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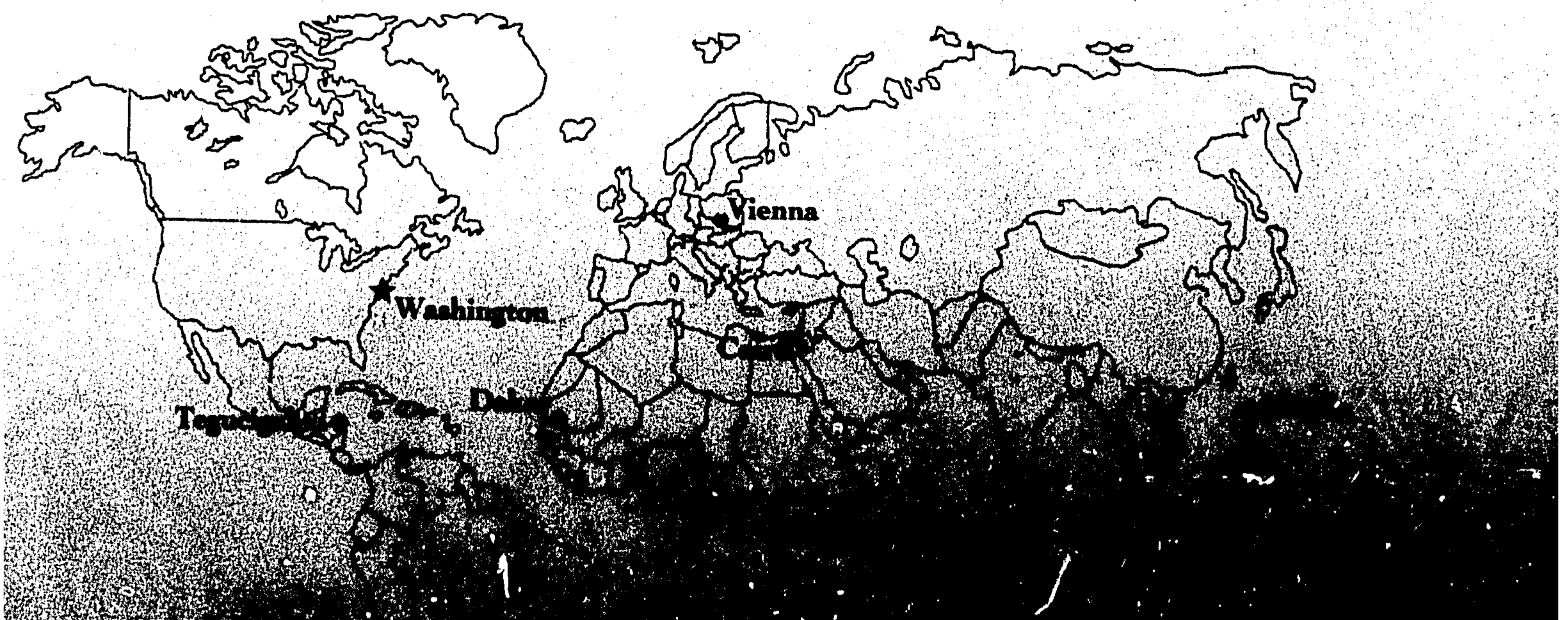
Regional Inspector General for Audit
Tegucigalpa, Honduras

Audit of USAID/Dominican Republic's Certification and Review of Unliquidated Obligations

Audit Report No. 1-517-93-007
January 29, 1993



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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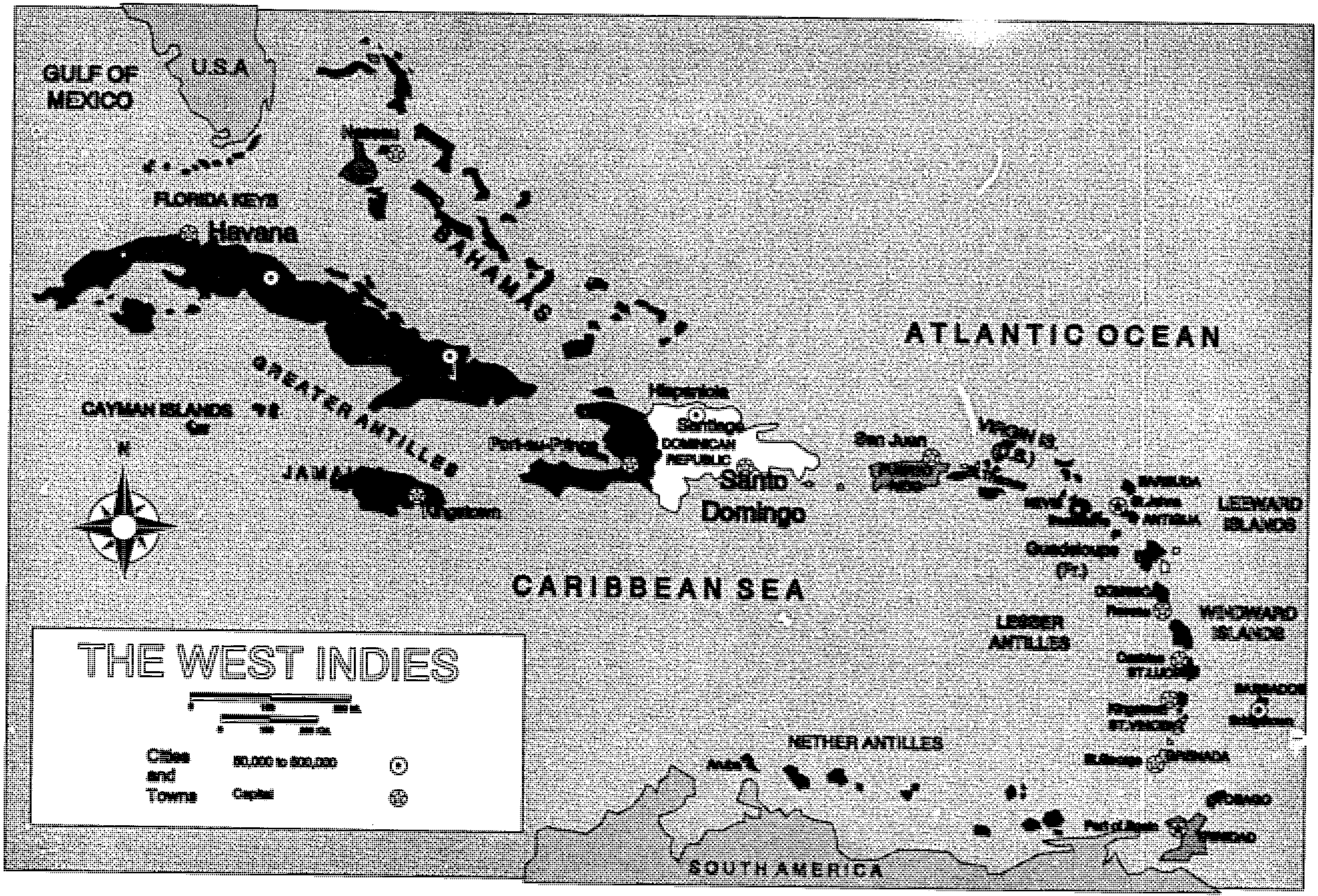
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January 29, 1993

MEMORANDUM

TO: USAID/Dominican Republic Director, Raymond F. Rifenburg

FROM: RIG/A/T, Lou Mundy Lou Mundy

SUBJECT: Audit of USAID/Dominican Republic's Certification and Review of Unliquidated Obligations

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of USAID/Dominican Republic's Certification and Review of Unliquidated Obligations. The final report is being transmitted to you for your action.

In preparing this report we reviewed your comments on the draft report and have included them in their entirety as Appendix II. Based upon your written comments, we consider Recommendation Nos. 2 and 3.2 unresolved; Recommendation Nos. 1.1, 1.2, 1.3, 3.1, and 4 resolved; and Recommendation No. 1.4 closed upon issuance of this report. Please respond to the report within 30 days indicating any further actions taken to implement the recommendations. I appreciate the cooperation and courtesies extended by Mission personnel to my staff during this assignment.

Background

The Comptroller General of the United States, in addressing major management issues facing the U.S. Government in 1989, reported that A.I.D.'s multi-billion dollar pipeline of obligated but undisbursed funds was an indication of inefficient use of available funding and of project implementation difficulties. To emphasize the need for more timely deobligation of excess obligations, the A.I.D. Controller issued supplemental guidance in 1989 for the review and certification of the validity of unliquidated obligations and commitments. The guidance directed each accounting station to institute various reviews for determining the validity of unliquidated obligations and commitments.

Based on individual certifications from approximately 87 mission controllers located overseas and three Office of Financial Management accounting stations in Washington, D.C., the A.I.D. Controller is responsible for an annual certification to the U.S. Treasury on the validity of unliquidated obligations and commitments. As of September 30, 1991, A.I.D.'s unliquidated obligations were reported to be $10.8 billion. This amount included $3.9 billion controlled by the Washington-based accounting stations and $6.9 billion controlled by overseas missions.

USAID/Dominican Republic is responsible for reviewing its unliquidated obligations and commitments and initiating action to deobligate funds if they are no longer needed. During the period of our audit USAID/Dominican Republic's project portfolio was valued at $199.2 million ($132.2 million for active projects, and $67.0 million for terminated projects). As of September 30, 1991, the USAID/Dominican Republic Controller certified that the Mission's unliquidated obligations totaled $42.3 million.

Audit Objective

In conjunction with the Inspector General's worldwide audit of A.I.D.'s practices for reviewing and certifying the validity of its unliquidated obligations, RIG/A/T reviewed the certification process at USAID/Dominican Republic to answer the following audit objective:

- Did USAID/Dominican Republic review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures?

To answer this audit objective, we tested whether USAID/Dominican Republic (1) followed applicable internal control procedures and (2) complied with certain provisions of laws and regulation. Our tests were sufficient to provide reasonable assurance of detecting abuse or illegal acts for the items reviewed that could affect the audit objective.

Because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/Dominican Republic established and followed Agency policies and procedures and complied with legal and regulatory requirements. When we found problems we performed work to: (1) determine that USAID/Dominican Republic had not established or followed a policy and/or procedure, (2) identify the cause and effect of the problem noted, and (3) make recommendations to correct the condition and cause of the problem. Our conclusions are limited to the items actually tested.

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

Audit Findings

Did USAID/Dominican Republic review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures?

USAID/Dominican Republic did not review and certify unliquidated obligations in accordance with applicable U.S. Government laws and regulations and A.I.D. policies and procedures.

USAID/Dominican Republic has not effectively implemented the established A.I.D. internal controls, including those prescribed in the A.I.D. Controller's supplemental guidance, because its internal control system did not comply with the requirements of these guidelines. In addition, the Mission did not perform a review of unliquidated obligations as required. At the time of our audit we identified a potential to deobligate, decommit, and/or reprogram approximately $9.0 million of the $90.3 million reviewed.

These Mission's reviews were inadequate because:

- unliquidated obligations reported to the A.I.D. Controller were not verified,

- invalid obligations and commitments were not identified and either deobligated, decommitted, or reprogrammed,

- expired obligations and commitments were not reviewed quarterly as required, and

- commitments were not recorded promptly and accurately.

Each of these problem areas are discussed in the following four sections of the report.

Unliquidated Obligation Levels Reported to the A.I.D. Controller Need To Be Verified

Federal law requires A.I.D. to provide an annual report to the President (through the Office of Management and Budget) and the U.S. Treasury identifying the total amount of unliquidated obligations and a certification that they do not exceed the requirements for which the funds were obligated. As a part of this process A.I.D. policy and procedures require each mission to review unliquidated obligations and certify their validity to the A.I.D. Controller. Although USAID/Dominican Republic provided its certification for Fiscal Year 1991 to the A.I.D. Controller, it did not perform the required review of its unliquidated obligations as a part of its continuous review process. As a result, USAID/Dominican Republic overstated the balance of obligations reported to the A.I.D. Controller.

<u>Recommendation No. 1:</u> We recommend that USAID/Dominican Republic:

1.1 establish procedures which describe the process to be performed to ensure that its annual certifications to the A.I.D. Controller contain accurate information on the levels and validity of unliquidated obligations and require the responsible official to provide an explanation to the A.I.D. Controller in the event it is not possible to provide such certification;

1.2 establish policy and procedures to either verify all unliquidated obligations or verify them on the basis of a valid statistical sample;

1.3 establish procedures for promptly deobligating invalid obligations and identifying in the certifications to the A.I.D. Controller any known cases of invalid obligations that have not yet been deobligated; and

1.4 report this weakness in its next internal control assessment unless resolved.

Federal Law (31 USC 1501) requires each Federal agency to provide with its annual appropriation request an annual report to the President (through the Office of Management and Budget) and the U.S. Treasury identifying the total amount of unliquidated obligations and to certify that they do not exceed the requirements for which they were obligated.

The General Accounting Office's *<u>Policy and Procedures Manual for Guidance of Federal Agencies</u>* (Title 7--Fiscal Guidance) states that it is incumbent on agencies to provide the best information possible when providing statements of obligations provided to the President. However, the law neither specifies how officials making the certifications are to satisfy themselves that the amount certified is accurate, nor does it require agencies to verify 100 percent of the unliquidated obligations before certifying the validity of obligation balances. An alternative cited in Title 7 is that an agency may use statistical sampling for the purpose of giving a qualified certification of obligation balances. If this method is used, the certification should indicate that it was based on valid statistical sampling and the amounts certified are subject to some stated amount of error. If for any reason the agency cannot certify that the amount reported is correct, the official designated to certify shall explain the reason for not being able to do so.

The A.I.D. Controllers Guidebook, Chapter 4, states that when reviews of unliquidated obligations disclose that all or a portion of the unliquidated balances is invalid and should be deobligated a journal voucher or other accounting document is prepared, approved, and processed prior to closing the accounts and preparing the fiscal year-end reports. The A.I.D. Controllers Guidebook states that once project funds are obligated under a project agreement, they remain available for the project until expended unless it has been clearly established that there are funds in excess of total A.I.D. project budget requirements, in which case deobligation procedures are initiated.

Although USAID/Dominican Republic provided a certification to the A.I.D. Controller as of September 30, 1991, this information was not correct as the Mission had not reviewed unliquidated obligations and expired commitments were not properly reviewed. This occurred because USAID/Dominican Republic had not established a system of internal controls which complied with Agency policy and procedures and did not exercise adequate oversight and management controls to ensure these established policies and procedures were effectively implemented. As a result, the A.I.D. Controller was using incorrect information to develop his certification to the President and overstating the funding needed by A.I.D.

Although we did not attempt to determine the magnitude of inaccurate information reported in the September 30, 1991 certification, our review of the working papers for the Mission's U 101 certification showed it had not reviewed all unliquidated obligations.

In summary, USAID/Dominican Republic needs to establish procedures to ensure the accuracy of information reported on the levels and validity of unliquidated obligations in their annual certifications to the A.I.D. Controller. If the Mission cannot certify that the amount reported is correct, it should explain the reason for not being able to provide the required certification.

Management Comments and Our Evaluation

USAID/Dominican Republic agreed with all parts of Recommendation No. 1 and stated that it would issue a Mission Order establishing the recommended policy and procedures. Also, the Mission provided evidence that it had reported this problem as a material weakness in its 1992 internal control assessment.

Based on these actions, Recommendation No. 1.1, No. 1.2, and No. 1.3 are resolved and can be closed when RIG/A/T receives and reviews a copy of the mission order. Recommendation No. 1.4 is closed upon issuance of this report.

Invalid Obligations and Commitments Need To Be Deobligated, Decommitted, or Reprogrammed

As discussed in the previous report section, Federal laws and regulations require that obligations and commitments be periodically reviewed to determine if they are still valid and that all excess funds be deobligated promptly. We found that USAID/Dominican Republic did not establish an internal control system which complied with these requirements, and did not perform the required reviews. As a result, the Mission did not identify the potential to deobligate, decommit, or reprogram about $5.2 million.

Recommendation No. 2: We recommend that USAID/Dominican Republic deobligate, decommit, or reprogram the $5.2 million in excess obligations and commitments identified in this report.

Federal Law (31 USC 1501) specifies that no amount shall be recorded as an obligation unless it is supported by documentary evidence of a binding agreement between a Federal agency and other parties to fund specific goods or services to be provided and that these obligations do not exceed the requirement for which the funds were provided. The General Accounting Office's Policy and Procedures Manual for Guidance of Federal Agencies (Title 7--Fiscal Guidance) states:

> *When the amount of an obligation is not known at the time it is incurred, the best possible estimate should be used to record the obligation. Where an estimate is used, the basis for the estimate and the computation must be documented. Appropriate adjustment must be made when events permit a more accurate estimate of the amount of the obligation and when the actual obligation is determined.*

A.I.D. Handbook 19, Financial Management, Chapter 2 and the A.I.D. Controllers Guidebook prescribe that controllers should periodically review unliquidated obligations to determine if the obligations exceed the requirements for which the funds were obligated. The guides further state that all excess funds should be deobligated promptly. In October 1989 the A.I.D. Controller issued additional guidance requiring mission controllers to perform semiannual reviews of both unliquidated obligations and commitments. This guidance also emphasized the importance of documenting files in support of obligations and commitments and the need to prepare and retain complete workpapers evidencing the reviews.

Notwithstanding the above requirements and emphasis, USAID/Dominican Republic did not establish a system of internal controls which complied with this guidance. It did not perform the required review, thus did not take appropriate action to deobligate, decommit, and/or reprogram excess funds.

Our review of obligations and commitments reported as valid consisted of two separate samples. For obligations, we reviewed a sample of 11 of the 17 USAID/Dominican Republic projects which were active as of our audit. This sample of projects had obligations totaling $57.9 million of a universe of $83.9 million. Unliquidated obligations in our population totaled $38.2 million. For commitments, we reviewed a sample of 10 of the 55 commitments for which no funds had been disbursed since November 30, 1991. This sample of unliquidated commitments totaled $3.9 million of a universe of $5.9 million.

Our review identified invalid obligations and commitments with a potential to deobligate, decommit, or reprogram $5.2 million. The amount of excess funds compared to the total amount of unliquidated obligations and commitments reviewed for USAID/Dominican Republic is shown in Appendix V.

In conclusion, USAID/Dominican Republic should ensure that the $5.2 million in excess funds identified in this report are appropriately deobligated, decommitted, or reprogrammed.

Management Comments and Our Evaluation

USAID/Dominican Republic agreed with Recommendation No. 2 and confirmed the validity, with minor exceptions, of the $5.2 million potential savings identified in the finding. The Mission stated that $3.95 million had been included in its fiscal year 1993 Deobligation Plan presented to the LAC Bureau. It will deobligate these funds when advised by the Bureau as to the appropriate time to do so. The Mission stated that it had also programmed or reprogrammed the excess funds identified for Project No. 517-0237 for project closeout activities and that if any funds remained after project close out the Mission would deobligate them. Finally, the Mission stated that it had performed an intensive review of all expired commitments and had made the appropriate decommitment of project funds during its Section 1311 review conducted in September 1992.

USAID/Dominican Republic comments were not detailed to the extent where we could determine the total amounts sustained or not sustained for the $5.2 million identified in the finding. However, we agree with USAID/Dominican Republic's stated actions thus far to deobligate, decommit, or reprogram the excess funds identified by the report. Once the Mission provides information with respect to the full $5.2 million and the actual amounts deobligated, decommitted, or reprogrammed we can resolve and close this recommendation.

Expired Obligations and Commitments Need To Be Reviewed

A.I.D. procedures require expired obligations and commitments to be reviewed quarterly in order to either identify funds which should be decommitted and deobligated or obligation expiration dates in need of extension. USAID/Dominican Republic did not establish internal controls to implement these procedures, nor did it perform the required review. As a result, about $3.8 million was not properly decommitted or deobligated.

Recommendation No. 3: We recommend that USAID/Dominican Republic:

3.1 establish procedures for performing quarterly reviews of expired obligations and commitments; and

3.2 deobligate or decommit the $3.8 million in expired obligations and commitments identified in this report.

The Office of Financial Management guidance to overseas controllers issued in October 1989 states that it is incumbent upon mission controllers to perform, at least quarterly, a review to verify the adequacy of the commitment documents and the accuracy of the termination dates in mission agreements supporting the obligations and commitments. The guidance further states:

> *A listing of the documents with expired (and soon to expire) termination dates should be transmitted to responsible Mission management officers requesting their review and determination as to extension of the termination dates or decommitment or deobligation.*

USAID/Dominican Republic did not establish an internal control system to comply with these guidelines. It did not perform the required reviews; therefore, it did not identify excess funds for deobligation or decommitment. As shown in Appendix VI, accounting records for USAID/Dominican Republic disclosed expired obligation and commitment documents with a potential to decommit $3.8 million.

Our review of obligations pertaining to projects with expired project assistance completion dates and commitments with expired ending dates consisted of two separate samples. For obligations, we reviewed all 14 projects which had expired project assistance completion dates as of our audit. These 14 projects had obligations totaling $32.4 million of which $1.9 million were identified as unliquidated. For commitments, we selected a sample of 30 of the 191 commitments with expired ending dates as of our audit. Unliquidated commitments in our sample totaled $6.4 million of the $7.9 million in the universe of unliquidated commitments.

Our review identified expired obligations and commitments with a potential to deobligate, decommit, or reprogram $3.8 million. The amount of excess funds compared to the total amount of unliquidated obligations and commitments reviewed for USAID/Dominican Republic is shown in Appendix VI.

In conclusion, USAID/Dominican Republic needs to establish procedures to review the expired unliquidated obligations and commitments as required by Agency policy and procedures and ensure that $3.8 million in expired funds identified in this report are appropriately deobligated or decommitted.

Management Comments and Our Evaluation

USAID/Dominican Republic agreed with Recommendation No. 3.1. and plans to issue a mission order establishing the recommended procedures. Regarding Recommendation No. 3.2, the Mission confirmed the validity, with minor exceptions, of the $3.8 million potential savings identified in the finding. The Mission stated that it had deobligated $900,000 at the end of fiscal year 1992 and had included $600,000 in its fiscal year Deobligation Plan presented to the LAC Bureau which it will deobligate when advised to do so by the Bureau. Finally, the Mission stated that it had performed an intensive review of all expired commitments and had made the appropriate de-commitment of project funds during its Section 1311 review conducted in September 1992.

Based upon actions taken by USAID/Dominican Republic, Recommendation No. 3.1. is resolved and can be closed when RIG/A/T receives and reviews a copy of the mission order.
With respect to Recommendation No. 3.2, USAID/Dominican Republic's comments were not detailed to the extent where we could determine the total amounts sustained or not sustained for the $3.8 million identified in the finding. However, we agree with USAID/Dominican Republic's stated actions thus far to deobligate or decommit the excess funds identified by the report. Once the Mission provides information with respect to the full

$3.8 million and the actual amounts deobligated or decommitted we can resolve and close this recommendation.

Commitment Transactions Were Not Recorded Promptly and Accurately

Internal control standards issued by the U.S. General Accounting Office and included in A.I.D. Handbook 19 state that transactions are to be recorded accurately and promptly. USAID/Dominican Republic did not fully meet these requirements as expiration dates were not correct for three of the 44 obligation and commitment documents we reviewed. This occurred because USAID/Dominican Republic did not fully implement its oversight and management controls to ensure the accuracy of this data. Consequently, USAID/Dominican Republic does not have reliable data to effectively monitor the validity of unliquidated obligations and as a result overstated the amount of expired commitments by $558,913.

Recommendation No. 4: We recommend that USAID/Dominican Republic update and fully implement its procedures to perform periodic reviews to verify the accuracy of unliquidated obligation financial data reported in its accounting records.

The General Accounting Office's *Standards for Internal Controls in the Federal Government* states that transactions and other significant events are to be promptly recorded and properly classified. A.I.D. Handbook 19, Financial Management, (Appendix 1.E, Section D.1) states that financial management data should be recorded as soon as practicable after the occurrence of the event and are to be reasonably complete and accurate. Proper classification and prompt recording of transactions is needed so that sound financial management decisions can be made based on the accounting records, and required certifications can be made in accordance with Federal Law (31 USC 1501).

USAID/Dominican Republic did not fully meet the above requirements. Our review of a sample of 44 obligation and commitment documents identified in the accounting records as expired as of March 31, 1992, showed inaccurate expiration dates on the amount of unliquidated commitments for three of the items reviewed. This resulted in inaccurate information in the Mission's accounting records and an overstatement of the amount of expired commitments by $558,913. Inaccurate accounting data was due to the Mission not updating and fully implementing its procedures to periodically review and verify the accuracy of financial data.

In conclusion, USAID/Dominican Republic does not have a totally reliable process to monitor the validity of unliquidated obligations or commitments under expired documents. USAID/Dominican Republic needs to update and fully implement its procedures to verify the accuracy of data and thus improve the integrity of its accounting records. Without accurate data, USAID/Dominican Republic cannot effectively monitor the validity of unliquidated obligations under expired documents and ensure that expired contract and grants are appropriately closed out.

Management Comments and Our Evaluation

USAID/Dominican Republic agreed with Recommendation No. 4 and plans to issue a Mission Order updating and implementing the recommended procedures.

Based on actions planned by USAID/Dominican Republic, Recommendation No. 4 is resolved and can be closed when RIG/A/T receives and reviews a copy of the mission order.

SCOPE AND METHODOLOGY

Scope

We audited selected accounting systems at USAID/Dominican Republic in accordance with generally accepted government standards. We conducted the audit from June 2, 1992 to July 2, 1992, and performed our field work at the office of USAID/Dominican Republic in Santo Domingo. The audit entailed interviewing USAID/Dominican Republic officials, reviewing Mission files and records, and reviewing those policies and procedures necessary to determine whether funds were obligated, deobligated, committed, and decommitted in compliance with Agency policies, procedures, and applicable regulations.

The audit was limited to determining whether USAID/Dominican Republic had established and followed the necessary management systems to effectively and efficiently implement the areas covered under the audit objective. Therefore, our audit covered only the systems and procedures at USAID/Dominican Republic.

We used computer-prepared financial data from the Mission Accounting and Control System (MACS) to develop certain of our findings. But we did not audit the computerized segments of the MACS and performed very limited tests of the computer-prepared data obtained therefrom. We observed MACS primarily in terms of the original document inputs and report outputs.

As part of our audit, we assessed internal controls and found them not reliable. The findings on internal controls are discussed in Appendix III of this report. Therefore, we did not rely on those controls while conducting the audit. Also, we reviewed an earlier RIG/A/T audit report on unliquidated obligations at USAID/Dominican Republic as background to prepare for this audit (Audit Report No. 1-517-89-06, dated December 30, 1988).

During the period of our audit USAID/Dominican Republic's project portfolio was valued at $199.2 million ($132.2 million for the active projects and $67.0 million for the terminated projects). We did not specifically audit these amounts, rather our audit focused on selected accounting procedures for controlling the unliquidated obligations.

In addition to the types and sources of evidence obtained and the audit techniques used to verify evidence described in the following section for each audit objective, we obtained a representation letter from USAID/Dominican Republic's management confirming in writing information we considered essential for answering our audit objectives and for assessing internal controls and compliance.

Methodology

The audit objective was to determine if USAID/Dominican Republic reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures. To accomplish this objective, we divided our audit into four areas: (1) verification of unliquidated obligation levels reported to the A.I.D. Controller, (2) review of obligations and commitments reported as valid, (3) review of obligations and commitments reported as expired, and (4) review of obligation and commitment transactions for recording promptness and accuracy. Our audit methodology for each area follows.

Verification of unliquidated obligation levels reported to the A.I.D. Controller--In auditing this area, we obtained and examined the Summary of Budget Allowance Ledger Transactions and Reconciliation with Disbursing Officer's Accounts (U101 certification) for Fiscal Year 1991 and the supporting workpapers of the review process required by Section 1311 of Public Law 83-663. From this information and interviews with Controllers Office staff we determined the extent of the review performed by USAID/Dominican Republic and whether the information provided to the A.I.D. Controller was valid.

Review obligations and commitments reported as valid--In auditing this area we used two samples. First, a sample of 11 of the 17 active projects as of our audit was selected for review using a judgmental (nonstatistical) sampling technique. We excluded the obligations on loan projects since USAID/Dominican Republic does not have cognizance for the loan obligation portfolio. A judgmental sample was used due to the small size of the universe. Our sample of 11 projects contained $57.9 million of the $83.9 million in obligations in the universe of 17 projects. Our second sample was a statistical sample of 10 of the 55 commitments which had no disbursements since November 30, 1991. Our sample was selected using the EZ Quant statistical sampling software developed by the Defence Contract Audit Administration. The statistical sampling technique used was a standard variable sample. The sample of $3.9 million equaled 66 percent of the universe of $5.9 million in unliquidated commitments. We evaluated the obligations and commitments through analysis of the available documentation and by interviewing the project officers for the projects included in the samples and the Controllers Office staff.

Review of expired obligations and commitments--In auditing this area we used two samples. First, we reviewed the obligated amounts on all 14 of the projects where the project assistance completion date had expired as of our audit. These projects had obligations of $32.4 million. We excluded the obligations on loan projects since USAID/Dominican Republic does not have cognizance for the loan obligation portfolio. Our second sample was statistically selected and included 30 of the 191 commitments with expired commitment ending dates. The statistical sampling technique used was a stratified variable sample. We used this technique because of the wide dollar dispersion in the universe. We divided the sample into four strata, one high dollar strata, and three sample strata using the EZ Quant statistical sampling software developed by the Defence Contract Audit Administration. The 30 commitments sampled represented 82 percent of the total amount in the universe of commitments with expired ending dates, or $6.4 million of $7.9 million. We evaluated the obligations and commitments through analysis of available documentation and by interviewing the project officers for the projects included in the samples and the controllers staff.

Review of obligation and commitment transactions for recording promptness and accuracy--In auditing this area we used the samples selected to review expired obligations and commitments. This included, as of our audit, all 14 projects with expired project assistance completion dates and the sample of 30 of 191 commitments with expired commitment ending dates. We evaluated the recording promptness and accuracy of USAID/Dominican Republic's obligation and commitment transactions by reviewing the available documentation and interviewing the project officers for the projects included in the samples and the Controllers Office staff.

MANAGEMENT COMMENTS

RECEIVED
US AID
07 ENE. 1993
RIG OFFICE

AGENCY FOR INTERNATIONAL DEVELOPMENT
Santo Domingo, Dominican Republic

UNITED STATES GOVERNMENT
MEMORANDUM

Date: **December 30, 1992**

From: **Raymond Rifenburg, Director**
USAID/Dominican Republic

Raymond R. Rifenburg

To: **Lou Mundy, RIG/A/T**

Subject: **Management Comments on the Draft Audit Report of the Audit of USAID/Dominican Republic's Certification and Review of Unliquidated Obligations.**

USAID/Dominican Republic takes exception to the tone of the audit report which implies that we have been totally remiss in review and certification of unliquidated obligations in accordance with applicable laws, regulations, policies and procedures. We do not believe the audit report adequately recognizes the thoughtfulness with which we made our decisions regarding deobligation of funds, even if, in the final analysis the audit report disagrees with the decisions taken. While we take exception to the tone of the report, we agree that there are actions that can be taken to strengthen the Mission certification and review process and accept the four recommendations presented in the report. We also confirm the validity, with minor variations, of the potential savings estimated to result from implementation of Recommendations numbers 2 and 3.2.

USAID/Dominican Republic has already taken certain actions recommended in this report in response to areas identified as a result of our own internal reviews, perspectives of changing personnel, an outside assessment and discussions with the audit team during the audit field work. Those actions are detailed below under our responses to the specific recommendations made in this report.

We point out that circumstances not noted in this report, prevented USAID/Dominican Republic from having deobligated funds sooner. Obligations and commitment of funds are incurred through formal, legal agreements with host government entities and non government organizations. Any deobligation or de-commitment of funds prior to the end of the project requires negotiations and formal amendments to those legal agreements. Additionally, funds are retained to cover future claims and eligible disbursement transactions which must be accepted once documentations are received from reconciliations with AID/Washington disbursement records and when outstanding advance issues are resolved. As noted below, we take issue with the amounts and the timing of when funds should have been deobligated. We also point out that we prepare an annual plan for deobligation and reobligation of funds. This allows us to utilize congressionally provided Deobligation/Reobligation authority utilizing these funds.

Responses to the recommendations made in this report are as follows:

Recommendation No.1: We will issue a Mission Operations Manual Order (MOM) establishing the policies and procedures recommended in 1.1, 1.2 and 1.3 which follows the supplemental guidance issued by the A.I.D. Controller in 1989. Attached are copies of memorandum attached to U-101 Reports submitted for September, 1992 which provided the A.I.D. Controller with an explanation when it was not possible to provide the required annual Certifications and advising of any know cases of invalid obligations that had not yet been deobligated. Attached also is a copy of the Mission's "Report on a Material Weakness" submitted with our 1992 Annual Certification of management controls (internal control assessment) where the weakness was reported before receiving recommendation No. 1.4.

Based on the above, we request that recommendations numbers 1.1, 1.2. and 1.3 be considered resolved and considered closed once the MOM is issued and accepted by RIG/A/T and we request that recommendation number 1.4 be considered resolved and closed.

Recommendation No.2: Of the $5.2 million in excess obligations and commitments identified in this report, $3.95 million (including funds which were decommitted) has been included in our FY1993 Deobligation plan presented to our Bureau. These funds will remain in the accounting records until we are advised by our Bureau of the appropriate time to record the deobligations in order for the Bureau to exercise Congressional approval of reobligation of these funds. Excess funds identified in the audit report for project number 517-0237 have been programmed or reprogrammed for project closeout activities: evaluation, audit and contractor closeout. Any remaining funds after the project is closed (PACD 12/31/92) will be deobligated once all disbursement transactions are recorded in our accounting records. Excess funds are not readily identifiable at this time. Minor differences in these amounts and amounts presented in the audit report are due to project disbursement activity since the time of the audit field work. Our Mission also performed an intensive review of all expired commitments and made the appropriate de-commitment of project funds during our Section 1311 review conducted in September, 1992.

Based on the above, we request that recommendation number 2 be considered resolved and closed.

Recommendation No.3: Procedures recommended in recommendation number 3.1 will be included in the MOM to be issued to request closure of recommendations number 1.1, 1.2 and 1.3. Of the $3.8 million in expired obligations and Commitments identified in the report (recommendation number 3.2) $.9 million was deobligated at the end of FY1992 and $.6 million has been included in our FY1993 deobligation plan presented and remaining in our accounting records as explained under recommendation number 2 above. Minor differences between the amounts identified in the audit report and the amounts deobligated in FY1992 or included in the FY1993 Mission deobligation plan are being retained on the accounting records to cover resolution of outstanding advance issues and reception of additional disbursement documentation from AID/Washington. Additionally, all expired commitments were reviewed and handled similarly to those commitments noted in recommendation number 2 above.

Based on the above, we request that recommendation number 3.1 be considered resolved and considered closed once the MOM is issued and accepted by RIG/A/T and we request that recommendation number 3.2 be considered resolved and closed.

Recommendation No.4: Procedures recommended to be updated and fully implemented in this recommendation will be in the MOM to be issued to request closure of recommendations numbers 1.1, 1.2, 1.3, and 3.1.

Based on the above, we request that recommendation number 4 be considered resolved and considered closed once the MOM is issued and accepted by RIG/A/T.

REPORT ON INTERNAL CONTROLS

This section provides a summary of our assessment of USAID/Dominican Republic's internal controls for the audit objective.

Scope of Our Internal Control Assessment

We performed our work in accordance with generally accepted government auditing standards which require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives; and

- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

We limited our assessment of internal controls to those controls applicable to the audit objective and not to provide assurance on USAID/Dominican Republic's overall internal control structure.

For the purpose of this report, we have classified the significant internal control policies and procedures applicable to the audit objective by category. For each category of control, we obtained an understanding of the design, when applicable, of relevant policies and procedures and determined whether they have been placed in operation, and assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for the audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act (31 USC 3512[c]) and the Office of Management and Budget (OMB) implementing policies, A.I.D. management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining internal controls.

The objectives of internal controls for federal foreign assistance are to provide management with reasonable--but not absolute--assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether internal controls will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness or the design and operation of policies and procedures may deteriorate.

Conclusion for Audit Objective

The audit objective was to determine if USAID/Dominican Republic reviewed and certified unliquidated obligations in accordance with applicable U.S. Government laws and regulations, and A.I.D. policies and procedures. In planning and performing our audit, we considered the requirements of the Federal Managers' Financial Integrity Act, _Standards for Internal Controls in the Federal Government_ prescribed by the U.S. General Accounting Office, Office of Management and Budget (OMB) Circular A-123, and appropriate internal control policies and procedures cited in A.I.D. Handbook 19, the A.I.D. Controllers Handbook, and supplemental guidance documents issued by the Office of Financial Management in October 1989. For the purposes of this report, we have classified the applicable internal controls into the following categories:

- identify and deobligate, decommit, or reprogram invalid obligations and commitments;

- make the required annual certification on the validity of unliquidated obligations;

- maintain updated project financial implementation plans, and

- record financial transactions promptly and accurately.

Our audit found that controls relating to the review and certification to the A.I.D. Controller on the validity of unliquidated obligations were not reliable. USAID/Dominican Republic did not follow established A.I.D. policies and procedures resulting in the following significant weaknesses in internal controls:

- periodic reviews of unliquidated obligations and commitments to verify the validity of the unliquidated amounts and initiate appropriate action to deobligate, decommit, or reprogram any excess funds were not performed,

- certifications to the A.I.D. Controller on the validity of reported unliquidated obligations were not accurate, and

- financial transactions were not recorded promptly and accurately.

Because of the nature of the audit it was not necessary to rely on the internal controls to answer the audit objective. Therefore, no additional tests were done.

These significant weaknesses were not reported in the USAID/Dominican Republic's internal control assessment for 1991. Because we believe that these weaknesses are significant, we have recommended they be reported in the next internal control assessment if they are not fully resolved prior to its submission to A.I.D./Washington.

REPORT ON COMPLIANCE

This section summarizes our conclusions on USAID/Dominican Republic's compliance with applicable laws and regulations for reviewing and certifying unliquidated obligations.

Scope of Our Compliance Assessment

We conducted our audit according to generally accepted government auditing standards which require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives); and

- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

However, our objective was not to provide an opinion on USAID/Dominican Republic overall compliance with such provisions.
We tested USAID/Dominican Republic's compliance with Federal Law 31 U.S.C. 1501 requirements for recording only valid obligations and the General Accounting Office's *Standards for Internal Controls in the Federal Government* requirements for recording financial transactions promptly and accurately, as these laws and regulations could affect our audit objectives.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants, and binding policies and procedures governing an organization's conduct. Noncompliance constitutes an illegal act when there is a failure to follow requirements of laws and implementing regulations, including intentional and unintentional noncompliance and criminal acts. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of the laws and regulations but violate either their spirit or the more general standards of impartial and ethical behavior.

USAID/Dominican Republic is responsible for reviewing their unliquidated obligations to determine if the funds are still needed and for initiating action to deobligate excess funds. The A.I.D. Controller is responsible for ensuring that the controllers perform the reviews and to provide an annual report to the President (through OMB) along with the Agency's appropriation request and to the U.S. Treasury identifying the amount of unliquidated obligations and a certification that these obligations do not exceed the requirements for which the funds were obligated. The A.I.D. Administrator is responsible for preparing an annual report for the President stating whether the Agency's internal controls meet the Federal standards and describing any material weaknesses in the internal controls.

Conclusions on Compliance

The results of our tests of compliance indicate that USAID/Dominican Republic had not complied with (1) Federal Law (31 USC 1501) concerning the required reviews of unliquidated obligations and deobligation of funds in excess of the requirements for which these funds were obligated, and (2) the General Accounting Office's _Standards for Internal Controls in the Federal Government_ requirement to record commitment data promptly and accurately. (See pages 8 and 10.)

ANALYSIS OF EXCESS OBLIGATIONS AND COMMITMENTS
As of May 31, 1992
(in 000s)

SAMPLE AND PROJECT NUMBER	UNLIQUIDATED AMOUNT	EXCESS FUNDS IDENTIFIED
Obligation Sample:		
517-0190[1]	$2,053	$1,704
517-0214[1]	2,067	1,118
517-0237[1]	1,678	1,678
517-0640[1]	919	169
Other[2]	31,447	0
Total obligations	$38,194	$4,669
Commitment Sample:[3]	$3,888	$510
TOTAL EXCESS FUNDS IDENTIFIED		**$5,179**

[1] *The funds for these projects were considered excess for one or more of the following reasons: (1) the project had terminated or was within three months of its termination date, (2) the project was suspended for seven months, and (3) a project implementation letter had been issued to deobligate the funds but action was still pending.*

[2] *Other obligations consist of items where no problems were found with the amount of unliquidated obligation, thus the projects were not identified.*

[3] *We sampled 10 commitments from a universe of 55 commitments which had no funds disbursed since November 30, 1991. The commitments were considered excess because funds committed exceeded the needs or funds had been idle for almost a year awaiting a Mission decision on their use.*

ANALYSIS OF UNLIQUIDATED EXPENDITURES UNDER EXPIRED OBLIGATION AND COMMITMENT DOCUMENTS As of May 31, 1992

(in 000s)

SAMPLE AND PROJECT NUMBER	UNLIQUIDATED AMOUNT	EXCESS FUNDS IDENTIFIED
Obligation Sample:		
517-0000[1]	$700	$403
517-0127[1]	6	6
517-0144[1]	12	12
517-0150[1]	21	21
517-0153[1]	79	79
517-0156[1]	317	317
517-0157[1]	116	116
517-0218[1]	39	23
517-0236[1]	340	340
Other[2]	305	0
Total obligations	$1,935	$1,317
Commitment Sample:[3]	$6,419	$2,469
TOTAL EXCESS FUNDS IDENTIFIED		**$3,786**

[1] *The funds for these projects were considered excess because the projects PACD had expired and are not being extended.*

[2] *Other obligation consist of items where no problems were found with the amount of unliquidated obligation, thus the projects were not identified.*

[3] *Commitments sample represents a stratified sample of 30 commitments selected from a universe of 191 commitments with expired ending dates.*

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