

Regional Inspector General for Audit
Nairobi, Kenya

Audit of
USAID/Swaziland's Closeout Procedures for
Expired USAID Contracts, Grants and
Cooperative Agreements

Report No. 3-645-94-003
January 28, 1994





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

January 28, 1994

MEMORANDUM

TO: USAID/Swaziland Director, Valerie L. Dickson-Horton
FROM: RIG/A/Nairobi, Everette B. Orr *Everette B. Orr*
SUBJECT: Audit of USAID/Swaziland's Closeout Procedures for Expired USAID Contracts, Grants and Cooperative Agreements

*Regional
Inspector General
for Audit/Nairobi*

This memorandum is our report on the "Audit of USAID/Swaziland's Closeout Procedures for Expired USAID Contracts, Grants and Cooperative Agreements", Report No. 3-645-94-003. We considered your comments on the draft report and have included them as an appendix to this report (see Appendix II). Based on the results of our audit, the report contains no recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

Summary of Audit Findings

The audit found that USAID/Swaziland followed USAID policies, procedures and applicable Federal regulations in closing out USAID-direct contracts, including grants and cooperative agreements except for some problems with timeliness regarding personal services contracts and annual inventories. Since the problems of timeliness and annual inventories were addressed and corrected by USAID/Swaziland as a result of its 1992 internal control assessment and a prior audit conducted by RIG/A/Nairobi, recommendations are not warranted in this case (see page 6). Regarding expired host country contracts, none were identified in USAID's Contract Information Management System for USAID/Swaziland, a fact that was confirmed by a USAID/Swaziland official and our review of the mission's contracting records. Thus, the audit did not include a sample of this type of contract for review.

The audit covered 10 contracts, grants and cooperative agreements with total obligations of \$19.6 million as of March 31, 1993, (see Appendix III). These 10 contractual instruments, judgmentally selected from a universe of 61 expired contracts with total obligations of \$20.3 million, represent 16 percent of the total number of expired contracts and 97 percent of total obligations in the universe.

The audit focused on five major areas of the closeout process—(1) closing of USAID contracts in a timely manner; (2) accounting for USAID-financed property and equipment in possession of contractors; (3) performing required audits; (4) deobligating excess funds; and (5) liquidating cash advances.

Background

The closeout of a contract, grant or cooperative agreement is the final phase of the contracting process. It enables USAID to determine whether all applicable administrative actions and required work relating to the contractual instruments have been completed. Among other things, a closeout action should ensure that (1) USAID-funded property and equipment are accounted for and properly disposed of, (2) required audits are performed, and (3) a full and satisfactory accounting of USAID obligations is made.

The principal contracting mechanisms in USAID are USAID-direct contracts¹, including grants and cooperative agreements, and host country contracts. The USAID Office of Procurement in Washington, D.C. is responsible for the closeout of most USAID/Washington contracts; whereas USAID missions are responsible for the closeout of contracts awarded by them. For host country contracts, although the contracting host country is primarily responsible, the cognizant USAID Project Officer is required to monitor the host country's implementation of the closeout process.

The Federal Acquisition Regulation (FAR) provides for the orderly and expeditious closeout of USAID-direct contracts. For grants and cooperative agreements, closeout procedures are found in OMB Circular A-110 and USAID Handbook 13, and those for host country contracts in Handbook 3. In addition, USAID issued Contract Information Bulletin 90-12, in June 1990, as contract closeout guidance to its procurement officials in Washington and overseas.

Prior performance audits of USAID's closeout procedures, conducted by the USAID Inspector General and the U.S. General Accounting Office between 1985 and 1991, identified recurring problems. For example, the audits revealed that property and equipment in custody of contractors were not satisfactorily accounted for, receipt of goods and services was difficult to ascertain, required closeout audits were not performed and timely deobligation of unneeded funds was not made. Also, there were cases of missing contract documents or records being retired prior to close out which made it practically impossible to complete the closeout process.

¹ USAID Handbooks 1B and 19 define USAID-direct contract as any contract including personal services contract which is signed by an authorized USAID official who has written delegation of contract authority. The contract is subject to the provisions of the Federal Acquisition Regulation and USAID procurement regulations contained in Handbook 14.

USAID has accumulated over the years a large backlog of worldwide, expired contracts, grants, cooperative agreements and host country contracts awaiting closeout actions. Based on data in the Agency's Contract Information Management System, as of March 31, 1993, there were 11,585 contracts and grants with a total obligation of \$10.7 billion which had completion dates prior to April 1, 1993. For USAID/Swaziland, there were 61 expired contracts, grants and cooperative agreements as of March 31, 1993, with total obligations of \$20.3 million.

At USAID/Swaziland, the Regional Contracting Officer, who reports to the Mission Director, is responsible for expired contract closeouts.

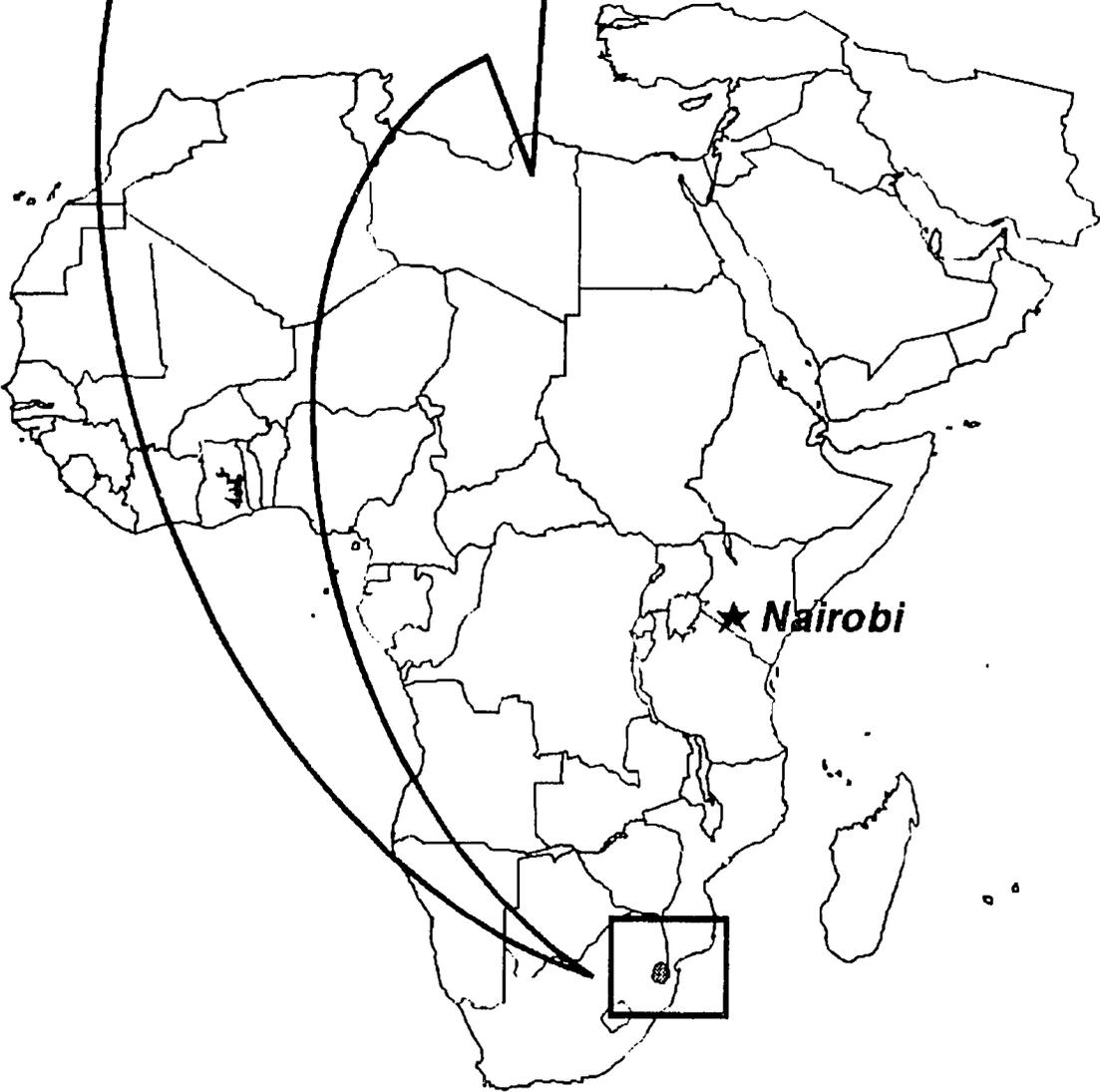
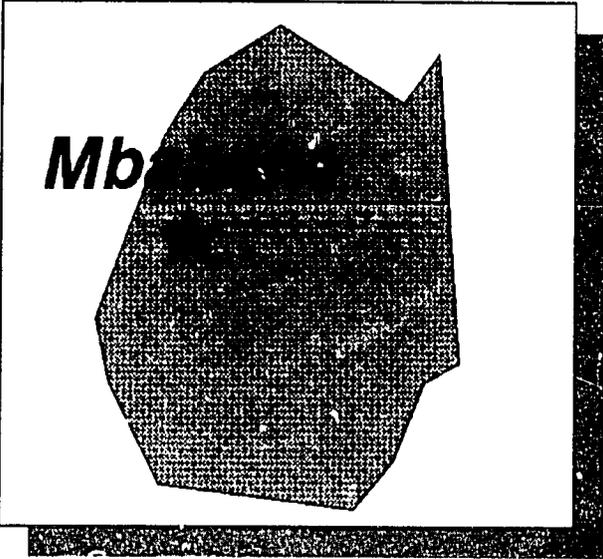
Audit Objective

The USAID Regional Inspector General for Audit, Nairobi, as part of a worldwide audit under the auspices of the USAID Inspector General's Office of Programs and Systems Audits (IG/A/PSA), conducted an audit of USAID/Swaziland's closeout practices to answer the following objective:

Did USAID/Swaziland follow USAID policies, procedures and applicable Federal regulations in closing out USAID-direct and host country contracts, including grants and cooperative agreements?

A discussion of the scope and methodology for this audit is in Appendix I.

Swaziland



Audit Findings

Did USAID/Swaziland follow USAID policies, procedures and applicable Federal regulations in closing out USAID-direct and host country contracts, including grants and cooperative agreements?

USAID/Swaziland followed USAID policies, procedures and applicable Federal regulations in closing out USAID-direct contracts, including grants and cooperative agreements except for some problems with (1) timeliness in closing out personal services contracts and (2) an absence of required annual inventories. Regarding expired host country contracts, none were identified in USAID's Contract Information Management System (CIMS) for USAID/Swaziland, a fact that was confirmed by a USAID/Swaziland official and our review of the mission's contracting records. Thus, the audit did not include a sample of this type of contract for review.

To conduct the audit, we relied on data generated by both CIMS as of March 31, 1993, and the Mission's accounting system to identify USAID/Swaziland's universe of 61 expired contracts, grants and cooperative agreements with total obligations of \$20.3 million. From this universe of 61, we selected a judgmental sample of 10 contracts, grants and cooperative agreements with total obligations of \$19.6 million as shown in Appendix III and summarized below by contract type for discussion purposes:

- four cost reimbursement contracts with total obligations of \$18,539,726—one not yet closed, but in an advanced stage of the closeout process;
- one delivery order contract with a total obligation of \$89,004;
- one grant with a total obligation of \$97,581;
- one cooperative agreement with a total obligation of \$620,000 not yet closed, but in an advanced stage of the closeout process; and
- three personal services contracts with total obligations of \$244,573;

Relative to the contract closeout process, the Federal Acquisition Regulation (FAR), OMB Circular A-110 and USAID Handbooks 13 and 14 require that USAID-direct contracts, grants and cooperative agreements be closed out according to prescribed procedures. In addition, Contract Information Bulletin (CIB) 90-12 dated June 8, 1990, provides guidance to missions on contract closeouts. Among other requirements, the

USAID officials administering contracts should ensure that (1) contracts are closed out in a timely manner; (2) USAID-financed property in possession of contractors is accounted for and properly disposed of; (3) required audits are conducted for all USAID contractual instruments in excess of \$500,000; (4) excess funds are deobligated; and (5) cash advances are liquidated.

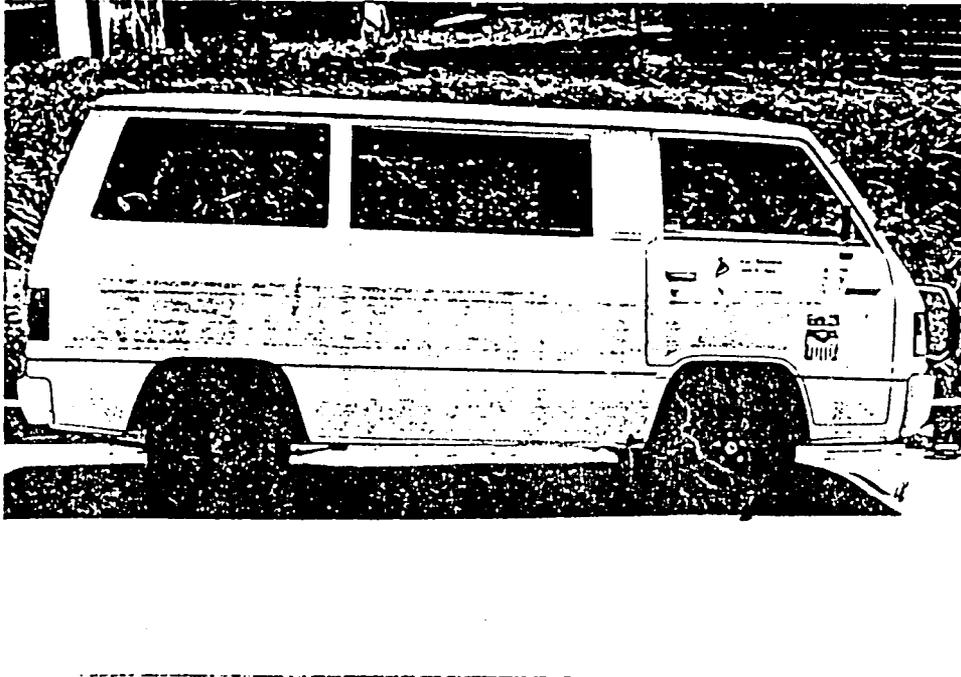
Timeliness of Closeout Procedures

In closing out contracts, *timeliness* is of such importance that CIB 90-12 makes it an Agency priority. For three cost reimbursement contracts, and the one delivery order contract sampled during the audit, closeout actions were completed within the 36-month time frame as prescribed by the FAR, Part 4, Section 804-1. As for grants and cooperative agreements, USAID Handbook 13 is silent on the prescribed time frame for closeouts, but according to the Regional Contracting Officer, the 36-month period used for contracts is also used as a guideline for grants and cooperative agreements. For the one grant in the sample, closeout actions were completed within the 36-month time frame. In the cases of the one remaining cost reimbursement contract and the only cooperative agreement reviewed, closeout actions were in advanced stages of completion, awaiting the final voucher to trigger the remaining closeout actions before the 36-month period expires on October 30, 1994, and October 15, 1995, respectively.

Regarding personal services contracts, the FAR, Part 4, Section 804-1 specifies a 20-month closeout period. Two of the three contracts tested exceeded the 20-month period so we performed additional tests to verify that more recently completed personal services contracts were closed out within the prescribed time frame, and, for the two additional contracts tested, they were. In addition, the closeout of this type of contract for foreign service nationals was noted as a material weakness in the mission's 1992 internal control assessment. According to mission records, shortly after the mission identified this weakness, the Executive Officer, who is responsible for administering these contracts, took action to close all of the expired contracts for foreign service nationals. In our opinion, because of the corrective actions taken by the Executive Officer, we do not believe that the timeliness factor that we noted with personal services contracts warrants a recommendation.

Inventories and Disposals of Property

Regarding the accounting and disposition of USAID-financed property under contracts, the FAR, Part 45 and USAID Handbook 14, Section 752-245-70 prescribe policies and procedures for providing an accounting for Government-financed or furnished property held by contractors. Further, OMB Circular A-110 and Handbook 13, Chapter 1 prescribe similar policies and procedures for grants and cooperative agreements. In our opinion, the most important of these procedures require that annual and final inventories be made, and title of non-expendable property be vested to the cooperating country upon contract completion.



One of eight Ford vehicles purchased under the delivery order contract. The photograph was taken in Mbabane, Swaziland on November 3, 1993.

Although *annual* inventories were not provided to the mission for the six contractual instruments in our sample (and thus reconciliations with final inventories were not possible), the problem of annual inventories was addressed and corrected as a result of a previous audit²—an audit conducted after the completion dates of the contracts in our sample. Since a recommendation was made and closed after the completion dates for the contractual instruments in our sample, we performed additional tests to determine whether annual inventories were taken, and, for the three contractual instruments tested, they were. In addition, to close the prior audit recommendation, USAID/Swaziland issued Mission Directive 1313 dated August 4, 1992, establishing responsibilities and procedures for commodity arrival, control and end-use monitoring. Thus, the problem

² Audit of USAID/Swaziland Management of Commodities, Report No. J-645-92-09 dated March 26, 1992. Recommendation No. 1.1 stated that, "...the Director, USAID/Swaziland: establish a system to (a) monitor the contractors' and grantees' compliance with the requirement to perform annual physical inventories and submit annual inventory reports and certifications..."

of annual inventories is not a current problem because the problem was properly addressed by USAID/Swaziland, and thus, it does not warrant a recommendation. Furthermore, in the case of the closed out cost reimbursement contracts, the grant and the cooperative agreement with equipment procurement that we reviewed, a *final* inventory was provided and the equipment was turned over to the host country in accordance with USAID policies and procedures. However, because the annual inventories were not performed, the Mission was not able to reconcile the equipment purchases with the final inventory, and therefore, did not have reasonable assurance that *all* equipment was turned over to the host country government. As for the delivery order contract, eight vehicles were purchased, received, accounted for, and properly assigned to corresponding projects by USAID/Swaziland. The personal services contracts did not involve equipment purchases.

Required Audits

As far as the requirement for audits is concerned, Contract Information Bulletin (CIB) 90-12 states that audits are required for USAID contractual instruments in excess of \$500,000. For all contractual instruments not in excess of \$500,000, audits are at the discretion of the contracting officer. Regarding contractual instruments exceeding \$500,000, we found that audits were conducted for *all* instruments in the sample (see Appendix IV). For those instruments under \$500,000 in our sample, audits were not conducted, as adequate procedures were in place to comply with CIB 90-12.

Deobligations and Liquidations

With regard to deobligations, the FAR, Part 4, Section 804-5 and CIB 90-12 require that any excess funds be deobligated. Similarly, CIB 90-12 requires that all cash advances be liquidated. In all cases where the closeout was *completed*, USAID/Swaziland deobligated excess funds and liquidated cash advances. As for the two contractual instruments pending final closeout actions, we determined that the outstanding obligations were valid (see Appendix V).

Management Comments and Our Evaluation

In response to the draft audit report, USAID/Swaziland stated that the Mission was in agreement with the findings and also expressed appreciation to the audit team for the helpful and efficient manner in which they conducted this audit.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Swaziland's management of the contract (including grants and cooperative agreements) closeout process in accordance with generally accepted government auditing standards. The audit was made from October 21, 1993, through November 4, 1993 at the USAID Mission in Mbabane, Swaziland. In conducting our field work, we reviewed contract files and interviewed responsible USAID/Swaziland officials.

To determine the audit universe, we relied on unaudited data generated by the Contract Information Management System (CIMS) as of March 31, 1993. CIMS reported that USAID/Swaziland had 61 expired contracts, grants and cooperative agreements with total obligations of \$20.3 million. From these 61 expired contracts, we judgmentally selected 10 contracts, grants and cooperative agreements with total obligations of \$19.6 million as of March 31, 1993 (see Appendix III). These 10 contracts, representing 16 percent of the contract universe and 97 percent of total obligations, are discussed below:

- four cost reimbursement contracts with total obligations of \$18,539,726—one not yet closed, but in an advanced stage of the closeout process;
- one delivery order contract with a total obligation of \$89,004;
- one grant with a total obligation of \$97,581;
- one cooperative agreement with a total obligation of \$620,000 not yet closed, but in an advanced stage of the closeout process; and
- three personal services contracts with total obligations of \$244,573;

Our audit focused on five major areas of the closeout process: (1) timeliness in

closing of USAID contracts; (2) accounting for USAID-financed property and equipment in the possession of contractors; (3) performing required audits; (4) deobligating excess funds; and (5) liquidating cash advances.

The audit did not assess the overall reliability of the CIMS database or whether contracted goods and services were actually received. However, for the eight closed contractual instruments in our sample, we compared mission and CIMS data and found a discrepancy of plus or minus \$875,324 in cumulative obligations when compared to mission records, and plus or minus \$212,191 when compared to net mission obligations³ (see Appendix VI). Because of these discrepancies, we used mission accounting data to report results for the 10 contracts in our sample. The discrepancies between mission and CIMS data had no impact on the findings and conclusions presented in this report.

In addition to the methodology described in the following section, we obtained a written representation from USAID management confirming information that we considered essential for answering our audit objective and for assessing internal controls and compliance. Our audit also considered the result of a prior RIG/A/Nairobi report entitled "Audit of USAID/Swaziland Management of Commodities", Report No. 3-645-92-09 dated March 26, 1992. In addition to the specific methodology shown below, we also obtained and reviewed USAID/Swaziland's internal control assessment for 1992.

Methodology

Our audit objective was to determine whether USAID/Swaziland followed USAID policies and procedures and applicable Federal regulations in closing out USAID-direct and host country contracts, grants and cooperative agreements. To accomplish this objective, we obtained from USAID's CIMS database a listing of USAID/Swaziland-direct contracts, grants and cooperative agreements with estimated completion dates prior to April 1, 1993. To test the contract closeout process, we judgmentally selected 10 contracts, grants and cooperative agreements with total obligations of \$19.6 million, or 97 percent of the total amount obligated for all expired contracts. Of these 10 contractual instruments, we reviewed 8 that should have been closed out during the period December 31, 1991, through March 31, 1993, and determined whether they had been closed in accordance with Agency and Federal requirements. For the remaining two contractual instruments that had not been closed out, we verified that actions taken to date were also in accordance with Agency and Federal requirements. Our detailed tests focused on five major areas

³ In this context, net mission obligations represent cumulative mission obligations less deobligations over the life of the contract.

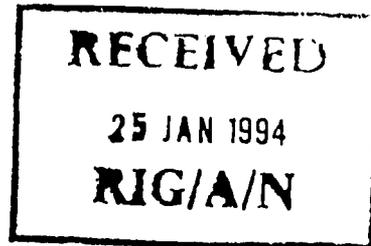
of the contract closeout process as described in the Scope section, and included a review of contract files, and discussions of closeout procedures with cognizant USAID project, contract, executive and controller officials.

Relative to the requirement for annual inventories, we reviewed Audit Report No. 3-645-92-09 of March 26, 1992, and found a prior recommendation related to this area. Since this recommendation had been closed, we performed follow-up activities to determine whether corrective action was in fact taken. We also obtained and reviewed USAID/Swaziland's Mission Directive 1313 dated August 4, 1992, which was used to establish responsibilities and procedures for commodity controls.



UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID MISSION TO SWAZILAND

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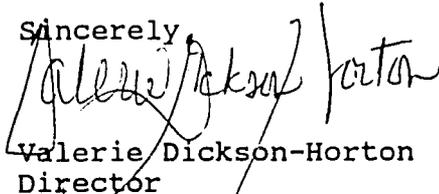
January 12, 1994

Mr. Everette B. Orr
Regional Inspector General for Audit
P.O. Box 30261
Nairobi, Kenya

Dear Mr. Orr:

We have received the draft audit report of USAID/Swaziland's Closeout Procedures for Contracts, Grants, and Cooperative Agreements. We are in agreement with the findings and would like to express our appreciation to the auditors for the helpful and efficient manner in which they conducted this audit.

Sincerely,



Valerie Dickson-Horton
Director

APPENDIX III

OBLIGATIONS FOR THE 10 EXPIRED CONTRACTS TESTED
AS OF MARCH 31, 1993
USAID/SWAZILAND

<u>CONTRACT NUMBER</u>	<u>USAID-DIRECT CONTRACT⁴</u>	<u>GRANT AGREEMENT⁴</u>	<u>COOPERATIVE AGREEMENT⁴</u>	<u>TOTAL</u>
645-0218-C-00-5010-00	\$1,197,950	\$ -	\$ -	\$1,197,950
645-0220-C-00-6021-00	5,902,685	-	-	5,902,685
645-0218-C-00-5009-00	5,982,800	-	-	5,982,800
645-0214-C-00-4017-00	5,456,291	-	-	5,456,291
645-0229-C-00-2001-00	89,004	-	-	89,004
645-0000-S-00-0003-00	29,039	-	-	29,039
645-0000-S-00-7002-00	106,419	-	-	106,419
645-0000-S-00-9013-00	109,115	-	-	109,115
645-0218-G-SS-9017-00	-	97,581	-	97,581
645-0232-A-00-0013-00	-	-	620,000	620,000
Total	<u>\$18,873,303</u>	<u>\$97,581</u>	<u>\$620,000</u>	<u>\$19,590,884</u>

⁴ The data in this column is based on information obtained from USAID/Swaziland's Mission Accounting and Controls System (MACS) database.

STATUS OF AUDITS REQUIRED TO BE PERFORMED
UNDER THE 10 EXPIRED CONTRACTS TESTED
USAID/SWAZILAND

<u>Contract Number</u>	<u>Audit Required</u>	<u>Audit Requested</u>	<u>Audit Completed</u>
645-0218-C-00-5010-00	YES	YES	YES
645-0220-C-00-6021-00	YES	YES	YES
645-0218-C-00-5009-00	YES	YES	YES
645-0214-C-00-4017-00	YES	YES	YES
645-0229-C-00-2001-00	NO	N/A	N/A
645-0000-S-00-0003-00	NO	N/A	N/A
645-0000-S-00-7002-00	NO	N/A	N/A
645-0000-S-00-9013-00	NO	N/A	N/A
645-0218-G-SS-9017-00	NO	N/A	N/A
645-0232-A-00-0013-00	YES	YES	YES
	—	—	—
Total	<u>5</u>	<u>5</u>	<u>5</u>

Acronym

N/A Not applicable

ANALYSIS OF UNLIQUIDATED OBLIGATIONS
TESTED UNDER EXPIRED CONTRACTS
AS OF MARCH 31, 1993
USAID/SWAZILAND

<u>Contract Number</u>	<u>Unliquidated Obligation</u>	<u>Reviewed Obligation</u>	<u>Valid Obligation</u>	<u>Invalid Obligation</u>
645-0220-C-00-6021-00	\$164,281	\$164,281	\$164,281	\$ - 0 -
645-0232-A-00-0013-00	82,206	82,206	82,206	- 0 - f
Total	<u>\$246,487</u>	<u>\$246,487</u>	<u>\$246,487</u>	<u>\$ - 0 -</u>

OBLIGATIONS⁵ PER MISSION RECORDS AND CIMS DATABASE
AS OF MARCH 31, 1993
USAID/SWAZILAND

<u>Contract Number</u>	<u>Cumulative Mission Obligation⁶</u> (1)	<u>Net Mission Obligation⁷</u> (2)	<u>CIMS Obligation</u> (3)	<u>Variance</u> (1-3)	<u>Variance</u> (2-3)
645-0218-C-00-5010-00	\$1,338,652	\$1,197,950	\$1,348,363	\$-9,711	\$-150,413
645-0218-C-00-5009-00	6,174,387	5,982,800	10,541,322	-4,366,935	-4,558,522
645-0214-C-00-4017-00	5,774,683	5,456,291	682,470	5,092,213	4,773,821
645-0229-C-00-2001-00	95,268	89,004	28,780	66,488	60,224
645-0218-G-SS-9017-00	99,051	97,581	100,521	-1,470	-2,940
645-0000-S-00-0003-00	30,000	29,039	30,000	0	- 961
645-0000-S-00-7002-00	110,176	106,419	18,070	92,106	88,349
645-0000-S-00-9013-00	<u>109,115</u>	<u>109,115</u>	<u>106,482</u>	<u>2,633</u>	<u>2,633</u>
Total	<u>\$13,731,332</u>	<u>\$13,068,199</u>	<u>\$12,856,008</u>	<u>\$875,324</u>	<u>\$212,191</u>

⁵ This represents obligations for 8 of the 10 contracts selected for audit, which had been closed out. The remaining two were in an advanced stage of completion of the closeout process.

⁶ This represents funds obligated during the life of the contract.

⁷ This represents cumulative obligation less amount deobligated upon completion of the closeout process.

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