PD-ABM-441

USAID

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT

CAIRO, EGYPT

January 30, 1996

MEMORANDUM

TO : Director USAID/Egypt, John R. Westley

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

SUBJECT: Audit of USAID/Egypt's Management of Funds Available for Operating Expenses

This is our report on the subject audit. We considered your comments on the draft report and included them in Appendix III. The report contains two recommendations, both of which are closed upon report issuance.

We appreciate the cooperation and assistance provided to the auditors on this assignment and your timely response to the audit's recommendations.

Background

USAID/Egypt receives separate budget allowances to cover its operating expenses. Operating expenses for USAID/Egypt have averaged $13.5 million per annum over the past five years.

There are currently two sources of operating expense funds at USAID/Egypt: (1) U.S. dollar funds provided by annual appropriations and (2) local currency "trust funds" generated from USAID cash transfer and commodity import programs. These local currencies can be used, by mutual agreement with the Government of Egypt, to support the Mission's operations. Using local currency trust funds for operating expenses helps reduce the Mission's requirements for appropriated dollars.

Audit Objective

This audit is part of a worldwide audit to determine if USAID effectively manages funds available for operating expenses. The objective of this audit is to answer the following question: Does USAID/Egypt effectively manage funds available for operating expenses? In answering this audit objective we restricted the audit to an examination of two areas: (1) the extent to which the Mission used alternative sources of funding for operating expenses and (2) whether unliquidated dollar obligations at September 30, 1995 were still needed. Appendix I contains a discussion of the scope and methodology for the audit.

Audit Findings

Our answer to the following audit objective is qualified to the extent of the effect, if any, of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I discusses this qualification.

Does USAID/Egypt Effectively Manage Funds Available for Operating Expenses?

With respect to the first area we examined, USAID/Egypt has done a good job of using alternative sources of funding—specifically, local currency trust funds—to reduce its requirements for appropriated dollar funds. Regarding the second area we examined, although USAID/Egypt generally followed procedures for reviewing the validity of dollar obligations for operating expenses, $929,918 of the $3.1 million in unliquidated obligations at the end of fiscal year 1995 were no longer needed for the purposes for which the funds were originally obligated.[1]

In recent years USAID/Egypt has substantially increased its use of local currency trust funds for operating expense needs (see graph on next page). According to Mission records, the percentage of Mission operating expenses provided by local currency trust funds has increased from 56 percent in fiscal year 1991 to 79 percent in fiscal year 1995. This represents a sizeable increase in local currency use when compared to the 27 percent rate reported for USAID/Egypt by the General Accounting Office for fiscal year 1987.[2] This increased use of local currency has helped the Mission reduce its requirements for appropriated dollar operating expense funds from $4.8 million in 1991 to $3.2 million in 1995.

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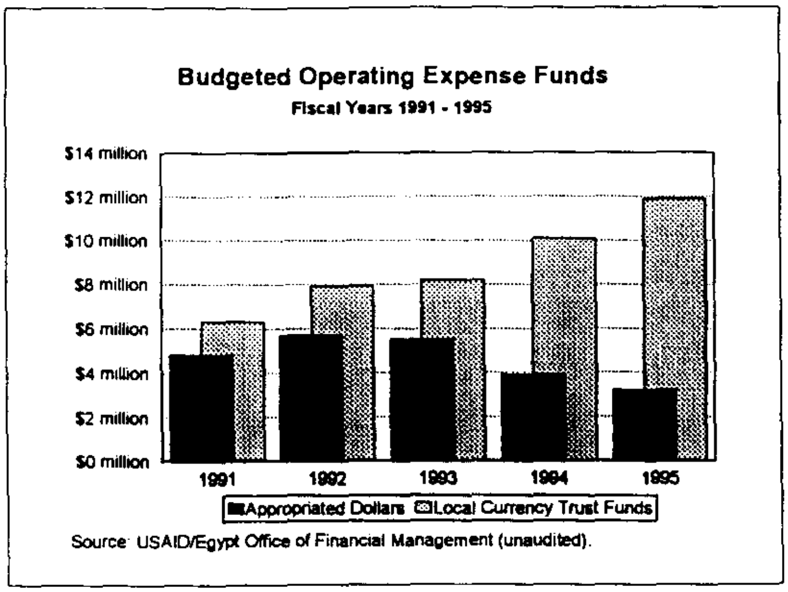
[1] The $929,918 includes $447,273 deobligated by the Mission in November 1995 after the audit began, plus $482,645 recommended for deobligation by the audit.

[2] "Foreign Aid, Use of Local Currencies for AID's Operating Costs," United States General Accounting Office, GAO/NSIAD-89-07, October 1988.



USAID/Egypt generally followed required procedures for the review of operating expense unliquidated obligations for U.S. dollar funds for fiscal year 1995. Specifically, USAID/Egypt:

- carried out continuous reviews of operating expense obligations throughout the year, performed a more intensive review in the fourth quarter of the fiscal year, and performed a final review of unliquidated obligations at the end of the fiscal year;

- certified, as required, that year-end obligations were valid; and

- as the result of its reviews throughout the year, deobligated funds when it found they were no longer necessary.

Nevertheless, substantial amounts certified at year end as being valid were no longer needed for the purposes for which they were originally obligated and should have been deobligated earlier.

USAID/Egypt Needs to Improve Its Reviews of Unliquidated Obligations

Federal Law and USAID procedures require that unliquidated obligations be reviewed periodically to identify funds which need to be deobligated. Part of this review includes a special year-end certification that all unliquidated obligations are valid. Accordingly, USAID/Egypt certified at fiscal year end in September 1995 that $3.1 million in operating expense obligations were valid. However, $929,918 of these obligations subsequently proved to be in excess of needs, i.e., not needed for the purposes for which the obligations were originally made (The audit recommends that $482,645 be deobligated, the balance having been deobligated by the Mission in November 1995). These unneeded funds were not identified earlier mainly because the analyses which supported the year-end certification were not done in as thorough a fashion as they should have been and because insufficient information on certain freight charges was provided to the Mission. As a result, substantial sums which could have been promptly deobligated and made available for other purposes were not identified in a timely fashion.

> **<u>Recommendation No. 1</u>: We recommend that USAID/Egypt deobligate $482,645 in operating expense obligations which our audit found to be no longer needed.**
>
> **<u>Recommendation No. 2</u>: We recommend that USAID/Egypt provide training to staff responsible for conducting reviews of unliquidated obligations and provide for substantive involvement by supervisors in the review process to ensure that analyses performed provide a reasonable basis for conclusions regarding the validity of unliquidated obligations.**

Discussion

Federal Law and USAID procedures require that unliquidated obligations be reviewed periodically to identify funds which need to be deobligated.[3] This review process (commonly known as a "Section 1311" review) includes a special year-end certification that all obligations are valid. Accordingly, USAID/Egypt certified at fiscal year end in September 1995 that $3.1 million in operating expense obligations were valid. These included funds that were obligated during the preceding five fiscal years.

However, $929,918 (or about 30 percent) of these $3.1 million in unliquidated obligations subsequently proved to be in excess of needs, i.e., not needed for the purposes for which the obligations were originally made. After the fiscal year-end Section 1311 review, the Mission performed a more detailed review which led to the deobligation in November 1995 of $447,273 of funds which were no longer needed. In addition, this audit identified $482,645 more in operating expense obligations which were not needed. (See Appendix II.)

Unneeded funds were not identified earlier because of the following factors:

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[3] Review requirements are discussed in Section 1311 of the Supplemental Appropriations Act of 1955 (Title 31 U.S. Code Sections 1108, 1501, and 1502) and in USAID Financial Management Bulletin, Part II, No. 14A.

- Agency guidance requires that payment files be examined during Section 1311 reviews. However, personnel performing these reviews did not normally examine invoices and other supporting documentation in the payment files to determine the nature of the charges already received and paid. Therefore, they frequently did not have enough information to determine whether any additional charges were still outstanding. (An exception is that voucher examiners involved in the November 1995 review did check these files.)

- Supervisory personnel responsible for Section 1311 reviews did not review the work of their staff members closely enough to determine whether the analyses performed by the staff provided a reasonable basis for deciding whether obligations were still needed.

- Operating expense accounting staff believed that it was impossible, or nearly impossible, to analyze freight charges to determine whether the corresponding obligation was still needed—a belief which the audit found to be not entirely justified. Therefore, in performing Section 1311 reviews which support the year-end certification, they routinely kept obligations for freight open for several years to provide a measure of assurance that all charges had been received before they deobligated funds.

- Freight expenses from the U.S. Despatch Agent in New York are billed to USAID/Washington and then charged to the Mission through an advice of charge (AOC). However, the advices of charge are frequently not received by the Mission until up to two or three years after freight expenses are incurred. Also, freight expenses from the U.S. European Logistical Support Office in Belgium are charged to the Mission on Form 1221 payment schedules. However, since the payment schedules do not indicate what was shipped, or the shipping point and destination, it is hard to tell what has been paid for and whether any further charges will be forthcoming.

As a concrete example of the uncertainty involving freight costs, the Mission pointed out that it had unexpectedly received two AOCs totaling $109,346, of which $67,053 was for freight charges on furniture—an amount three times what the Mission had obligated for this purpose. The Mission was therefore forced to use other unneeded obligations to pay for the shortfall and is therefore hesitant to aggressively deobligate funds, as other such unexpected freight charges may turn up. (Both the Mission and we have doubts about whether the charges in this case are appropriate, and we are referring them to the Inspector General's Headquarters Liaison and Coordination Office for possible follow-up.) Nevertheless, we believe that in doing analyses of unliquidated obligations for freight charges, a residual amount can be left for just such uncertainties—while deobligating the rest. In our analysis of unliquidated obligations we followed this practice with good effect: notably, none of the charges in the two AOCs just discussed were for items for which the audit recommended deobligation.

In Conclusion - As pointed out in the Agency's guidance on the review of unliquidated obligations, a careful review of unliquidated obligations strengthens financial internal controls by deleting from the accounting system obligations that are no longer required for future payments—thereby precluding fraudulent disbursements against open, but dormant and invalid obligation accounts. In addition, timely deobligation makes unneeded funds available for other purposes. In the current case, substantial sums which could have been more promptly deobligated were not identified in a timely fashion.

In response to the audit (and while the audit was in process), USAID/Egypt took several actions and planned others to improve the Section 1311 review process. For example, the Office of Financial Management was preparing a standard form which voucher examiners would use to alert accountants when obligations are no longer needed. In addition, the Office prepared a checklist for use by voucher examiners which would facilitate reviews of freight charges in the future. Also, the Office has conducted the first in a series of training seminars for voucher examiners and accountants designed to improve the analysis of unliquidated obligations for freight charges. These steps, in conjunction with close supervision of the review process, should help ensure that funds which are no longer needed are promptly deobligated.

Management Comments and Our Evaluation

USAID/Egypt agreed with and implemented both report recommendations. The Mission deobligated $482,645 in operating expense obligations per Recommendation No. 1. Per Recommendation No. 2 the Mission has already conducted one formal training session on the Section 1311 review process (with more training planned), and has implemented formal procedures which require methodical and frequent Section 1311 reviews. These procedures also require close oversight of the process by cognizant supervisors.

Both recommendations are therefore closed upon report issuance.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's management of funds available for operating expenses in accordance with generally accepted government auditing standards as part of an Office of Inspector General worldwide audit. These standards require auditors to obtain written representations from management when they deem them useful. The Office of Inspector General deems such representations necessary to support potentially positive findings. USAID/Egypt's Director provided us with a management representation letter for the audit that contained essential assertions about the activities we audited. However, USAID/Egypt officials directly responsible for these activities did not provide written representations. Therefore, our answer to the audit objective is qualified to the extent of the effect, if any, of not having such assertions.

We conducted the audit from October 31, 1995 to December 20, 1995 and reviewed USAID/Egypt's procedures relating to its reviews of unliquidated obligations for fiscal year 1995 for both dollar and local currency operating expenses funds.

We audited all U.S. dollar unliquidated obligations at September 30, 1995 for fiscal years 1991 through 1994, as well as a random sample of 100 out of the 265 open obligations for fiscal year 1995—except that we did not review amounts disbursed by USAID/Egypt during the audit or the Mission's support for the amounts it deobligated after the audit began. Unliquidated obligations reviewed by the audit totaled $1.5 million for fiscal years 1991 through 1994, and $350,000 for the 100 items included in our sample of fiscal year 1995 unliquidated obligations. We limited our conclusions to items tested; we did not project the results of our tests to the universe of all unliquidated obligations.

For local currency trust funds, our work was mostly limited to identifying the balance of unliquidated obligations as of September 30, 1995 and obtaining historical information on the use of trust funds to pay operating expenses.

Methodology

We performed audit work at USAID/Egypt's Office of Financial Management, interviewed officials from various sections of that office and from other USAID/Egypt offices as appropriate, and assessed management controls over operating expense unliquidated obligations.

To determine the validity of U. S. dollar unliquidated obligations for operating expenses, we obtained computer-generated reports from USAID/Egypt's Mission Accounting and Control System. For each unliquidated obligation reviewed, we compared amounts in summary printouts to detailed transaction information in liquidation printouts. We then traced the detailed transaction information in the liquidation printouts to hardcopy documents in the Mission's payment files. We analyzed the payment files to see what charges the obligating documents authorized, to check whether services or items ordered were received, and to determine whether the transaction was complete and whether any further charges might be expected. Based on these analyses, we either concluded that the unliquidated obligations were valid, or recommended full or partial deobligation.

Unliquidated Obligations at September 30, 1995 for USAID/Egypt and Amounts Deobligated or Recommended for Deobligation During the Audit

(for U.S. Dollar Operating Expense Funds)

Fiscal Year of Oblig.	Unliquidated Obligations at 9/30/95	Deobligated by USAID/Egypt in November 1995	Recommended for Deobligation by Auditors	Total Deobligations
1991	$124,623	$ 79,724	$ 764	$ 80,488
1992	317,720	124,379	71,825	196,204
1993	487,333	156,166	155,687	311,853
1994	562,896	36,682	235,970	272,652
1995	1,578,742	50,322	18,399	68,721
Totals	$3,071,314	$ 447,273	$482,645	$929,918

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM January 18, 1996

RECEIVED
18 JAN 1996

TO: Lou Mundy, RIG/A/C

FROM: John R. Westley, DIR

SUBJECT: Audit of USAID/Egypt's Management of Funds Available for Operating Expenses - Draft Report dated December 28, 1995

We have reviewed the subject draft report and agree with the recommendations. The Mission has already taken the necessary actions to improve the Section 1311 Review process. Accordingly, we request both recommendations be closed upon issuance of the final report.

Recommendation No.1: **We recommend that USAID/Egypt deobligate $482,645 in operating expense obligations which our audit found to be no longer needed.**

USAID/Egypt has deobligated $482,645 on December 12, 1995. A copy of the Journal Vouchers (JVs) recording the deobligation have been forwarded to RIG/A/C.

Based on the above, Mission requests closure of Recommendation No. 1.

Recommendation No. 2: **We recommend that USAID/Egypt provide training to staff responsible for conducting reviews of unliquidated obligations and provide for substantive involvement by supervisors in the review process to ensure that analyses performed provide a reasonable basis for conclusions regarding the validity of unliquidated obligations.**

As part of the FM/FO continuing professional education program, the Mission has conducted a formal training session on the Section 1311 review process, and will continue to have such sessions in the future as deemed necessary to ensure continued understanding of the process by the staff. A copy of the training announcement has been forwarded to RIG/A/C.

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Effective, January 1996, the Mission has implemented formal procedures which require O.E. accountants to perform methodical and frequent Section 1311 reviews. The procedures also require close supervision of the process by the cognizant supervisors. A copy of the procedures with accompanying check list has been forwarded to RIG/A/C.

Based on the above, Mission requests closure of Recommendation No. 2.

Regional Inspector General for Audit, Cairo, Egypt

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Ahmed Gamal-Eldin, Sr. Auditor
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