

**Regional Inspector General for Audit
Singapore**

**AUDIT OF USAID/PAKISTAN'S CLOSEOUT
PROCEDURES FOR CONTRACTS, GRANTS,
AND COOPERATIVE AGREEMENTS**

**Audit Report No. 5-391-94-010
May 20, 1994**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT
- Singapore -

U.S. POSTAL ADDRESS:
American Embassy • Singapore
FPO AP 96534-0006

INTERNATIONAL ADDRESS:
111 North Bridge Road
Peninsula Plaza #17-03
Singapore 0617
Tel: 65-3342766 Fax: 65-3342541

May 20, 1994

MEMORANDUM

TO: John S. Blackton, Mission Director, USAID/Pakistan

FROM: Richard C. Thabet, RIG/A/Singapore *Richard C. Thabet*

SUBJECT: Audit of USAID/Pakistan's Closeout Procedures for Contracts, Grants, and Cooperative Agreements

This memorandum represents the results of our audit of USAID/Pakistan's close-out procedures for contracts, grants, and cooperative agreements. Our audit work showed that USAID/Pakistan generally closed out host country contracts, grants and the cooperative agreement as required by Federal regulations and USAID guidance. However, some expired USAID-direct contracts were not closed out as required. We recommended that close out procedures for these contracts be strengthened.

Your comments to the draft were very responsive and greatly facilitated the completion of the report. The comments are summarized after the finding and included in their entirety as Appendix II. Based on your comments, the recommendation is closed. I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The close out of a contract, grant or cooperative agreement is the final phase of the contracting process. It enables the U. S. Agency for International Development (USAID) to determine whether all applicable administrative actions and required work relating to such agreements have been completed. Among other things, closeout procedures are to help ensure that (1) USAID-funded property and equipment were accounted for and properly disposed of, (2) excess funds from expired contracts and agreements were decommitted, (3) cash advances to contractors and grantees were liquidated, and (4) required audits

were performed.

USAID/Pakistan's principal contracting mechanisms include USAID-direct and host country contracts, grants, and cooperative agreements. Mission officials are responsible for the closeout functions for contracts awarded by them. For host country contracts, the host country is primarily responsible for the closeout process. However, USAID/Pakistan project officers are required to monitor the host country's implementation of closeout procedures.

The Federal Acquisition Regulations System provides for the orderly and timely close out of USAID-direct contracts. For host country contracts, Handbooks 3 and 11 contain guidance on closeout procedures. Office of Management and Budget (OMB) Circular A-110 and Handbook 13 contain closeout procedures for grants and cooperative agreements. In addition, USAID/Washington issued Contract Information Bulletin (CIB) No. 90-12 in June 1990 which provides guidance to its contracting officers on contract closeout procedures.

Based on data in the Agency's Contract Information Management System (CIMS), USAID/Pakistan had 264 expired contracts with total estimated cost of \$179.7 million which expired during the period January 1, 1987, through September 30, 1990. The Mission also had 29 expired grants and cooperative agreements with estimated costs of \$29 million. We sampled 26 of these contracts, grants and cooperative agreements totalling \$19.8 million. These consisted of 12 USAID-direct contracts, 10 host country contracts, and 4 grants (including one cooperative agreement).

Audit Objective

This audit is part of a worldwide audit of USAID's practices for closing out contracts, grants, and cooperative agreements. The audit is coordinated by the USAID Inspector General's Office of Program and System Audits (IG/PSA). IG/PSA will prepare a summary report based on the results of this audit and the audits performed by other Regional Inspector General Offices.

The Office of the Regional Inspector General for Audit/Singapore audited USAID/Pakistan's management of the contract, grant and cooperative agreement closeout process to answer the following audit objective:

Did USAID/Pakistan close out expired USAID-direct and host country contracts, grants, and cooperative agreements in accordance with established policies and procedures, and applicable Federal regulations?

In answering the audit objective, we tested whether USAID/Pakistan followed applicable internal controls and complied with certain legal requirements. We also included steps to detect abuse or illegal acts which could affect the audit objective. USAID/Pakistan's management provided written representations which we considered essential to confirming our conclusions on the audit objective and to assessing internal controls and compliance. These written representations have been included as part of USAID/Pakistan's comments in Appendix II.

For problem areas, we performed additional work to:

- identify the cause and effect of the problem and
- make recommendations to correct the problem and the cause.

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

Audit Finding

Did USAID/Pakistan close out expired USAID-direct and host country contracts, grants, and cooperative agreements in accordance with established policies and procedures, and applicable Federal regulations?

USAID/Pakistan closed out host country contracts, grants and cooperative agreements in accordance with established policies and procedures but did not always follow USAID policies, procedures and applicable Federal regulations in closing out expired USAID-direct contracts.

Although USAID/Pakistan did not complete all required activities to close out expired contracts, it did ensure that the following important finance-related activities were completed.

- **Excess funds were decommitted.** Eighteen of 26 sampled agreements had excess funds. The Mission decommitted \$189,854

for USAID-direct contracts; \$300,338 for host country contracts, and \$24,887 for grants and cooperative agreements. However, as discussed on page 6, decommitments for five of the agreements were not performed promptly.

- **Cash advances were liquidated.** Five of 26 sampled agreements received cash advances according to Mission records. The advances for four agreements were liquidated within 30 days of contract completion. However, as discussed on page 7, we question the timeliness of cash advance liquidations for one grantee.
- **Contractors were audited.** Four of the sampled contracts included cost type contracts in excess of \$500,000 each which, according to CIB No. 90-12, must be audited. Three contracts involved U.S.-based organizations, and our review of the Quarterly Audit Status Reports showed that these contractors were audited. The remaining contract was with a Pakistani firm. In November 1993, the Mission requested The Regional Inspector General for Audit/Singapore to audit this contract.
- **Grantees were audited and desk reviewed.** Two grants, in excess of \$500,000 each, required audits according to CIB No. 90-12. One grantee was a U.S.-based organization and our review of the Quarterly Audit Status Reports showed that this grantee was audited. The other grantee, a Pakistani foundation, was audited by a local chartered accounting firm. The remaining two grants were less than \$500,000 each and required desk reviews which the Mission performed.

However, USAID/Pakistan did not close out some USAID-direct contracts in a timely fashion, account for non-expendable property, or obtain contractor release forms. These problems and related issues are discussed below.

Closeout Procedures for Expired USAID-Direct Contracts Should Be Strengthened

Expired USAID-direct contracts were not consistently closed out as required by Federal regulations and USAID guidance because USAID/Pakistan lacked effective follow-up procedures. As a result, the Mission lacked complete assurances that all nonexpendable property and equipment were accounted for and disposed of properly, funds were accounted for, and the contractor had completed all requirements under the agreement.

Recommendation No. 1: We recommend that USAID/Pakistan:

- 1.1 account for the nonexpendable property identified in this report;**
- 1.2 take actions necessary to ensure that the outstanding cash advance identified in this report is properly liquidated and that any excess funds are decommitted; and**
- 1.3 implement supervisory follow-up procedures to ensure that contract administration personnel consistently close out contracts as required by Federal regulations and USAID guidance.**

Timeliness of Closeout Procedures

According to Federal Acquisition Regulation, Part 4, Section 804.1, the time frames for closing out fixed-price and cost reimbursable contracts are 6 months and 36 months after contract completion, respectively. All other contracts should be closed out within 20 months of completion. Our sample of 12 USAID-direct contracts included five fixed price, three cost reimbursable, and four personal services contracts. USAID/Pakistan closed out seven USAID-direct contracts—four within the prescribed time frames. At the time of the audit, the Mission had not begun closeout procedures for five expired contracts although it was past the time frames for four of these contracts.

Handbook 3 states that host country contracts should be closed out in an "orderly fashion" upon satisfactory completion of the work by the contractor but, otherwise, does not specify time frames. All ten host country contracts were closed out. However, excess funds for three contracts were not decommitted until more than one year after final payment to the contractor. (See the chart on page 6 for more information). USAID/Pakistan closed out the grants and cooperative agreement within the prescribed time.

**Accounting for and Disposition of
USAID-funded Property and Equipment**

Handbook 14 states that it is USAID's policy to vest title with the cooperating country for USAID-financed nonexpendable property in the control and custody of the contractor. For this property (with a unit cost of more than \$500), the contractor is required to submit an inventory of the items to USAID or the host country within 90 days after contract completion. OMB Circular A-110 and

USAID Handbook 13 prescribe policies and procedures for accounting for government-financed property held by grantees.

Of the 22 contracts sampled, only two contractors procured nonexpendable property for their own use.

- One contractor procured property valued at about \$50,000. This property consisted of computer equipment, computer software, a vehicle, and miscellaneous office furniture. However, we were unable to find evidence showing that the organization provided a final inventory of nonexpendable property and disposed of this property in accordance with the contract.
- Another contractor provided an inventory of property which included descriptions of both expendable and nonexpendable property and equipment in the contractor's possession but did not include cost information. Nevertheless, the property was disposed of according to the contract terms.

In contrast, USAID/Pakistan **properly** accounted for property and equipment procured with grant funds. Three grantees procured \$1.2 million in nonexpendable property. We found evidence showing that inventories of nonexpendable property were provided and the property was disposed of in accordance with the terms of the agreements.

Decommitment of Funds

USAID/Pakistan fully decommitted excess funds of more than \$515,000 for 18 of the 26 agreements. However, funds totaling \$248,374 for five of these agreements were not decommitted for more than one year after the final payment was made.

AGREEMENT	AMOUNT OF EXCESS FUNDS	DATE OF FINAL PAYMENT	DATE FUNDS DECOM'TED	NO. OF MONTHS OUTSTANDING
A	\$8,141	03/26/91	03/29/92	12
B	\$177,295	05/21/89	06/12/90	13
C	\$37,436	12/14/86	06/12/90	42
D	\$8,902	08/18/87	06/12/90	34
E	\$16,600	06/07/92	08/09/93	14

NOTE : Agreement A is a USAID-direct contract; B, C and D are host country contracts, and E is a grant.

The Office of Financial Management issued guidance in October 1989 to overseas controllers to expand on certain aspects of the regulations in USAID Handbook 19, Chapter 2, which incorporates the provisions of Title 31 U.S.C. 1501. The guidance states that it is incumbent on the controllers to perform at least quarterly reviews to verify the adequacy of the commitment documents and the currency of the termination dates in these agreements supporting the obligations and commitments.

Although USAID/Pakistan eventually decommitted the funds, it did not promptly decommit excess funds after the final payments were settled. Consequently, more than \$248,000 was not available for use by other USAID/Pakistan projects.

Liquidation of Cash Advances

According to Financial Management Bulletin No. 7, part II, the Mission Controller should ensure that rigorous monitoring is performed on a continuing basis for all outstanding advances. Reports from the Mission Accounting and Control System should be used to identify advances with expired accountability dates and to initiate follow-up action to liquidate the outstanding advances. It is important that such action be documented and the results maintained in the files.

For items in our sample, we reviewed the subsidiary advance ledgers to determine if there were any outstanding advances for expired contracts, grants, and cooperative agreements and to determine if the advances were liquidated in a timely fashion. Based on the Mission's reports, all advances were liquidated promptly except one. This grantee received an advance of \$246,550 in February 1993 and another advance of \$60,000 in April 1993. The grantee liquidated only \$481 and, as of November 1993, had an outstanding advance of \$306,069. The grant expired on June 30, 1993. Advances which have been outstanding for more than 90 days are clearly beyond the "immediate cash needs" of the grantee. Prompt follow-up action is needed to ensure that this advance is liquidated.

Contractor Release Forms

CIB 90-12 requires the Contracting Officer to obtain the contractor's release form (USAID Form 1420-40) for USAID-direct, cost type contracts. The CIB 90-12 requirement does not pertain to host country contracts. For the three cost

type contracts which require the contractor's release form, only one form was received and documented in the file.

* * * * *

The deficiencies in the closeout process were primarily concentrated in the USAID-direct contracts area. The deficiencies occurred because USAID/Pakistan lacked an effective follow-up procedures. This area should be strengthened. However, we believe that USAID/Pakistan does not need new Mission Orders and procedures to strengthen this area; the procedure are already established. But Mission management needs to ensure that these established procedures are performed consistently, expeditiously, and accurately. For instance, CIB 90-12 requires that a contract closeout completion statement be prepared and placed in the file for all contracts and grants. This completion statement provides a comprehensive checklist of all tasks that are required to close out contracts and grants.

Our review, however, showed that the completion statement was not prepared on a consistent basis. For the 12 sampled USAID-direct contracts, USAID/Pakistan prepared completion statements for seven contracts. Of the remaining five contracts, four had partially prepared statements and one had no completion statement in the file. However, completion statements for the two grants and one cooperative agreement which required closure were prepared properly. If the statements were prepared accurately and timely for all contracts and grants, we believe that USAID/Pakistan would have been in compliance with USAID policies, procedures, and Federal regulations.

Since the statements were not consistently prepared and verified, the Mission did not have complete assurances that all nonexpendable property and equipment were accounted for and disposed of properly, funds were accounted for and decommitted on a timely basis, and the contractor had completed all requirements under the agreement. Thus, USAID/Pakistan should strengthen the effectiveness of its established closeout procedures by providing more supervisory follow up in the close out of these contracts. For example, USAID/Pakistan could implement a quarterly status report which contains the universe of expired contracts, grants and cooperative agreements and the closeout actions to be taken. This report could be used by the Contracting Officer to track and verify the status of closeout actions.

Management Comments and Our Evaluation

USAID/Pakistan officials concurred with the findings and recommendation. For Recommendation No. 1.1, officials accounted for the nonexpendable property

identified in this report. For Recommendation No. 1.2, officials liquidated the outstanding advance on April 4, 1994.

In response to Recommendation No. 1.3, USAID/Pakistan officials assigned a Foreign Service National (FSN) Contract Specialist to monitor and coordinate the close out of all completed contracts, grants, and cooperative agreements. USAID/Pakistan initiated a monthly report which will list all contracts, grants and cooperative agreements expiring within 30 days. This report will be reviewed by the FSN Contract Specialist to ensure that timely closeout actions are taken by the Office of Contract and Commodities staff. Additionally, Contract and Commodities staff have been instructed to obtain contractor release statements for all cost reimbursement type contracts as part of closeout process.

Based on USAID/Pakistan's response, the recommendation is closed upon issuance of this report.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Pakistan's management of the contract closeout process in accordance with generally accepted government auditing standards from November 1 to November 17, 1993. We did our fieldwork in the offices of USAID/Pakistan. In conducting our fieldwork, we reviewed Mission records and interviewed USAID/Pakistan officials.

The scope of the audit included USAID-direct and host country contracts which expired during the period January 1, 1987 through September 30, 1990. For grants and cooperative agreements, we included all 29 agreements cited on the database report from the Agency's Contract Information Management System. We also excluded any host country contracts or grants with an estimated cost of \$50,000 or less. Thus, USAID/Pakistan had a total of 293 agreements with estimated costs of \$208.7 million from which samples were selected for testing.

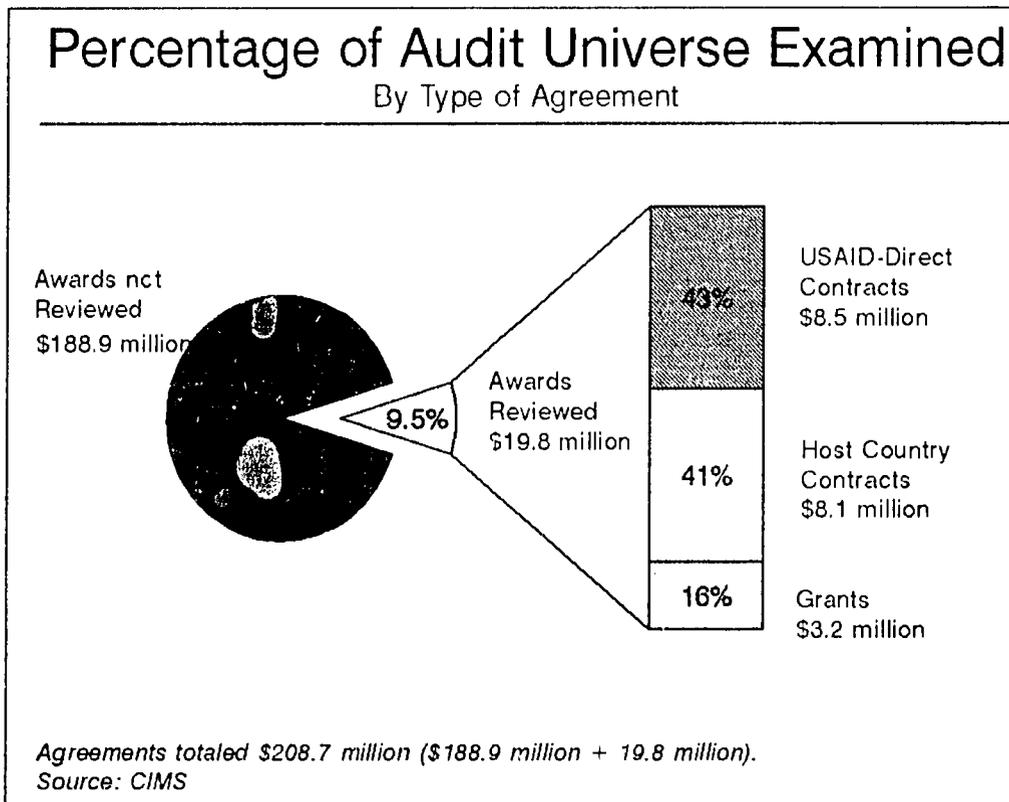
The audit did not assess:

- the reliability of the CIMS database, and
- whether contracted goods and services were actually received.

In addition to the methodology described for the audit objective, we have requested a letter from USAID/Pakistan providing written representations which we consider essential for answering the audit objective and in assessing internal controls and compliance.

Methodology

Our audit objective was to determine whether USAID/Pakistan closed out expired USAID-direct and host country contracts, grants, and cooperative agreements in accordance with established policies and procedures, and applicable Federal regulations. To accomplish this objective, we tested 26 agreements with estimated costs of \$19.8 million. We selected a judgmental sample—12 USAID-direct contracts, 10 host country contracts, and 4 grants (including one cooperative agreement)—from the data in USAID/Washington’s Contract Information Management System. See the following chart for information on the sampled agreements.



The audit focused on three major areas of the closeout process—(1) accounting for USAID-funded property and equipment in the possession of contractors and grantees, (2) decommitting excess funds, and (3) performing required audits—to test whether USAID/Pakistan complied with Agency and Federal requirements in closing out contracts. We also reviewed subsidiary advance ledgers for the sampled agreements to ensure that any cash advances were liquidated promptly. The detailed audit steps included reviewing contract, grant, and project files in order to locate key documents. These documents included the basic contractual agreement along with any modifications, as well as commitment liquidation records, nonexpendable property listings, documentation to show that audit requirements were met, final vouchers, contractor release forms, and signed completion statements. Relevant issues were discussed with cognizant USAID/Pakistan project, procurement and controller officials.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

MISSION FOR PAKISTAN AND AFGHANISTAN

THE DIRECTOR

April 11, 1994

Richard C. Thabet
RIG/A/Singapore
#17-03/06 Peninsula Plaza
111, North Bridge Road
Singapore 0617

Subject: Draft Audit Report on the Audit of USAID/Pakistan's
Closeout Procedures For Contracts, Grants, And
Cooperative Agreements

Dear Mr. Thabet:

We have completed the review of the subject RIG/A/S draft audit report and are providing our responses in Attachment "A". Based upon the Mission's responses, I believe that all three recommendations should be considered for closure at the time of final report issuance.

The draft representation letter was sent to you on March 17, 1994. The final representation letter signed by me is also attached.

Sincerely

A handwritten signature in black ink, appearing to be 'JL' followed by a long horizontal flourish.

John S. Blackton
Mission Director

Enc: As stated

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USAID/PAKISTAN AND AFGHANISTAN
Mission Response to Audit Report on
Audit of USAID/Pakistan's Closeout Procedures For Contracts,
Grants, And Cooperative Agreements

AUDIT OBJECTIVE: Did USAID/Pakistan close out expired USAID-direct and host country contracts, grants, and cooperative agreements in accordance with established policies and procedures, and applicable Federal regulations ?

RECOMMENDATION NO. 1: We recommend that USAID/Pakistan:

- 1.1 account for the nonexpendable property identified in this report;
- 1.2 take actions necessary to ensure that the outstanding cash advance identified in this report is properly liquidated and that any excess funds are decommitted; and
- 1.3 implement supervisory follow-up procedures to ensure that contract administration personnel consistently close out contracts as required by Federal regulations and USAID guidance.

MISSION RESPONSE:

Recommendation 1.1:

The contractor that procured non-expendable property valued at about \$50,000 (Draft Audit Report Page 5) did not submit a final inventory because the contractor continued operations under a separate grant with USAID. The contractor was authorized to use the non-expendable property purchased under the contract, during the period of the grant. The contractor will be required to submit the final inventory when the grant ends in December, 1994. We have attached a copy of the 1990 annual inventory submitted by this contractor as required by the Contract (Attachment "B").

Based on this response, we request that you close this recommendation at the time of issuance of the final report.

USAID/PAKISTAN AND AFGHANISTAN
Mission Response to Audit Report on
Audit of USAID/Pakistan's Closeout Procedures For Contracts,
Grants, And Cooperative Agreements

Recommendation 1.2:

The outstanding advance of \$306,069 (Draft Audit Report Page 7) has been liquidated by USAID on the following vouchers:

1. Voucher No. 43910388, dated December 6, 1993	\$235,976.00
2. Voucher No. 43911882, dated April 4, 1994	<u>70,093.00</u>
Total	<u>\$306,069.00</u>

We are providing copies of the above certified vouchers (Attachment "C") and MACS Report A07 (Attachment "D") to evidence the liquidation of the outstanding advance of \$306,069.

Based on this response, we request that you close this recommendation at the time of the issuance of the final report.

Recommendation 1.3:

The Office of Contracts and Commodities (OCC) has taken the following actions to ensure prompt and proper close-out of contracts and grants and cooperative agreements:

1. OCC has assigned an FSN Contract Specialist the responsibility for monitoring and coordinating the close-out of all completed contracts, grants, and cooperative agreements. He is responsible for ensuring that close-outs are done in accordance with the FAR and CIB guidelines.
2. OCC has recently began to generate a monthly report (Attachment "E") of contracts, grants and cooperative agreements expiring within 30 days. This report is reviewed by the FSN Contract Specialist to ensure timely close-out actions are taken by the OCC staff.
3. The OCC staff has also been instructed to obtain contractor's release statements for all cost reimbursement type contracts as part of close-out procedures.

Based on this response, we request that you close this recommendation at the time of the issuance of the final report.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

MISSION FOR PAKISTAN AND AFGHANISTAN

THE DIRECTOR

April 11, 1994

Mr. Richard C. Thabet
Regional Inspector General/Audit
Singapore

Re: Audit of USAID/Pakistan Contract Closeout Procedures

Dear Mr. Thabet:

You have asked that USAID/Pakistan provide a Management Representation Letter in connection with your audit of this Mission's contract closeout procedures. Your staff has informed us that the audit covered the Mission's direct contracts, host country contracts, grants and cooperative agreements which had estimated completion dates prior to September 30, 1990 and was intended to answer the following audit objective:

Did USAID/Pakistan close out expired USAID-direct and host country contracts, grants, and cooperative agreements in accordance with established policies and procedures, and applicable Federal regulations?

For the activities under audit during the audit period, USAID/Pakistan is responsible for the internal control system, for compliance with applicable U.S. laws and regulations, and the fairness and accuracy of accounting and management information.

I and my staff have made available to you all records in our possession for the purpose of the audit. Based on representations made to me by my staff and their written concurrence with the representations made in this letter, I confirm, as a layman and not as a lawyer, the following representations with respect to the subject matter of the audit and the audit objective:

(1) To the best of my knowledge and belief, USAID/Pakistan has made available to your staff all records relating to the audit objective.

(2) To the best of my knowledge and belief, the records relating to the audit objective are accurate and complete and constitute a fair representation of the status of the matters under audit.

(3) To the best of my knowledge and belief, USAID/Pakistan is not aware of any material instances (which we consider substantive) where financial or management information on matters directly

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relating to the agreements under audit have not been properly and accurately recorded and reported, other than in any findings that may be in the audit report.

(4) To the best of my knowledge and belief, USAID/Pakistan has disclosed all known material irregularities related to the agreements under audit that we consider substantive involving Mission employees with internal control responsibilities or the recipients of such agreements. For purposes of this representation, "irregularity" means instances of intentional noncompliance with applicable laws or regulations and/or intentional misstatements, omission, or failures to disclose same.

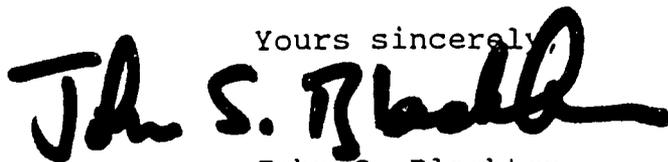
(5) To the best of my knowledge and belief, USAID/Pakistan has reported all known instances which, in the Mission's judgment, would evidence material noncompliance with USAID policies and procedures or violations of U.S. laws and regulations.

(6) To the best of my knowledge and belief, USAID/Pakistan is not aware of any instance (other than what has been included in the audit report or reported by the Mission during the course of the audit) which, in the Mission's judgment, would evidence material noncompliance by the Mission with terms of the grants under audit.

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

I request that this Management Representation Letter be considered a part of the official Mission comments on the draft audit report and be published as an Annex to the final report.

Yours sincerely,

A handwritten signature in black ink, appearing to read "John S. Blackton". The signature is stylized and cursive.

John S. Blackton

APPENDIX III

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