use funds for reobligation." USAID/Egypt promptly decommitted the funds on October 31, 1991. However, it did not "write off" the balance but included the funds in its March 1992 deobligation/reobligation notification cable. Based on the apparent inability to accurately determine this balance, we question USAID/Egypt's proposal to reobligate the funds.

Although USAID/Egypt identified nearly all of the $5.9 million which we identified as invalid obligations, it delayed deobligating the funds in order to reobligate them under the deobligation/reobligation authority. However, this action conflicts with A.I.D. policy which requires that invalid or excess funds be deobligated promptly and that, when reviews disclose that all or a portion of the unliquidated balance is invalid and should be deobligated, a journal voucher is prepared and processed prior to closing the accounts and preparing the fiscal year-end reports. By not following A.I.D. policy in the above cases, USAID/Egypt did not promptly deobligate invalid obligations totaling almost $5.9 million and overstated its 1991 fiscal year-end unliquidated obligations by at least $2,403,708. USAID/Egypt should take action to deobligate the $5,892,924 in invalid obligations under the 13 expired projects.

Expired Commitments Were Not Always
<u>Promptly Reviewed and Followed-up</u>

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. In 1989, A.I.D.'s Office of Financial Management issued guidance to overseas controllers directing them to perform at least quarterly reviews to verify the adequacy of commitment documents and the currency of the termination dates supporting the commitments. Prompt recording and proper classification of transactions are needed to provide a sound basis for financial management decisions. Our review of 22 expired commitments totaling $71,485,390 as of April 30, 1992 found records showing that the commitment amounts and expiration dates were accurate and current in most cases. However, three commitments totaling $5,837,122 had incorrect expiration dates and five others totaling $9,456,131 were not current because A.I.D./Washington had not sent USAID/Egypt advices of charge (AOC's) for several months following the commitments' expirations to confirm liquidations. USAID/Egypt was also awaiting AOC's -- again in some cases for several months -- for 12 other expired commitments totaling $2,217,856, which were part of the 13 expired projects' unliquidated obligations discussed earlier. In these cases, the accounting data were not accurate or current in part because Mission accountants did not promptly follow up with project managers to confirm the expiration dates or with A.I.D./Washington to remind it of the missing AOC's. As a result, USAID/Egypt did not have accurate and current data regarding millions of dollars of unliquidated commitments.

> **<u>Recommendation No. 3:</u> We recommend that USAID/Egypt tighten procedures to ensure all expired commitments are promptly reviewed and followed up with appropriate Mission and/or A.I.D./Washington offices.**

The U.S. General Accounting Office's "Standards for Internal Controls in the Federal Government" state 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 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. 1554).

A.I.D.'s Office of Financial Management issued guidance to overseas controllers in October 1989 stating that it was incumbent on them to perform at least quarterly reviews to verify the adequacy of the commitment documents and the currency of the termination dates in the agreements supporting the obligations and commitments. The guidance further stated:

> 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.

As of April 30, 1992, USAID/Egypt's accounting records listed about $1.1 billion in unliquidated commitments including 403 expired commitments with unliquidated balances totaling $104,456,922. We judgmentally selected 22 expired commitments -- each of which was $1,000,000 or more -- totaling $71,485,390 for review and found records showing that Mission Financial Management personnel had verified the adequacy of the commitment documents and the accuracy of the termination dates in most cases. However, three commitments totaling $5,837,122 had incorrect expiration dates and five others totaling $9,456,131 were not current because A.I.D./Washington had not sent USAID/Egypt AOC's for several months following the commitments' expirations to confirm liquidations. (See Appendix IV for a list of all 22 commitments.) USAID/Egypt was also awaiting AOC's -- again in some cases for several months -- for 12 other expired commitments totaling $2,217,856, which were part of the 13 expired projects' unliquidated obligations discussed in a prior report section. (See Appendix III.)

The accounting records were not accurate or current in these cases in part because Mission accountants did not promptly follow up with project managers to confirm the expiration dates or with A.I.D./Washington to remind it of missing AOC's. We recognize that USAID/Egypt cannot compel A.I.D./Washington to provide missing AOC's and that A.I.D./Washington is responsible for providing them to the Mission in a timely manner. However, we believe the Mission also has a responsibility to communicate with A.I.D./Washington when AOC's are not received within a reasonable time to keep accounting records current.

Following are examples of commitments with incorrect expiration dates or balances that are no longer current where we believe Mission controller personnel could have followed up sooner with other offices to ensure the accounting records' accuracy.

> USAID/Egypt's accounting records show that commitment No. L/COM - 0201.01.42 with a balance of $1,705,000 expired on December 14, 1990. The project officer said this date was incorrect and provided us the commitment document showing the correct date to be September 30, 1993. The chief accountant agreed that the date was incorrect but could not provide us the source document for the incorrect posting. The accountant told us that the Mission has been reconciling letters of commitment in the -0201.01 series since August 1991; but we could not determine why this erroneous posting had been overlooked since that time.
>
> USAID/Egypt's accounting records show that commitment No. PIO/C -0144-5-00076 totaling $1,463,781 expired on December 31, 1991. However, the commitment document was amended in October 1991 to extend the expiration date to December 31, 1992. Mission accountants recorded the revised expiration date in June 1992 only after they had received a payment voucher requiring confirmation of the date from the project officer. Since the accounting records showed the commitment "ended" on December 31, 1991, we believe the accountants could have inquired about the accuracy of the commitment's expiration date months earlier.
>
> USAID/Egypt's accounting records show and we confirmed that three commitments -- Nos. L/COM's -0201.01.24, -0201.01.11, and -0201.01.16 -- totaling $6,573,876 expired on May 15, 1991 and that commitment No. L/COM - 0201.01.21 totaling $1,781,816 expired on July 31, 1991. The accountants told us they have been trying to reconcile these balances since receiving an AOC Disbursement Report from A.I.D./Washington in August 1991. The report revealed that USAID/Egypt had not received all AOC's from A.I.D./Washington for 1991. However, available records show the accountants only first inquired

about the missing AOC's in March 1992. A.I.D./Washington reported in July 1992 that the subject L/COM's are now "all...closed on our records..."

USAID/Egypt's accounting records show that the unliquidated balance of $426,678 on project 263-0097.02 (See Appendix III.) is composed of three commitments, each of which expired in March 1991. Accountants could not find documentation showing that USAID/Egypt had asked A.I.D./Washington about this balance until February 1992, when the Mission inquired and A.I.D./Washington responded that the balance was "NIL." Since then, no additional correspondence was sent to confirm the liquidation, and the Mission is still awaiting receipt of AOC's to liquidate the balance.

Although accounting records were accurate and current for most of the 22 expired commitments we reviewed, Mission accountants did not promptly follow up with project managers to confirm expiration dates in 3 cases or with A.I.D./Washington in 5 other cases to obtain missing AOC's. As a result, USAID/Egypt did not have accurate and current data regarding millions of dollars of unliquidated commitments. Although A.I.D./Washington is responsible for providing AOC's to USAID/Egypt in a timely manner, we believe Mission staff are also responsible for following up with A.I.D./Washington whenever the AOC's are not received within a reasonable time to keep accounting records current. USAID/Egypt should tighten procedures to ensure all expired commitments are promptly reviewed and followed up with appropriate Mission and/or A.I.D./Washington offices.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Egypt stated that it had taken or will take action to implement Recommendations Nos. 1, 2 and 3. The Mission reported that it had deobligated over $6 million in fiscal year 1992 relating to the 13 expired projects identified in our audit and provided a project-by-project breakout showing the amounts disbursed and deobligated. It also reported that it had conducted a thorough Section 1311 review at the fiscal year end in September 1992 and will continue to do so in the future.[2] During this review, Mission controller staff hand-carried computerized reports on obligations and commitments, a copy of A.I.D.'s October 1989 expanded guidance on Section 1311 reviews, and a memo to project officers asking them to examine all expired commitments with special emphasis on project completion dates and commitment expiration dates. Project accountants analyzed the officers' submissions, which involved 68 projects and about 1,100 commitments to determine and take necessary action. At the completion of the procedure, the Mission Controller reviewed and approved the Section 1311 review. Based on these actions, we consider Recommendations Nos. 2 and 3 to be closed.

The Mission also stated that it will (1) issue a staff notice to remind Mission personnel of the Foreign Assistance Act's five-year limit for obligating funds and (2) ensure that Action Memorandums transmitting project and program agreements for the Mission Director's signature advise the Director that this requirement has been met. Based on these proposed actions, we consider Recommendation No. 1 to be resolved. We will close the recommendation when the staff notice is issued and when evidence is provided

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[2] Section 1311 of the Supplemental Appropriations Act of 1955 (31 U.S.C. 1501) provides that an amount shall be recorded as an obligation only when supported by documentary evidence showing that a valid and binding agreement in writing and for a purpose authorized by law has been executed before the expiration of fund availability. Section 1311 reviews verify the validity of obligations and commitments.

showing that such Memorandums advise the Mission Director that the requirements of Section 635(h) of the Foreign Assistance Act have been met. See Appendix II for the Mission's complete comments.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of internal controls for the audit objective.

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 objectives; 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 objectives and not to provide assurance on the overall internal control structure. For the purposes of this report, we have classified significant internal control policies and procedures applicable to the audit objective by category. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation. 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 and Office of Management and Budget implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The U.S. 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 control policies and procedures for Federal foreign assistance programs are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss and misuse; and reliable data are 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 a system will work in the future is risky because conditions may change or the system itself may not be properly administered.

Conclusion for Audit Objective

The audit objective was to determine if USAID/Egypt 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, the "Standards for Internal Controls in the Federal Government" issued by the U.S. General Accounting Office, and A.I.D.'s "Forward Funding Guidelines" and appropriate internal control policies and procedures cited in A.I.D. Handbooks 3 and 19, the A.I.D. Controllers Handbook, and the expanded guidance issued by A.I.D.'s Office of Financial Management in October 1989. For the purposes of this report, we classified the applicable internal controls into the following categories: maintaining obligation levels in accordance with A.I.D.'s forward funding guidelines; maintaining and updating projects' financial implementation plans; identifying and deobligating, decommitting and/or reprograming invalid obligations and commitments; and reviewing expired commitments.

Our tests showed that USAID/Egypt did not follow prescribed policies and procedures as noted below:

- USAID/Egypt did not always adhere to the forward funding guideline limits when obligating funds for projects.

- USAID/Egypt did not always maintain and update projects' financial implementation plans.

- USAID/Egypt did not always promptly deobligate invalid obligations.

- USAID/Egypt did not always promptly review and follow up expired commitments.

In a September 30, 1992 report on "A.I.D.'s Practices for Reviewing and Reporting on Unliquidated Obligations," our Office of Programs and Systems Audits noted that, "the eight individual accounting offices we reviewed [including USAID/Egypt] had not identified the internal control weaknesses we found" and recommended that A.I.D.'s Office of Financial Management "issue guidance and directions to responsible mission controllers...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..."

REPORT ON COMPLIANCE

This section summarizes our conclusions on compliance with applicable laws and regulations.

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 include designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives); 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 USAID/Egypt's compliance with Section 635(h) of the Foreign Assistance Act which limits the length of time that funds can be obligated at any time in the future to five years and with 31 U.S.C. 1108 and 1554 which requires the A.I.D. Controller to report on the validity of unliquidated obligations.

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 the law and regulations but violate either their spirit or the more general standards of impartial and ethical behavior. Compliance with Section 635(h) of the Foreign Assistance Act and the requirements of Federal law (31 U.S.C. 1108 and 1554) is the overall responsibility of USAID/Egypt's management.

Conclusions on Compliance

The results of our tests of compliance disclosed that USAID/Egypt did not comply with the following requirements:

- USAID/Egypt did not comply with Section 635(h) of the Foreign Assistance Act which limits the length of time that funds can be obligated at any time in the future to five years. (See page 4.)

- USAID/Egypt did not provide an accurate certification to the A.I.D. Controller on the validity of reported unliquidated obligations as of September 30, 1991 in accordance with the requirements of Federal law (31 U.S.C. 1108 and 1554). (See page 9.)

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's practices for reviewing and certifying the validity of its unliquidated obligations in accordance with generally accepted government auditing standards as part of a worldwide audit by the Inspector General's Office of Programs and Systems Audits. We conducted the audit from May 6, 1992 through August 5, 1992 and covered USAID/Egypt's procedures relating to its reviews of unliquidated obligations through April 30, 1992. We conducted our work at USAID/Egypt.

We used a sampling methodology which was designed to select obligations and commitments that would have the greatest chance of being invalid. We obtained computer-generated lists from USAID/Egypt's computerized Mission Accounting and Control System as of April 30, 1992 showing USAID/Egypt's (1) expired unliquidated obligations, (2) expired unliquidated commitments, and (3) unliquidated obligations on projects having terminal disbursement dates after April 30, 1992. We reviewed these lists whose unliquidated balances totaled $2,303,423,251 and judgmentally selected 44 unliquidated balances totaling $1,169,352,491 for detailed review. We did not verify the overall reliability of this computer-generated data. However, we obtained source documentation for sampled obligations and commitments in order to corroborate expiration dates and to test the obligations' and commitments' continuing validity.

From the first list, we judgmentally selected 13 unliquidated obligations, each $100,000 or more, representing 13 expired projects and totaling $9,422,101 or about 93 percent of the list's $10,087,056 in expired obligations. Nine of the obligations included 34 expired commitments, which we also reviewed. From the second list, we judgmentally selected 22 expired commitments, each $1,000,000 or more, totaling $71,485,390 or about 72 percent of the list's $99,269,369 in expired commitments (excluding the 34 commitments selected from the first list). Finally, we judgmentally selected nine active USAID/Egypt projects from the third list whose unliquidated obligations on March 31, 1992 totaled $1,088,445,000 or about half of the list's unliquidated obligations. As of April 30, 1992, USAID/Egypt had about $2.2 billion in unliquidated obligations and about $1.1 billion in unliquidated commitments.

Information on the kinds and sources of information used during the audit and on audit techniques for the audit objective is given in the following methodology section. We examined the internal controls related to the audit objective, reported on the controls, and considered prior audit findings when applicable to the areas under review.

Methodology

The methodology for the audit objective follows.

Audit Objective

The audit objective was to determine if USAID/Egypt reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations and A.I.D. policies and procedures. To determine whether obligations on nine active USAID/Egypt projects (selected from the third list) complied with the Foreign Assistance Act's five-year limit for obligating funds and met A.I.D.'s forward funding guidelines, we asked project officers to provide us the most current available project financial plans or disbursement schedules and asked them whether the projects had large construction contracts or would have them in the future. We also obtained the Mission's current list of planned expenditures for active projects for fiscal years 1992 through 1994, which is used for A.I.D.'s annual budget submission. In addition, we obtained copies of grant agreements and agreement amendments in cases where total obligations matched life-of-project authorizations and project completion dates were more than five years in the future.

To provide a common basis for evaluation, we calculated each project's unliquidated obligation balance from the amounts shown in the Mission's Quarterly Report as of March 31, 1992 (i.e., total obligations minus disbursements). To see if these balances met the forward funding guidelines, we subtracted the full remaining (undisbursed) value of awarded construction contracts (as reported by project officers or shown in project records) and two-years' worth of anticipated project expenditures following March 1992 as shown in the projects' financial plans or disbursement schedules or in the Mission's list of planned expenditures for active projects (but excluded, when the plans and schedules were sufficiently detailed, any amounts for the construction contracts). Any balances remaining after the above subtractions were considered to exceed the forward funding guidelines. In cases where project officers said construction contracts would be awarded in the future, we did not use the forward funding guidelines to calculate balances because the guidelines do not state when -- i.e., how far in advance of contract award -- funds should be obligated for such commitments.

We found that some financial plans/schedules were not current and had not been updated through the projects' completion dates. However, due to time and resource constraints, we did not determine why the plans were not updated or if not updating them caused the projects' obligations to exceed the forward funding guidelines.

To determine the validity of the expired obligations and commitments (selected from the first and second lists), we met with USAID/Egypt accountants to obtain documentation (such as project implementation letter, letters of commitment, contract modifications, journal vouchers, written communications with project staff, etc.) to confirm the accuracy of the expiration dates and balances and to determine if the amounts had been liquidated or had continuing documentary support. When necessary, we confirmed the documents' validity and obtained additional documentation for the unliquidated balances from USAID/Egypt project staff. Based on the requirements of Federal law and A.I.D. policies and procedures, we considered expired projects' <u>un</u>committed balances and expired commitments which records showed were no longer needed to be invalid obligations or commitments. We confirmed whether identified invalid obligations were invalid as of September 30, 1991 by tracing the obligations to those listed in a memorandum of September 30, 1991 in which USAID/Egypt's Controller identified potential deobligations. We discussed USAID/Egypt's procedures for reviewing expired obligations and commitments with controller staff when documentation did not support the continuing need for the obligations and commitments or was otherwise unavailable to support their validity, and we obtained the staff's explanations why invalid balances had not been deobligated or decommitted.

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

JAN 26 1993

28 JAN 1993

TO: Philippe L. Darcy, RIG/A/C

FROM: Christopher Crowley, D/DIR

SUBJECT: Audit of USAID/Egypt's Practices for Reviewing and Reporting on Unliquidated Obligations - Draft Report

Following is the Mission response to the recommendations under the subject Draft Report:

Recommendation No. 1:

We recommend that USAID/Egypt establish controls to ensure no funds are obligated at any time~~,~~ for periods that exceed the five-year limit authorized for such obligations by the Foreign Assistance Act.

Mission Response:

Mission will take the following steps to address this recommendation:

1. Issue a Mission-wide Staff Notice that restates the five-year obligation rule and serves as a reminder to Mission personnel, particularly those involved in project design and PP preparation.

2. Notify the Mission Director (or his/her designee) at the time of obligations (either new or incremental) that this rule has been met. This will be done in the text of the Action Memorandum (the so-called Six-point Memorandum), which transmits all project and program agreements to the Mission Director for signature.

Based on the above, Mission requests that this Recommendation be resolved. Mission will request closure upon issuance of the staff notice.

Recommendation No. 2:

We recommend that USAID/Egypt take action to deobligate the $5,892,924 identified as invalid obligation under the 13 expired projects.

Mission Response:

Attachment I is a summary of Mission's actions to deobligate $6.7 million in FY 93 for the 13 expired project identified in the audit report. Mission would like to add that the $5,892,924 was clearly identified by the Mission, and was increased to $6.7 million based on its regular 1311 reviews, and was deobligated in FY 92. Also, approximately $3.2 million was previously identified for deobligation by the Mission in FY 91, but was not deobligated due to a conflict between the deobligation procedures of the agency and the 1311 requirements. Based on the above, Mission requests closure of this Recommendation.

Recommendation No. 3:

We recommend that USAID/Egypt tighten procedures to ensure all expired commitments are promptly reviewed and followed up with appropriate Mission and/or AID/Washington Offices.

Mission Response:

The Mission used the procedures discussed below for the 1311 review required at fiscal 1992 year end. The Office of Financial Management identified the following MACS reports (except for item D), and hand-carried them to every Project Officer in USAID/Cairo on August 17, 1992:

(A) **The P09**, Project Accrual Work sheets.
(B) **The P11**, 1311 Analysis Report of Commitments.
(C) **The P06A**, Summary Project Financial Report.
(D) **The P04**, Commitment Liquidation Records Report is available to Project Officers upon their request but not routinely distributed due to the size of USAID/Egypt's portfolio.

Attached to the reports was a memo from the Controller with a copy of the expanded Guidance on Section 1311 Review, dated October 12, 1989. The Controller's memo requested that the Project Officers examine all expired commitments with special emphasis on PACDs and expiration dates of the commitments, and to return the completed reports to FM by September 7, 1992.

The memo also made it clear that deobligation of such funds would occur on September 30, 1992, absent a compelling documented reason to the contrary concurred to by the Associate Director of each Technical Office and the USAID Mission Director. Additionally, FM offered the services of the Project Accountants and/or the Financial Analysts to assist the Project Officers in completing the 1311 review.

On the morning of September 7, 1992, the Project Accountants contacted all Project Officers to collect the 1311 Analysis Report of Commitments. By C.O.B. September 7, 1992, the Project Accountants ensured that the reports with adequate supporting documentation for each project having unliquidated obligated balances were collected from the Project Officers.

Beginning on September 8, 1992, the Project Accountants analyzed the Project Officers' submissions to determine the necessary actions required by FM. 68 projects and approximately 1100 commitments were reviewed and documented by commitment and project. Upon completion of this exercise, the USAID/Egypt

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Controller reviewed and approved the Annual 1311 Review. The resulting actions were documented by the Controller's Office staff using Journal Vouchers SF-1017, amendments to the Commitment, and/or reservation documents.

FM will continue to follow the above procedures for all future Annual 1311 Reviews. The above reports and supporting documentation for the Mission's Annual 1311 Review as of September 31, 1992 are available for your review in the Office of FM, if needed. Based on the above actions, we request that this recommendation be closed.

Att: a/s above

ANALYSIS OF EXPIRED COMMITMENT DOCUMENTS
AS OF 09/30/91

M I S S I O N
AS OF 09/30/92

A U D I T
AS OF 09/30/91

COMMITMENT DOCUMENT	AMOUNT DECOMMITED	WAITING AOCS	ACTION TAKEN	COMMITMENT DOCUMENT	AMOUNT NOT NEEDED	AWAITING AOCS
CO-0132-C-5060		967,899 44	EMAIL 09/29/92	CO-0132-C-5060		1,100,439 00
FARA 24A-0173	1,033,950 44		DECOMMIT JV-92-906	FARA 24A-0173	1,034,792 00	
L/COM-263-0173.03	1,544,269.00		DECOMMIT JV-92-639	L/COM-263-0173 03	1,544,269 00	
L/COM-263-0201.01.24		71,689 44	1/	L/COM-263-0201 01 24		2,794,779 00
L/COM-263-0201.01 21		4,329 49	2/	L/COM-263-0201 01 21		1,781,816 00
L/COM-263-0201.01.11		1,016,247 88	3/	L/COM-263-0201 01 11		1,015,105 00
L/COM-263-0201.01.16		1,447 62	4/	L/COM-263-0201 01 16		2,763,992 00
T O T A L	2,578,219.44	2,061,613 87		T O T A L	(A) 2,579,061 00	(D) 9,456,131 00

1/ $ 2,723,089 56 DISBURSED AS OF TODAY BALANCE OF # 71,689 44 IS EXPECTED TO BE DECOMMITED AFTER CONFIRMATION WITH AID/W
2/ $ 1,777,816 00 DISBURSED AS OF TODAY BALANCE OF $ 4,329 49 IS EXPECTED TO BE DECOMMITED AFTER CONFIRMATION WITH AID/W
3/ AN E-MAIL WAS SENT TO AID/W DURING SEPT 92 ANOTHER FOLLOW-UP WILL BE SENT TO AID/W SOON
4/ $ 2,762,592 00 DISBURSED AS OF TODAY BALANCE OF $ 1,447 62 WILL BE DECOMMITTED AFTER CONFIRMATION WITH AID/W

ANALYSIS OF USAID/EGYPT'S INACCURATE CERTIFICATION
AS OF 09/30/91

MISSION AS OF 09/30/92

AUDIT REPORT AS OF 09/30/91

PROJECT NO.	PACD	TDD	AMOUNT DISB FY 92	AMOUNT DEOB FY 92	DESTINATION OF FUNDS	AMOUNT NOT NEEDED	AMOUNT NOT NEEDED ON 09/30/91	AWAITING AOCS
2630030	06/30/91	03/31/92	1,993,961.47	1,708,180.00	REOB PVO 220	1,263,604.00	27,795.00	
2630033G	09/30/91	06/30/92	1,201,287 07	9,011 10	FY'85 AND PRIOR	26,654 00		
2630033L			323,077 78	62,557 53				
			1,524,364 85	71,568.63				
2630066	08/26/88	05/26/89	0 00	489,988 74	FY 85 AND PRIOR	328,409 00	161,580 00	
2630097.01	09/21/91	06/21/92	0 00	147,173 84	FY'85 AND PRIOR		147,174 00	
2630097.02	09/21/91	06/21/92	842,813 61	53,527.77	FY'85 AND PRIOR		53,528 00	426,678 00
2630105	09/27/90	06/27/90	426,300 93	61,782 40	FY'85($58,602 40) FY87($3,180 00)	23,691 00	45,629 00	216,042 00
				26,196 38	FY'87 REOB 398-0377 DI			
				87,978.78				
2630110.00	01/31/90	07/31/91	(339 01)	120,052 90	FY'85 AND PRIOR	13,626 00	106,427.00	
2630112 00	09/21/91	06/21/92	470,298 80	848,260 23	FY'85 AND PRIOR	395,514 00	411,610 00	46,302 00
2630117.00	12/30/89	09/30/90	0 00	801,831 21	FY'85 AND PRIOR		801,831 00	
2630123 01	05/31/91	02/28/92	82,057 56	1,368 10	FY'85 AND PRIOR	23,572 00	1,368 00	38,228 00
				39,124 25	REOB 398-0377 DI($23,572 16)			
				40,492.35				
2630137.00	09/30/91	06/30/92	3,545,193 78	1,707,672 62	REOB 398-0377 DI($1,338,067 47)	960,370 00	646,766 00	1,454,774.00
				431,836 63	FY'85 AND PRIOR			
				2,139,509 25				
2630161 04	09/30/91	06/30/92	762,033 05	288,819 64	FY'85 AND PRIOR	288,820 00		
2630161.08	09/30/91	06/30/92	37,110.21	167,040 04	FY'85 AND PRIOR	164,956 00		35,832 00
T O T A L			9,683,795.25	6,964,423.38		(B) 3,489,216 00	(C) 2,403,708 00	(E) 2,217,856 00
						(F) 5,892,924.00		

Total awaiting AOCS (D+E) $11,673,987 (As per worldwide audit)
Total not needed amount as per mission audit (B+C) $5,892,924
Total not needed amount as per worldwide audit (A+F) $8,471,985

List of Unliquidated Obligations for 13 Expired USAID/Egypt Projects as of April 30, 1992[3]

Project/ Amounts Tested	PACD	Already Spent	Amt. Not Needed	Not Needed on 9-30-91	Awaiting AOC's
263-0030 $1,826,119	6-30-91	$534,720	$1,263,604	$27,795	
263-0033 $227,779	9-30-91	$201,125	$26,654		
263-0066 $489,989	8-26-88		$328,409	$161,580	
263-0097.01 $147,174	9-21-91			$147,174	
263-0097.02 $480,206	9-21-91			$53,528	$426,678
263-0105 $362,562	9-27-90	$77,200	$23,691	$45,629	$216,042
263-0110 $120,053	1-31-90		$13,626	$106,427	
263-0112 $1,029,386	9-21-91	$175,960	$395,514	$411,610	$46,302
263-0117 $801,831	12-30-89			$801,831	
263-0123.01 $122,716	5-31-91	$59,548	$23,572	$1,368	$38,228
263-0137 $3,324,678	9-30-91	$262,768	$960,370	$646,766	$1,454,774
263-0161.04 $288,820	9-30-91		$288,820		
263-0161.06 $200,788	9-30-91		$164,956		$35,832
Total: $9,422,101		$1,311,321	$3,489,216	$2,403,708	$2,217,856

[3] We audited the unliquidated obligation balances for the 13 projects in this table. These balances were obtained from USAID/Egypt's computerized Mission Accounting and Control System.

List of 22 Expired USAID/Egypt Commitments as of April 30, 1992[4]

Commitment & Unliquidated Balance	Expiry Date	Was date correct on 4-30-92?	Amount Not Needed	Awaiting AOC's
L/COM -0100-09 $1,246,081	02-28-92	Yes, but being extended		
L/COM -0100-09 $9,558,000	02-28-92	Yes, but being extended		
L/COM -0100-09 $3,849,164	02-28-92	Yes, but being extended		
L/COM -0100-08 $3,506,219	06-30-90	Yes		
PIL#10 -0125.01 $2,668,341	12-31-91	No		
CO-0132-C-5060 $1,100,439	12-31-91	Yes		$1,100,439
PIO/C -0144-5-00076 $1,463,781	12-31-91	No		
PIL#RES-015-0152.01 $1,336,379	06-30-91	Yes[5]		
L/COM -0160-03 $1,384,632	12-31-91	Yes, but being extended		
CO-0161-C-00-8014 $2,262,142	04-30-92	Yes		
L/COM -0161.03-01 $19,377,304	08-31-91	Yes, but being extended		

[4] We audited the commitment balances and expiration dates in this table which were obtained from USAID/Egypt's computerized Mission Accounting and Control System.

[5] In a July 7, 1992 memo to the Controller's Office, the project officer requested that the decommitting exercise for this PIL be "suspended" until an assessment of the activity financed by the PIL had been finalized.

FARA 24B -0173 $1,536,589	04-09-92	Yes, but being extended		
FARA 24A -0173 $1,991,244	02-27-92	Yes	$1,034,792[6]	
FARA 23A -0173 $5,927,171	03-15-92	Yes, but has been extended		
L/COM -0173.03 $1,594,097	09-13-91	Yes	$1,544,269[7]	
CO-0182-C-00-8041 $1,576,052	04-30-92	Yes, but being extended		
L/COM -0201.01 .42 $1,705,000	12-14-90	No		
L/COM -0201.01 .24 $2,794,779	05-15-91	Yes		$2,794,779
L/COM -0201.01 .21 $1,781,816	07-31-91	Yes		$1,781,816
L/COM -0201.01 .11 $1,015,105	05-15-91	Yes		$1,015,105
L/COM -0201.01 .16 $2,763,992	05-15-91	Yes		$2,763,992
CO-0209-C-00-9096 $1,047,063	04-30-92	Yes, but has been extended		
Total: $71,485,390		**3 No/19 Yes**	**$2,579,061**	**$9,456,131**

[6] According to the project accountant, this balance will be decommitted when the final payment voucher is approved.

[7] A journal voucher was prepared to decommit this amount in July 1992.

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