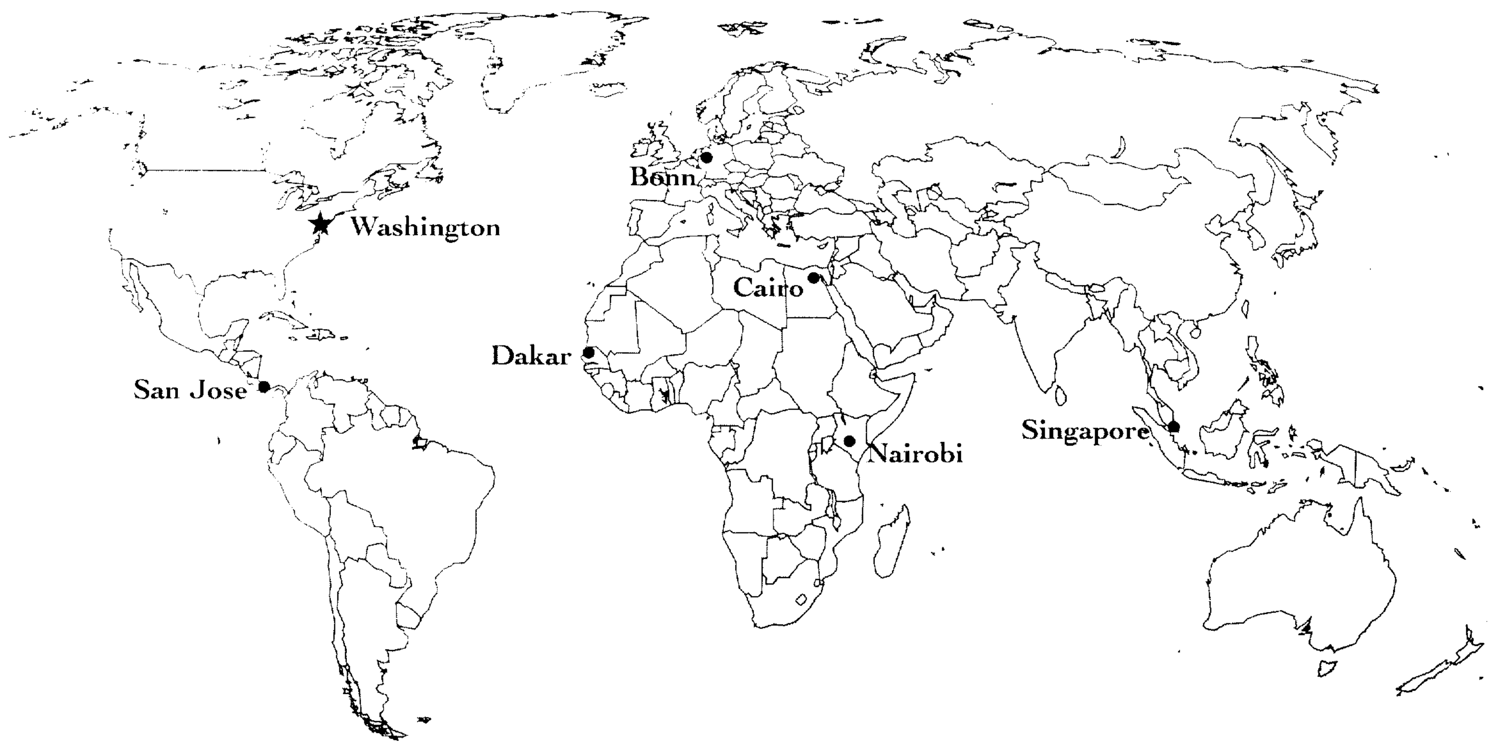
Regional Inspector General
San Salvador, El Salvador

Audit of USAID/Costa Rica's Management of Funds Available for Operating Expenses

Audit Report No. 1-515-96-001
April 17, 1996



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April 17, 1996

MEMORANDUM

To: Director USAID/Costa Rica, Richard W. Whelden

From: RIG/San Salvador, Wayne J. Watson

Subject: Audit of USAID/Costa Rica's Management of Funds Available for Operating Expenses

The Regional Inspector General for Audit/San Salvador has completed its audit of USAID/Costa Rica's management of funds available for operating expenses. The audit objective was to determine whether USAID/Costa Rica effectively managed funds available for operating expenses.

The audit disclosed that USAID/Costa Rica has done an excellent job of using local currency trust funds to reduce its requirements for appropriated dollar funds. The audit also found that USAID/Costa Rica generally followed procedures for reviewing the validity of dollar obligations for operating expenses and in most cases identified unliquidated obligations which could be deobligated. For the small percentage of unliquidated obligations that were unneeded as of September 30, 1995, the Mission deobligated them after the audit began. Also, for a small percentage of unliquidated obligations that remained at September 30, 1995 due to liquidations charged to the incorrect fiscal year, the Mission transferred these to the correct fiscal year before the end of the audit. As a result of these transactions, and the fact that the Mission will be closing in fiscal year 1996, this memorandum audit report contains no recommendations.

USAID/Costa Rica generally agreed with the audit report except for the issue pertaining to Mission's procedures involving freight charges. Your comments to our draft report are included as Appendix II of this report. Since this memorandum audit report contains no recommendations, there is no further action required on the part of USAID/Costa Rica.

I appreciate the cooperation and assistance that you and your staff provided to the auditors during this assignment.

Background

USAID/Costa Rica receives separate budget allowances to cover its operating expenses which were budgeted at $2.7 million and $2.5 million for fiscal years 1994 and 1995 respectively.

There are currently three sources of operating expense funds at USAID/Costa Rica: (1) U.S. dollar funds provided by annual appropriations, (2) local currency "trust funds" generated from USAID cash transfers, and (3) other sources of operating expense funding defined in this case as voluntary separation pay funds. Local currency can be used, by mutual agreement with the Government of Costa Rica, to support the Mission's operations. Using local currency trust funds for operating expenses helps reduce the Mission's requirements for appropriated dollars. Voluntary separation pay is funded from both U.S. dollar appropriations and local currency trust funds and is used under certain circumstances for voluntary separation payments to foreign service national employees when leaving USAID employment.

USAID/Costa Rica is scheduled to be closed prior to September 30, 1996 at which time accounting control will be transferred to USAID/El Salvador. The remaining balance in the local currency trust fund account at that time will revert to the Government of Costa Rica to be used for mutually agreed-upon purposes. The unliquidated obligation for the voluntary separation payments will be entirely liquidated to pay severance benefits under the local compensation plan when the Mission closes.

Audit Objective

This audit is part of a worldwide audit to determine if USAID effectively manages funds available for operating expenses. The objective of the present audit is to answer the following question: Does USAID/Costa Rica 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 from the operating expense appropriation at September 30, 1995 were still needed. Appendix I contains a discussion of the scope and methodology for the audit.

Audit Findings

Does USAID/Costa Rica effectively manage funds available for operating expenses?

With respect to the first area we examined, USAID/Costa Rica has done an excellent 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, USAID/Costa Rica generally followed procedures for reviewing the validity of dollar obligations for operating expenses and in most cases identified unliquidated obligations which could be deobligated; however, $8,523 of the $225,000 in unliquidated obligations at the end of fiscal year 1995 were no longer needed for the purposes for which the funds were originally obligated, and $8,922 in fiscal year 1994 obligations remained unliquidated because expenditures were charged to the wrong fiscal year unliquidated obligation.[1]

USAID/Costa Rica has continued to make substantial use of local currency trust funds for operating expense needs. According to Mission records, the percentage of Mission operating expenses provided by local currency trust funds was 81 percent in fiscal year 1995. This represents approximately the same level of local currency use when compared to the 87 percent rate reported for USAID/Costa Rica by the General Accounting Office for fiscal year 1986.[2] For 1987, local currency use was reported by the General Accounting Office at about 90 percent; however, this figure included significant one-time capital expenditures of $10.2 million including the construction of the USAID complex and is not representative of normal operating expense budget requirements. This extensive use of local currency has helped the Mission reduce its requirements for appropriated dollar operating expense funds to $485,000 in 1995.

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

- 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 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, a small percentage of unliquidated obligations certified at year end as being valid was no longer needed for the purposes for which the obligations were originally made and should have been deobligated earlier, and a small percentage was not liquidated due to expenditures charged to the wrong fiscal year.

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[1] The entire $8,523 was deobligated by the Mission after September 30, 1995 after the audit began. The audit does not recommend additional amounts for deobligations.

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

USAID/Costa Rica 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/Costa Rica certified at fiscal year end in September 1995 that $225,000 in U.S. dollar operating expense unliquidated obligations were valid. However, $8,523 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 does not recommend additional deobligations, the invalid amounts having been deobligated by the Mission in the period October 1995 to February 1996). These unneeded funds were not identified earlier because: (1) the analyses which supported the year-end certification were not done as thoroughly as they should have been, and (2) documentation was insufficient for certain freight charges. As a result, a small percentage of unliquidated obligations, which could have been promptly deobligated and made available for other purposes, was not identified in a timely fashion. Additionally, $8,922 of fiscal year 1994 unliquidated obligations were not liquidated because expenditures were incorrectly charged to fiscal year 1995 unliquidated obligations. As a result, fiscal year 1994 unliquidated obligations were overstated while fiscal year 1995 unliquidated obligations were understated.

Because the Mission has already deobligated the amounts determined to be invalid at September 30, 1995 and transferred the unliquidated obligations that were determined to be mistakenly charged, to the correct fiscal year, we are not making any recommendations concerning additional deobligations.

Also, since the Mission will be closing prior to the end of fiscal year 1996 and accounting control will be transferred to USAID/El Salvador for the remaining unliquidated obligations, we are not making any procedural recommendations.

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/Costa Rica certified at fiscal year end in September 1995 that $225,000 in U.S. dollar operating expense obligations were valid. These included funds that were obligated during the preceding fiscal year 1994.

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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.

USAID/Costa Rica generally followed procedures for reviewing the validity of dollar obligations for operating expenses and in most cases identified unliquidated obligations which could be deobligated. However, $8,523 (or about four percent) of these $225,000 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. Additionally, $8,922 (about four percent) of fiscal year 1994 unliquidated obligations were not liquidated when expenditures were incorrectly charged to fiscal year 1995 unliquidated obligations. After the fiscal year-end Section 1311 review, the Mission performed a more detailed review of several unliquidated obligations which led to the deobligation after September 30, 1995 of the $8,523 of funds which were no longer needed. The Mission also transferred the $8,922 which was charged to the wrong fiscal year to place these unliquidated obligations in the correct fiscal year. This audit did not identify any additional operating expense unliquidated obligations which were not needed. (See Appendix III)

Unneeded and incorrectly charged unliquidated obligations were not identified at the time of certification by the Mission because of the following factors:

- Agency guidance requires that payment files be examined during Section 1311 reviews and that the reviews be thoroughly documented with work papers which would allow a reviewer to conclude that a thorough review of each unliquidated obligation was conducted. However, personnel performing these reviews did not always examine invoices, vouchers and other supporting documentation in the payment files to determine the nature of the charges already received and paid as required by USAID regulations. Nor did they document their work performed with adequate workpapers to support the findings and conclusions of the review. In one sample item, personnel did not make sufficient inquiries and examine source documents to determine the status of an unliquidated obligation in performing the year-end review which supported the certification. Therefore, they did not have enough information to determine that no additional charges were still outstanding and that the unliquidated obligation was invalid.

- Freight expenses are usually 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 in a timely manner by the Mission after freight expenses are incurred. Therefore, in performing Section 1311 reviews which support the year-end certification, operating expense accounting staff routinely kept an obligation for freight open to provide a measure of assurance that all charges had been received before they deobligated funds. However, they had no documentation to support the unliquidated obligation for freight charges and had no degree of certainty that the obligation was either accurately estimated or even needed, i.e., personnel had not met the requirements of at least one of the nine Section 1311 criteria for incurring obligations.

- To protect funding from expiring and reverting to the U.S. Treasury, USAID regulations require that incrementally funded activities be disbursed on a "first-in, first-out" (FIFO) basis. In two sample items, expenditures were made against fiscal year 1995 unliquidated obligations when they should have been expended against remaining fiscal year 1994 unliquidated obligations. In performing Section 1311 reviews which supported the year-end certification, personnel did not review documentation supporting these unliquidated obligations thoroughly enough to realize that expenditures were charged against the wrong fiscal year.

In Conclusion - As set forth 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 erroneous or fraudulent disbursements against unliquidated, but invalid obligations. In addition, timely deobligation of unneeded funds makes these funds available for other purposes. Also, charging incremental program or project expenditures to unliquidated obligations on a FIFO basis helps to ensure that Agency funding will not expire and revert to the U.S. Treasury. In this case, a small percentage of unliquidated obligations, which could have been more promptly deobligated, was not identified in a timely fashion, and a small amount of expenditures were charged against unliquidated obligations in the incorrect fiscal year.

In response to the audit and the pending closure of the Mission, USAID/Costa Rica has already taken several actions to identify any remaining invalid unliquidated obligations before the Mission closes. These steps, in conjunction with close supervision of the review process, should ensure that funds which are no longer needed are promptly deobligated and that only valid obligations will remain upon the transfer of the accounting function to USAID/El Salvador.

Management Comments and Our Evaluation

USAID/Costa Rica generally agreed with the audit report, except that it believed that it is frequently difficult, and maybe impossible, to track shipping costs that are billed through the US Despatch Agents. USAID/Costa Rica believes that it is easier to obligate estimated shipping costs on one miscellaneous obligation because US Despatch Agents combine shipments and allocate costs between shipments and do not always identify charges by the obligating document number. USAID/Costa Rica's comments are included in their entirety in Appendix II of this report.

RIG/San Salvador does not disagree with the use of a single obligation document for shipping charges. However, the Supplemental Appropriations Act of 1955, as amended, and USAID procedures require that "documentary evidence" be retained to support any obligation made against an appropriation. In the case with USAID/Costa Rica, the Mission had no documentary evidence that any shipping charges were outstanding, and therefore there was no evidence, nor basis, that the obligation for shipping charges was valid. RIG/San Salvador acknowledges that there are problems with billings from US Despatch Agents, but believes that Missions are capable of retaining sufficient documentation to support an estimate for these charges, and as a consequence, comply with Federal law and USAID policies and procedures.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Costa Rica'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. We conducted the audit from November 3, 1995 to February 16, 1996 and reviewed USAID/Costa Rica's procedures relating to its reviews of unliquidated obligations during fiscal year 1995 for U.S. dollar operating expenses funds.

We audited all U.S. dollar unliquidated obligations at September 30, 1995 for fiscal year 1994, as well as a judgmental sample of 26 out of the 51 unliquidated obligations for fiscal year 1995—except that we did not review amounts disbursed by USAID/Costa Rica during the audit or the Mission's support for the amounts it deobligated after the audit began. Unliquidated obligations reviewed during the audit totaled $33,000 for fiscal year 1994, and $180,000 for the 26 items included in our sample of fiscal year 1995 unliquidated obligations. This sample represented approximately 95 percent of total unliquidated obligations for both fiscal years 1994 and 1995 that were reported at September 30, 1995. There were no unliquidated obligations prior to fiscal year 1994. We limited our conclusions to items tested; we did not project the results of our tests to the universe of all unliquidated obligations. We did not attempt to verify the overall reliability of the computer-generated data in USAID/Costa Rica's Mission Accounting and Control System which was used to identify unliquidated obligations as well as the transactions affecting these obligations.

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

For voluntary separation pay funds, our work consisted of reviewing deposits made to the trust fund for each fiscal year from 1992 when the program was established through 1995.

Methodology

We performed audit work at USAID/Costa Rica's Office of Financial Management, interviewed officials from various sections of that office and from other USAID/Costa Rica 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/Costa Rica'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 selected transaction information in the liquidation printouts to the obligating documents to determine if the amounts paid were authorized by the obligating document. When necessary, we determined whether services or items ordered were received, 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.

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Date: March 27, 1996

To: Mr. Wayne J. Watson, RIG/San Salvador

From: Richard Whelden, USAID/Costa Rica Rich Whelden

Subject: Audit of USAID/Costa Rica's Management of Funds Available for Operating Expenses

Thank you for the generally favorable report on USAID Costa/Rica's management of funds available for operating expenses. We appreciate the collaborative approach of your auditors and their professionalism.

As noted in the report any corrective actions have been taken and therefore there are no recommendations.

There is one area in the report concerning adequate support for obligation of freight charges where our opinion differs from that of the auditors. We believe that any obligations for freight costs are estimates and that our methodology is both efficient and provides adequate control over these costs.

When the items are being shipped directly from the supplier it is appropriate to include those estimated shipping costs in the purchase order/contract and to liquidate them based on the invoice. There is no disagreement on this. However, where items are being shipped through the US Despatch Agents it is frequently difficult, if not impossible, to track these costs on a purchase order/contract basis. This is true for two reasons: 1) the US Despatch Agents (USDA's) frequently combine shipments and then do a cost allocation, and 2) the costs are identified by appropriation and seldom by obligating document number. There are significant delays in receiving charges from the USDA's, making it difficult to estimate what is outstanding at any one time. It is much easier to obligate these estimated shipping costs in one miscellaneous obligation and liquidate them as charges are received. It also facilitates the Section 1311 review.

We appreciate the auditors' assistance in the review and found it to be an excellent double check of the accounts before we transfer them to El Salvador. We are continuing the process on a monthly basis during the Mission close-out process.

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

(for U.S. Dollar Operating Expense Funds)

Fiscal Year of Oblig.	Unliquidated Obligations at Sept. 30, 95	Unneeded Funds Deobligated by USAID/CR Oct. 95 to Feb. 96	Transferred from Fiscal Year 1994 to Fiscal Year 1995	Recommended for Deobligation by Audit	Total
1994	$ 33,187	$8,523	$8,922	$0	$ 17,445
1995	191,792	0	-8,922	0	-8,922
Totals	$224,979	$8,523	$ 0	$0	$ 8,523