Audit of USAID/Indonesia's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance

Audit Report No. 5-497-98-002-F
December 31, 1997

Regional Inspector General
Bangkok

December 31, 1997

MEMORANDUM FOR DIRECTOR, USAID/Indonesia,Vivikka Moldrem

FROM: Acting RIG/A/Bangkok, Nathan S. Lokos

SUBJECT: Audit of USAID/Indonesia's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance, Report No. 5-497-98-002-F

This memorandum is our final report on the subject audit. In preparing the report we considered your comments on the draft and included them as Appendix II. The audit identified a potentially invalid commitment totalling $20,600 and excessive obligations totalling $125,751.

The report contains two recommendations. Actions taken as described in your comments on the draft report are responsive to both Recommendation Nos. 1 and 2. Accordingly, we consider management decisions to have been reached on both recommendations and final actions to have been taken based on those decisions.

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

BACKGROUND

This audit is part of the Office of the Inspector General's (OIG) worldwide review of the Agency's obligations for project and non-project assistance. The OIG's Division of Performance Audits (IG/A/PA) is leading this worldwide effort, with the assistance of auditors from all OIG offices of Regional Inspectors General.

The worldwide audit is limited to obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. It does not cover obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID for the Trade and Development Agency.

IG/A/PA randomly selected USAID sites for detailed audit work and also determined the number of unliquidated obligations to be randomly selected and reviewed at each site. A total of 19 sites (USAID/Washington and 18 missions) were selected for review. USAID/Indonesia was among those missions randomly selected for review.

Mission records indicate that, as of September 30, 1996, USAID/Indonesia had 141 unliquidated obligations for project and non-project assistance with balances totalling $84,004,436.

AUDIT OBJECTIVE

The worldwide audit was designed to answer the following question:

> Did USAID/Indonesia review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and agency policies and procedures?

To test the effectiveness of USAID's internal control systems related to this objective, we reviewed randomly selected obligations to determine whether the obligations, and their associated commitments, were valid when recorded and whether their unliquidated balances complied with Agency funding guidance. For the purposes of this audit we considered obligations and commitments to be excessive which did not appear to be required to meet immediate funding needs at September 30, 1996 and/or at the time of our audit fieldwork.

Appendix I contains a discussion of the scope and methodology for audit work conducted at USAID/Indonesia.

AUDIT FINDINGS

Did USAID/Indonesia review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and agency policies and procedures?

For the items tested, USAID/Indonesia generally reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and agency policies and procedures. We noted that the Mission conducted periodic Section 1311 reviews to ensure that unliquidated obligations and commitments were valid and still needed. The audit found, however, that out of a sample of 15 unliquidated obligations[1] totalling $8,982,345 as of September 30, 1996, one commitment in the amount of $20,600 appeared to be invalid. In addition, three of the tested obligations, totalling $121,093, appeared to have excessive balances as of September 30, 1996 and another obligation amounting to $4,658 appeared excessive as of the time of our audit. These situations are discussed below.

A Commitment May Be Invalid

USAID/Indonesia Mission Order No. 1400.7 delegates authority to commit funds on behalf of USAID/Indonesia to specific Mission officials, including the Mission Director, Contracting Officer, and Executive Officer. For the commitment in question, funds were committed by an official who had not been delegated such authority-the--Chief Accountant in the Controller's Office--who signed a journal voucher to pay administrative support costs for five consultants under a Mission contract. According to Mission officials, when bilateral funds are committed outside of committing instruments like contracts, grants or purchase orders they should be approved by the host government implementing agency. In this case, the Chief Accountant presumed, incorrectly, that payment of administrative support costs for the contractor's use of Embassy services was covered in the annual work plan budget approved by the host government. As a result, USAID/Indonesia made what may be an invalid commitment of $20,600. If, upon further review, the commitment is determined to be invalid, the Mission should take appropriate action to correct the affected accounting records.

<u>Recommendation No. 1</u>: We recommend that USAID/Indonesia obtain a written opinion from the USAID Office of General Counsel as to the validity of the $20,600 commitment shown in Appendix III of this report and take appropriate corrective actions based on that opinion.

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[1] GAO's *Principles of Federal Appropriations Law* defines an obligation as "some action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time." USAID Financial Management Bulletin, Part II, No. 14A, defines a commitment as "funds set aside [for an obligation] to pay for the goods or services being procured."

Some Obligations Had
<u>Excess Balances</u>

Of the 15 unliquidated obligations reviewed during this audit, we found that four obligations had balances which exceeded anticipated needs, as defined by Agency guidance. The total amount considered to be excessive was $125,751. According to Mission officials, the obligations carried outstanding balances because under USAID policy they could not be deobligated until a final voucher for expenses and all advice of charges (AOCs) for incurred expenses were received. Mission officials should take action to deobligate balances that exceed anticipated needs or do not comply with Agency guidance.

<u>Recommendation No. 2</u>: We recommend that USAID/Indonesia deobligate excess funds totalling $125,171 as shown in Appendix IV of this report.

Each year, USAID's Bureau for Policy and Program Coordination issues guidance for the preparation of mission and office budgets. Guidance applicable to the period under audit states that budgets should be prepared as follows:

> <u>New Projects or Activities</u> - Obligations should provide funding for at least the first 18 months, but not more than 24 months.
>
> <u>Continuing Activities</u> - Obligations should be sufficient to fund anticipated expenses for no more than 12 months beyond the end of the fiscal year in which the obligation takes place.

We reviewed obligation balances as of September 30, 1996, and applied the Agency's guidance as follows:

> <u>New Activities</u> - In general, obligation or commitment balances were considered reasonable if they did not exceed anticipated expenses for a period of 24 months following the date of obligation or commitment, or through September 30, 1998, whichever was later.
>
> <u>Continuing Activities</u> - In general, obligation or commitment balances were considered reasonable if they did not exceed anticipated expenses for the 12-month period ending September 30, 1997, the expiration date of the obligating or commitment document, or the project assistance completion date, whichever was earlier. We also took into account balances of earlier or planned obligations which affected the continuing need for part or all of the unliquidated balance being audited. Any questioned amount was discussed with appropriate mission staff.

Finally, when assessing new and continuing activities, we considered USAID's Financial Management Bulletin - Part II - No.14A which contains Agency policy on the review of unliquidated obligations at field missions.

Three of the four obligations in question were continuing activities which had excessive balances both as of September 30, 1996 and at the time of our audit:

> The first obligation with an excessive balance was based on a grant made to an Indonesian non-governmental organization in August 1994. Our analysis found that as of September 30, 1996, amounts obligated under the grant were sufficient to support grant activities for nine and a half months beyond the obligation end date of February 28, 1997. The excess obligation occurred because the scope and level of activities under the grant were reduced and management of the grantee organization was changed. However, the budget for the activities and the amount of USAID funds obligated to support them were not reassessed to determine whether reductions were necessary. As a result, the amount obligated for activities under the grant exceeded needs by $39,373, as of September 30, 1996.
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> The second obligation initiated in August 1993 was based on a grant to a U.S.-based organization to strengthen Indonesia's national and provincial legislative assemblies. As of September 30, 1996, the obligation carried an unliquidated balance of $54,974. However, a review of the records showed that no funds under the grant had been disbursed since September 1995. Officials stated that they could not deobligate funds because they had not received a final voucher from USAID/Washington. In November 1996, as a result of the Mission's Section 1311 Review, a request for the final voucher was submitted to USAID/Washington. The final voucher liquidating an additional $635 was not received, however, until June 1997. USAID/Indonesia officials agreed that the unliquidated balance of $54,339 should be deobligated.
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> The third obligation was initiated in September 1992. The obligation was based on a Participating Agency Services Agreement (PASA) with the U.S. Centers for Disease Control (CDC). The purpose was to assist the Government of Indonesia in prevention of Acquired Immune Deficiency Syndrome (AIDS) in Indonesia. As of September 30, 1996, the obligation carried an unliquidated balance?although, according to project officials, all project activities had been completed and expenses had been paid. Controller's Office officials said that they were waiting for an AOC from Washington to liquidate the advance. Although in early July 1997 the Controller's Office submitted an inquiry to the CDC concerning the status of expenditures under the PASA, at the time of our audit the unliquidated balance totalling $27,381 was still outstanding.

The fourth obligation from our sample found to be excessive was for a new activity. The obligation was based on a delivery order initiated in May 1996 for technical assistance under an indefinite quantity contract. In August and September 1996 the contractor submitted two claims for reimbursement of expenditures incurred under this activity. Portions of both claims, however, were disallowed by the Mission because the contractor's supporting documentation was inadequate. At the time of audit, the obligation had an unliquidated balance of $15,631. This included $10,974 for the contractor's disallowed claims. According to Mission officials, the obligation remained outstanding because the Mission had not received a final voucher from the contractor. Since the activity ended in August 1996 and the terminal disbursement date was June 30, 1997, Mission officials agreed that the balance of $4,658 was excessive and should be deobligated.

Management Comments and Our Evaluation

USAID/Indonesia officials concurred with the audit findings and have taken actions to correct the situations cited in the report. In response to Recommendation No. 1, Mission officials indicated that the amount of the referenced obligation should be $20,600. They also stated that a project implementation letter (PIL) has been prepared and approved by the Government of Indonesia authorizing payment of the $20,600 expense. The PIL in conjunction with the journal entry constitute a valid commitment. Therefore, a General Counsel opinion is not necessary. Actions taken by Mission officials are responsive to Recommendation No. 1 and, therefore, we consider final action on this recommendation to be complete.

With reference to Recommendation No. 2, Mission officials have deobligated excess funds totaling $125,171. Officials pointed out that USAID policy specifies that deobligations can be made only if final expense vouchers and advice of charges (AOC) for incurred expenses have been received. Mission officials indicated that the four obligations cited in the report were unliquidated because final vouchers and/or AOCs had not been received. Actions by USAID/Indonesia officials are responsive to Recommendation No. 2 and, therefore, we consider final action on this recommendation to be complete.

SCOPE AND METHODOLOGY

This audit is part of the Office of the Inspector General's (OIG) worldwide review of the Agency's obligations for project and non-project assistance. The worldwide review is limited to obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. It does not cover obligations funded with U.S.-owned local currency, established for disaster relief, or maintained by USAID for the Trade and Development Agency.

The Office of the Regional Inspector General/Bangkok audited USAID/Indonesia's review and certification of unliquidated obligations for project and non-project assistance, as of September 30, 1996. The audit was conducted at USAID/Indonesia, from July 7 through July 24, 1997, and was performed in accordance with generally accepted government auditing standards. At our request, USAID/Indonesia compiled a list of its obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. However, the Mission included five obligations relating to disaster assistance in its list which we subsequently removed. From this revised list, totalling 141 obligations amounting to $84,004,436, we randomly selected 15 obligations totalling $8,982,345 for detailed audit testing. The OIG did not establish materiality thresholds at the mission level because it was believed that insufficient items were being tested to provide reasonable assurance at each mission selected for review.

Our fieldwork at USAID/Indonesia included tests to determine whether the sampled obligations, and their related commitments, were valid. These included limited tests of compliance with USAID procedures related to Section 1311 reviews, which assess the validity of the mission's obligations.

We also reviewed the unliquidated balance of each selected obligation to determine whether, on September 30, 1996, the balance was needed, in full or in part, to cover expenses anticipated during reasonable future periods. In making these decisions, we considered Agency guidance for forward funding, activity-specific budgets and spending plans, actual disbursements, progress reports, accruals and USAID's Financial Management Bulletin - Part II - No.14A which contains Agency policy on the review of unliquidated obligations at field missions. When amounts were questioned, we interviewed relevant activity managers and contracting or grant officers. The results of field work at USAID/Indonesia will be consolidated with the results of field work conducted at USAID/Washington and other missions and used to make Agency-wide projections.

In addition to capturing information and making calculations as of September 30, 1996, for Agency-wide projections, we determined whether the unliquidated balances for obligations and commitments reviewed were excessive at the time of our field work. If so, we recommended that the excess funds be deobligated or decommitted, as appropriate.

Letter No. II/840

November 7, 1997

Mr. Bruce Watts
Regional Inspector General
RIG/A/Bangkok, USAID/Thailand
37 Petchburi Soi 15
Bangkok 10400
Thailand

Dear Mr. Watts:

This is USAID/Indonesia's response to the draft audit report entitled "Audit of USAID/Indonesia's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance," dated September 1997.

The Mission is pleased to submit the following clarifications and suggestions for specific corrections which will, in our opinion, make the report more accurate.

RIG/A Recommendation No. 1: We recommend that USAID/Indonesia obtain a written opinion from the USAID Office of General Counsel as to the validity of the commitment shown in Appendix III of this report and take appropriate actions based on that opinion.

The draft audit report, giving the basis on which the above recommendation was made, points out that one commitment in the amount of $15,600 appears to be invalid. The funds were committed by an official which had not been delegated such authority. The draft noted "If, upon review, the commitment is determined to be invalid, the Mission should take appropriate action to correct the affected accounting records."

We have made a review of the noted "$15,600 commitment" and have undertaken the necessary corrective action as described below.

Please be advised the auditors erroneously quoted the amount of journal voucher (J.V.) No 497-96-116 to be $15,600 instead of $20,600. Please see attached copy of the J.V.

The 'commitment' of $20,600 which was recorded through the use of a journal entry (J.V. 497-96-116) was for covering the payment of FAAS charges to the U.S. Embassy for services obtained by U.S. expatriates working for the contractor Chemonics funded under the bilateral PURSE project (Project 497-0373).

Since there was no provision made within the contract budget to pay for these FAAS charges, those charges had to be paid from other unearmarked funds within this bilateral project. Under the Agency rules, when bilateral funds are committed outside of committing instruments like contracts, grants or purchase orders they should be concurred and approved by the implementing agency of the host government. Such concurrence or approval is generally documented either under a Project Implementation Letter (PIL) signed by the counterpart official or under a work plan and annual budget agreed to by USAID and counterpart officials. The signed PIL then constitutes the valid commitment document and, subsequently, is recorded in MACS accounting records using a journal entry.

In the case in point, the payment of FAAS charges year after year for the contractor's use of Embassy services was presumed to be covered under the annual work plan budgets agreed with the Government. The Project Officer and the Chief Accountant signed the journal voucher based on such presumption. However, since we could not locate a specific document giving such approval by the host country official, we drafted the attached PIL and obtained the approval of the GOI official to concur with the recorded commitment of $20,600. This PIL along with the journal entry (J.V. No. 497-96-116) constitutes the valid commitment of $20,600.

Since the Mission has now resolved the issue of validity of this commitment and the payment for FAAS service charges to the U.S. Embassy, we do not see a necessity of approaching the General Counsel on the subject. We request a closure of audit recommendation No. 1 upon issuance of the final audit report.

<u>RIG/A Recommendation No. 2</u>: **We recommend that USAID/Indonesia deobligate excess funds totaling $125,171 as shown in Appendix IV of the report.**

The Mission agrees with the recommendation to **deobligate excess funds totaling $125,171** which were no longer required. However, as previously mentioned in our response to the discussion draft, the Mission would like the audit report to specifically state that the Mission had followed Agency policy which requires that deobligations can be made only if the final vouchers for expenses or Advice of Charges for incurred expenses are received. Absence of such clarification does not present a balanced picture of the facts in this case.

With regard to the items listed in Appendix IV, the Mission has completed the deobligation of $125,751 determined not required for further disbursement(Please see attachment 2).

The Mission requests that this recommendation be considered resolved and closed upon the issuance of the final report

The Mission appreciates RIG/A's cooperation throughout the audit, and the consideration of our comments in the final report.

Sincerely yours,

Vivikka M. Molldrem
Mission Director

Commitment Which Appears to Be Invalid

Commitment No.	Amount	Reason for IG Opinion
JV 96-116	$20,600	The person who approved the commitment was not authorized to commit USAID funds.

APPENDIX IV

Amounts Identified as Excessive

Obligation No.	Amount of Excessive Obligation	Reason for IG Conclusion
<u>As of September 30, 1996</u> AID 497-0364-G-00-4059	$ 39,373	Funds Are No Longer Required
AID 497-0364-G-SS-3262	$ 54,339	Funds Are No Longer Required
AID 497-0364-P-00-2085	$27,381	Funds Are No Longer Required
****Subtotal**	$ 121,093	
<u>As of July 7, 1997</u> PCE-0026-Q-00-3031-54	$ 4,658	Funds Are No Longer Required
Total	$ 125,751	