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AUDIT OF
USAID/DOMINICAN REPUBLIC'S
REVIEW OF UNLIQUIDATED OBLIGATIONS

Audit Report No. 1-517-89-06
December 30, 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT

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December 30, 1988

MEMORANDUM

TO : D/USAID/Dominican Republic, Thomas Stukel
FROM : RIG/A/T, *Coimage N. Gothard*
Coinage N. Gothard, Jr.
SUBJECT: Audit of USAID/Dominican Republic's Review of Unliquidated Obligations

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of USAID/Dominican Republic's Review of Unliquidated Obligations. Five copies of the audit report are enclosed for your review.

The draft report was submitted to you for your comment, and your comments, without relating attachments, are attached to the report. The report contains two recommendations. Part (a) through (e) and (g) of recommendation No. 1 are considered closed and require no further action. Part (f) and (h) of recommendation No. 1 and recommendation No. 2 are resolved and will be closed upon receipt of appropriate documentation. Please provide the appropriate documentation within 30 days.

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

A. Background

Section 1311 of the Supplemental Appropriations Act of 1955 establishes the requirements for recording an obligation by United States Government agencies. Among other things, this section holds agencies responsible for demonstrating that obligations (1) are authorized by law, (2) are supported by a valid and binding written agreement that has been executed, and (3) were incurred before the expiration of fund availability. The act also requires agencies to annually certify that unliquidated obligations are still valid.

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A.I.D. has delegated these responsibilities, including the annual certification, to USAID/Mission controllers. This delegation has required Mission controllers to ensure the obligations don't exceed allotments, make periodic reviews to ascertain whether obligations are valid, current, and required for the purpose intended, and to take action to deobligate funds determined to be in excess of requirements. Mission controllers make the required certification at the end of the year on the U-101 report.

As of September 1987, USAID/Dominican Republic reported project portfolio and operating expense obligations of approximately \$207 million of which approximately \$82 million was unliquidated.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed an economy and efficiency audit of USAID/Dominican Republic's project and operating expense obligations. As of September 31, 1987, these obligations represented approximately \$207 million. The audit objective was to evaluate the adequacy of the Mission's review of unliquidated obligations which, as of the same date, represented \$82 million. Specifically, the audit sought to determine if the Mission's unliquidated obligations were (1) established and maintained in accordance with the requirements of Section 1311, (2) in compliance with A.I.D. regulations, and (3) subject to adequate internal controls.

To accomplish these objectives, project records and financial reports were reviewed at USAID/Dominican Republic's offices, and interviews were held with appropriate Mission staff. Obligating documents supporting 32 operating expense items representing \$93,893 in unliquidated obligations were randomly selected and reviewed. In addition, obligating documentation supporting a total of 59 development assistance (DA) projects and special development (SDA) and program development and support (PD&S) activities representing \$31 million in unliquidated obligations were judgementally selected, based on project assistance dates, and reviewed. The Mission's U-106 report of approximately \$3.6 million worth of local currency with unliquidated obligations of approximately \$385,000 ^{1/} was also reviewed. An internal control questionnaire was prepared and used to assess the effectiveness of the Mission controls over unliquidated obligations. The review of internal controls and compliance was limited to the findings in this report. We did not perform a detailed audit on projects and operating expense accounts. The audit was performed from September 9 to September 21, 1988, and was made in accordance with generally accepted government auditing standards.

^{1/} The September 30, 1987 exchange rate of DR\$6.28 to U.S.\$1 was used to calculate the local currency value.

Results of Audit

The audit showed that unliquidated obligations had not been established and maintained in accordance with Section 1311 requirements, did not meet A.I.D. Handbook 19 requirements, and were not subject to adequate internal controls.

This report contains two findings. The Mission's review of unliquidated obligations did not fully meet the requirements of Section 1311 of the Supplemental Appropriations Act and A.I.D. Handbook 19, and certain Mission obligations were not properly recorded. The report recommends that USAID/Dominican Republic institute additional procedures for reviewing and controlling obligations.

1. The Mission's Review of Unliquidated Obligations Did Not Fully Comply with Section 1311 and A.I.D. Handbook Requirements - The Mission is required to perform a review of unliquidated obligations to determine their validity under Section 1311 of the Supplemental Appropriations Act and A.I.D. Handbook 19. For the fiscal year ending September 30, 1987, the Mission's certification of unliquidated obligations included a total of \$251,225 in nonvalid obligations. This occurred because Mission staff performing the review were not fully aware of Section 1311 requirements, the Mission accounting system did not generate satisfactory financial reports of obligations, and adequate accounting procedures were not implemented. These weaknesses resulted in the Mission continuing to carry unnecessary obligations on its books instead of making them available for other purposes.

Discussion - Section 1311 of the Supplemental Appropriations Act of 1955 requires agencies to certify the validity of obligation balances at the end of each fiscal year. A.I.D. Handbook 19 incorporated the requirements of the act and included supplemental criteria for evaluating whether unliquidated obligations were still valid. The Mission controller was delegated the responsibility for reviewing and certifying their validity on the statement of obligations.

For the fiscal year ending September 30, 1987, the controller's office performed a Section 1311 review of unliquidated obligations and deobligated \$261,550. However, an additional \$251,255 of invalid obligations were not deobligated. The required certification was signed by the acting controller on the U-101 obligations report.

These invalid obligations were not identified because the controller's year-end obligations review did not fully comply with the requirements of Section 1311 of the Supplemental Appropriations Act, and A.I.D. Handbook 19. Specifically, the audit of the Mission's procedures and the financial reports used in their Section 1311 review found that (1) all unliquidated obligations were not reviewed, (2) journal vouchers were not used to deobligate funds for year end closings, (3) controller's staff did not coordinate the review with project and other responsible officials, (4) project agreements for special development activities did not contain project completion dates, and (5) a review of unliquidated obligations for the Mission's local currency trust fund was not performed. These deficiencies are described in more detail in Appendix 2.

Because of these deficiencies, USAID/Dominican Republic had no assurance that it was fully identifying all invalid obligations in a timely manner. As a result, invalid obligations such as those identified during this audit were not available for higher priority activities.

In conclusion, the Mission's procedures for performing Section 1311 reviews of unliquidated obligations did not fully meet A.I.D. handbook and applicable legislative requirements. This resulted in a lack of internal controls over entries to the Mission's accounts and invalid obligations not being deobligated.

Recommendation No. 1

We recommend that USAID/Dominican Republic take actions to:

- a. obtain a financial report of all unliquidated obligations to be used in the Section 1311 review,
- b. implement the journal voucher system to post deobligations as a result of Section 1311 reviews to the Mission's accounts and document and retain on worksheets the status of each obligation,
- c. establish a plan of internal controls over entries to the Mission's accounting system to include evidence of postings and supervisory reviews and approvals and the authority to make entries to the accounting system,
- d. establish formal unliquidated obligations procedures that include input from the respective project officers for projects/activities,
- e. liquidate advances remaining in projects where the projects have been completed,
- f. establish project assistance completion dates for the six special development activity projects,
- g. deobligate the remaining \$3,422 in program development and support, the \$957 in special development activities, the \$12,400 for development projects, and the \$24,524 remaining as operating expenses, and
- h. perform a Section 1311 review of Trust Funds of local currency and make appropriate deobligations of those funds no longer valid.

Mission management agreed with the finding and took actions to implement each part of the recommendation and provide appropriate documentation.

Based on the Mission's actions and documentation provided, parts (a) through (e) and (g) are considered closed upon issuance of the report. Parts (f) and (h) will remain open until documentation is provided to show that project assistance completion dates have been established and that a Section 1311 review has been completed for the trust funds.

2. Certain Obligations Were Not Properly Recorded - Documentary evidence to support obligations is required by law and A.I.D. regulations. The audit showed that some obligations were not being properly recorded. This occurred because entries were allowed to be posted to the accounting system without proper supervisory approvals, checks, and authorizations. Therefore, the Mission's accounting system was vulnerable to errors, omissions, and abuse in recording and reporting on Mission's funds.

Discussion - Section 1311 of the Supplemental Appropriations Act of 1955 requires evidence of a valid binding agreement in order to obligate funds. A.I.D. Handbook 19 requires the controller's office to devise, implement, and maintain an accounting system with appropriate internal controls to assure that obligations are supported and recorded in compliance with this law.

The audit disclosed that, in 7 of the 43 SDA and operating expense categories of unliquidated obligations reviewed, USAID/Dominican Republic had set aside funds without obligating documents and had not properly recorded obligations.

- In one special development activity in February 1986, the controller's office set aside \$976 to cover exchange rate fluctuation without the required evidence of a binding agreement. The balance of \$396 at September 1987 still remained at September 1988.
- In another case the Mission had made an obligation of \$6,500; however, it was posted as \$16,200 without an amendment to the obligation. There was no evidence that a supervisor or other management staff had reviewed, approved, or authorized the posted amount.
- In still another case, an expenditure on the Mission's obligation liquidation record report exceeded the obligation by \$500. On May 6, 1988, the controller's office recorded an upward adjustment to cover the expenditure. However, there was no evidence that the appropriate supervisor had reviewed, approved, or authorized the transaction nor had the Mission prepared an amendment to the obligation.
- In reviewing the operating expense transactions, the audit also showed that four transactions lacked evidence of appropriate supervisory reviews, approvals, and authorizations to the accounting entries. Controller's staff stated that such reviews were routine, but sometimes the staff did not obtain supervisory signatures or initials to provide evidence of the review.

These seven exceptions occurred because the Mission lacked appropriate controls over accounting entries. This was evident by the lack of 1) proper obligating documents to obligate funds, 2) appropriate amendments to obligating documents for changes, 3) internal computer checks to ensure that expenditures do not exceed obligations, and 4) evidence of supervisory reviews, approvals, and authorizations to make entries to the accounts. Because of these deficiencies the Mission's accounting system was vulnerable to errors, omissions, and abuse in recording and reporting Mission funds.

Recommendation No. 2

We recommend that USAID/Dominican Republic implement formal accounting system procedures:

- a. to ensure that obligations are supported with obligating documents, and
- b. to identify the supervisory and management approval responsibility to record obligations and expenditures to the Mission's accounts.

Mission management agreed with the finding and recommendation and will establish formal procedures at a later date.

The recommendation can be closed upon receipt of documentation that formal accounting procedures have been developed.

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APPENDICES

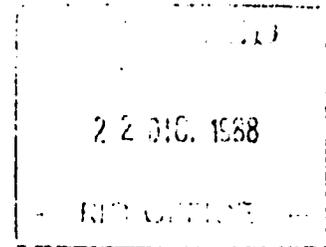
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memorandum

DATE: OCTOBER 12, 1988

REPLY TO:
ATTENTION:THOMAS W. STUKEL, Director USAID/DR *JWS*APPENDIX 1
Page 1 of 4

SUBJECT: RIG/A/T Coirage Gothard

TO: AUDIT OF USAID/DOMINICAN REPUBLIC'S REVIEW OF UNLIQUIDATED
OBLIGATIONS

The objective of the audit of USAID/Dominican Republic's unliquidated obligations was to evaluate the Mission's review of these unliquidated obligations in relation to the requirements of Section 1311 of the Supplemental Appropriations Act and AID regulations, and the system of internal control with regard to the process. It has, like most audits, identified areas of vulnerability and administrative shortcomings. USAID/Dominican Republic officials agree with the findings and recommendations in the report and as demonstrated in the auditors findings, taken immediate actions, where possible, to address the issues.

The Mission's attached response and planned action table provide evidence of the Mission's concern with areas identified as having weaknesses and the steps which are being implemented to remedy these areas.

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Recommendation No. 1

We recommend that USAID/Dominican Republic take actions to:

- a. obtain a financial report of all unliquidated obligations to be used in the Section 1311 review,

Response

USAID/DR, through use of the the Report Utility, is currently attempting to design a report which will provide the necessary obligation status for projects in order to conduct a thorough Section 1311 review for both projects and operating expenses. If we are unable to produce this report, we shall request Ron Miller, USAID/El Salvador programmer, to write such a program during his TDY here in December.

- b. implement the journal voucher system to post deobligations as a result of Section 1311 reviews to the Mission's accounts and document and retain on worksheets the status of each obligation,

Response

A journal voucher system to post deobligations as well as documented worksheets on the status of each obligation has been instituted. A copy of part of the Section 1311 review for FY 1988 is attached as well as a memo dated October 17, 1988 from the Deputy Controller to the Controller's staff. (Attachment 1) Closure of this recommendation is requested.

- c. establish a plan of internal controls over entries to the Mission's accounting system to include evidence of postings and supervisory reviews and approvals and the authority to make entries to the accounting system.

The Mission feels that it does have reasonable internal controls over entries to the Mission's accounting system. Attachment 11 is a sample coding sheet which demonstrates the control over posting, supervisory review and approval. Authorized entry levels into the MACS program are assigned by the Deputy Controller and the Systems Manager controls these access codes. Closure of this recommendation is requested.

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- g. establish formal unliquidated obligations procedures that include input from the respective project officers for projects/activities,

Response

On December 1, 1988, a memo was sent to all Project Officers by the Deputy Controller outlining the procedures to be followed for the project accrual exercise in December. (Attachment III) This same memo will be sent to all project officers in February for the 1311 Review and the same procedures will be followed. Therefore the Mission requests closure of this recommendation.

- e. liquidate advances remaining in projects where the projects have been completed.

Response

The Mission is currently reviewing all outstanding advances remaining and plans to issue a report by December 9, 1988.

- f. establish project completion dates for the six special development activity projects.

Response

The Mission is in the process of establishing appropriate PACD for these projects.

- g. deobligate the remaining \$3,422 in PDS, the \$957 in SDA, and the \$24,524 remaining as operating expenses,

Response

All amounts cited upon have been deobligated. Attachment IV is the report providing the evidence that such actions have been taken. Therefore the Mission requests closure of this recommendation.

- h. perform a Section 1311 review of Trust Funds of local currency and make appropriate deobligations of those funds no longer valid.

Response

The Mission will perform this review in February 1989 when it performs its Section 1311 review.

Recommendation No. 2

We recommend that USAID/Dominican Republic implement formal accounting system procedures:

- a. to ensure that funds be obligated through the use of obligating documents and,

Response

Formal procedures will be developed by January 1989.

- b. to clearly identify the supervisory and management approvals, the authority to make entries to the Mission's accounts and obligating documents, and that documentary evidence is maintained before entries are posted to the accounts.

Response

Formal procedures will be developed by January 1989.

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Section 1311 and A.I.D. Handbook Compliance Deficiencies

The five deficiencies identified in finding No. 1 relating to Mission obligations are described in more detail below. Funding for Mission obligations are provided for four primary purposes. These are development assistance projects (DA), program development and support activities (PD&S), special development activities (SDA), and Mission operating expenses (OE).

1. All obligation balances in the Mission's portfolio of DA-financed projects, PD&S-financed activities and SDA-financed activities were not included in the Section 1311 review at September 30, 1987. A.I.D. Handbook 19 required that a final review be performed of all unliquidated balances to assure that recorded obligations were valid for the controller's certification on the U-101 report of obligations. The controller's staff reviewed a project accrual worksheet generated from the mission accounting and control system that reports unliquidated commitments rather than unliquidated obligations. The audit selected 16 DA projects and 43 PD&S and SDA activities from the September 30, 1987 summary project financial report that showed the financial status of all the Mission's projects and activities. However, when these projects and activities were compared with those listed on the accrual workseet, the audit found that the Mission's review did not include 8 DA projects and 14 PD&S and SDA activities. The controller's staff agreed that the use of the project accrual worksheet for Section 1311 reviews did not include all outstanding obligation balances.
2. The Mission's accounting system lacked a significant internal control procedure to ensure that entries posted to the accounts were proper, accurate, and approved by management. The A.I.D. handbook's supplemental criteria for reviewing unliquidated obligations requires that deobligations or partial deobligations be recorded on journal vouchers, prepared, approved, and processed into the accounts prior to account closing and report preparation. This process required the journal voucher to be initialed by the employee responsible for its preparation and signed by the chief accountant or other designee authorized to approve the document. In addition, the controller's guidebook emphasized the importance of carefully documenting the results of the Section 1311 review on worksheets properly labeled to show the status of each obligation. However, fund deobligations were posted directly from worksheets that contained numerous entries and adding machine tapes making it difficult to determine which amounts were posted and the status of the obligations. Also the staff member entering the posting along with the appropriate supervisory approvals could not be determined.

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3. Controller's staff did not coordinate the Section 1311 review with responsible project officials. To amplify handbook requirements, the controllers' guidebook included procedures for close collaboration with program officers, division chiefs, and U.S. technicians to validate obligation balances. To determine if USAID/Dominican Republic had followed these procedures, the audit selected 91 projects/activities including OE balances for confirmation with supporting records and responsible officials. Thirty nine projects/activities had unliquidated balances totaling \$251,255 which should have been deobligated or partially deobligated. For example, of the 16 selected projects with unliquidated obligations 8 projects had been terminated between 1981 and September 30, 1987. There was no evidence to indicate that controller's staff had contacted project officers and division chiefs to determine if the balances were valid. Project officials were not aware that unliquidated obligations remained in the projects. Also, the project closure reports for two projects recommended that remaining funds be deobligated.

Controller's staff stated that some balances remained valid due to outstanding advances within the projects. At the conclusion of the fieldwork Mission management provided documentation to deobligate approximately \$210,000 for PD&S, SDA and DA projects/activities.

4. Some SDA activities did not contain project assistance completion dates (PACDs) to establish a time limit for project completion. A.I.D. handbook supplemental instructions require the staff to determine if project agreements contain PACD to identify the estimated completion date of A.I.D. financial assistance. Eleven special development activities were reviewed and six were found not to contain PACDs. These six exceptions pertained to projects which began as early as 1985 and funds still remained to be spent. We were not able to determine the reasons why the earlier SDA activities did not contain PACDs, however the more recent activities have completion dates.
5. USAID/Dominican Republic received trust funds under Public Law 480, Title I and the Economic Support Fund Programs. As of September 30, 1987, there was \$385,357 in unliquidated obligations of which over \$95,541 was for fiscal year 1986 and 1985. Unliquidated Obligations for Mission controlled local currency trust funds were not reviewed. Handbook requirements state that the agency certify on the U-106 local currency report that it is supported by documentary evidence as required by Section 1311. As part of the certification, each obligation having an unliquidated balance should be examined to determine its validity. The U-106 report for the fiscal year ended September 30, 1987, was signed by the acting controller; however, there was no supporting evidence that review of unliquidated obligations was performed for the local currency trust funds. The Missions accounting supervisor verified that no reviews had been performed.

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