

**Regional Inspector General for Audit
Dakar**

**Audit of
USAID/Morocco's Management of Funds
Available for Operating Expenses**

**Audit Report No. 7-608-96-004
May 6, 1996**

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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May 6, 1996

MEMORANDUM

TO: USAID/Morocco Director, Michael Farbman
Walter E. Shephard for
FROM: RIG/Dakar, Thomas B. Anklewich
SUBJECT: Audit of USAID/Morocco's Management of Funds Available
for Operating Expenses, Audit Report No. 7-608-96-004

This memorandum is our report on the "Audit of USAID/Morocco's Management of Funds Available for Operating Expenses." Report No. 7-608-96-004. We considered your comments to the draft report and have included them as Appendix II.

The audit found that USAID/Morocco effectively managed its unliquidated operating expenses and did not maintain excess or unnecessary levels of operating expense funds. We found only a minor amount of funds obligated on the books and records of USAID/Morocco without valid purposes, and accordingly there are no recommendations for the mission to respond to.

I appreciate the cooperation extended to my staff during the audit.

Background

The United States Agency for International Development (USAID) receives a separate appropriation to cover its annual operating expenses (OE). Operating expenses represent salaries, benefits, and support costs of all U.S. and foreign national personnel. Support costs include allowances, travel and transportation, housing and office expenses. Funding sources for operating expenses include appropriated funds, revolving funds of the Housing Investment Guarantee activity, and local currency trust funds.

The usage and availability of these annual operating expenses are governed by Section 1311 of the Supplemental Appropriations Act of 1955 as amended, and are covered in more detail by (1) USAID Handbook 19 Chapter 2 (Operating Expenses), (2) USAID Financial Management Bulletin Part 2, No. 14A (Obligation Reviews at Missions), (3) USAID Handbook 19 Chapter 11 (Local Currency Trust Funds, Housing Investment Guarantee activities), (4) USAID/Morocco Mission Order Number 1215 (Mission Review of Unliquidated Obligations), (5) Mission Order Number 102 (Organization and Functional Operations), and (6) the Privatization Sector Assistance Agreement Amendment Number One (Local Trust Fund Agreement).

According to Section 1311 of the Supplemental Appropriations Act of 1995, as amended, a periodic review of unliquidated obligations is required to determine whether obligations continue to remain valid. The act indicates that if obligations do not continue to remain valid, that the funds should be deobligated in a timely manner. USAID has established a policy regarding 1311 reviews which requires that: (1) a continuous review of unliquidated obligations for both current and prior year funds should occur throughout the year; (2) a year-end review of the system should occur; (3) the obligation and liquidation records should be examined by USAID financial staff in coordination with the officer responsible for budgeting and using the funds; and (4) a set of workpapers should be maintained to document the reviews. USAID/Morocco's Mission Order on 1311 reviews restates the requirements of Section 1311 contained in the 1955 Supplemental Appropriations Act and specifies the duties of Mission personnel in these reviews.

For fiscal years 1991 through 1995, USAID/Morocco obligated \$15,281,337 in operating expense funds. Of this total \$14,247,637 were USAID/Morocco mission operating expense funds, \$333,700 were Regional Housing and Urban Development Office/Morocco (RHUDO/Morocco) operating expense funds, and \$700,000 were the dollar equivalent of local currency trust funds. On September 30, 1995, \$1,070,926 of this amount remained unliquidated and accordingly was recorded on the accounting records of USAID/Morocco as valid obligations. (See Appendix III). These unliquidated obligations, USAID/Morocco's written procedures and actual practices relating to them were the subject of the audit.

In recent years, OE annual appropriations have come under intense scrutiny as part of Congressional and Administration efforts to reduce federal costs. As part of its effort to effectively manage these funds, USAID/Morocco undergoes a 1311 review of its obligations every three months or four times a year.

USAID estimates that its fiscal year (FY) 1996 OE appropriations will be reduced to \$495 million as a consequence of the increased Congressional and Administration scrutiny. As a result of lower funding levels, USAID decided to close various overseas missions and offices and to reduce overseas staff levels.

As part of its FY 1996 Audit Plan, the Office of the Inspector General initiated a review of USAID's OE funds to determine if USAID missions and offices ensured that funds available to them for operating expenses did not exceed required needs. In support of this objective, RIG/A/Dakar initiated its review of unliquidated obligations at USAID/Morocco.

Audit Objective

This audit was performed as part of a worldwide Office of the Inspector General (OIG) audit effort. The audit was designed to answer the following objective:

- **Did USAID/Morocco Perform Unliquidated Operating Expense Obligation Reviews in Accordance with USAID Policy and Procedures?**

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

Audit Findings

USAID/Morocco effectively managed its unliquidated operating expense obligations and did not maintain excess or unnecessary levels of operating expense funds. At the time of our review in February 1996, we found only \$722 in funds, pertaining to one FY 1994 obligation, on the books and records of USAID/Morocco without valid purposes.

We reviewed 103 unliquidated obligations totalling \$248,923 that appeared on USAID/Morocco's accounting records as of September 30, 1995. (See Appendix IV). Seven of these obligations pertained to FY 1994 and the other 96 to FY 1995. All but one of these items had either been deobligated or expended at the time of our review in February 1996 or continued to remain as valid unliquidated items.

We grouped these unliquidated obligations into six different categories indicating what actions had happened to them between September 30, 1995 and the date of our review in February 1996 as follows:

- One FY 1994 obligation was excessive, however, the Mission had already deobligated \$4,038 of the \$4,760 excessive amount;
- Forty-eight items totalling \$94,179, which were unliquidated as of September 30, 1995, were deobligated by the time of our review in February 1996;
- Five unliquidated obligations totalling \$18,567, were awaiting Advices-of-Charge from either USAID/Washington or USAID/Senegal and were therefore considered valid;
- Twenty-three items totalling \$98,200 were awaiting additional invoices, and therefore considered valid;
- Twenty-five items totalling \$32,917, which were unliquidated as of September 30, 1995, were paid and liquidated by the time of our review in February 1996; and
- Finally, one item totalling \$300, which was unliquidated as of September 30, 1995, had been cancelled by the time of our review and was deobligated.

Appendix IV contains a detailed summary of the results of our sample review of unliquidated obligations.

USAID/Morocco did not have excessive unliquidated obligations because Mission officials had undertaken a number of prudent actions as discussed below.

- Mission personnel had conducted effective quarterly reviews of unliquidated obligations. These quarterly reviews were more frequent than the required semiannual reviews as specified in USAID Financial Management Bulletin Part II, No. 14A (Obligation Reviews at Missions);
- USAID/Morocco had requested and received the temporary duty services of a USAID/Washington Financial Management employee to investigate, research, and eliminate all of its old questionable prior year's obligations. This individual was able to resolve all of those old questionable items;

- As of September 30, 1995, there were no unliquidated obligations on the books and records of USAID/Morocco for fiscal years 1991, 1992, or 1993, the first three years of the audit period under review. The lack of unliquidated obligations from these earlier years indicated to us that USAID/Morocco had spent the time necessary to perform effective 1311 reviews in researching, expending and or eliminating all such items. This was true for both USAID/Morocco OE funds and RHUDO/Morocco OE funds, which were the two sources of operating expense funds for Mission operations during these fiscal years;
- A total of \$48,415 of FY 1994 USAID/Morocco OE funds remained unliquidated as of September 30, 1995. This was all that remained from original obligations for this fiscal year totalling \$2,527,514 or 1.9 percent of these original obligations. We reviewed all of these obligations and found that six of the seven remaining obligations were valid, and should be retained on USAID/Morocco's books and records. Only \$722 pertaining to the excess obligation of \$4,760 still remained on the accounting records and the Mission was in the process of deobligating this item when our review ended;
- A total of \$980,377 of FY 1995 USAID/Morocco OE funds remained unliquidated as of September 30, 1995. This was what remained from original obligations of \$2,902,300 for this fiscal year. At the time of our review most of these items were less than six months old. We concluded that these obligations were still valid and should remain on the accounting records as valid obligations;
- All local currency trust funds had been obligated and expended as of September 30, 1995. These trust funds totalled \$505,000 equivalent for FY 1994 and \$195,000 equivalent for FY 1995. They were mostly used to pay the salaries, benefits, and support costs of local national employees of USAID/Morocco in accordance with the local currency trust fund agreement; and
- All RHUDO/Morocco OE funds had been either expended or deobligated for fiscal years 1991, 1992, 1993, and 1994. For FY 1995 obligations, \$42,134 remained which we concluded were valid and should remain on USAID/Morocco's records as valid obligations;

Finally, USAID/Morocco took aggressive actions to implement USAID policy stated in USAID Financial Management Bulletin No. 5, Local Currency Trust Funds, and USAID Handbook 19 Chapter 11 to identify alternative available sources and levels of funds to augment scarce operating expense funds as indicated below:

- USAID/Morocco officials obtained the agreement of Government of Morocco officials to provide local currency trust funds (\$700,000 equivalent for FY 1994 and 1995) to help operate the Mission as an outflow of the Private Sector Assistance Agreement;
 - USAID/Morocco officials were resourceful and prudent in obtaining more than \$333,700 in OE funding from the RHUDO/Morocco office occupying a portion of the office space at the USAID/Morocco mission; and
 - USAID/Morocco officials funded the salaries, benefits, and support costs of four employees at the Mission from associated program funds.
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SCOPE AND METHODOLOGY

Scope

The Office of the Regional Inspector General for Audit (RIG), Dakar audited USAID/Morocco's Management of Funds Available for Operating Expenses (OE) in accordance with generally accepted government auditing standards. Performed during the period January 16 to February 29, 1996, at USAID/Morocco, the audit reviewed open unliquidated obligations from a universe of items which were on the accounting records of USAID/Morocco as of September 30, 1995. The sample totalled \$248,923 of the \$1,070,926 total universe of unliquidated obligations. If any of the obligations were questionable or invalid, we evaluated the cause and made appropriate recommendations. We did not identify any prior audits of USAID/Morocco unliquidated obligations which would be relevant to this audit.

In answering the audit objective, we obtained documentary and testimonial evidence for USAID/Morocco; assessed internal controls; tested the reliability of computer-generated data and compliance with laws and regulations applicable to the objective; and verified evidence through examination of supporting documentation. We also received an acceptable representation letter from USAID/Morocco management confirming information essential to fully answer the audit objective and for assessing internal controls and compliance.

Methodology

The IG/A/Headquarters Liaison and Coordination Division consulted with USAID Financial Management officials in Washington, D.C. and identified \$174.8 million in operating expense funds which had not been liquidated and prepared a breakdown of these funds by headquarters and overseas missions. This information was obtained to assist various RIG offices in

determining whether Section 1311 reviews were performed according to Federal laws and regulations, and USAID policies and procedures.

We interviewed USAID/Morocco officials and reviewed Mission Accounting Control System (MACS) reports (primarily the E03B report dated September 30, 1995) and the latest internal control assessments. We:

- obtained a basic understanding of the Mission's budget execution system for OE including reporting and monitoring responsibilities;
- identified allocations of appropriated funds available for Mission use;
- evaluated the Section 1311 review process conducted on operating expense funds during fiscal year 1995;
- determined the criteria and extent of use of the local currency trust funds (used in 1994 and 1995), determined the amounts deobligated by the Mission during fiscal year 1995; and
- identified the amount of unliquidated obligations remaining at the end of the fiscal year.

After completing all of these audit steps, we concluded on the effectiveness of the Mission's Section 1311 review process as it related to their operating expense funds. We audited unliquidated operating expense obligations from fiscal years 1991 through 1995 that were present on the accounting records of USAID/Morocco as of September 30, 1995 as follows:

<u>Audit sample</u>		
<u>Fiscal year</u>	<u>No. of items</u>	<u>Dollar amount</u>
1991	0	0
1992	0	0
1993	0	0
1994	7	48,415
<u>1995</u>	<u>96</u>	<u>200,508</u>
Total	103 obligations	\$248,923

There were no unliquidated obligations to sample in fiscal years 1991, 1992, and 1993. We sampled 100 percent of the unliquidated operating expense obligations from fiscal year 1994, and 100 percent of 1995

obligations that had expiration dates no later than September 30, 1995. This methodology was used because older unliquidated obligations are of more questionable validity, and no obligations were selected whose period of validity expired in fiscal year 1996, because of the length of time that it generally takes to liquidate such items. (With this methodology, for 1995, the audit reviewed 96 items valued at \$200,508 out of a total Unliquidated Obligation Universe for 1995 of \$1,022,511).

We analyzed USAID/Morocco's operating expense obligations for the period October 1, 1990 through September 30, 1995 that were unliquidated as of September 30, 1995. The audit included an analysis of the Section 1311 review sheets as well as obligating documents, earmark or commitment documents, contracts, purchase orders, and invoices to determine whether unliquidated balances are valid, funds could be deobligated or decommitted, and if data in the MACS reports were accurate and updated.

During the review of USAID/Morocco's unliquidated obligations, we identified six root causes explaining why the items still remained obligated on USAID/Morocco's accounting records. These root causes are identified and explained in Appendix IV of this report.

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FOR RIG/A/DAKAR, THOMAS B. ANKLEWICH FROM
USAID/MOROCCO DIRECTOR, MICHAEL FARBMAN

E.O. 12958: N/A
SUBJECT: DRAFT AUDIT REPORT OF USAID/MOROCCO'S
MANAGEMENT OF FUNDS AVAILABLE FOR OPERATING
EXPENSES, AUDIT REPORT NO. 7-608-96-xxx

REF: DAKAR 02822

1. MISSION ACKNOWLEDGES RECEIPT OF SUBJECT DRAFT
AUDIT REPORT AND WOULD LIKE TO THANK MEMBERS OF THIS
AUDIT FOR THEIR JOINED EFFORTS SUBSTANTIATED IN
SUBJECT REPORT.
2. USAID/MOROCCO CONCURS ENTIRELY WITH ALL
RECOMMENDATIONS STATED AND HAS NO SPECIFIC COMMENTS ON
THIS DRAFT REPORT.
3. USAID/MOROCCO LOOKS FORWARD TO A CONTINUING
ASSISTANCE AND COOPERATION WITH THE IG SECTION.
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UNCLAS AIDAC FOR RIG/A/DAKAR USAID RABAT 02592

APPENDIX III**Universe of USAID/Morocco
Operating Expenses Obligations**

for Fiscal Years 1991 through 1995

Fiscal Years	Original RHUDO/OE Obligations	Unliquidated RHUDO/OE Obligations	Original Morocco/OE Obligations	Unliquidated Morocco/OE Obligations	Original Trust Funds Obligations	Unliquidated Trust Funds Obligations
1991	-0-	-0-	2,824,006	-0-	-0-	-0-
1992	49,967	-0-	2,854,598	-0-	-0-	-0-
1993	82,046	-0-	3,139,219	-0-	-0-	-0-
1994	78,387	-0-	2,527,514	48,415	505,000	-0-
1995	123,300	42,134	2,902,300	980,377	195,000	-0-
TOTAL	\$333,700	\$42,134	\$14,247,637	\$1,028,792	\$700,000	\$-0-

Sample of USAID/Morocco
Operating Expenses
Unliquidated Obligations Selected for Review

At September 30, 1995

Excessive Amount--Needs to be Deobligated

FY	DESIGNATION	Dollar Amount
1994	-1 Obligation which pertains to utilities-- electricity and water. Before our review was completed, all but \$722 had been deobligated and the Mission was taking action to deobligate this amount.	\$4,760.15

Amounts Already Deobligated at the Time of Review

FY	DESIGNATION	Dollar Amount
1994	-1 Obligation pertaining to a PSC contract; -3 obligations pertaining to post assignment freight; and -1 obligation related to a computer maintenance contract.	\$36,174.50
1995	-32 items pertaining to such items as furniture, equipment and vehicle repairs, residential rent, and residential maintenance. -10 items pertaining to in-country travel and travel to Washington, D.C. -1 item pertaining to French classes.	\$58,004.92

APPENDIX IV
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Items Awaiting Advice-of-Charge from USAID/Washington Which Are
Considered to be Valid Obligations

FY	DESIGNATION	Dollar Amount
1995	-2 items pertaining to auto spare parts. -1 item related to post assignment freight.	\$12,447.00

Items Awaiting Advice of Charge from USAID/Senegal, Considered
to be Valid Obligations

FY	DESIGNATION	Dollar Amount
1995	-2 items pertaining to a TDY performed by the Regional Legal Advisor based in Dakar.	\$6,120.00

Items Awaiting Additional Invoices, Considered
to be Valid Obligations

FY	DESIGNATION	Dollar Amount
1994	-1 item pertaining to purchase of vacuum cleaners.	\$7,480.00
1995	-8 items pertaining to such items as furniture, equipment and vehicle repairs, and residential maintenance. -14 items pertaining to freight charges and travel.	\$90,719.80

Items Paid/Liquidated at Time of Review

FY	DESIGNATION	Dollar Amount
1995	-20 items pertaining to office supplies, furniture and utilities. -5 items related to travel and freight.	\$32,916.50

Cancelled Obligation

FY	DESIGNATION	Dollar Amount
1995	-1 item pertaining to books for which the purchase was finally cancelled.	\$300.00

Totals	103 items sampled and reviewed	\$248,923
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