

PD-AR 5-391
11/18/88

AUDIT OF
USAID/PAKISTAN'S PROCEDURES
FOR
REVIEWING UNLIQUIDATED OBLIGATIONS

AUDIT REPORT NO. 5-391-89-1
NOVEMBER 18, 1988

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

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November 18, 1988

MEMORANDUM FOR Mr. James A. Norris
Director, USAID/Pakistan
B. R. Howard
FROM: B. Reginald Howard, RIG/A/Singapore
SUBJECT: Audit of USAID/Pakistan's Procedures
for Reviewing Unliquidated Obligations

The Office of the Regional Inspector General for Audit/Singapore has completed its audit of USAID/Pakistan's Procedures for Reviewing Unliquidated Obligations. The report contains one recommendation. Your written comments to the draft report are included as Appendix I. Subsequent to completion of the audit field work, USAID/Pakistan took a number of actions that helped alleviate certain of the audit concerns that were presented in the draft report. Based upon those actions, the recommendation has been revised and is now resolved. The second finding and recommendation that was presented in the draft report has not been carried forward to this final report due to the recent actions taken and additional information provided in your written comments.

Please advise within 30 days of any additional information relating to actions planned or taken to close Recommendation No. 1. I appreciate the cooperation and courtesy extended to my staff during this audit.

Background

United States assistance to Pakistan, which was suspended in 1979, was reinstated during 1981. During fiscal years 1982 to 1987, USAID/Pakistan obligated funds for economic assistance to Pakistan amounting to \$1.3 billion. Of this amount, approximately \$694.5 million (or about 53 percent) was unliquidated as of September 30, 1987.

USAID/Pakistan, in response to a Bureau for Asia and the Near East request, conducted an extensive analysis of its September 30, 1987 economic assistance unliquidated balance. According to USAID/Pakistan officials, during 1988, over \$100 million was deobligated from three economic assistance projects and reobligated to a commodities project for wheat purchases.

USAID/Pakistan's cumulative operating expense (OE) obligations, open as of September 30, 1987, amounted to about \$2,861,000. Unliquidated obligations at September 30, 1987 were \$679,000 or about 24 percent of these obligations. As of June 30, 1988, USAID/Pakistan had liquidated or deobligated virtually all fiscal year 1984 obligations and a large portion of fiscal years 1985 and 1986 obligations.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Singapore made an audit of USAID/Pakistan's procedures for reviewing unliquidated obligations. The audit objective was to assess the adequacy of procedures followed by USAID/Pakistan to (1) assure the continued validity of recorded obligations and (2) identify and deobligate any excess and unneeded funds. This audit was part of a world-wide audit being conducted by the A.I.D./IG.

The audit covered economic assistance and OE unliquidated obligations as of June 30, 1988. To test the adequacy of USAID/Pakistan's procedures for reviewing economic assistance obligations, 15 of 20 on-going projects were selected for detailed review on the basis of project elements that had a high percentage of unliquidated obligations and/or little expenditure activity. USAID officials were interviewed and appropriate documentation examined to determine whether definitive plans existed for utilizing obligated amounts.

In the case of OE unliquidated obligations, USAID officials were interviewed to determine the adequacy of procedures followed in reviewing the validity of OE obligations. A judgemental sample of 18 high dollar fiscal year 1985 and 1986 obligations still open as of June 30, 1988, was tested to determine the validity of the obligated amount.

Audit work was conducted during September 1988. The review of internal controls and compliance was limited to the findings discussed in this report. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit found that USAID/Pakistan's procedures were generally adequate for reviewing unliquidated obligations and assuring the validity of recorded obligations. Overall, the audit found an on-going mission effort to validate, liquidate, and/or deobligate old outstanding obligations.

There was ample information available to USAID officials on a continuous basis to identify problem economic assistance projects and the need for reprogramming and/or deobligating funds. In the case of OE obligations, USAID/Pakistan reviewed unliquidated balances as part of its quarterly accrual process.

USAID/Pakistan's procedures for reviewing unliquidated economic assistance obligations were generally adequate. One project, however, included a grant with obligations amounting to \$10 million that may no longer be required because implementation had not progressed as scheduled.

The report recommends that the obligated amounts in question be reviewed to determine if they are still required and, if not, to deobligate or reprogram the unneeded funds.

USAID/Pakistan Needs to Reconsider Modifying a United Nations Grant and Deobligate or Reprogram Unneeded Funds -
Although little progress had been made under a \$10 million project grant, USAID had not taken action to modify the grant. Such action was provided for in A.I.D. regulations. USAID had not taken this action because of multi-donor and Government of Pakistan interest in the project. However, since achievement of the grant purposes had not progressed as planned, up to \$10 million in funds remained idle for several years.

Discussion - In December 1984, under the North-West Frontier Area Development Project (No. 391-0485), A.I.D. entered into a \$5 million grant agreement with the United Nations Fund for Drug Abuse Control (UNFDAC). This grant was to support Pakistan's Special Development and Enforcement Plan for Opium Producing Areas. The grant agreement was amended on December 10, 1986 to increase the grant amount to \$10 million.

According to USAID officials there had been virtually no activity undertaken by UNFDAC under the grant. USAID's financial reports as of June 30, 1988, showed accrued expenditures of \$3 million for the grant. But in September

1988, USAID officials told us they doubted actual expenditures reached this level. The USAID Controller told us that the mission had been unable to obtain reliable expenditure information from UNFDAC that was needed to establish a more realistic accrual. USAID officials further indicated that a major impediment to project implementation had been the inability of UNFDAC and the Government of Pakistan to reach agreement on a method of disbursing grant funds.

A.I.D. Handbook 19 (Chapter 2) requires that unliquidated obligation balances be continually reviewed to assure their continued validity for the purpose and amount for which obligated. The Handbook further states that when project implementation has not progressed on schedule, consideration should be given to renegotiating the agreement and adjusting the obligation downward as required.

USAID officials told us that no actions had been taken to modify the UNFDAC grant because this was a multi-donor project and there was considerable interest among USAID, other donors, and the Government of Pakistan in trying to get the project underway. USAID officials also indicated that it had only recently become apparent that the project had little chance of being implemented. They said that A.I.D. needed to move cautiously to avoid creating an impression that the U.S. Government did not support UNFDAC activities or the Government of Pakistan drug enforcement efforts.

Since there had been little progress made under the UNFDAC grant in achieving the grant purposes, up to \$10 million in economic assistance funds has remained idle for approximately two years.

Recommendation No. 1

We recommend that USAID/Pakistan review the level of funding needed for the United Nations grant under the North-West Frontier Area Development Project to determine if the unexpended funds for the grant can be effectively and efficiently utilized within the remaining project period and, if not, reprogram or deobligate any unneeded funds.

Management Comments

In commenting on our draft report, USAID/Pakistan provided information on events that occurred after our audit field

work was completed. The mission stated that UNFDAC recently reached agreement with the Government of Pakistan on a method of disbursing funds and transferred \$750,000 to the Government in late October to enable continuation of project activities. The mission also advised that it received a report on October 16, 1988, from A.I.D./Washington stating that the UNFDAC had drawn \$2.6 million from the grant letter of credit and had also filed a grant expenditure report showing expenditures of \$1,836,639 through December 31, 1987. USAID/Pakistan believed that based on these recent developments in program implementation, it did not believe our draft report recommendation to initiate actions to terminate the UNFDAC grant was appropriate at this time. The mission stated, however, that it will continue to monitor the progress of the recent events to ensure that fund utilization is at an acceptable rate considering the importance of A.I.D. support in this area.

Office of Inspector General Comments

Based on the information provided by USAID/Pakistan, we agree that it would not be appropriate to terminate the UNFDAC grant. Accordingly, we have revised the finding and recommendation. However, we are still concerned about UNFDAC utilizing the entire \$10 million given the slow expenditures and the fact that the Project is currently planned to be completed in about two years (December 1990).

While USAID/Pakistan indicated it plans to monitor grant progress to ensure that funds utilization is at an acceptable rate, we believe it would also be appropriate at this time for USAID/Pakistan to review the remaining funding level to determine if the entire \$10 million can be efficiently and effectively utilized within the remaining project period. Based on USAID's recent actions, the recommendation is considered resolved.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable: USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

November 06, 1988

MEMORANDUM

TO : Mr. Reginald Howard, RIG/A/Singapore

FROM : James A. Norris, Director, USAID/Pakistan

SUBJECT : Draft Audit Report on USAID/Pakistan's Policies and
Procedures for Reviewing Unliquidated Obligations

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The following are our comments on the subject draft audit report:

Recommendation No. 1: The first sentence of the recommendation states "Although virtually no progress has been made under a \$10 million project grant, USAID had not taken action to modify or terminate the grant". This statement while perhaps technically correct is misleading. While the Mission until recently had taken no action to modify the grant it did work closely and actively with UNFDAC to facilitate implementation. The Grant is primarily intended to fund implementation of the Dir Area Development Project. Implementation of the Dir Project began using United Nations Development Program (UNDP) procedures. The project's rate of implementation was adequate at that time. However, the Government of the North West Frontier Province (GNWFP) objected to the procedures followed because it lacked control over the UNDP consultant, and requested a modification. A lengthy interval followed during which little activity occurred under the project while UNFDAC and the Government negotiated new procedures. During this period the Mission presented and explained the highly successful implementation procedures followed under its Gadoon project to UNFDAC and suggested ways UNFDAC could adopt those procedures itself. These discussions also included meetings with the other donors to explain Gadoon procedures. Some but not all of the Gadoon procedures were adopted in the final negotiated agreement. Following adoption of the revised procedures project implementation resumed. However, after implementation started problems developed related to monitoring at the subproject level and fund accounting. These problems were identified in the early spring of this year. At that time the Mission and UNFDAC's acting Field Advisor met to review the Gadoon operating procedures in order to strengthen those in the Dir Project. This led to development of a proposal for modification of the Dir project implementation unit to more closely follow that of Gadoon. Throughout the implementation period it always appeared that a solution was imminent and, therefore, a modification of the grant was not merited. It was not until the proposal was presented to the Executive Director of UNFDAC in July and he rejected it, instead insisting upon a

return to the UNDP procedures (which the GONWFP totally rejected) that the Mission became concerned about project viability. At that point the Mission notified UNFDAC that unless a negotiated agreement was forthcoming in the immediate future USAID would withdraw half of its funds from the grant and begin implementing the Dir Project unilaterally.

UNFDAC recently assigned a new resident representative to Pakistan and he has been able to reach agreement with the Government of Pakistan (GOP) on a method of disbursing grant funds and \$750,000 was transferred to the GOP project director's account in late October to enable continuation of project activities at this critical time (which is also the poppy planting season). We also received a report on October 16, 1988, from the Office of Financial Management, AID/Washington, stating that UNFDAC has now drawn \$2,600,000 from the grant letter of credit and had also filed a grant expenditure report showing expenditures of \$1,836,639 through December 31, 1987.

Based on these recent improvements in program implementation, plus the consensus of AID and the Dept. of State that this is not the time to reduce our support for the Government of Pakistan's Special Development and Enforcement Plan, we do not believe the recommendation to initiate actions to terminate the UNFDAC grant is appropriate at this time. We will, however, continue to monitor the progress of the recent events to ensure that funds utilization is at an acceptable rate given the importance of our support in this area.

DELETED - RELATES TO MATTERS NOT INCLUDED IN
FINAL REPORT

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