

01-07-1994

*Programs and Systems Audits*

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**AUDIT OF USAID/WASHINGTON'S CLOSEOUT  
PROCEDURES FOR EXPIRED USAID  
CONTRACTS, GRANTS AND  
COOPERATIVE AGREEMENTS**

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*Report No. 9-000-94-007  
June 14, 1994*



**INSPECTOR  
GENERAL**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

June 14, 1994

MEMORANDUM FOR DAA/M, Michael D. Sherwin

FROM: IG/A/PSA, Toby L. Jarman

SUBJECT: Audit of USAID/Washington's Closeout Procedures for Expired USAID  
Contracts, Grants and Cooperative Agreements (Audit Report  
No. 9-000-94-007)

The Office of the Inspector General has made an audit of USAID/Washington's contract closeout procedures. Attached are five copies of the final report.

This audit disclosed that USAID/Washington has made much progress in closing out contracts but, despite the positive actions, more needs to be done. The report contains two recommendations for your Office of Procurement. In developing this final report, we took into consideration the Office of Procurement's written comments on the draft report and its recommendations. The comments are summarized after the finding and presented in their entirety as Appendix II. Based on the comments, both recommendations are resolved.

I appreciate the excellent cooperation and courtesies your office extended to my staff during the audit. Please provide us information within 30 days indicating the actions planned or taken to fully implement the recommendations.

Attachments: a/s

# EXECUTIVE SUMMARY

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## Background

Closing out a contract, the final phase of the contracting process, assists the U.S. Agency for International Development (USAID) in determining whether all applicable administrative actions and required work relating to contracts have been completed, including whether:

- (1) property and equipment were accounted for and properly disposed of;
- (2) a full and satisfactory accounting of obligations was made; and
- (3) required audits were performed.

As part of a worldwide audit, the Office of Programs and Systems Audits conducted an audit to determine if USAID/Washington followed policies, procedures and applicable Federal regulations in closing out expired contracts, grants and cooperative agreements (see page 2). Based on data in the Agency's Contract Information Management System, there were 2,580 USAID/Washington procurement agreements with total obligations of about \$3.1 billion that had expired as of March 31, 1993.

The USAID/Washington Office of Procurement is responsible for closing out most USAID/Washington expired contracts. This audit focused on the Office of Procurement's closeout procedures by reviewing three major areas: accounting for property, deobligating excess funds and conducting audits or desk reviews (see pages 8, 11, and 12).

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## Audit Results

Historically, USAID has not been able to promptly and efficiently close out its expired contracts--a deficiency that has been identified and reported by several prior audits. We found that USAID/Washington offices have taken some commendable actions to correct this deficiency (see page 3). Specifically, the Bureau for Management has substantially reduced unliquidated obligations and the Office of Financial Management has implemented procedures to correct some communication problems between the Office of

Procurement and USAID financial offices regarding obtaining information and/or documentation to process certain closeout actions (see pages 3 and 4). Also, the Office of Procurement has contracted for technical services to assist in its effort to reduce the backlog of expired contracts.

However, despite these positive actions, the audit showed that some problems still need to be resolved. Based on our sample of 46 expired contracts and grants totaling approximately \$260 million:

- (1) 44 exceeded closeout time limits for periods ranging from 22 to 61 months;
- (2) \$1.7 million of property was not adequately accounted for;
- (3) excess funds totaling \$597,308 were not promptly deobligated; and
- (4) desk reviews or required audits (though generally requested) were not completed for 14 valued at \$65.3 million.

We believe that unless USAID/Washington resolves some significant underlying problems affecting the closeout process, the Agency will continue to have a large backlog of expired contracts needing closeout. These problems are (1) the low priority given by management to contract closeouts, (2) inadequate records, (3) poor communication between action offices and (4) an apparent imbalance in allocating resources between the functions involved in managing contracts and those involved in closing them out.

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## Recommendations

This report recommends that the USAID/Washington Office of Procurement (1) develop and implement an action plan to promptly close out expired contracts and (2) determine the resources needed to promptly and efficiently close out contracts (see page 5).

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## Management Comments and Our Evaluation

In commenting on a draft of this report, USAID/Washington agreed with the findings and recommendations. The full text of Agency comments are presented as an Appendix to this report.

*Office of the Inspector General*  
Office of the Inspector General  
June 14, 1994

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# INTRODUCTION

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## Background

The closeout of a contract, grant or cooperative agreement is the final phase of the contracting process enabling the U. S. Agency for International Development (USAID) to determine whether all applicable administrative actions and required work relating to the contracts have been completed. Among other things, closing out a contract ensures that (1) USAID-funded property was accounted for and properly disposed of, (2) a full and satisfactory accounting of USAID funds was made and (3) required audits or desk reviews were performed.

The Agency's principal contracting mechanisms are USAID-direct contracts, including grants and cooperative agreements, and host country contracts. The Office of Procurement in Washington, D.C., the Agency's principal contracting office, is responsible for closing out most USAID/Washington expired contracts. A small number of expired contracts are also closed out by the the Agency's Office of American Schools and Hospitals Abroad. USAID overseas missions are responsible for closing out contracts that they award. The responsibility for scheduling, arranging and funding Defense Contract Audit Agency (DCAA) audits of the Agency's U.S.-based contractors was transferred from the Office of the Inspector General to the Office of Procurement (Procurement) effective October 1, 1993. Procurement is establishing a 10-person unit to perform the functions necessary to implement this transfer of responsibility.

The Federal Acquisition Regulation (FAR) provides for the orderly and expeditious closeout of USAID-direct contracts. For grants and cooperative agreements, closeout procedures are found in OMB Circular No. A-110 and USAID Handbook 13. In addition, USAID issued a Contract Management Administrative Memorandum (CMAM) No. 85-7 in November 1985, which provided guidance for closing out USAID/Washington contracts.

Despite the FAR, OMB Circular and USAID Handbook requirements, the Agency has accumulated over the years a large backlog of expired contracts, grants, cooperative agreements and host country contracts worldwide, all awaiting closeout actions. Based on data in the Agency's Contract Information Management System, as of March 31,

1993, there were 11,586 expired contracts, grants and cooperative agreements with a total obligation of about \$10.2 billion which had completion dates prior to April 1, 1993. Of these, 2,580 were USAID/Washington expired contracts, grants and cooperative agreements totaling approximately \$3.1 billion. From this universe, we selected a judgmental sample of 46 USAID/Washington contracts and grants, totaling approximately \$260 million, for detailed testing. The scope and methodology for this audit is included in Appendix I.

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## Audit Objective

As part of its planned worldwide audit, the USAID Inspector General's Office of Programs and Systems Audits, audited the closeout procedures for expired USAID/Washington contracts, grants and cooperative agreements to answer the following question:

- Did the USAID/Washington Office of Procurement<sup>1</sup> follow USAID policies, procedures and applicable Federal regulations in closing out expired contracts, grants and cooperative agreements?
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<sup>1</sup> Although a small number of USAID/Washington contracts are closed out by the Office of American Schools and Hospitals Abroad (ASHA), this report focuses on the USAID/Washington Office of Procurement which is the Agency's principal contracting office. ASHA's closeout functions will be addressed in a separate Agency-wide audit report.

## REPORT OF AUDIT FINDINGS

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### **Did the USAID/Washington Office of Procurement follow USAID policies, procedures and applicable Federal regulations in closing out expired contracts, grants and cooperative agreements?**

USAID/Washington offices, including Procurement, have taken some commendable actions to facilitate the closeout process of expired contracts, grants and cooperative agreements (hereafter referred to collectively as contracts). Nevertheless, Procurement did not follow Agency policies, procedures and applicable Federal regulations for:

- (1) closing out contracts within prescribed time frames;
- (2) ensuring property in the custody of contractors is accounted for;
- (3) completing needed audits or conducting desk reviews, as appropriate; and, to a lesser extent,
- (4) deobligating residual funds.

Historically, USAID has not been able to promptly and efficiently close out its expired contracts--a deficiency that has been identified and reported by several prior audits. We found that USAID/Washington offices have taken some commendable actions to correct this deficiency. USAID/Washington has made substantial progress in deobligating excess funds for expired contracts. For example, our September 1992 audit of unliquidated obligations found that 37.2 percent of the \$584.9 million in USAID/Washington unliquidated obligations reviewed were either not valid or not adequately supported (Audit Report No. 9-000-92-013, September 30, 1992). But this audit found that \$597,308, or only 0.2 percent of the \$259.9 million in USAID/Washington obligations reviewed needed to be validated or deobligated. We believe this is due in part to the enactment of Public Law 101-510 in November 1990, which phased out the use of merged accounts, commonly called "M" accounts. Under this Law, appropriations expire after five years<sup>2</sup>, after which time unused funds must be turned over to the Department of Treasury. According to Office of Financial Management officials, the

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<sup>2</sup> Some funding accounts are exempted from the five-year rule under Section 517 of the Foreign Assistance Act.

USAID/Bureau for Management devoted considerable time and resources during fiscal years 1992 and 1993 to liquidating the "M" accounts and deobligating excess funds.

In addition, the Office of Financial Management (Financial Management) has implemented procedures designed to improve communication. These procedures should rectify the problem of delayed documents and information necessary to implement closeout actions. Also, Procurement has worked to reduce the backlog and expedite closeout of USAID/Washington expired contracts by transferring closeout responsibility from its contracting officers, who award and administer the contracts, to a separate section in the Office of Procurement called the Overhead/Special Cost and Close Out Branch (hereafter referred to as the Closeout Branch). Furthermore, since 1986, Procurement has utilized the services of contractors (on a full-time basis) to assist in closing out expired contracts.

Nevertheless, the audit showed that USAID/Washington still has a large backlog of expired contracts that have not been closed out, property that has not been adequately accounted for, funds that have not been promptly deobligated, and required audits and desk reviews that have not been conducted. These deficiencies are discussed in detail below.

#### **USAID/Washington Needs to Close Out Expired Contracts as Required**

Federal regulations, OMB guidelines and USAID policies and procedures require that contracts be closed out within established time frames and in accordance with prescribed procedures. For 46 USAID/Washington contracts tested, valued at approximately \$260 million, responsible USAID offices did not follow Agency guidelines or Federal regulations because of:

- (1) a low priority assigned by management to the closeout function;
- (2) insufficient communication between various USAID/Washington offices involved in the closeout function;
- (3) inadequate records relating to nonexpendable property procured under the contracts; and
- (4) resource constraints.

Consequently, USAID/Washington had not ensured that nonexpendable property valued at about \$1.7 million had been accounted for; unliquidated obligations totaling \$597,308

had been validated<sup>3</sup> or deobligated; or required audits of contractors and desk reviews of contracts (totaling \$65.3 million) had been completed.

We are not making any recommendations concerning the non-completion of required audits because the Agency has recently realigned responsibilities to clarify functions involved in the audit process.

**Recommendation No. 1:** We recommend that the Director, USAID/Washington Office of Procurement, develop an action plan to assure that all expired contracts in its portfolio are closed out and actions are taken to:

- 1.1 ensure nonexpendable property acquired under expired contracts is accounted for and disposed of, including approximately \$1.7 million of such property listed in Appendix III; and
- 1.2 promptly validate or deobligate unliquidated obligations, including \$597,308 for contracts listed in Appendix IV.

**Recommendation No. 2:** We recommend that the Director, USAID/Washington Office of Procurement determine the resources needed to ensure timely and efficient contract closeouts and take appropriate actions thereafter.

Section 4.804 of the FAR and OMB Circular No. A-110 established procedures for closing out contracts. FAR specifies time frames of 6 months and 36 months to close out firm-fixed-price and cost-reimbursable contracts, respectively. In addition, it requires 15 other closeout actions which include (1) ensuring nonexpendable property procured under the contracts is accounted for and disposed of, (2) reviewing obligated contract funds and deobligating excess amounts and (3) completing audits or desk reviews, as appropriate.

For grants and cooperative agreements, OMB Circular No. A-110 prescribes certain closeout actions but does not establish time frames for completing all closeout actions. However, we used a 36-month time limit, currently applied to cost-reimbursable contracts, as a reasonable deadline for the purposes of this review. In addition, Procurement has established detailed closeout procedures included in CMAM No. 85-7.

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<sup>3</sup> Validating an obligation means to determine the final price by either obtaining a final voucher or completing an audit and finalizing the indirect cost rate, or both.

We tested a sample of 46 USAID/Washington expired contracts and grants with obligations totaling approximately \$260 million and found that only two did not exceed the time limits for closing out contracts. The remaining 44<sup>4</sup> had exceeded the applicable time limits and were open for periods ranging from 22 to 61 months since their expiration (see chart on page 7).

According to Procurement officials and the technical assistance contractor, difficulties in obtaining information from various parties involved in the closeout process, staffing shortages and management's low priority assigned to the closeout function are the primary reasons why the contracts have not been closed out.

One Procurement official stated that the number of new contracts for goods and services, combined with a shortage of personnel to negotiate and process these awards, necessitates placing more importance on the award process than on the closing out of expired contracts. This situation has resulted in Procurement assigning approximately 80 full-time employees to negotiating, awarding and administering contracts and only 3 full-time employees to the closeout function.

Moreover, current Agency procedures do not ensure that timely information required to close out contracts is obtained from the cognizant USAID financial and project offices or from contractors. As a result, Procurement is unable to determine if USAID-funded property held by contractors was properly accounted for and excess funds were promptly deobligated. For example, our tests showed that Procurement:

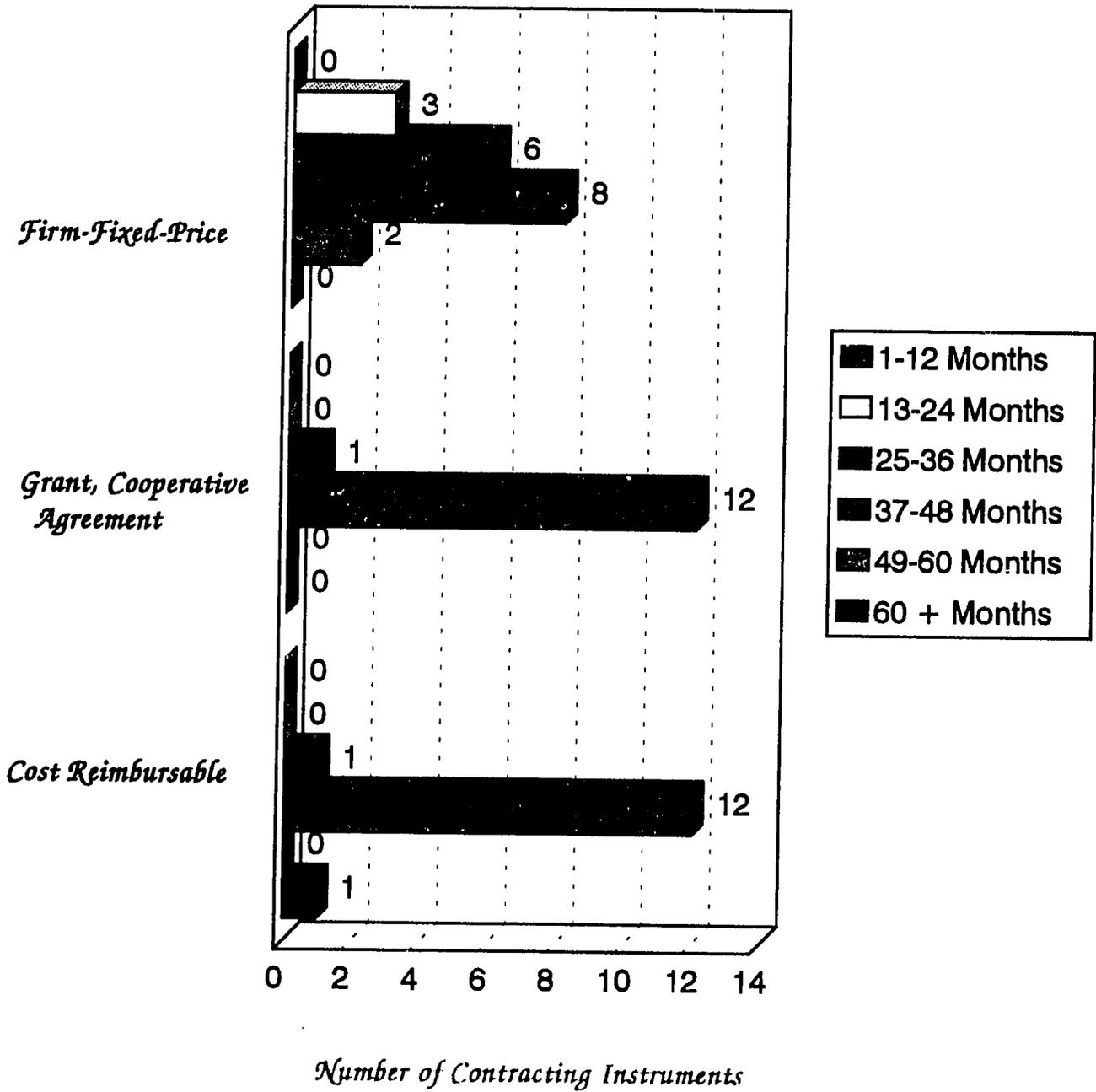
- did not have adequate records to determine how much USAID-funded property was in custody of contractors at the expiration of the contracts and did not ensure whether property costing at least \$1.7 million had been properly accounted for and disposed of;
- did not ensure the validation or deobligation of \$597,308 of unliquidated obligations on contracts which had been expired for 22 to 46 months, as of December 31, 1993; and
- requested/performed required audits and desk reviews of contractors for all but 4 of the 26 contracts requiring review. However, audits (or desk reviews) for 14 of the contracts valued at \$65.3 million had not been completed for various reasons--some of which were outside Procurement's control.

The longer expired contracts remain open, (1) the greater the likelihood that documents needed to close them out will be retired or lost, (2) personnel involved with the contracts

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<sup>4</sup> One grant was closed out during the course of the audit.

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will move on to other positions and (3) pressures to complete current work will make it difficult to obtain information from various parties involved in the closeout process. The result, we believe, is that institutional memory is lost, causing an inefficient use of time and resources to complete the closeout process.

By not promptly closing out contracts, USAID is exposed to potential financial losses resulting from:

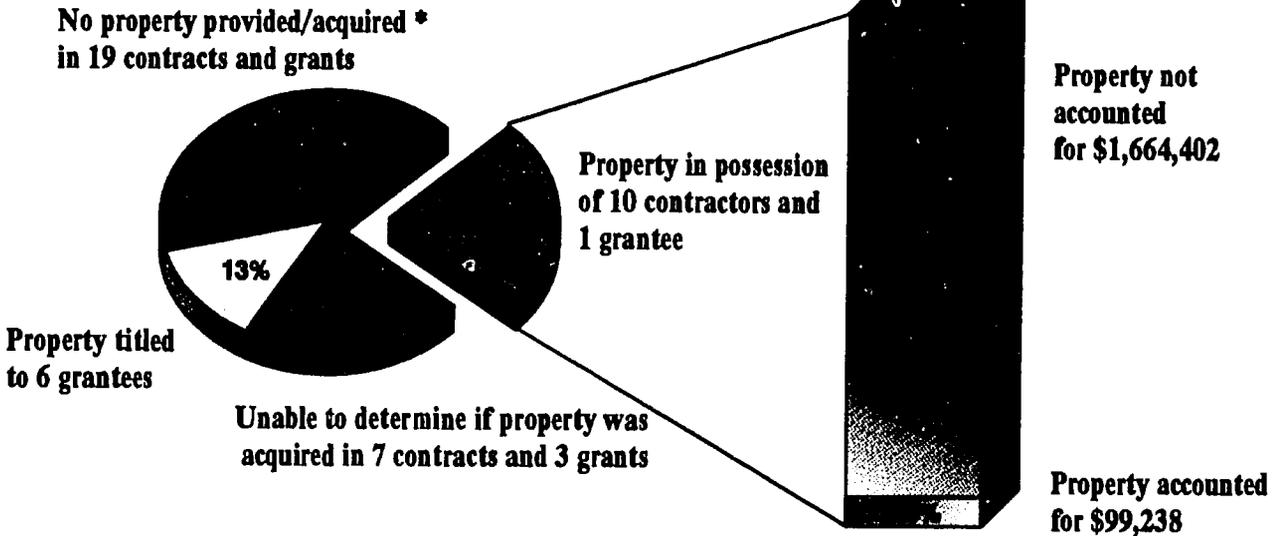
- (1) unaccounted nonexpendable property in the custody of former contractors;
- (2) unliquidated obligations; and
- (3) payments for unauthorized services and ineligible costs because audits are not completed.

Each of these problems is discussed in the following subsections.

#### **Accountability for USAID-funded Nonexpendable Property Needs Improvement**

The lack of adequate controls and records has prevented a satisfactory accounting of USAID-financed, nonexpendable property in the custody of contractors under expired contracts. Of the 46 contracts reviewed, available documentation indicated that 11 had such property totaling approximately \$1.8 million of which about \$1.7 million had not been adequately accounted for and disposed of. For another 10 contracts, we were unable to determine whether USAID-funded property was procured because of lack of documentation.

[REDACTED]



**\*Based on information available at the time of the audit.**

FAR 4.804-5 and OMB Circular A-110 require that property be accounted for before a contract is closed out. To this end, USAID has included procedures to account for property in the possession of contractors in various procedural documents, including USAID Handbooks 13, 14 and 19, and CMAM No. 85-7. These procedures require a variety of parties to take actions to ensure property is being properly accounted for.

The process of accounting for property involves both Financial Management and Procurement. Financial Management is to maintain a general ledger account for USAID-owned property in the possession of contractors and to compare that data with annual property inventory reports submitted by the contractors to the Office of Procurement. These procedures are not being followed. Financial Management is aware of the problem with USAID-owned property in the possession of contractors and reported it as a deficiency in the Fiscal Year 1993 Federal Managers' Financial Integrity Act Report to the President and Congress. The Agency has established a target date of Fiscal Year 1995 for correcting this deficiency.

Even though Financial Management has not implemented these procedures, Procurement is still responsible for ensuring property clearance is received and property is accounted for before a contract is closed out. USAID Handbooks 13 and 14 require that contractors account for USAID-funded nonexpendable property. This accounting is to

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be accomplished through annual inventory reports of U.S.-titled nonexpendable property acquired and disposed of under the contract. Another procedural document, CMAM 85-7, requires contracting officers to obtain a final inventory of U.S.-titled property from the contractor at the end of contract performance. Using these documents, Procurement has the means to account for property procured under the contracts.

We could not determine the number of expired contracts which had USAID-funded property in custody of the contractors or the quantity and value of such property because USAID had no records showing property assigned to or procured by contractors or their disposal when the contract was completed. This deficiency occurred because of inadequate monitoring by USAID contracting, financial and/or project officials. In ten cases, the contracts required annual inventory reports of nonexpendable property over \$500 to be submitted to USAID. However, only one such contractor complied with this requirement. Even in this case, we were unable to verify the accuracy of the reports.

Provided below are examples showing that contractors had USAID-funded property in their custody at the end of the contract, property which USAID had not assured had been properly accounted for and disposed of:

- One USAID-direct contract purchased nonexpendable property totaling about \$252,000. The contractor provided us copies of inventory reports previously submitted to USAID. We could not locate these documents in USAID's contract files and the project files were not available since they had been retired. When the contract was completed, the contractor submitted a final inventory of equipment in its possession totaling \$49,158. However, the Closeout Branch did not confirm that inventory records furnished by the contractor were complete and up-to-date and that all equipment purchased under the contract was properly disposed of. As a result, USAID had no knowledge of the final disposition of the remaining \$202,842 nonexpendable equipment procured under the contract.
- On another USAID-direct contract which expired in May 1990, the contractor stated in its final inventory report that all nonexpendable equipment totaling \$88,166 was transferred to another government contract. However, we could not find documentation in either the contract or the project files showing this transfer.

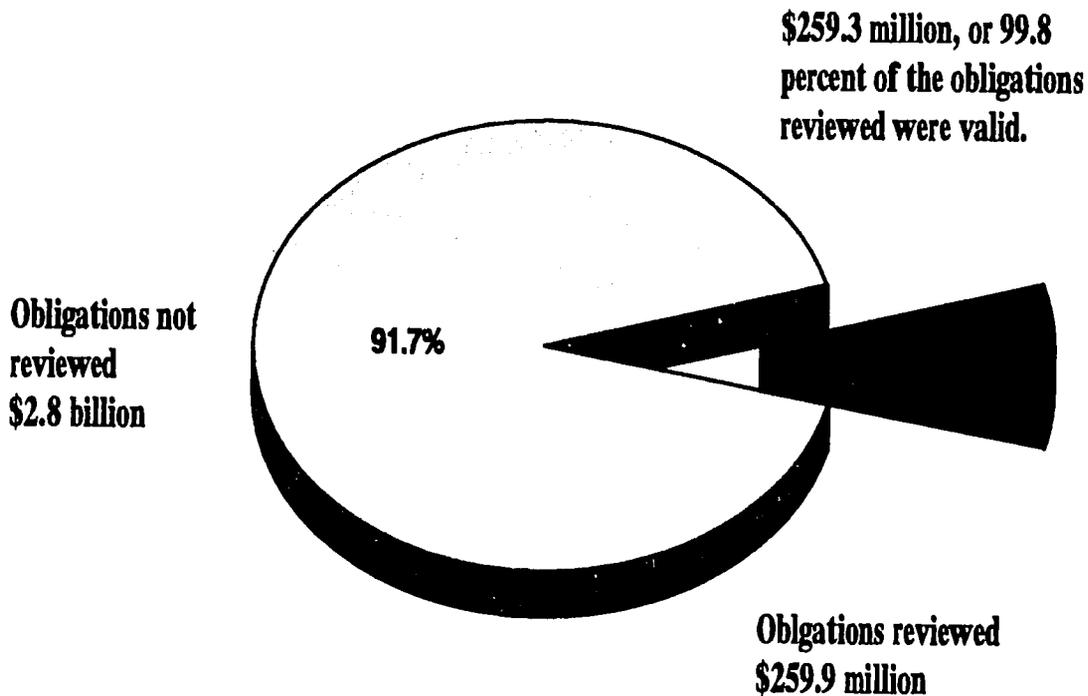
Property accountability problems were highlighted in a January 1990 General Accounting Office audit report which recommended that the Agency develop an inventory of USAID-owned and cooperating country-titled nonexpendable property in the possession of contractors. However, USAID had not implemented procedures to address the problems. To ensure nonexpendable property is properly accounted for when a contract is completed, Procurement must ensure:

- (1) records of their procurement and disposal are maintained until the contract is closed out;
- (2) property is periodically inventoried and reconciled; and
- (3) required annual inventory reports are submitted to USAID by the contractor.

**Excess Funds Need to be Deobligated**

As described earlier, USAID/Washington has made substantial progress in deobligating excess funds for expired contracts. Nevertheless, of the approximately \$260 million obligated under the 46 contracts in our sample, \$597,308 under 22 contracts remained unliquidated.

**Summary of Obligations Examined**



USAID Handbook 19 (Chapter 2 and Appendix 1A) prescribes that controllers, in coordination with other USAID offices, continuously review unliquidated obligations and promptly deobligate or reprogram excess funds. As part of the contract closeout process for USAID-direct contracts, CMAM No. 85-7 requires that final vouchers be obtained from the contractor and all unused funds be deobligated.

Our audit showed that although funds were being deobligated for most expired contracts, \$597,308 involving 22 contracts had not been liquidated (see Appendix IV), primarily because of significant delays in requesting and obtaining financial information. For example, the Closeout Branch did not request information from Financial Management and the contractors for periods ranging from about two months to almost three years after contract completion. In 14 cases, requests were never sent. Following up on requests for information was also a problem because follow-up requests were sent by the Closeout Branch from one month to two years after the initial requests.

One official involved with the closing out of contracts stated that they experienced great difficulty in obtaining the necessary information from the paying office and contractors. Their records showed that repeated requests to the above parties frequently elicited no response. We noted cases where the paying offices took as long as three years to respond and contractors delayed providing information by up to 26 months. In six cases, requested information was never provided by the contractors.

While we were not able to independently verify the accuracy of information regarding the repeated requests to the paying offices shown in the Closeout Branch records, it is apparent that there are communication problems between the Closeout Branch and the paying office/contractors which have delayed timely deobligation of excess funds.

This problem has recently been addressed. Since September 1993, Financial Management and Procurement have held several meetings to solve problems with the closeout process. Also, Financial Management has implemented procedures designed to ensure that information requested by the Closeout Branch is provided in a timely manner. We believe that these procedures will facilitate completion of one of the key requirements in the contract closeout process--deobligation of excess funds.

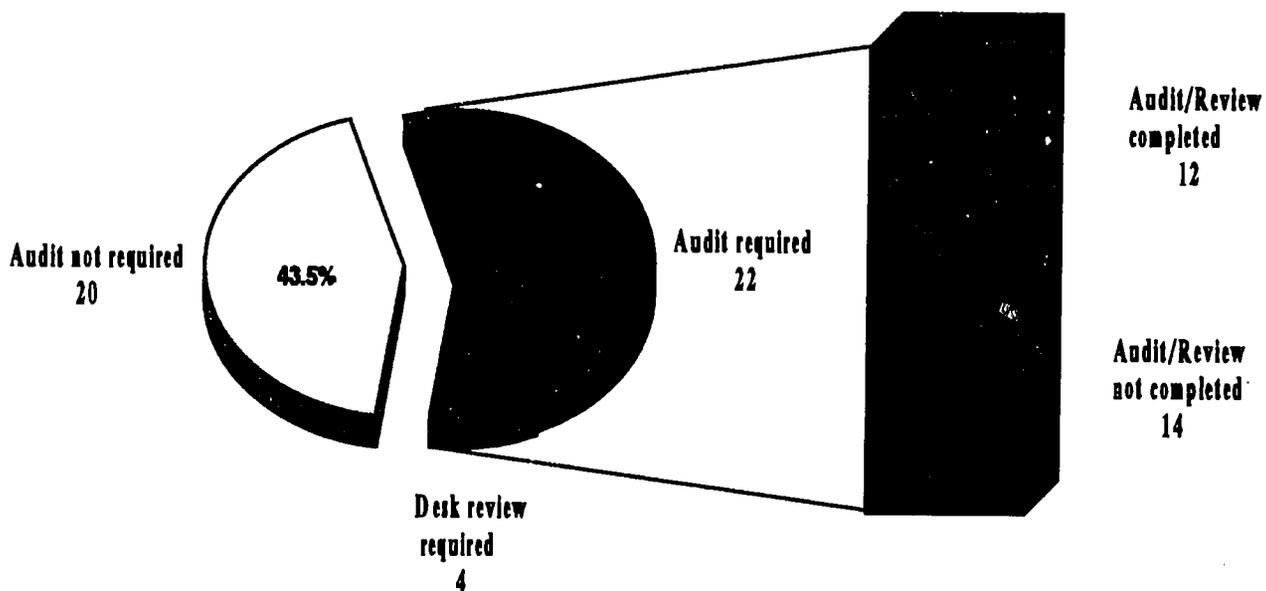
In addition to problems in obtaining needed financial information, funds on nine contracts could not be deobligated because required contractor audits had not been performed. This deficiency is addressed in the following problem area.

**USAID/Washington Requested Required Audits  
but the Requests Were Not Always Timely**

Contractor audits and desk reviews were not completed in a timely manner. Of the 46 expired contracts and grants reviewed, 22 required contractor audits and 4 required desk

reviews before the contracts could be closed out. Twenty-one of the required audits were requested by Procurement; however, only 11 audits and 1 desk review were completed (see Appendix V).

## Status of Audit Requirements



FAR and CMAM No. 85-7 require that an audit be performed of cost-reimbursable USAID-direct contracts that have a total estimated cost in excess of \$500,000. For contracts with costs up to \$500,000, desk reviews should be done to determine whether the amounts claimed are acceptable and in conformity with cost reimbursement principles. Notwithstanding the audit threshold amount, the contracting officer may at his discretion request an audit if he deems it necessary.

Closeout audits of USAID contracts and grants are not performed for individual contracts, except in unusual circumstances. Rather, such audits are integrated into other ongoing or scheduled audits of contractors under the single-audit concept. This concept assures that audits of contractors and grantees are conducted for specific periods of time and then used as a basis for determining if contract closeout requirements were met.

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However, audits required for closing out 11 of 22 contracts were not completed because in four instances the Closeout Branch did not promptly request them, in five instances cognizant audit organizations delayed the completion of audits, and in one instance Procurement had not requested the audit. In the eleventh case, Procurement was determining whether it would be cost beneficial to do the audit. Desk reviews were not performed because various other required actions preceding a desk review were not completed. Examples of these problems are discussed below:

- Contractor audits were not promptly requested for 4 of the 22 contracts requiring audit coverage in order to effect closeout. For example, the audit for one contract completed in December 1988 was not requested until February 1994 (subsequent to our field work).
- Desk reviews were not conducted for 3 of the 4 contracts with obligations under \$500,000. For example, one cooperative agreement was awarded in September 1989 and expired about one year later. Although the Closeout Branch requested information from the contractor and the project officer in 1991, responses were not received and the Closeout Branch did not follow up to obtain the information.

In January 1994, USAID and the Defense Contract Audit Agency established a sub-office dedicated to USAID audits. This measure, combined with recent centralization of contract audit responsibilities within USAID, should provide greater control to ensure the timely completion of audits. Because of this action, we are not making any recommendations regarding the completion of contractor audits.

### Management Comments and Our Evaluation

The Office of Procurement agreed with the findings and recommendations and initiated corrective actions.

Recommendation No. 1.1 is resolved. Procurement agreed with the need for better and appropriate disposition of U.S.-titled nonexpendable property and began to develop the procedures necessary to provide that assurance. The recommendation will be closed when Procurement completes those procedures and accounts for the property listed in Appendix III.

Recommendation No. 1.2 is resolved. With respect to validating unliquidated obligations, Procurement said that the procedures for timely closeout and validation of contracts/grants have been in place for some time. They plan to revise those procedures to incorporate needed changes. The recommendation will be closed when Procurement

completes the revised procedures and validates or deobligates the unliquidated obligations listed in Appendix IV.

Procurement added, however, that there are no procedures that will make closeout problems go away completely. Instead, the assurance of timely closeout actions is contingent on instituting and enforcing discipline on the staff involved in contract administration, technical monitoring and financial management functions associated with the processing and closing out of contracts/grants.

Procurement interpreted Recommendation No. 2, which was to determine the resources needed to ensure timely and efficient contract closeouts, to apply to only staff resources. In reality, the recommendation encompasses all resources, including financial, which need not necessarily include staff. Notwithstanding, Procurement stated that additional staff are needed. It plans to determine the exact number of people needed to perform the closeout function and present this information to the new Director of Procurement for review. This recommendation is resolved and will be closed when the Director of Procurement reviews and acts on Procurement's determination of resource requirements.

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## SCOPE AND METHODOLOGY

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### Scope

We audited USAID/Washington's management of the contract (including grants and cooperative agreements) closeout process in accordance with generally accepted government auditing standards. We conducted the audit field work in Washington, D.C. from September 7 through December 30, 1993, and covered the USAID/Washington Office of Procurement's compliance with Federal regulations and USAID policies and procedures regarding close out of expired contracts.

We used the computer-processed data contained in USAID's Contract Information Management System (CIMS) as of March 31, 1993 to determine the universe of contracts awarded by USAID/Washington and to select a judgmental sample of contracts for testing. CIMS showed that there were 2,580 USAID/Washington expired contracts valued at approximately \$3.1 billion.

Of these, we selected a sample of 46 contracts and grants with obligations totaling approximately \$260 million. We examined the internal controls the Agency used to identify expired contracts and to obtain the information needed to close out such contracts in performing the audit. We also considered prior audits of USAID closeout procedures conducted between 1985 and 1991 by the USAID Office of the Inspector General and the U.S. General Accounting Office. The audit focused on three major areas of the closeout process to determine whether USAID complied with Agency and Federal requirements in closing out expired contracts:

- (1) accounting for USAID-funded property and equipment in the possession of contractors;
- (2) deobligating excess funds; and
- (3) performing required audits.

We relied on computer-processed data contained in CIMS to answer the audit objective. We used CIMS data to establish our universe because it is the system used by USAID to manage information on contract activity. We did not establish the reliability of this data because the preciseness of the detailed data contained in the system was not important to answering our audit objective. The audit also did not assess whether all contract terms and conditions were met.

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## **Methodology**

Our audit objective was to determine whether Procurement followed USAID policies and procedures and applicable Federal regulations in closing out expired contracts. To accomplish this objective, we obtained from the CIMS database a listing of USAID/Washington contracts with estimated completion dates prior to April 1, 1993. To test the contract closeout process, we judgmentally selected 46 contracts with a total obligation of about \$260 million, or 8 percent of the amount obligated for all USAID/Washington expired contracts. We also judgmentally selected 9 contracts which had been closed out during the period April 1991 through March 1993 and determined whether they had been closed in accordance with Agency and Federal requirements. Our detailed tests focused on three major areas of the closeout process (described in the Scope section) and included reviewing contract, financial and project files. Finally, we interviewed procurement, financial management and project officials as well as the technical services contractor, who assisted Procurement in implementing the closeout function.

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MANAGEMENT COMMENTS



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

MAY 16 1984

MEMORANDUM

TO: IG/A/PSA, Toby L. Jarman  
FROM: A-M/OP, James D. Murphy *James D. Murphy*  
SUBJECT: Draft Audit Report entitled USAID/Washington's Closeout  
Procedures for Expired USAID Contracts, Grants and  
Cooperative Agreements

We appreciate this opportunity to review the subject draft report and address the recommendations.

Recommendation No. 1: It is recommended that the Director of the Office of Procurement develop a plan to assure timely closeout action with respect to (1.1) accounting for and disposing of U.S.-titled nonexpendable property, including approximately \$1.7 million of such property listed in Appendix III to the draft report and (1.2) validate or deobligate unliquidated obligations, including \$507,308 for contracts listed in Appendix IV to the draft report.

Comment 1.1: With respect to the plan to assure timely closeout action relative to accounting for and disposing of U.S.-titled nonexpendable property this office agrees with the recommendation and plans to issue procedures on this subject. We agree with the need for better and appropriate disposition of such property, and have commenced to develop the required procedures necessary to provide that assurance. We expect to have these procedures completed in the near future.

Comment 1.2 With respect to validating unliquidated obligations, the procedures for timely closeout and validation of contracts/grants have been in place for some time. These procedures will be revised and reflected in a new OPAM which will be rewritten and rescued to incorporate the needed changes. However, there are no modifications to the current procedures that will make the current closeout problems go away completely. The assurance of timely closeout actions to produce the desired validation of unliquidated obligations is contingent upon instituting and enforcing discipline on the USAID staff members involved in the contract administration, technical monitoring and financial management functions associated with the processing and closeout of contracts/grants.

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## MANAGEMENT COMMENTS

-2-

Recommendation No. 2: Resources needed to assure timely and efficient closeouts.

Comment 2 : We concur in the need for additional staff to ensure that timely and efficient closeout can be accomplished. The exact number of people needed to perform this function will be reviewed by the new Director of Procurement after his arrival for duty in M/OP.

Actions Planned or Already Taken to Implement the Recommendations are as follows:

1. "M" Account Actions -- Since the beginning of fiscal year 1994, instruments designated as "M" accounts have been located in a separate file area in the contractor closeout facility, and are worked daily. We anticipate closeout of all identified "M" account actions by September 30, 1994.
2. Suspense System -- This system in the computer is fully operational and is more flexible in suspense date selection. Follow up dates are entered into the system for correspondence or other matters requiring timely response and further action. The suspense system is used by the two people currently working at the contractor's facility. However it should be noted that the suspense system, in order to make a quick and significant reduction in the closeout backlog, will require additional personnel at the contractor closeout facility.
3. Separate listing of audits requested for closeouts. This listing will be maintained current at all times and will be used in conjunction with, when applicable, requests to contractors with respect to rate package submission for audit or A-133 audit submissions. This process is done in conjunction with the new contract audit management branch (M/OP/PS/CAM) in M/OP.
4. Monthly, or more frequently if necessary, submissions are made to M/FM of lists of contracts/grants lacking expenditure and deobligation information.
5. A complete inventory of all files awaiting closeout is maintained current at the contractor closeout facility.

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APPENDIX III

**STATUS OF NONEXPENDABLE PROPERTY PROCURED UNDER  
EXPIRED CONTRACTS/GRANTS TESTED**

<u>Contract/Grant No.</u>	<u>Estimated Value of Property</u>	<u>Property Not Accounted For</u>	<u>Property Accounted For</u>
DPE-1018-C-00-5063	\$252,500	\$203,342	\$49,158
DAN-1090-C-00-5124	11,436		11,436
DPE-3023-C-00-4083	435,362	435,362	
DPE-5542-G-SS-7058	64,850	64,850	
DPE-5927-C-00-5068	698,171	698,171	
DPE-0453-C-00-3051	88,166	88,166	
DPE-3031-C-00-4084	27,283	27,283	
AFR-0958-C-00-5008	53,175	14,531	38,644
OTR-0000-C-00-6108	111,743	111,743	
EUR-0014-C-00-1003	13,961	13,961	
AFR-0517-C-00-7035	7,023	7,023	
	_____	_____	_____
TOTAL	<u>\$1,763,670</u>	<u>\$1,664,432</u>	<u>\$99,238</u>

NOTES

1. Of the 46 expired contracts/grants in our sample, we were able to reasonably determine from the information made available to us that 11 contracts/grants listed above had nonexpendable property in custody of contractors.
2. The amounts shown above are based on our review of USAID contract and financial records as well as contractor files which were not audited.

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**STATUS OF OBLIGATIONS FOR EXPIRED  
CONTRACTS/GRANTS TESTED**

<u>Contract/Grant No.</u>	<u>Amount Obligated</u>	<u>Amount to be Deobligated</u>	<u>Amount to be Validated</u>
DPE-1018-C-00-5063	\$18,549,551	\$27,117	-
DAN-1090-C-00-5124	5,586,298	-	\$129,501
DPE-3023-C-00-4083	20,768,475	-	100,595
AFR-0453-A-00-3063	21,270,693	-	16,439
NEB-0000-A-00-4112	427,246	826	-
DPE-5542-G-SS-7058	121,966	-	-
DPE-3030-A-00-4049	15,137,895	-	-
OTR-0250-C-00-7237	3,302,538	-	-
DPE-5927-C-00-5068	17,972,710	-	112,811
DAN-1254-G-SS-5065	14,700,002	1	-
PDC-0107-C-00-0102	110,048	-	-
DAN-0054-G-SS-5043	18,455,000	-	-
OTR-0293-A-00-7143	1,916,000	-	-
DPE-0453-C-00-3051	5,092,047	4,575	-
DPE-3031-C-00-4084	5,970,417	-	17,559
ANE-0249-C-00-1053	98,532	-	49,266
COM-0152-C-00-1021	71,689	-	-
AFR-0958-C-00-5008	1,087,436	-	14,045
ANE-0090-I-00-8009	0	-	-
ANE-0305-C-00-7027	918,373	-	-
PDC-0000-G-SS-7068	1,500,855	-	-
PDC-0701-G-SS-5127	1,973,869	1	-
PDC-0004-G-SS-0048	1,029,000	-	-
DPE-3035-C-00-0049	5,941,321	-	-
OTR-0230-A-00-9169	150,000	-	-
LAC-0000-O-00-2002	9,682	-	-
DHR-5728-O-00-1022	9,975	-	63

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**STATUS OF OBLIGATIONS FOR EXPIRED  
CONTRACTS/GRANTS TESTED**

LAC-0000-O-00-1048	2,565	-	155
OTR-0000-O-00-7207	103,506	-	-
DPE-0955-A-00-3005	91,813,591	-	48,912
COM-0485-C-00-0011	*	*	*
PDC-0262-I-00-7150	*	*	*
PDC-0262-I-00-7150	44,425	-	-
PDC-0262-I-00-7150	26,580	-	-
PDC-5517-I-00-7137	30,282	-	5,805
PDC-5517-I-00-7137	183,252	-	3,854
PDC-5517-I-00-7137	10,429	106	-
PDC-5517-I-00-7137	295,229	-	11,961
PDC-5517-I-00-7137	-	-	-
DAN-5053-G-SS-6026	100,000	-	-
OTR-0000-C-00-6108	627,373	-	6,156
PDC-C001-C-00-6172	659,172	-	33,959
PDC-0001-C-00-6078	710,045	-	13,601
CCP-0421-C-00-2009	771,600	-	-
EUR-0014-C-00-1003	393,840	-	-
AFR-0517-C-00-7035	1,935,314	-	-
<b>Total</b>	<b><u>\$259,878,821</u></b>	<b><u>\$32,626</u></b>	<b><u>\$564,682</u></b>

Total to be  
validated/deobligated: \$597,308

**NOTES**

1. We were unable to determine the amounts obligated for the above two contracts with asterisks because the required financial information was not available.
2. The above information was obtained from USAID financial and contract records which were not audited.

3. Each of the delivery orders numbered PDC-2062-I-00-7150 and PDC-5517-I-00-7137 is treated as a fixed-price contract in accordance with Contract Management Administrative Memorandum No. 85-7.
-

**STATUS OF REQUIRED AUDITS FOR EXPIRED  
CONTRACTS/GRANTS TESTED**

<u>Contract/Grant No.</u>	<u>Audits Required</u>	<u>Audits Requested</u>	<u>Audits Completed</u>
DPE-1018-C-00-5063	Yes	Yes	Yes
DAN-1090-C-00-5124	Yes	Yes	No
DPE-3023-C-00-4083	Yes	Yes	No
AFR-0453-A-00-3063	Yes	Yes	Yes
NEB-0000-A-00-4112	*No	-	-
DPE-5542-G-SS-7058	*No	-	-
DPE-3030-A-00-4049	Yes	Yes	Yes
OTR-0250-C-00-7237	Yes	Yes	No
DPE-5927-C-00-5068	Yes	Yes	No
DAN-1254-G-SS-5065	Yes	Yes	Yes
PDC-0107-C-00-0102	No	-	-
DAN-0054-G-SS-5043	No	-	-
OTR-0293-A-00-7143	Yes	Yes	Yes
DPE-0453-C-00-3051	Yes	No	No
DPE-3031-C-00-4084	Yes	Yes	No
ANE-0249-C-00-1053	No	-	-
COM-0152-C-00-1021	No	-	-
AFR-0958-C-00-5008	Yes	Yes	Yes
ANE-0090-I-00-8009	No	-	-
ANE-0305-C-00-7027	Yes	Yes	Yes
PDC-0000-G-SS-7068	Yes	Yes	Yes
PDC-0701-G-SS-5127	Yes	Yes	No
PDC-0004-G-SS-0048	Yes	Yes	Yes
DPE-3035-C-00-0049	Yes	Yes	Yes
OTR-0230-A-00-9169	*No	-	-
LAC-0000-O-00-2002	No	-	-
DHR-5728-O-00-1022	No	-	-

**STATUS OF REQUIRED AUDITS FOR EXPIRED  
CONTRACTS/GRANTS TESTED**

<u>Contract/Grant No.</u>	<u>Audits Required</u>	<u>Audits Requested</u>	<u>Audits Completed</u>
LAC-0000-O-00-1048	No	-	-
OTR-0000-O-00-7207	No	-	-
DPE-0955-A-00-3005	Yes	Yes	Yes
COM-0485-C-00-0011	No	-	-
PDC-0262-I-00-7150	No	-	-
PDC-0262-I-00-7150	No	-	-
PDC-0262-I-00-7150	No	-	-
PDC-5517-I-00-7137	No	-	-
PDC-5517-I-00-7137	No	-	-
PDC-5517-I-00-7137	No	-	-
PDC-5517-I-00-7137	No	-	-
PDC-5517-I-00-7137	No	-	-
DAN-5053-G-SS-6026	*No	-	-
OTR-0000-C-00-6108	Yes	Yes	No
PDC-0001-C-00-6172	Yes	Yes	No
PDC-0001-C-00-6078	Yes	Yes	No
CCP-0421-C-00-2009	No	-	-
EUR-0014-C-00-1003	No	-	-
AFR-0517-C-00-7035	Yes	Yes	No
Total (Yes)	<u>22</u>	<u>21</u>	<u>11</u>

**NOTES**

1. The four grants and cooperative agreements shown above with asterisks required desk audits, of which only one was completed.
2. The above information was obtained from USAID contract/grant files which were not audited.

3. Each of the delivery orders numbered PDC-2062-I-00-7150 and PDC-5517-I-00-7137 is treated as a fixed-price contract in accordance with Contract Management Administrative Memorandum No. 85-7.
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APPENDIX VI

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