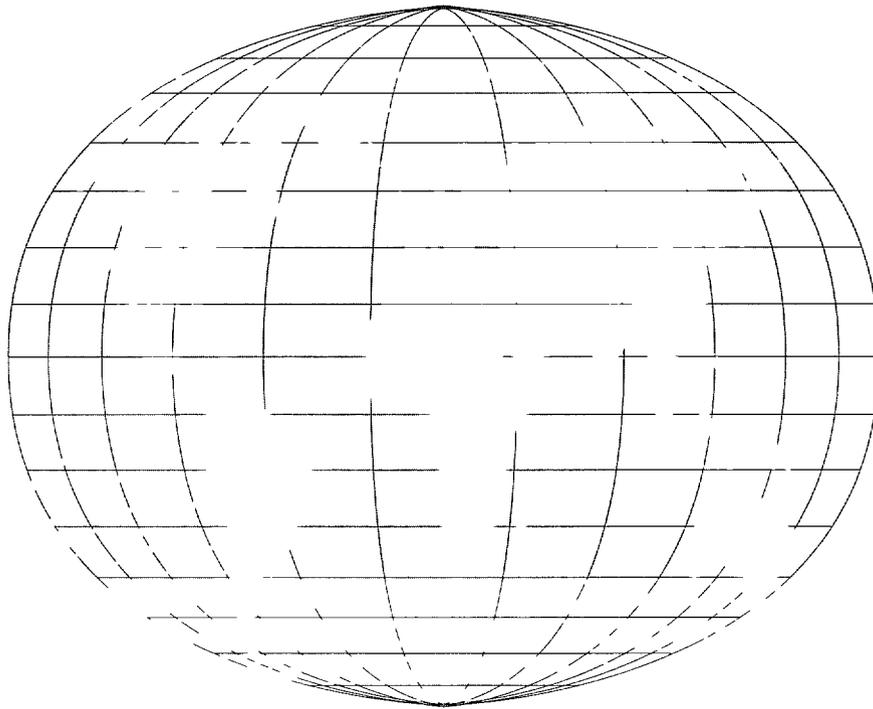


Report of Audit

Audit of USAID/Mali's Operating Expenses

Report No. 7-688-99-004-P
August 13, 1999



Regional Inspector General
Dakar

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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August 13, 1999

Memorandum

To James Hradsky, Director, USAID/Mali

From Henry L Barrett, RIG/Dakar *for Lee Jewell*

Subject Audit of USAID/Mali's Operating Expenses,
Audit Report No 7-688-99-004-P

This memorandum is our final report on the subject audit. We have considered your comments on our draft report and have made changes as appropriate. Your comments are included in their entirety in Appendix II.

This report contains five recommendations, three recommendations concern the management of funds available for operating expenses, one recommendation concerns vehicle maintenance, and one recommendation addresses the management of nonexpendable property. From the documentation that you submitted in response to the draft report, we consider that the Mission has made a management decision on all five recommendations. In addition, we consider that final action has also been taken on Recommendation Nos 2, 1, 4, 2, and 4, 3. For the remaining recommendations awaiting final action, the USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action has taken place.

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

**Audit of USAID/Mali's
Operating Expenses**

**Report No. 7-688-99-004-P
August 13, 1999**

**Regional Inspector General
Dakar**

EXECUTIVE SUMMARY

Background

The United States Agency for International Development (USAID) receives a separate appropriation to cover its annual operating expenses (OE). Operating expenses represent salaries, benefits and support costs of all U.S. and foreign national personnel. Support costs include allowances, travel, transportation, housing, and office expenses. For fiscal years ending 1997 and 1998, USAID/Mali had total annual authorized levels of \$2,953,100 and \$3,815,670 respectively in operating expense funds.

Section 1311 of the Supplemental Appropriations Act of 1955, as amended, requires a periodic review of unliquidated obligations to determine whether obligations continue to remain valid. If obligations do not continue to remain valid, the funds should be deobligated in a timely manner. USAID has established policies to this effect which are used as criteria in this report for auditing the unliquidated obligations of the Mission's operating expenses.

USAID/Mali's nonexpendable property (NXP) inventory is managed and warehoused by the U.S. Embassy General Services Officer (GSO) under the International Cooperative Administrative Support Services (ICASS) system. This is an arrangement whereby USAID/Mali pays a share of the U.S. Mission support costs and this system was initiated at USAID in 1998.

To maintain and service the Mission vehicle fleet, USAID/Mali contracted with a local vehicle dealership. The arrangement required the contractor to provide a broad range of maintenance, warehousing, accounting, control and delivery of vehicle maintenance services to the USAID Mission in Bamako. (See page 1)

Summary of Audit Findings and Recommendations

The audit found that USAID/Mali did not effectively manage its funds available for operating expenses in accordance with USAID regulations. The Mission should take specific action to correct problems related to the management of its unliquidated obligations, control over the recording of its obligations, and forward funding of its service contracts.

Regarding vehicle maintenance, the audit found that USAID/Mali effectively managed their vehicle maintenance contract in accordance with the terms of the agreement, except for prohibited payments made for duties and taxes which were considered unallowable costs. Additionally, USAID/Mali effectively managed their receipt and disposition of nonexpendable property in accordance with regulations, except for the need to develop some written procedures jointly with the U.S. Embassy.

USAID/Mali did not identify and deobligate, in a timely manner unneeded unliquidated obligations funded for operating expenses as required by federal law and USAID procedures. This occurred because USAID/Mali did not (1) perform adequate unliquidated obligation reviews, (2) provide for sufficient coordination between the controller's office and the executive office and (3) post expenditures correctly. Consequently unliquidated obligations were not managed according to requirements, and those that were no longer needed were not identified and made available for other purposes. The audit recommends (1) deobligating \$187,892 which was determined to be no longer needed, and (2) establishing procedures to assure compliance with laws and guidance related to obligation reviews. (See page 3)

USAID/Mali recorded an operating expense obligation which did not meet the requirements in USAID guidance and federal regulations that are necessary before an obligation can be recorded. USAID/Mali officials stated that this may have occurred because prior Mission officials may have attempted to avoid losing any available funding and may not have been aware of the legal requirements for obligations. As a result, funds were not available for obligations for legitimate needs. The audit recommends deobligating the remaining obligation of \$22,701 and establishing procedures to ensure compliance with federal laws and USAID guidance. (See page 7)

The audit found eleven obligations with unliquidated balances for various types of services totalling \$130,353, for which the associated services were primarily received in the following fiscal years and not in the years for which the funds were appropriated. USAID/Mali officials stated that this may have occurred because prior Mission officials may have tried to avoid losing any available funding due to decreasing budgetary support. Also, they may have been concerned about ensuring the continuity of services across the end of the fiscal year, and may not have been aware of the requirements for forward funding service contracts. As a result, operating expense funds intended to be used in one fiscal year were used to supplement succeeding fiscal year operating expense funds contrary to appropriations law. Additionally, the Mission's reported annual operating expenses were not accurately stated. The audit recommends establishing procedures to prevent recurrence. (See page 9)

The U.S. Government discourages the payment of duties and taxes from funding intended for development activities. Such costs are considered as unallowable under the Mission vehicle maintenance contract. However, USAID/Mali paid duties and taxes estimated at \$25,852 from operating expense funds, in addition to implementing partners who paid an undetermined amount. Some unallowable charges were incurred with Mission cognizance, while some were paid without Mission cognizance, because the contract payments were not closely monitored for allowability. The audit recommends (1) developing an arrangement with the contractor for USAID/Mali to receive credit or an offset for duties/taxes unknowingly paid by the Mission, (2) notifying USAID/Mali whenever duties and taxes need to be incurred to purchase vehicle spare parts and (3) submitting a written advisory to the implementing partners to inform them of applicable regulations regarding duties and taxes. (See page 12)

USAID/Mali did effectively manage their receipt and disposition of nonexpendable property in accordance with regulations, except for the need to develop some written procedures jointly with

the U S Embassy Such procedures would improve internal control and reduce the opportunity for miscommunication between the Mission and the U S Embassy General Services Officer who manages and maintains USAID/Mali nonexpendable property under an ICASS agreement The audit found that some Mission inventory items were not included in the inventory data base Although the executive officer had requested that these items be included in the inventory data base, they were not because of inconsistent nonexpendable property regulations between State Department and USAID Applicable regulations for USAID inventory require that inventory records be kept on all accountable property and USAID/Mali's executive officer had determined that accountability for cellular phones and radios should be included in the inventory data base In addition, the lack of a joint written policy has caused minor misunderstandings concerning the receipt of property in two different receiving areas The audit recommends that internal controls over inventory be improved (See page 16)

Management Comments and Our Evaluation

USAID/Mali generally agreed with the findings in the report and has begun to respond to the recommendations As of the date of this report, USAID/Mali has already submitted documentation demonstrating that they have designed and partially implemented plans to address all of the recommendations in the report We, therefore, consider that the Mission has made management decisions on all of the five recommendations

In addition, USAID/Mali has also completed the planned actions for one subpart of the recommendation concerning the recording of obligations and two subparts of recommendation addressing the management of the vehicle maintenance contract We, therefore, consider that USAID/Mali has taken final action at this time on these three recommendation subparts

Office of the Inspector General

Office of the Inspector General

August 13, 1999

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INTRODUCTION

Background

The United States Agency for International Development (USAID) receives a separate appropriation to cover its annual operating expenses (OE). Operating expenses represent salaries, benefits, and support costs of all U.S. and foreign national personnel. Support costs include allowances, travel, transportation, housing, and office expenses.

In recent years, OE annual appropriations have come under intense scrutiny as part of congressional and administration efforts to reduce federal costs. As a result of recent lower funding levels, USAID decided to close various overseas missions and offices. Consequently, USAID/Mali had recently assumed accounting responsibilities for other USAID activities, along with receiving increased funding from 1997 to 1998 to accompany increased responsibilities. Additional activities include Chad, Niger, Burkino Faso, and Cote d'Ivoire. For fiscal years ending 1997 and 1998, USAID/Mali had total annual authorized levels of \$2,953,100 and \$3,815,670, respectively, in operating expense funds.

The usage and availability of annual operating expenses are governed by Section 1311 of the Supplemental Appropriations Act of 1955, as amended, and are also covered in more detail by USAID guidance. This guidance requires a periodic review of unliquidated obligations to determine whether obligations continue to remain valid. If obligations do not continue to remain valid, the funds should be deobligated in a timely manner. To accomplish this, USAID has established policy requiring (1) continuous and year-end reviews of unliquidated obligations for both current and prior year funds, (2) an examination of the obligation and liquidation records by financial staff in coordination with the program officers, and (3) maintenance of a set of workpapers to document the reviews.

As part of its operating expenses, USAID/Mali's nonexpendable property (NXP) inventory is managed and warehoused by the Embassy General Services Officer (GSO) under the International Cooperative Administrative Support Services (ICASS) system. Initiated at USAID in 1998, the system requires USAID/Mali to pay a share of the U.S. Mission support costs, thereby replacing the previous Foreign Assistance Administrative Support (FAAS) system. It establishes locally empowered councils to manage and evaluate services and moves funding of local costs and potential savings to post as an incentive to develop cost initiatives.

USAID/Mali was contracting with a local vehicle dealership to maintain and service the Mission vehicle fleet. The arrangement required the contractor to provide a broad range of maintenance, warehousing, accounting, control and delivery of vehicle maintenance services, as well as

periodic reporting on the inventory of duty-free parts Periodically, USAID/Mali knowingly incurred costs for duties and taxes to specially order needed spare parts through the contractor in order to keep all vehicles in running order

Audit Objectives

As a result of decisions made by OIG/Washington, RIG/Dakar needed to adjust its annual audit plan and a mutual decision was made to perform an audit of USAID/Mali's Operating Expenses Accordingly, the Office of Regional Inspector General/Dakar audited USAID/Mali to answer the following questions

Did USAID/Mali effectively manage funds available for operating expenses in accordance with USAID regulations?

Did USAID/Mali effectively manage the vehicle maintenance contract in accordance with the terms of the agreement?

Did USAID/Mali effectively manage the receipt and disposition of nonexpendable property in accordance with USAID regulations?

Appendix I describes the audit's scope and methodology

REPORT OF AUDIT FINDINGS

Did USAID/Mali effectively manage funds available for operating expenses in accordance with USAID regulations?

USAID/Mali did not effectively manage its funds available for operating expenses in accordance with USAID regulations. The audit found that USAID/Mali should take specific action to correct problems related to the management of unliquidated obligations, control over the recording of obligations, and forward funding of service contracts. These issues are discussed in detail below.

USAID/Mali needs to improve its management of unliquidated obligations

USAID/Mali did not identify and deobligate, in a timely manner, unneeded operating expense unliquidated obligations. Federal law and USAID procedures require periodic reviews of unliquidated obligations to identify funds which need to be deobligated. This occurred because USAID/Mali did not (1) perform adequate unliquidated obligation reviews, (2) provide for sufficient coordination between the controller's office and the executive office, and (3) post expenditures correctly. Consequently, unliquidated obligations were not managed as required, and those that were no longer needed were not identified and made available for other purposes.

Recommendation No. 1 We recommend that USAID/Mali

- 1.1** deobligate the \$187,892 in operating expense unliquidated obligations identified in this report,
- 1.2** obtain adequate documentation, or deobligate as appropriate, the \$29,148 in operating expense unliquidated obligations identified in this report for which we could not find adequate support,
- 1.3** establish procedures to ensure that (a) Section 1311 reviews are performed in accordance with federal law and USAID guidance, (b) there is effective coordination between, and follow-up by, the Controller's Office and the Executive Office regarding the status of unliquidated obligations, and (c) expenditures are recorded against the appropriate obligations, and

1.4 review incorrectly posted expenditures identified in this report and make appropriate adjusting entries to both the expenditures and the related unliquidated obligations

USAID/Mali did not identify and deobligate, in a timely manner, unliquidated obligations for operating expenses which were no longer needed for the purposes for which the obligations were originally made. We found that \$187,892 of unliquidated obligations were no longer needed and should be deobligated and made available for other uses. In addition, we found \$29,148 of unliquidated obligations for which we could not determine the current status due to insufficient documentation to support the obligations. These obligations need to be further analyzed to determine their propriety and deobligated if they are no longer needed. The results of our sample are set forth in the table below. Individual unliquidated obligation documents recommended for additional analysis and recommended for deobligation can be found in Appendix III.

Fiscal Year of Obligation	Unliquidated Obligations at February 1999	Unliquidated Obligations Audited	Recommended for Additional Analysis	Recommended for Deobligation
1994	\$ 54,597	\$ 54,597	0	\$ 54,597
1995	0	0	0	0
1996	181,043	34,495	5,183	6,611
1997	236,234	82,434	17,738	57,971
1998	871,598	181,264	6,227	68,713
1999	1,349,332	0	0	0
Total	\$2,692,804	\$352,790	\$29,148	\$187,892

Federal law and USAID procedures require that unliquidated obligations be reviewed periodically to identify funds which need to be deobligated. Section 1311 of the Supplemental Appropriations Act of 1955, as amended (Title 31 U.S. Code Sections 1108, 1501, 1502), describes the federal requirements for the reviews.

USAID guidance is contained in Financial Management Bulletin, Part II, No. 14A, entitled "Obligation Reviews at Missions." This bulletin requires that Section 1311 reviews be documented and that an "audit trail" be maintained to evidence the steps taken to verify the validity of obligations. This activity must be fully documented as evidence that the review was conducted and as evidence for audit purposes. The documentation consists of a complete set of work papers for each individual obligation. A reviewer of these work papers should be able to conclude that a thorough review of each unliquidated obligation or commitment was conducted. Supporting documentation and work papers from previous reviews can form the basis for the subsequent reviews for accounts that continue to remain open with unliquidated balances.

The Section 1311 review is a joint exercise, involving the mission controller, operating expense accountants and financial analysts, project/program officers, executive officers and the responsible contracting officers. At the time of partial liquidation, the assigned accountant must ascertain from the designated project or other administrative officer that the remaining unliquidated obligation balance remains valid. Prior to fiscal-year end, an intensive review of all unliquidated obligations must be done for both the open year appropriation, as well as closed years.

We found three primary causes leading to the retention of unneeded unliquidated obligations: (1) inadequate Section 1311 reviews, (2) lack of coordination between the controller's office and the executive office, and (3) incorrectly posted expenditures.

Section 1311 Reviews USAID/Mali did perform some Section 1311 reviews which supported the certification of its September 30, 1998 balances and resulted in subsequent deobligations; however, these reviews did not meet USAID requirements in two respects: (1) these Section 1311 reviews were not documented with work papers and, (2) they were not performed with the required frequency and thoroughness.

For fiscal years 1994 to 1998, we found no work papers or audit trail evidencing the steps taken to verify the validity of unliquidated obligations. For the obligations we audited, there were no work papers either supporting the obligations or evidencing the fact that they had previously been researched. We had to gather the evidence during our field work to research each obligation to determine whether it was still needed.

Since September 1998, one Section 1311 review had been done. Completed in February 1999, this review was limited to obligations made in fiscal year 1999 only and covered no prior years. In September 1998, some deobligations for fiscal years 1997 and 1998 were reviewed, but no other prior years were done. Also, work papers were not retained to support the remaining unliquidated obligations.

The unliquidated obligations that we found to no longer be necessary could have been identified and deobligated much earlier had USAID/Mali conducted its reviews in accordance with USAID guidance and federal law. USAID/Mali should establish controls to ensure that Section 1311 reviews are done with the required frequency and documentation.

Controller's Office and Executive Office Coordination We found a lack of coordination between the executive office and the controller's office in the management of certain purchase orders and contracts. Our sample contained several cases in which the original orders for goods or services were either cancelled or substantially changed. In one case, in which an order was cancelled, the executive office prepared a memo notifying the controller's office of the cancellation¹, but the controller's office did not follow up on the cancellation and deobligate the

¹Document no. PO-688-0 00-98 00143 was obligated for \$2,678 to purchase and install shelving for the USAID office building.

balance. In another case, we could not find correspondence from the executive office to the controller's office notifying the accounting staff of changes to the original obligation²

An additional problem occurred when final payments were made that were less than the remaining unliquidated obligation. We found several examples of this problem which left remaining unliquidated balances that were no longer needed³. In order to properly manage unliquidated obligations, USAID/Mali needs to establish better controls for coordination between the executive and controller's office. The executive office should ensure that the accounting staff is notified when a final payment or change in the original order is made. The controller's office, in turn, must also ensure that these notifications are processed in a timely manner.

Incorrectly Posted Expenditures We noted several unliquidated obligations against which transactions were recorded that were not related to the obligations. These transactions consisted of both expenditures related to other obligations, as well as collections for disbursements that had previously been paid and recorded against other obligations. For example, in the guard services contract⁴, there were numerous expenditures that were recorded for such things as filing boxes, magazine subscriptions, computer repairs, and petty cash expenditures. Although there was a petty cash obligation that had been made for this type of expenditure, these expenditures were still recorded against the guard services obligation.

Additionally, we found another type of incorrectly posted expenditure in the form of collections. Collections represent a negative obligation and result in an increase in the unliquidated balance. For an obligation entitled admin supplies⁵, \$6,805 was originally obligated, but no expenditures were recorded against it. However, two reimbursements for a total of \$1,119 were subsequently processed against it, leaving an unliquidated balance of \$7,924, which is larger than the original obligation.

Another obligation, entitled petty cash⁶, had several unrelated collections processed against it. The cumulative obligations totalled \$12,703 and the total expenditures were a negative \$1,607, resulting in an unliquidated balance of \$14,310, which is larger than the originally obligated

²Document no. 688-0-00 98-00142 01 was obligated for \$2,716 to provide warehouse space. But after \$785 of expenditures was recorded, the space was no longer used and the balance on the document was no longer needed.

³For example, document nos. CO-688 0000-C 00-7147-01, PO-688 0 00-98 00055-00, and PO 688-0-00-98-00086 00 were final payments that left residual balances that were no longer needed after the final payments were made.

⁴Document no. RO 98 WORKSHEET was a journal voucher used to allocate USAID's portion of the guard services contract which provided service to the entire U.S. Mission to Mali.

⁵RO-98 WORKSHEET was the document no. of the journal voucher which recorded the obligation.

⁶This obligation was recorded by a series of several journal vouchers with document no. RO-98 WORKSHEET.

amount. The net expenditures were negative because more collections were processed than expenditures. For example, three cancelled salary checks were recorded against this document for \$10,201, which should have been recorded against the original salary account. Another collection identified as a double payment to GTSI (a U.S.-based computer equipment vendor) for \$15,420 was also recorded, which should have been charged to the original purchase order.

By incorrectly liquidating obligations recorded for other valid purposes, these misposted expenditures make it more difficult to determine accurately the required unliquidated obligation balances during Section 1311 reviews. The misposted expenditures artificially reduce the obligation against which they were incorrectly recorded. If the obligation that should have been charged were accurately estimated, then that obligation would have had an unliquidated balance that would remain unliquidated and unavailable for other uses. In the case of collections, misposted expenditures artificially inflate unliquidated obligations thereby creating a portion of the unliquidated obligation that is invalid and that does not have a *bona fide*⁷ need. These incorrectly posted expenditures, as well as the associated obligations, should be researched to determine whether adjusting entries are necessary and whether the remaining unliquidated balances are still needed.

As a result of the above, unneeded unliquidated obligations for operating expenses were not identified and deobligated in a timely manner. Additional unliquidated obligations were inadequately supported and may also be no longer needed. Other unliquidated obligations were left with inaccurate and unsupported balances due to incorrectly posted transactions. Consequently, unliquidated obligations were not managed according to requirements, and those that were no longer needed were not identified and made available for other purposes.

USAID/Mali needs better internal control over recording obligations

USAID/Mali recorded an operating expense obligation for which there was no *bona fide* need. USAID guidance and federal regulations require that documentary evidence be maintained that a liability exists which meets certain criteria in order for an obligation to have a *bona fide* need and be recorded against an appropriation. USAID/Mali officials stated that this may have occurred because prior Mission officials may have attempted to avoid losing any available funding. Additionally, they stated that staff may not have been aware of the legal requirements for obligations. As a result, funds were not available for obligations for legitimate needs.

Recommendation No. 2 We recommend that USAID/Mali

- 2.1 deobligate \$22,701 in operating expense unliquidated obligations identified by this audit as not meeting legal requirements, and**

⁷See the next problem area for a discussion of *bona fide* need.

2.2 establish procedures to ensure that obligations and deobligations are recorded in accordance with federal law and USAID guidance

USAID/Mali recorded an obligation for \$52,250 for which there was no *bona fide* need. The Mission had deobligated several residual unliquidated obligations for that amount that were no longer needed in its fiscal year 1996 operating expense appropriation. Instead of allowing the funds to remain available for other valid purposes, USAID/Mali reobligated this amount using a journal voucher under document No. CO-688-0000-C-4283. This document, however, was for a residential furniture order from fiscal year 1994, not fiscal year 1996. After reductions from several subsequent expenditures and deobligations, the unliquidated obligation was reduced to a current balance of \$22,701.

The original residential furniture document and its corresponding obligation were, however, left on the books in fiscal year 1994. The resulting fiscal year 1996 obligation, therefore, represented both (1) an obligation that was recorded against a fiscal year in which the legal liability was not incurred, and (2) a double obligation that was created for the same legal liability and recorded simultaneously against two fiscal year appropriations.

The Supplemental Appropriations Act of 1955, as amended, and USAID Financial Management Bulletin, Part II, No. 14A, "Obligation Reviews at Missions" require that documentary evidence be maintained that a liability exists which meets one of nine criteria in order for an obligation to be recorded against an appropriation. These criteria are: (1) a written contract, (2) documentary evidence of loan agreement, (3) an order required by law placed with a federal agency, (4) an order issued under a law authorizing purchases without advertising meeting certain conditions, (5) for federal assistance program funds, documentary evidence of grant or subsidy payable, (6) liability from pending litigation payable, (7) documentary evidence in support of employment or services of persons or expenses of travel, (8) documentary evidence of services provided by public utilities, and (9) documentary evidence of any other liability of the U.S. Government. Federal regulations also require that the obligation be recorded against the appropriation in the same fiscal year in which it occurred.

Since the original order was a written contract, the obligation would normally fall under the first criterion above. However, because the obligation in question already existed under the same document number in a different year, the obligation was a duplicate obligation and, therefore, did not meet any of the above criteria. Also, the obligation in question was recorded against a different fiscal year than the fiscal year in which the liability was incurred, contrary to regulations. Therefore, this obligation did not meet any of the criteria that are necessary in order to record an obligation, and consequently did not have a *bona fide* need.

For prior-year funds, USAID procedures require that deobligated amounts from unliquidated obligations be returned to USAID/Washington. However, there is one exception allowing missions to retain deobligated funds. State Cable 343168 dated November 11, 1993, subject "Upward Adjustments--Prior Year Obligations" which amended USAID Handbook 19, Chapter 7 (or applicable financial bulletin), allows missions to deobligate unneeded unliquidated

obligations and make an upward adjustment on a valid existing obligation. This can be accomplished within the same prior-year budget allowance (budget plan code) as the obligation account requiring upward adjustment. The deobligations of the unneeded amounts and the corresponding upward adjustment must occur within the same reporting month. Therefore, USAID/Mali could have used the deobligations in fiscal year 1996 for other upward adjustments on other valid documents. Instead, the Mission set up an invalid obligation initially arising in a different year to avoid returning the deobligated funds to USAID/Washington.

USAID/Mali officials stated that the reason for the recording of the invalid obligation was that the prior Mission officials may not have wanted to lose any available funding due to shrinking budgetary support. Additionally, Mission officials stated that controller staff may not have been aware of the legal requirements for obligations at the time when the obligation was recorded.

Consequently, an obligation was recorded by a journal voucher against an operating expense appropriation which did not meet legal requirements, resulting in funds not being available for obligations for legitimate needs.

USAID/Mali needs better internal control over forward funding of service contracts

We found eleven obligations with unliquidated balances for various types of services totalling \$130,353 for which the associated services were primarily received in the following fiscal years and not in the years for which the funds were appropriated. USAID/Mali officials stated that inappropriate forward funding may have occurred because prior Mission officials may have tried to avoid losing any available funding due to decreasing budgetary support. Also, they may have been concerned about ensuring the continuity of services across the end of the fiscal year, and unaware of the requirements for forward funding service contracts. As a result, operating expense funds intended to be used in one fiscal year were used to supplement succeeding fiscal year operating expense funds contrary to appropriations law. Additionally, the Mission's reported annual operating expenses were not accurately stated.

Recommendation No. 3 We recommend that USAID/Mali establish procedures to ensure that its operating expense appropriations are funded in accordance with USAID guidance and not used to forward fund operating expense service contracts into the following fiscal years.

USAID/Mali did not follow USAID procedures and federal law in forward funding operating expense service contracts. We found eleven unliquidated obligations with balances for various types of services totalling \$130,353 for which the associated services were primarily received in the following fiscal years and not in the years for which the funds were appropriated. The following table summarizes our findings.

Description	Document No	Fiscal Year	Contract Period	Contract Amount
Burotic Services	PO-688 0000-0-00-6163	96	7/1/96 to 6/30/97	\$ 12 880
West African Dist	CO-688-000-C 00 4332	97	9/30/97 to 8/30/98	35 000
S Lanabi	CO-688 0000-C-00 7120	97	8/21/97 to 8/21/98	7 200
EFICA	CO 688 0000-C 00 7147	97	9/29/97 to 9/28/98	45 648
Prodeso	PO-688 0000-E 00 7134	97	9/14/97 to 9/14/98	7 855
M Gillet	PO 688 0000 0-00 7045	97	1/4/97 to 12/31/98	5,760
Tata Group	CO-688 0-00-98-C-00071	98	3/1/98 to 2/28/99	2 877
K Diakite	CO MGT-INT 98 05	98	9/14/98 to 3/26/99	1 071
DHL Services	PO-688 0 00-98 00174	98	6/1/98 to 4/30/99	5 455
D Sylla	PO-688-E-00 98-00099	98	5/10/98 to 5/10/99	6 000
Boston Services	PO-688-0-00 98 00178	98	7/20/98 to 7/19/99	607
Total				\$130 353

As indicated above, USAID/Mali funded operating service contracts for periods into the succeeding fiscal years ranging from six months to 15 months. Typical services included vehicle maintenance, electrical and air conditioning maintenance on the USAID office building, language instruction, translation services, and delivery services.

The longest forward funded obligation, purchase order no 7045, actually went three months into the second fiscal year beyond the year in which it was funded. The fiscal year 1997 original purchase order, which was for French instruction for USAID employees, was initially written with a period of performance from January 1997 to January 1998, four months into the succeeding fiscal year. However, an amendment was later added which extended the purchase order to December 31, 1998, which was three months into the second succeeding fiscal year.

Although still early in the fiscal year, in reviewing fiscal year 1999 operating expense funds, we noted that no current service contracts have been forward funded by more than three months into the next fiscal year.

Federal law and USAID procedures require that contracts for recurring services be funded from the same fiscal year's appropriation in which the services are received. USAID Handbook 19, Chapter 2 entitled "Obligation Procedures" par 2 E 2 states that funding of obligations under operating expense funds beyond the end of the current fiscal year may be made. However, they are subject to review for *bona fide* needs. The U.S. General Accounting Office (GAO) publication "Principles of Federal Appropriations Law" defines the *bona fide* needs rule. "A

fiscal year appropriation may be obligated only to meet a legitimate, or *bona fide*, need arising in, or in some cases arising prior to but continuing to exist in, the fiscal year for which the appropriation was made " It further states that an appropriation may not be used for the needs of some time period subsequent to the expiration of its period of availability In summary, an appropriation for a given fiscal year is not available for the needs of a future fiscal year

Specifically regarding service contracts, the GAO states that services are generally viewed as chargeable to the appropriation current at the time the services are rendered It states that, for services that are continuing and recurring in nature, the services must be charged to the fiscal year appropriation in which they were received

In addition to USAID Handbook 19, USAID/Washington has issued informal guidance on forward funding service contracts under operating expense appropriations The guidance states that missions may fund these types of contracts up to three months into the next fiscal year USAID officials in Washington stated that they plan to issue formal guidance in the near future

USAID/Mali believes the forward funding issue may have occurred in the past because prior Mission officials may have attempted to avoid the potential loss of any available funding due to decreasing budgetary support Also, they may have been concerned about ensuring the continuity of services across the end of the fiscal year Mission officials added that the problem may also have been a result of the lack of understanding on the part of the Mission staff at the time regarding the requirements for forward funding service contracts

The result of the above was that operating expense funds intended under appropriations law to be used in one fiscal year were used to supplement succeeding fiscal year operating expense funds Consequently, USAID/Mali's operating expense appropriations have not been used in accordance with appropriations law Additionally, the Mission's reported annual operating expenses were not accurately stated

Management Comments and Our Evaluation

USAID/Mali concurred with Recommendation Nos 1, 2, and 3 The Mission stated that it had already posted deobligations for three of the fiscal years in question and is planning to post deobligations for the remaining fiscal year in July for those unliquidated obligations in Recommendation No 1 1 It has also begun to review the unliquidated obligations that needed additional analysis in Recommendation No 1 2 For the internal control weaknesses discussed in Recommendation No 1 3, the Mission has drafted the recommended procedures which it hopes to finalize within the month Regarding Recommendation No 1 4, the Mission agreed to review incorrectly posted expenditures during its Section 1311 review prior to September 30, 1999

For Recommendation No 2 1, USAID/Mali has deobligated the recommended unliquidated obligation To address the internal control weaknesses discussed in Recommendation No 2 2, USAID/Mali has drafted procedures which they hope to finalize soon

Concerning Recommendation No 3, USAID/Mali has drafted the recommended guidance but has

not yet issued it in final

We believe that USAID/Mali's documentation submitted with its response to the draft report indicates that a firm management plan has been developed and partially implemented to address the conditions discussed in Recommendation Nos 1, 2, and 3. We, therefore, consider a management decision to have been made at this time for these three recommendations.

In addition, the Mission has already deobligated the remaining unliquidated obligation discussed in Recommendation No 2.1. Consequently, we consider that final action has also taken place at this time for Recommendation No 2.1.

Did USAID/Mali effectively manage their vehicle maintenance contract in accordance with the terms of the contract?

USAID/Mali did effectively manage their vehicle maintenance contract in accordance with the terms of the agreement, except for prohibited payments made for duties and taxes which constituted unallowable costs. This issue is further discussed in detail below.

USAID/Mali should take measures to minimize payment of duties/taxes on vehicle spare parts.

The U.S. Government discourages the payment of duties and taxes for USG-funded resources used on development activities. Although not allowable under the Mission vehicle maintenance contract, USAID/Mali paid duties and taxes amounting to an estimated \$25,852 from operating expense funds for vehicle spare parts. The Mission's implementing partners using the same vehicle maintenance contractor also paid duties/taxes of an undeterminable amount. These unallowable charges were incurred, some with Mission cognizance, and payments made because the Mission needed to obtain urgently needed spare parts to prevent excessive vehicle downtime. However, payments were also made which included duties/taxes, without Mission cognizance, because the contract payments were not closely monitored for allowability. As a consequence, some USAID/Mali operating expense resources were not used as intended.

Recommendation No 4 We recommend that USAID/Mali

- 4.1** develop an arrangement with the vehicle maintenance contractor to receive a refund, or credit for the inappropriately charged duties/taxes which can be used as an offset against future duties/taxes which may be incurred for ordering urgently needed vehicle spare parts,
- 4.2** include a clause in the vehicle maintenance contract requiring the contractor to notify USAID/Mali in advance in each case whereby duties/taxes are being incurred and provide a separate accounting of duties/taxes paid for which the charges are being passed on to the Mission, and

4.3 submit a written advisory to USAID/Mali implementing partners who are also using the same vehicle maintenance contractor to inform them of applicable regulations and policies regarding the payment of duties/taxes

Following USAID policy to "buy America," the Mission purchased Chrysler Jeeps for the vehicle fleet. Subsequently, in 1992, USAID/Mali executed an annually renewable maintenance contract with Chrysler-Jeep, a local vendor, and has been using the same contractor since contract inception. At that time, the Mission had twelve vehicles in their fleet, which increased to 14 at the start of our audit. Chrysler-Jeep is the only American Jeep dealership in Bamako and the Mission vehicle fleet has consisted primarily of Jeeps due to the harsh environment and difficult desert terrain in Mali.

In contravention of the terms of the vehicle maintenance contract, USAID/Mali paid duties/taxes of approximately \$25,852 to the vehicle maintenance contractor (Chrysler-Jeep) during the period 1992 through 1998. The implementing partners (NGOs) also used the same vehicle maintenance contractor and, under a similar maintenance and inventory usage arrangement, they also incurred the payment of duties/taxes.

These payments were made for two reasons. First, USAID/Mali needed to obtain urgently needed parts to prevent excessive vehicle downtime and thus, knowingly incurred duties/taxes. Secondly, USAID/Mali did not closely monitor payments made under this contract to assure that all expenses were allowable and thus, unknowingly incurred additional duties/taxes.

The inventory arrangement required the contractor to maintain, store, and provide a periodic reporting on the inventory of duty-free parts which came with the vehicles at the time of purchase. However, other additional needed parts, not kept by the contractor for the Mission inventory, had to be ordered by the contractor via courier service and any duties/taxes paid by the contractor were passed on to the Mission. In these cases where the parts had to be ordered, USAID/Mali was aware of the duties/taxes being paid and accepted this situation in order to keep Mission vehicles operating and avoid excessive vehicle downtime.

However, the Mission was not aware of each circumstance in which the contractor billings included duties/taxes, because the contractor frequently (about one fourth of the time according to the contractor) used spare parts from his company inventory when these parts were not available as part of the USAID vehicle inventory. The contractor did not advise USAID/Mali of these cases where they charged duties/taxes for spare parts which were extracted from the contractor's own inventory.

We discussed the propriety of the issuance of a bill for collection to attempt to recover the unallowable cost with the Regional Legal Advisor (RLA). The RLA's opinion was that it is not "illegal" to pay duties or taxes as there are those rare extenuating circumstances for doing so, but rather it could be a violation of an agreement or contract such as may be the situation in our

case⁸ The Mission vehicle maintenance agreement contains the following clause "Any tax or duty from which the U S Government is exempt by agreement with the Government of Mali, or from which the Contractor or any subcontractor under this contract is exempt under the laws of Mali, shall not constitute an allowable cost under this contract " We discussed this contract clause with the RLA who feels that this clause may not be applicable because, in her opinion, the then existing bilateral agreement did not extend the exemption for duties/taxes to cover operating expense procurement The RLA didn't think that the vehicle maintenance contract clause was sufficient to use as criteria for the issuance of a bill of collection⁹

Our discussion with the RLA was advisory and did not represent a formal opinion on which we based our conclusions However, due to the relatively low amount of duties/taxes in question, we believe that to pursue a formal opinion on the subject may not be feasible and would probably exceed any benefits derived Therefore, we are making recommendations for USAID/Mali to address this issue prospectively, and by a credit or offset arrangement with the contractor for duties and taxes that were unknowingly paid by the Mission

We requested documentary evidence from the contractor as to the amount of duties/taxes that they paid However, we were advised by the contractor (Chrysler-Jeep) that it would be very difficult to reconstruct the amount paid from the current records and he pointed out that some payments had been made to the Government of Mali (GOM) in cash We requested to review the records ourselves to determine whether we could reconstruct the amount of duties/taxes paid The contractor explained that they didn't really have anything that we could look at to make such a determination Accordingly, the audit disclosed no evidence that any duties or taxes were ever paid to the GOM for the vehicle spare parts although USAID/Mali did reimburse the contractor for an estimated \$25,852 in such charges during the period We decided not to request this information from the GOM on the belief that such request either would not be accommodated or the condition of any available records would be insufficient Therefore, we don't believe that we should recommend the issuance of a bill of collection to the GOM since there is no evidence that they ever collected any duties or taxes for the Mission vehicle spare parts

Since the implementing partners (NGOs¹⁰) are using the same vehicle maintenance contractor they should be made aware of applicable regulations and policies on the issue of duties/taxes In addition, the NGOs should take such precautions as requiring notification from the vehicle maintenance contractor of any vehicle parts for which they will incur expenses for duties/taxes and the NGOs should be provided with a periodic accounting of any duties/ taxes incurred and charged The audit did not determine to what extent the NGOs incurred and paid duties/taxes

⁸ The bilateral agreement was signed in 1961 and was outdated The RLA from USAID/Senegal was visiting USAID/Mali for the specific purpose of updating this agreement

⁹ However the RLA believes that any applicable criteria would be in the Vienna Convention Agreement and one could argue that USAID is a part of the Embassy There also has to be the assumption that Malian law has incorporated the Vienna Convention which the RLA believes to be the case

¹⁰ The implementing partners are Non governmental Organizations and are commonly referred to as NGOs

for vehicle spare parts because this was outside the scope of the audit. Nonetheless, this did occur and our recommendation also addresses this situation.

On another related issue, the vehicle maintenance contractor was charging the Mission more (per vehicle per year) to maintain Mission vehicles than they were charging the NGOs. The contractor was charging the Mission some \$2,708 per vehicle per year while charging the NGOs only about \$893 per vehicle per year. During the audit, we inquired about the different rates. Chrysler-Jeep stated the higher per vehicle maintenance cost charged to USAID/Mali was based on a number of factors including (1) performing more maintenance on Mission vehicles because they were used more than the NGO vehicles and carried a higher maintenance cost, (2) performing pre-trip and after-trip inspections which was not being done on NGO vehicles, (3) maintaining and storing extra USAID vehicle parts which were purchased by the Mission (duty-free) as part of a new vehicle package, (4) taking extra measures on the Mission vehicles such as reinforcement of suspensions, etc., and (5) maintaining an inventory system and submitting periodic inventory status reports to USAID/Mali. The Mission was unable to locate a description of the original justification for the per vehicle maintenance charge (since the annually renewable contract was initially executed in 1992). Therefore, we think it is important to document the justification for the vehicle maintenance charge currently being negotiated.

Consequently, approximately \$25,852 in Mission operating expense resources were inappropriately and inefficiently used as a result of unallowable costs paid for duties/taxes on vehicle spare parts. Furthermore, the impact of this issue extends to the NGOs that are assisting USAID/Mali in the implementation of their programs who are also using the same vehicle contractor and are also inappropriately incurring unallowable expenses for duties and taxes. At the time of the audit, the Mission was in the process of renegotiating its contract for vehicle maintenance and needs to specifically document their justification for agreeing with the contractor on an annual per vehicle charge for maintenance.

Management Comments and Our Evaluation

USAID/Mali concurred with Recommendation No. 4. Concerning Recommendation No. 4.1, the Mission stated that they are currently discussing with the contractor the amount of the recommended credit or offset relating to previously paid duties and taxes. For Recommendation No. 4.2, USAID/Mali has included in the new vehicle maintenance contract the recommended clause concerning company inventory to be provided at a duty-free and tax-free price. In response to Recommendation No. 4.3, the Mission has issued a written advisory to the implementing partners concerning the payment of duties and taxes under their vehicle maintenance contracts as recommended.

In summary, we consider that the documentation submitted by USAID/Mali in response to the draft report indicates that the Mission has adopted an adequate plan to address Recommendation Nos. 4.1, 4.2, and 4.3. Therefore, we consider USAID/Mali to have made a management decision on these three subparts of Recommendation No. 4. Furthermore, we consider the action already taken by USAID/Mali with respect to Recommendation Nos. 4.2 and 4.3 to constitute final action at this time.

Did USAID/Mali effectively manage the receipt and disposition of nonexpendable property in accordance with USAID regulations?

USAID/Mali did effectively manage their receipt and disposition of nonexpendable property in accordance with regulations except for the need to develop some written procedures. Such procedures would improve internal control and reduce the opportunity for miscommunication between the Mission and the U.S. Embassy General Services Officer who manages and maintains USAID/Mali nonexpendable property under an ICASS agreement. This issue is discussed further below.

USAID/Mali needs to develop written procedures to enhance control over non-expendable property

We found that some Mission inventory items were not included in the inventory data base maintained by the Embassy General Services Officer. Although the Mission executive officer had requested that these items be included in the inventory data base, they were not because of inconsistent nonexpendable property regulations between State Department and USAID. Inventory regulations for USAID require that inventory records be kept on all accountable property and USAID/Mali's executive officer had determined that accountability for cellular phones and radios should be included in the inventory data base. In addition, the lack of a joint written policy has caused misunderstandings concerning the receipt of property in two different receiving areas. As a result, USAID/Mali internal controls over inventory need to be improved.

Recommendation No. 5 We recommend that USAID/Mali coordinate with the Embassy General Services Officer to develop a joint administrative notice on USAID nonexpendable property to improve coordination and ensure that all USAID property is inventoried as agreed.

USAID/Mali's nonexpendable property (NXP) inventory is managed and warehoused by the Embassy General Services Officer (GSO) under an ICASS¹¹ arrangement whereby USAID/Mali pays a share of the costs. The Embassy GSO proposed and removed USAID cellular phones and radios from the non-expendable property application (NEPA) data base. One of the reasons why the NXP was removed against the wishes of the USAID GSO is the inconsistent inventory requirements between State and USAID. The Embassy GSO follows State Department's NXP regulations which do not require inventorying of cellular phones and radio equipment. In a memo to the USAID executive officer, the Embassy GSO in Bamako stated, "the Embassy GSO does not NEPA, track or issue radio equipment for any other Agency and GSO does not receive, issue, repair or replace the USAID radios. This is handled by USAID." The Embassy GSO further stated in the same memo to the USAID executive officer that, "This is a special

¹¹ The International Cooperative Administrative Support Services (ICASS) system was initiated at USAID in 1998. It replaces the Foreign Assistance Administrative Support (FAAS) system by establishing locally empowered councils at post to manage and evaluate services. Funding of local costs will be moved to post and local managers will retain savings as an incentive to develop cost initiatives.

requirement which GSO will not be able to provide to USAID. We are proposing to remove these items from our NEPA records effective with this year's inventory. The total number of items is 42. The audit testing revealed that some of these particular inventory items had already been removed at the time of our audit.

According to 6 FAM 224 1-1, inventory records must be kept on all accountable property and all capitalized property whenever such property is titled with or is in the custody of USAID. Further, according to 6 FAM 223 7 on Warehousing and Storing Property, the property management officer (PMO) shall establish conditions to provide for an efficient, secure, and economical warehousing operation. Where it is necessary to store and warehouse property at the establishment abroad, the PMO shall implement an efficient and economical warehousing program with written procedures for handling and storing property.

At the time of our audit, the Mission had not developed written procedures concerning its nonexpendable property. Since the Mission NXP is managed by the Embassy GSO under an ICASS arrangement, we believe it is appropriate for the two parties to jointly develop some type of joint administrative notice or guidance that will identify which USAID NXP will be subject to the NEPA inventory process and which will not. Such guidance should also specify any other pertinent and necessary coordinating procedures between the USAID executive officer and the Embassy GSO to be followed in the process of receiving, transferring, or disposing of USAID NXP.

On another related control issue, the USAID NXP reception area was not fully centralized at the Embassy GSO receiving site, and some USAID NXP items such as office computers, were received at a separate receiving area at the USAID Mission. According to 6 FAM 223 2 on, "Receiving Areas," the receiving activities of each establishment abroad shall be centralized. However, the PMO's designation of a central receiving area does not preclude receiving and inspection at other areas. When sub-receiving areas are designated, written operating procedures shall include a method of informing the central receiving area of all receipts. The audit did not disclose any written procedures to this effect and under the present ICASS arrangement, such procedures should be developed and formalized jointly between the Embassy GSO and the Mission.

USAID/Mali has issued Mission Notice No. 91-051 dated June 26, 1991 on "New Policy on Non-Expendable Property Transfer" which relates to the physical movement of NXP. This Notice should be considered in the development of any new policies on NXP.

Management Comments and Our Evaluation

USAID/Mali concurred with Recommendation No. 5. The Mission has requested the Embassy GSO to develop a joint administrative notice on handling nonexpendable property. The documentation submitted by USAID/Mali indicates that the Mission has developed a plan to address the recommendation. Consequently, we consider USAID/Mali to have made a management decision at this time on Recommendation No. 5.

<p>SCOPE AND METHODOLOGY</p>

Scope

We audited USAID/Mali's management of funds available for operating expenses in accordance with generally accepted government auditing standards. We conducted the audit from February 23, 1999 to March 19, 1999 at USAID/Mali's office in Bamako, Mali.

For unliquidated obligations, we audited a judgmental sample of 52 transactions as of February 1999 for fiscal years 1994, 1996, 1997, and 1998. There were no remaining unliquidated obligations prior to fiscal year 1994 and none in fiscal year 1995. We selected nothing in fiscal year 1999 because we believed that it was too early in the year for a review to be of value. Unliquidated obligations reviewed totaled \$352,790: \$54,597 from fiscal year 1994, \$34,495 from fiscal year 1996, \$82,434 from fiscal year 1997, and \$181,264 from fiscal year 1998. This sample represented 13 percent of the total dollar value of all remaining unliquidated obligations in fiscal years 1994 through 1999 at the time of our fieldwork. The sample error rate, those recommended for deobligation, represented 53 percent of the sample dollar value.

We limited our conclusions to the items tested; we did not project the results of our tests to the universe of all unliquidated obligations, or nonexpendable property receipts and dispositions. Since our sample of unliquidated obligations was judgmental and designed to select only those documents that had unliquidated obligations that appeared to be unneeded or invalid, we believe that the sample error rate is higher than the population error rate. For this reason, we determined that the error rate in the sample should be at least 25 percent of the sample before determining that USAID/Mali did not manage its unliquidated obligations adequately. Since the sample error rate was more than 25 percent, we concluded that the Mission did not manage its unliquidated obligations according to requirements.

On a judgmental sample basis, we tested 55 transactions from 13 receiving reports relating to the receipt of nonexpendable property items that occurred during fiscal years 1997 and 1998. We established a 10 percent error rate threshold and from our test results, we concluded that USAID/Mali did effectively manage its receipt of nonexpendable property with the exception of the internal control weakness described in this report.

On a judgmental sample basis, we tested the authorizing documentation for 61 of the 127 lots of nonexpendable property disposed during fiscal years 1997 and 1998. We established a 10 percent threshold and from our test results, we concluded that USAID/Mali did effectively manage its disposition of nonexpendable property.

For the vehicle maintenance contract, we reviewed the requirements and accomplishments of the contract and estimated the amount of duties and taxes that were paid for the entire period of the contract which was executed in October 1992 until September 1998. We did not test the contract on a sample basis and thus no sampling threshold was established. As described in detail in this report, we concluded that USAID/Mali did effectively manage its vehicle maintenance contract with the exception of the payment of duties and taxes.

We did not attempt to verify (1) the overall reliability of the computer generated data in USAID/Mali's Mission Accounting and Control System which was used to identify unliquidated obligations as well as the transactions affecting these obligations, or (2) the overall reliability of the GSO Embassy data base which maintains the nonexpendable property transactions for USAID/Mali.

Methodology

To accomplish our audit objectives, we (1) interviewed cognizant officials, (2) reviewed applicable policies and procedures, and (3) assessed internal controls and the risk exposures relating to the effective management of operating expenses for unliquidated obligations, the vehicle maintenance contract, and the receipt and disposition of nonexpendable property.

The audit included an analysis of the Section 1311 review sheets as well as obligating documents, contracts, purchase orders, vouchers, and invoices to determine whether unliquidated balances were valid, funds could be deobligated or decommitted, and if data in the MACS reports were accurate and updated.

To determine the validity of unliquidated obligations for operating expenses, we obtained computer generated reports from USAID/Mali's Mission Accounting and Control System. For each unliquidated obligation reviewed, we compared amounts in summary reports to detailed transaction information in liquidation reports. For unliquidated obligations with partial payments against them, we traced the selected transaction information in the liquidation reports to the obligating documents to determine if the amounts paid were authorized by the obligating document. In some cases, we traced the transactions back to the payment files or the procurement files to verify the accuracy of the liquidation transactions. When necessary, we determined whether services or items ordered were received, whether the transaction was complete, and whether any further charges might be expected. Based on these analyses, we concluded that either the unliquidated obligations were needed, or recommended full or partial deobligation.

In addition, we obtained a management representation letter from cognizant Mission officials containing essential assertions relating to our audit objectives.



More Mali Less Aid

July 15 1999

To Mr Henry Harrett, RIG/Dakar
From Paul Tuebner Acting Mission Director
Subject Draft Audit of USAID/Mali's Operating Expenses

We have completed our review of the draft audit report prepared by your staff of USAID/Mali's Operating Expenses. This memorandum is the Mission's management response to the draft report.

Recommendation Number 1 We recommend USAID Mali:

- 1.1 deobligate the \$197,892 in operating expense unliquidated obligations identified in this report.
- 1.2 obtain adequate documentation or deobligate as appropriate the \$29,148 in operating expenses unliquidated obligations identified in this report for which we could not find adequate support.
- 1.3 establish procedures to ensure that (a) Section 1311 reviews are performed in accordance with Federal law and USAID guidance, (b) there is effective coordination between and follow up by the Controller's Office and the Executive Office regarding the status of unliquidated obligations, and (c) expenditures are recorded against the appropriate obligations, and
- 1.4 review incorrectly posted expenditures identified in this report and make appropriate adjusting entries to both the expenditures and the related unliquidated obligations.

A journal voucher has been prepared and posted to MACS to deobligate FY 94, FY 96 and FY 97 amounts recommended for deobligation in the audit report. Fiscal Year 98 amounts recommended for deobligation will be deobligated in July. This action has been delayed pending payment of retroactive salaries to FSN based on a revision to the FSN compensation plan. A copy of the JV for the deobligations posted to date is attached for your file. In addition, the Mission has reviewed those unliquidated balances in FY 96, FY 97 and FY 98 where additional analysis was recommended and has taken action to deobligate those balances no longer required. Remaining balances will be reviewed again prior to September 30, 1999 and deobligations made as appropriate. Once the FY 98 balances have been reviewed and deobligated, the Mission will request closure of recommendations 1.1 and 1.2.

The mission has drafted procedures to ensure a comprehensive 1311 Review is conducted at least annually. A copy of this draft procedure is attached for your file. The draft procedure requires coordination between OFM and EXO personnel. Further, the procedure requires each payment file to be reviewed and reconciled to MACS at time of deobligation. This procedure will be finalized this month. Once final procedure has been issued, a copy will be provided and the Mission will request closure of recommendation 1.3.

BEST AVAILABLE COPY

The mission agrees to review incorrectly posted expenditures identified in the draft report and make adjustments as required. This review has not taken place but will be completed as part of the FY 99 1311 Review. Adjustments will be posted to MACS prior to September 30, 1999. Mission will provide copies of journal vouchers to support adjustments and request closure at that time.

Accordingly, Mission requests RIG/Dakar consider recommendation number 1 resolved.

Recommendation Number 2 We recommend that USAID/Mali:

- 2.1 deobligate \$22,701 in operating expenses unliquidated obligations identified by this audit as not meeting legal requirement and
- 2.2 establish procedures to ensure that obligations and deobligations are recorded in accordance with federal law and USAID guidance.

An amount of \$22,701.37 was deobligated by USAID/Mali in April 1999. A copy of the journal voucher is attached for your file. Accordingly, the Mission requests RIG/Dakar close recommendation number 3.1.

Draft 1311 guidance has been prepared as discussed above to address the concerns raised in recommendation number 2.2. The Mission requests RIG/Dakar consider recommendation number 2.2 resolved. The Mission will request closure upon issuance of this guidance in final.

Recommendation Number 3 We recommend that USAID/Mali establish procedures to ensure that its operating expense appropriations are funded in accordance with USAID guidance and not used to forward fund operating expense service contracts into the following fiscal year.

The Mission has drafted guidance for forward funding of operating expense obligations. A copy of the guidance is attached for your file. The Mission requests RIG/Dakar consider recommendation number 3 resolved. Closure will be requested upon issuance of guidance in final.

Recommendation Number 4 We recommend that USAID/Mali:

- 4.1 develop an arrangement with the vehicle maintenance contractor to receive a refund or credit for the inappropriately charged duties/taxes which can be used as an offset against future duties/taxes which may be incurred for ordering urgently needed vehicle spare parts.
- 4.2 include a clause in the vehicle maintenance contract requiring the contractor to notify USAID/Mali in advance in each case whereby duties/taxes are being incurred and provide a separate accounting of duties/taxes paid for which the charges are being passed on to the Mission and
- 4.3 submit a written advisory to USAID/Mali implementing partners who are also using the same vehicle maintenance contractor to inform them of applicable regulations and policies regarding the payment of duties/taxes.

The Mission has discussed with the local Chrysler Jeep dealer the issue of crediting USAID for duties/taxes charged. The vendor and USAID have not come to agreement on the actual amount of credit or offset due the Mission. We are continuing to work with the vendor to reach an agreement. Accordingly, the Mission requests RIG/Dakar consider recommendation number 4.1 resolved. Closure will be requested once final agreement is reached with the vendor.

The new contract with Chrysler-Jeep includes a provision for all spare parts to be provided from company inventory at the duty-free, tax-free price. The Mission will on an annual basis issue the exoneration documentation required by the vendor to replace the parts provided. In emergencies where parts will be brought in by courier, the contractor will

notify USAID of any duties to be paid and will account for these separately. The new contract is effective June 1, 1999. Based on this action, the Mission requests RIG/Dakar close recommendation number 4.2.

The Mission has discussed with the local Chrysler Jeep dealer the issue of crediting USAID for duties/taxes charged. The vendor and USAID have not come to agreement on the actual amount of credit or offset due the Mission. We are continuing to work with the vendor to reach an agreement. Accordingly, the Mission requests RIG/Dakar consider recommendation number 4.1 resolved. Closure will be requested once final agreement is reached with the vendor.

The new contract with Chrysler Jeep includes a provision for all spare parts to be provided from company-inventory as the duty free, tax free price. The Mission will on an annual basis issue the exoneration documentation required by the vendor to replace the parts provided. In emergencies, where parts will be brought in by courier, the contractor will notify USAID of any duties to be paid and will account for these separately. The new contract is effective June 1, 1999. Based on this action, the Mission requests RIG/Dakar close recommendation number 4.2.

A written advisory regarding payment of duties and taxes has been issued to Mission implementing partners using the local Chrysler-Jeep dealer for service. A copy of this advisory is attached. Based on this action, the Mission requests RIG/Dakar close recommendation number 4.3.

Recommendation Number 5 We recommend USAID/Mali coordinate with the Embassy General Services Officer to develop a joint administrative notice on USAID nonexpendable property to improve coordination and ensure that all USAID property is inventoried as agreed.

USAID has requested the Embassy GSO develop a joint administrative notice on handling of USAID/NXP. The Mission has assured the GSO our full cooperation in both developing and enforcing this notice. A copy of the memorandum from the Mission EXO to the GSO requesting this notice be developed is attached for your file. Accordingly, the Mission requests RIG/Dakar consider this recommendation resolved. Closure will be requested upon issuance of the joint administrative notice.

I would like to take this opportunity to thank you for the collaborative style in which your staff approached this audit assignment. By working closely with Mission personnel and maintaining regular communication regarding findings, the audit has provided Mission Management with a useful report and constructive recommendations, implementation of which will result in more effective management of our limited Operating Expense resources.

Schedule of Unliquidated Obligations
Recommended for Deobligation

Document No	Fiscal Year	Amount Not Needed
CO 688 0000 C 00-4283	94	\$ 54 597 19
JV 688 96 318	96	1 386 71
PO-688 0000 O 00 6163	96	1 535 60
TA 688 96 013	96	3 688 21
CO 688 0000 C 00 7044	97	1 954 31
CO 688 0000 C 00 7120	97	6 577 36
CO 688 0000 C 00 7147	97	6 156 34
PO 688 0000 E 00 7085	97	1 905 55
PO 688 0000 E 00 7149	97	2 655 99
PO 688 0000 O 00 7045	97	3 273 44
PO 688 0000 O 00 7072	97	12 943 35
PO 688 0000 O 00 7135	97	655 36
RO 97 Worksheet	97	20 542 75
TA 688 97 107	97	1 057 75
TA INDO 97 089	97	249 18
688 O 00 98 00142 01	98	1 930 80
CO 688 0000 C 00 7147	98	15 370 23
CO 688 C 00 98 00216	98	464 22
LE 95 007	98	2 181 00
LE 98 007	98	3 545 00
PO 688 E 00 98 00259	98	2 785 53
PO-688 O 00 98 00055	98	1 931 16
PO 688 O 00 98 00086	98	6 036 56
PO 688 O 00 98 00090	98	833 51
PO 688 O 00 98 00143	98	2 678 00
RO 98 Worksheet	98	418 16
RO 98 Worksheet	98	7 924 32
RO 98 Worksheet	98	14 310 44
TA 688 98 095	98	7 918 92
TA 688 98 132	98	385 03
Total		\$187 892 00

Schedule of Unliquidated Obligations
Recommended for Additional Analysis

Document No	Fiscal Year	Unliquidated Amount
PO 688 0000 O 00 6161	96	\$ 983 00
TA 651 6300	96	4 200 00
PO 688 0000 O 00 7012	97	295 00
PO 688 0000 O 00 7106	97	5 501 40
PO 688 0000 O 00-7110	97	1 085 00
TA 688 97 014	97	3 063 00
TA 688 97 075	97	5 028 29
TA-688 97 111	97	1 080 29
TA 688 97 102	97	1 685 00
PO-688 O 00 98 00017	98	2 148 00
PO 688 O 00 98 00288	98	1 191 00
TA-688 98 082	98	2 887 59
Total		\$29 148 00