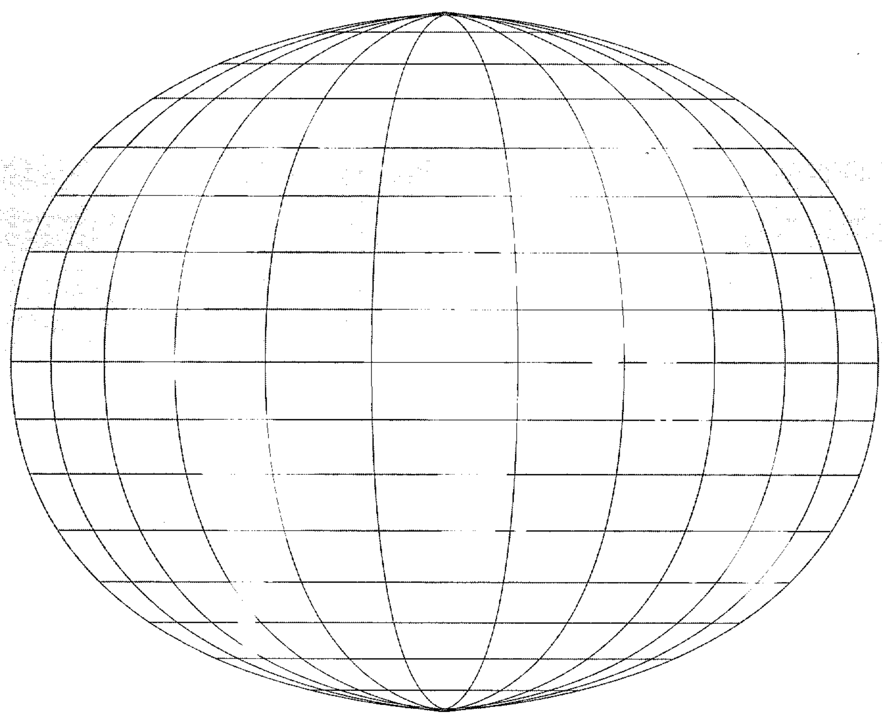
Report of Audit

Audit of USAID/Washington's Review and Certification of Funds Obligated for Operating Expenses

Audit Report No. A-000-97-001-P
February 7, 1997



OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. Agency for
International
Development

FEB 7 1997

To: M/FM/CONT, Tony L. Cully

Ted Alves

From: IG/A/ITSA, Theodore Alves

Subject: Audit of USAID/Washington's Review and Certification of Funds Obligated for Operating Expenses, Audit Report No. A-000-97-001-P

This memorandum is our report of the audit of USAID/Washington's Review and Certification of Funds Obligated for Operating Expenses. We considered your comments on the draft report and have included them in Appendix II.

This report contains four recommendations. Based on your comments and actions, we find that a management decision was made on Recommendations No. 1.1, 1.4, 3.1, and 4. In accordance with Agency guidance, please submit documentation on the final action taken on these recommendations to Bureau for Management, Management Innovation and Control Division (M/MPI/MIC). For Recommendations No. 1.2, 1.3, 2, and 3.2, please submit documentation to M/MPI/MIC when final action is taken.

I appreciate the cooperation and courtesies extended to the audit team during this audit.

Background

The U.S. Agency for International Development (USAID) is required by Federal law and Agency guidance to review its unliquidated obligations and certify to the U.S. Treasury at the end of each fiscal year that the obligations are valid and still needed. In a time of budget reductions, the need to ensure that funds are used effectively and safeguarded from misuse has become increasingly important. Deobligated funds become available to meet current funding needs, thereby reducing current year appropriation levels. The Inspector General initiated a series of audits to determine the status of Agency reviews of unliquidated obligations for operating expenses, note any noncompliance with existing procedures, and recommend action to improve the timeliness and efficiency of future reviews.

This audit reviewed the Agency's fiscal year 1995 certification of USAID/Washington's unliquidated operating expense (OE) obligations. The certification included about 4,500 obligations and $95 million. USAID's

Bureau for Management/Operating Expense Branch (M/FM/A/OE) and Bureau for Management/Loan Management Division (M/FM/LM) are responsible for reviewing USAID/Washington's unliquidated OE obligations. The Operating Expense Branch was responsible for reviewing more than 95 percent of USAID/Washington's unliquidated OE obligations and, therefore, was the focus of our work.

Audit Findings

Did USAID/Washington Review and Certify Funds Obligated for Operating Expenses in Accordance With Applicable Laws and Procedures?

We found that, contrary to Federal Law and Agency guidance, responsible USAID/Washington offices did not adequately review a significant number of unliquidated OE obligations for fiscal year 1995. We also found that the Agency's fiscal year 1995 certification of $23.8 million in needed OE unliquidated obligations included $1.24 million that could have been deobligated. This amounted to 9 percent of the $13.3 million of unliquidated obligations over $100,000 that we reviewed in detail.

Required reviews were not performed or documented for several reasons, primarily because insufficient staff was assigned to perform the reviews; supervision of the review process was inadequate; and the process was cumbersome and labor-intensive.

While M/FM/A/OE did not identify the $1.24 million in OE obligations that could have been deobligated, it did: (a) review and deobligate more than 500 prior-year obligations, totaling almost $7 million during fiscal year 1995; and (b) processed an undeterminable number of deobligations of current year funds.[1]

In the course of our review, several questionable practices not directly related to the audit objective came to our attention. These are also discussed on page nine under the heading Questionable Obligations and Payments Noted During the Audit.

Fiscal Year 1995 Certification Was
<u>Based on an Incomplete Review Process</u>

The Agency's fiscal year 1995 certifications to the validity of its USAID/Washington office unliquidated OE obligations was based on an incomplete review. As a result, the Agency certified the validity of the obligations without having adequately determined whether the obligations were valid and needed. The required reviews were not done for three major reasons. First, according to its supervisor, the group responsible for reviewing most USAID/Washington OE obligations lacked sufficient staff to perform the reviews in the labor-intensive manner prescribed by the Agency guidance. Second, inadequate supervision of the review process in M/FM/A/OE compounded the problems of staffing shortages. Third, the Agency's Controller had not redesigned the Agency's cumbersome processes for reviewing unliquidated obligations, even though he believed the process

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[1]The Agency's accounting system does not maintain a record of individual charges against current year obligations. Instead, it maintains the cumulative amount of each obligation. For that reason, M/FM/A was unable to calculate the number or amount of deobligations made in fiscal year 1995 against fiscal year 1995 obligations.

required a level of staff effort which was no longer necessary or realistic. To correct these problems, we make the following recommendation:

Recommendation No. 1: We recommend that M/FM/CONT:

1.1 redesign the process for Section 1311 reviews to be performed by accounting stations in USAID/Washington and issue appropriately revised guidance;

1.2 ensure adequate staffing and supervision for the Section 1311 review process in Bureau for Management Operating Branch and Loan Management Division;

1.3 ensure that Bureau for Management Accounting Division completes its management control and risk assessment of the Operating Expense Branch and takes action to correct any deficiencies noted; and

1.4 review and deobligate, as appropriate, any excess balances related to the obligations listed in Appendix III.

The Supplemental Appropriations Act of 1955, 31 U.S.C. 1501(a) provides criteria for recording obligations validly incurred in the course of government activity. In accordance with Federal law and U.S. Treasury regulation, USAID is required to certify annually to the U.S. Treasury that its unliquidated obligations meet these criteria. Determinations of validity are required to be based on careful reviews of unliquidated obligations. (The reviews are called "Section 1311 reviews," after the original 31 U.S.C. codification.)

In March 1994, Bureau for Management, Office of Financial Management (M/FM) issued guidance for the review of unliquidated obligations by accounting stations in Washington. It stated that M/FM/A/OE and M/FM/LM are responsible for reviewing unliquidated obligations for OE. The guidance requires that during the annual review process:

- each obligation be reviewed and a decision made as to whether the unliquidated balance should be deobligated or retained, and
- documentation of the review be retained for three years.

Bureau for Management Operating Branch analysts are responsible for the initial review of unliquidated obligations. They typically document the results of their reviews by annotating computer-generated lists of unliquidated obligations and/or by filling out computer-generated Section 1311 review worksheets—one worksheet for each obligation number. The lead accountant distributes the worksheets to analysts in the group with instructions that the completed worksheets should be returned to the lead accountant in approximately two weeks, with appropriate supporting documentation and recommendations for full, partial, or no deobligation of funds. If the lead accountant or Branch supervisor concurs with the analyst's recommendation for deobligation, the analyst is expected to complete the deobligation process. The review sheets with supervisory approval and deobligation documentations were to be stored in a file cabinet set aside for fiscal year 1995 deobligations.

M/FM/A/OE Did Not Perform or Document Reviews as Required

Although Agency guidance requires that each obligation be reviewed to determine whether its unliquidated balances should be deobligated or retained, we found that a large number of Section 1311 review worksheets, assigned between April and August 1995, had not been completed or returned to the lead accountant. The unfinished work included:

- 1,234 worksheets for fiscal year 1995 obligations with unliquidated balances totaling $22.2 million, and

- 528 worksheets for prior-year obligations with unliquidated balances totaling $11.7 million.

Although Agency guidance requires that reports be prepared to document whether unliquidated balances should be deobligated or retained, we found that the M/FM/A/OE Branch did not document reviews which resulted in decisions to retain unliquidated balances. To test whether the OE Branch had retained appropriate documentation, we requested reports or other documentations which would show that 66 unliquidated obligations had been reviewed during fiscal year 1995. (Appendix I describes the methodology followed to select these obligations.) The M/FM/A/OE Branch was unable to provide evidence that 61 of the 66 obligations had been reviewed in fiscal year 1995. We were unable to determine whether the absence of review of documentations for the 61 obligations indicated that (1) no review occurred, or (2) a review occurred but was not documented because it resulted in a decision to retain the unliquidated balances.

Excessive Balances Were Not Deobligated as Required

We reviewed 17 expired obligations, each with an unliquidated balance exceeding $100,000. The 17 unliquidated balances totaled about $13.1 million. We found that six obligations had balances (totaling about $1.24 million) which were no longer needed and could have been deobligated in fiscal year 1995 or earlier. (See Appendix III for a list of these obligations.) We also randomly selected and reviewed 50 expired obligations, each with an unliquidated balance of less than $100,000. The unliquidated balances of the 50 obligations totaled $90,544. At our request, and as part of its planned fiscal year 1996 Section 1311 review, M/FM/A/OE reviewed these obligations and deobligated the balances of 44 obligations totaling $87,652. In our opinion, many of these balances could have been deobligated in fiscal year 1995 or earlier. We could not determine if the

Agency's earlier review had included these 44 obligations. The following examples illustrate this finding:

- Although M/FM/A was informed in April 1992 of the amount needed for fiscal year 1991 Foreign Affairs Administrative Support (FAAS) charges, the excessive amount obligated, $32,776 was not deobligated until February 1996.

- All items covered by a purchase order were received in December 1992 and all charges, including shipping, were paid by June 1993. The unliquidated balance of $574 was not deobligated until February 1996.

- An obligation to pay for a training program was unused because the employee paid the vendor directly and was reimbursed through his travel voucher. The travel voucher was submitted in May 1994, but the $200 obligation for training was not deobligated until February 1996.

Inadequate Staffing Contributed to Incomplete Review Process

Both the M/FM/A/OE Branch supervisor and Accounting Division Chief believe that the M/FM/A/OE Branch is understaffed to perform Section 1311 reviews in the manner currently prescribed. The Division Chief requested additional staff in fiscal years 1994 and 1995 to fill new positions and vacancies created by staff transfer and retirement. The staffing request was never fully satisfied. The Branch supervisor said, unless the review process is changed, two additional accountants are needed to ensure the timely completion of Section 1311 reviews.

Delays Were Also Caused by External Circumstances

Other circumstances beyond M/FM/A/OE's control also delayed deobligations. For example:

- Bureau for Management/Operating Expense Branch cannot deobligate the residual balances of contracts without instructions to do so from the Bureau for Management's Office of Procurement as part of its contract close-out process. For example, we found a large multi-year contract for services that expired in November 1994 with unliquidated balances from multiple sources (including both program and OE funds) totaling $1.8 million. Although the contract expired more than a year ago, M/FM/A/OE could not deobligate any unspent funds because it had not received specific instructions to do so.

- Records and/or information needed to clarify the status of unliquidated obligations were not always available. For example, older payment files were archived, employees did not always respond to requests for additional information, overseas missions were slow to submit advices of charges, and vendors did not always submit invoices promptly.

- According to M/FM/A, Agency bureaus and offices are less interested in the deobligation of prior-year obligations because these funds are not returned to them for reobligation. As a result, information requests may not be answered and instructions to deobligate excess balances might not be volunteered. In contrast, bureaus have great interest in the possible deobligation of current year funds because they can reobligate these funds in the current year.

Supervision Affected M/FM/LM Reviews

Bureau for Management, Loan Management Division maintains the accounts for some OE funds and is required to conduct the Section 1311 review of these obligations. However, some reviews were not performed in fiscal year 1995 because no one had been assigned to do the reviews.

Agency financial records indicated that M/FM/LM was responsible for reviewing 136 OE obligations retained at the end of fiscal year 1995. These obligations had unliquidated balances totaling $2.98 million or about 3 percent of the total amount of USAID/Washington's unliquidated obligations for operating expenses at year end.

Responsibility for performing Section 1311 reviews was intended to be split between M/FM/LM staff members representing two programs—Housing Guaranty Program and Micro and Small Enterprise Development (MSED). We found the following:

- Unliquidated obligations related to the Housing Guaranty Program were reviewed.
- Unliquidated obligations related to MSED were not reviewed because no one had been assigned responsibility for performing these reviews.

The Division Chief, M/FM/LM, acknowledged that Section 1311 reviews of MSED obligations had been overlooked in fiscal year 1995 and attributed this oversight to ongoing reorganizations in the Division.

Cumbersome and Labor Intensive Processes

The Agency Controller believes, and we agree, that under current guidance the Agency's Section 1311 reviews are unnecessarily cumbersome and labor-intensive. The guidance does not take advantage of current computer system capabilities to group obligations with common characteristics, such as type of obligation, age, budget plan code, and disbursement activity. Depending on the criteria used, the resulting groups could be (1) automatically retained; (2) automatically deobligated; or (3) identified for further review.

Several types of obligations easily lend themselves to a criteria or formula-driven review process. Examples include travel balances, purchase orders, and obligations for training and printing. It would be possible, for example, for a computer system to identify (1) all travel authorizations two or more years old where the outstanding travel advance is zero, or (2) all purchase orders more than two years old. The outstanding balances for these obligations could be deobligated in groups, by budget plan code. The time saved in reviewing travel authorization balances alone would be considerable. Travel authorization balances constituted about 45 percent of the transactions but only about 4 percent of the total dollar amount of USAID/Washington's unliquidated obligations for OE retained at the end of fiscal year 1995.

Improved guidance to review certain centrally budgeted and monitored expenses would help identify unliquidated obligations. These centrally budgeted expenses include, dispatch agent fees, shared administrative expenses paid on USAID's behalf by the Department of State, home service transfer allowances, and Department of Labor unemployment compensation claims. We found that analysts typically did not review these obligations, believing reviews to be unproductive because other Federal agencies had a reputation for slow billing. However, this belief was not always valid. For example, excessive balances of $264,513 and $210,856 could have been deobligated after final telephone bills were paid in early 1995 and excessive balances of $278,494 and $217,840 related to fiscal year 1992 and fiscal year 1993 obligations for employee medical claims could have been deobligated by October 1993 and October 1994, respectively.

Despite his awareness that the Agency's March 1994 guidance for the review of unliquidated obligations by accounting stations in Washington needed revision, the Controller had not been able to spare staff resources for this purpose. However, by the end of audit field work, M/FM/A had begun to develop more specific criteria for deobligating various types of obligations—criteria that could be used for computerized groupings. As a result of discussions with M/FM/A and M/Budget, these offices have been working together to develop new policies for the identification and deobligation of excessive obligations related to centrally budgeted and monitored activities.

Management Risk Assessment Was Not Completed

We believe the Accounting Division missed an opportunity in early fiscal year 1995 to identify and correct the problems noted during our audit. Although M/FM/A initiated an internal management control and risk assessment of the OE Branch early in the year, the assessment was suspended before any testing of Section 1311 review processes were done. As a result, the Division Chief was not alerted to the fact that a significant number of Section 1311 reviews were not being performed or documented as required. Because of staffing constraints, the Accounting Division Chief does not have current plans to resume the assessment.

Questionable Obligations and
Payments Noted During the Audit

During the audit, we noted four questionable obligations or payments that were not directly related to the audit objective. We brought these matters to the attention of appropriate officials during the audit and recommended corrective action. These situations and our recommendations are described below.

1. Three obligations totaling $7.5 million were made in fiscal year 1994 for costs to be incurred by the General Services Administration to consolidate USAID offices into one building. Services to be funded by these obligations were to include unspecified design services and telecommunications and furniture procurement. Funding for the first obligation came from three older obligations belonging to an earlier consolidation plan. The older obligations were deobligated and reobligated following formal Congressional notification in fiscal year 1994. Funding for the second and third obligations came from USAID's fiscal year 1994 OE appropriation. In our opinion, the fiscal year 1994 obligations lacked sufficient specificity as to scope of work, costs covered, and time frames for performance and may not constitute valid obligations in accordance with 31 U.S.C. 1501 or GAO interpretations of appropriation laws. If invalid, the obligations should not be retained in the Agency's accounting records.

   Recommendation No. 2: **We recommend Bureau for Management, Office of Financial Management obtain legal opinions from the Office of the General Counsel as to the continuing validity of each of the three fiscal year 1994 obligations related to USAID's consolidation into one building.**

2. USAID was not properly assigning overseas shipping costs to obligating documents making it difficult to assess whether balances of unliquidated obligations were valid. The Department of State handles much of the USAID's overseas shipping requirements through dispatch agents. The resulting costs are billed directly to USAID/Washington, which allocates costs to appropriate missions. Our audit universe included three expired obligations for dispatch agent services to be provided in fiscal years 1992, 1993, and 1994. After three partial deobligations totaling $1.9 million in late September 1995, these obligations still had unliquidated balances of another $1.9 million as of September 30, 1995. Disbursements had been made against the fiscal year 1992 obligation but not against the obligations for fiscal years 1993 or 1994. This occurred because the excessive balances of obligations prior to 1992 for dispatch agent services had not been deobligated but were used incorrectly by Bureau for Management, Cash Management and Payments Division (M/FM/CMP) as a source of funds to pay for later services. For example, charges for 1992 services might have been paid from the excessive balance of an obligation for 1990 services. As a result of this practice, USAID was no longer able to calculate or estimate the actual annual cost

of dispatch agent services. Some of the incorrect accounting charges were reversed during the audit, but the corrections were suspended because of staffing shortages.

3. The Department of State had overcharged USAID for dispatch agent services and transportation costs. The overcharge was the result of a flaw in the Department of State's system for collecting and allocating charges for overseas transportation charges paid by its dispatch agents. When the possibility that USAID had been overcharged surfaced during our audit, we requested the Department of State's Working Capital Fund Office to review its billings to USAID. The Office reported that it reviewed all billings to USAID from July 1994 through February 1996 and found several overcharges and undercharges during this period. We were advised that, as a result of these errors, $507,952 would be credited back to USAID.

<u>Recommendation No. 3</u>: **We recommend that the Bureau for Management, Office of Financial Management:**

3.1 correct Agency accounting records to reflect the proper funding source and amount of dispatch agent charges, and

3.2 ensure that USAID received credit in the amount of $507,952 which was due from the Department of State as the result of overbilled transportation charges.

4. USAID did not receive any billings for obligations made during fiscal year 1993 for Army Post Office (APO) mail services. Our audit universe included two expired obligations totaling $560,000 for APO mail services to be performed in fiscal years 1993 and 1994. USAID has received an invoice for fiscal year 1994 charges in July 1994. We found no documentation related to fiscal year 1993 charges. A disbursement in the amount of $309,282 was made for 1994 charges as a result of the audit. However, a small balance remained after the disbursement. We could not validate the need for 1993 obligations.

<u>Recommendation No. 4:</u> **We recommend that the Bureau for Management, Office of Financial Management make appropriate disbursement for fiscal year 1993 Army Post Office charges and deobligate, if appropriate, any unliquidated balances for fiscal year 1994 charges.**

Management Comments and Our Evaluation

The Office of Financial Management generally agreed with the report's findings and recommendations. Their response to the draft is included in its entirety in Appendix II of this report. Summaries of their response to applicable recommendations, actions proposed or taken, our comments on these actions, and any additional actions that are required to close resolved recommendations are presented below.

Recommendation No. 1.1 - that the Bureau for Management, Office of Financial Management redesign the process for Section 1311 reviews to be performed by accounting stations in USAID/Washington and issue appropriately revised guidance. The Chief Financial Officer approved a document that significantly changes the 1311 review process. The new procedures utilize the data available in the accounting system to summarize and categorize various types of obligations. According to the Office of Financial Management, a final management decision has been reached. In accordance with USAID guidance, Bureau for Management, Management Innovation and Control Division is responsible for determining when final action has occurred.

Recommendation No. 1.2 - that the Bureau for Management, Office of Financial Management ensure adequate staffing and supervision for Section 1311 reviews in the Operating Expense Branch and Loan Management Division. The Office of Financial Management indicates that the Branch Chief of Bureau for Management Operating Branch has taken over the full responsibility for coordinating and overseeing the review in that office. The Office of Financial Management also believes the combination of the revised review guidelines and full implementation of the New Management System may resolve the staffing issue, and upon full implementation of the System they will assess the staffing situation. However, delays in the full operation of the System may, in our opinion, cause corrective action to be deferred to fiscal year 1997 or later.

Recommendation No. 1.3 - that the Bureau for Management, Office of Financial Management ensure that Bureau for Management Accounting Division completes its management control and risk assessment of the operating expenses and takes action to correct any deficiencies noted. The Office of Financial Management states that they have not had time to complete the review due to staffing concerns. With the implementation of the New Management System and the Operating Expense Branch function changes anticipated or planned during the coming year, the Office of Financial Management indicates they will be able to address this recommendation at that time. However, delays in the full operation of the System and limited availability of staff may, in our opinion, cause corrective action to be deferred to fiscal year 1997 or later.

Recommendation No. 1.4 - that the Bureau for Management, Office of Financial Management review and deobligate, as appropriate, any excess balances related to the obligations listed in Appendix III. According to the Office of Financial Management, all balances reflected in Appendix III have been reviewed and action taken to deobligate excess balances. In accordance with USAID Guidance, Bureau for Management, Management Innovation and Control Division is responsible for determining when final action has occurred.

Recommendation No. 2 - that the Bureau for Management, Office of Financial Management obtain legal opinions from the Office of the General Counsel as to the continuing validity of the three fiscal year 1994 obligations related to USAID's consolidation into one building. The Bureau for Management, Office of Financial Management indicates they will address this recommendation at a later date. We believe that a request for a legal opinion of the validity of the three fiscal year obligations related to USAID's consolidation into one building should not be deferred, but made immediately.

Recommendation No. 3.1 - that the Bureau for Management, Office of Financial Management to the extent possible, correct Agency accounting records to reflect the proper funding source and amount of dispatch agent charges. According to the Office of Financial Management, final action has been taken to resolve this audit finding, such as, matching paid invoices to the correct fiscal year. An amount of $645,968.60 was prepared, posted, and transferred from fiscal year 1995 to fiscal year 1992; and unliquidated balances from 1994 and 1995 funding need to remain open for incoming charges expected from the Department of State Dispatch Agent. In accordance with USAID guidance, Bureau for Management, Management Innovation and Control Division is responsible for determining when final action has occurred.

Recommendation No. 3.2 - that the Bureau for Management, Office of Financial Management ensure that USAID received credit in the amount of $507,952 which was due from the Department of State as the result of overfilled transportation charges. According to the Office of Financial Management, the Department of State's person in charge of transportation charges is reviewing the overbilled charges and has not responded to the Office of Financial Management as of December 1996 regarding the overbilled transportation charges.

Recommendation No. 4 - that the Bureau for Management, Office of Financial Management make appropriate disbursement for fiscal year 1993 Army Post Office charges and deobligate, if appropriate, any unliquidated balances for fiscal year 1994 charges. The Bureau for Management, Office of Financial Management personnel have indicated that final action has been taken to deobligate fiscal year 1994 residual balances, they have received concurrence that the Agency will not have any additional billing for fiscal year 1993 services, and they have deobligated the 1993 residual balance. Based on USAID guidance, the Bureau for Management, Management Innovation and Control Division is responsible for determining when final action has occurred.

SCOPE AND METHODOLOGY

Audit Scope

We audited USAID/Washington's review and certification of unliquidated obligations for operating expenses (OE) in accordance with generally accepted government auditing standards. The audit was part of a worldwide review conducted by the Office of the Inspector General in Washington and in selected missions. We conducted our audit from December 1995 through April 1996.

The U. S. Agency for International Development is required to provide an annual certification to the U.S. Treasury as to the validity of its open obligations. The audit focused on the internal reviews leading to and supporting that portion of USAID's annual certification represented by USAID/Washington operating expenses. The period covered by the audit was fiscal year 1995.

Bureau for Management, Office of Financial Management (M/FM) provided us data on USAID/Washington obligations for operating expenses retained in the Agency's accounting records on September 30, 1995. These obligations had unliquidated balances totaling almost $95 million.

The universe for audit testing excluded (1) obligations with termination dates of April 1995 or later, and (2) fiscal year 1995 travel authorizations. The obligations remaining after application of the exclusion criteria had unliquidated balances totaling $23.88 million. If we found that an obligation's termination date was incorrectly recorded in the Agency's automated financial system, we determined the correct termination date and made another decision as to whether it should be retained in the audit testing universe. This resulted in many substitutions, particularly of contracts, which frequently had outdated termination dates in the automated system.

Methodology

We performed our audit work primarily in the Bureau for Management, Office of Financial Management, Accounting Division, Operating Expense Branch. We interviewed officials in this and other USAID offices, as appropriate, to assess management controls over the review and certification of unliquidated obligations for operating expenses.

To identify unliquidated OE obligations retained by the Agency on September 30, 1995, we obtained a computer-generated report of such obligations from the Office of Financial Management. We divided the records contained in the report into several groups to facilitate review—including segregating obligations by the amount of their unliquidated balances.

To determine whether the Agency complied with applicable laws, regulations, and internal guidance, we sought annotated reports, work papers, or other documents evidencing the Agency's fiscal year 1995 Section 1311 review of obligations.

To validate the results of the 1311 review process, we traced information from the computer-generated report of obligations retained at year-end to source documents and payment files. We analyzed these files to determine what activity or procurement was authorized, what had been accomplished or delivered, and what further charges might be expected. Based on these analyses, we sought to determine whether there was a continuing need for the unliquidated obligation and, if not, whether the unliquidated balance could have been deobligated in fiscal year 1995 or earlier.

To test the extent and accuracy of fiscal year 1995 Section 1311 review process, as it pertained to the expired obligations in the audit universe, we selected and reviewed two groups of expired obligations.

- The first group included all obligations with unliquidated balances greater than $100,000. According to financial accounting and control system (FACS), 34 obligations met this criteria. However, further research revealed that FACS contained inaccurate termination dates for 17 of the 34 obligations. The correct termination dates for these obligations put them outside the scope of the audit, and they were excluded from further review. The 17 obligations retained in the audit had unliquidated balances totaling $13.1 million.

- The second group consisted of 50 randomly selected expired obligations with unliquidated balances of less than $100,000. The 50 randomly selected obligations totaled $90,544.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

DEC 6 1996

MEMORANDUM

TO: IG/A/ITSA, Theodore Alves

FROM: M/FM/CONT, ~~Tony L.~~ Cully

SUBJECT: Audit of USAID/Washington's Review and Certification of Unliquidated Obligations for Operating Expenses

We have reviewed the draft report on the audit of unliquidated obligations and have the following comments:

In general, we agree with the draft audit report contents. Our comments on the recommendations are as follows:

RECOMMENDATION 1.1

We recommend that M/FM/CONT redesign the process for Section 1311 reviews to be performed by accounting stations in USAID/W and issue appropriately revised guidance.

We agree with this recommendation. On August 16, 1996 the CFO, Mr. Donald K. Charney, approved a document that significantly changes the review process for Travel Authorizations, Purchase Orders, Training, Printing Requisitions, Home Service Transfer Authorizations, FAAS, Dispatch Agent Fees, Department of Labor obligations, Unemployment Compensation Claims, Other Claims and Taxis. The new procedures utilized the data available in the accounting system to summarize and categorize types of obligations to make the determinations. A copy of the new Deobligation Guidelines are attached. We request this recommendation be closed.

RECOMMENDATION 1.2

We recommend that M/FM/CONT ensure adequate staffing and supervision for Section 1311 reviews in M/FM/A/OE and M/FM/LM.

We agree with this recommendation. Effective with the FY 1996 Section 1311 review, the branch chief of M/FM/A/OE has taken over the full responsibility for coordinating and overseeing the review in that office. This has resulted in a more thorough review in FY 96. We believe that the combination of the revised

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review guidelines and the full implemention of NMS may resolve the staffing issue. Upon full NMS implementation we will assess the staffing situation.

RECOMMENDATION 1.3

We recommend that M/FM/CONT ensure that M/FM/A completes its management control and risk assessment of the OE Branch and takes action to correct any deficiencies noted.

While we agree with this recommendation, we have not had time to complete the review due to staffing concerns. Also, with the implementation of NMS the OE Branch functions will change during the next year. We will address this review during the coming year when specific functions are identified and staffing is made available.

RECOMMENDATION 1.4

We recommend that M/FM/CONT review and deobligate, as appropriate, any excess balances related to the obligations listed in Appendix III.

Appendix II on your draft audit is titled "Obligations Identified During The Audit With Apparent Excess Balances." I assume that this is the appendix that you are referring to in Recommendation 1.4. M/FM/A has reviewed all balances reflected on Appendix II and taken action to deobligate excess balances. This recommendation should be closed.

RECOMMENDATION 2

We recommend M/FM/CONT obtain legal opinions from the Office of the General Counsel as to the continuing validity of the three fiscal year 1994 obligations related to USAID's consolidation into one building.

This recommendation remains unresolved. It will be addressed at a later date.

RECOMMENDATION 3.1

We recommend M/FM/CONT to the extent possible, correct Agency accounting records to reflect the proper funding source and amount of dispatch agent charges.

The FM/CMP/IBU has made the most practicable adjustments to adhere to the proper matching principle, matching paid invoices to the correct FY. Expenses incurred should be matched against its cognizant obligations. SF1097s totalling $645,968.60 were prepared,posted,and transferred $645,968.60 from FY 1995 to FY 1992 to resolve this audit finding. Unliquidated balances out of 1994 and 1995 funding still need to be open for incoming charges being received from Dispatch Agency/Department of State. We request that this recommendation be closed.

RECOMMENDATION 3.2

We recommend M/FM/CONT ensure that USAID received credit in the amount of $507,952.36 which was due from the Department of State as the result of overbilled transportation charges.

The State Department division in-charge of giving USAID a refund is still in the process of reviewing their records. State Department has given us assurance that the $507,952.36 refund will be given prior to December 1996.

RECOMMENDATION 4

We recommend M/FM/CONT make appropriate disbursement for fiscal year 1993 APO charges and deobligate, if appropriate, any unliquidated balance for fiscal year 1994 charges.

We agree with this recommendation. The residual balance for the FY 94 obligation has been deobligated. We have received concurrence from DFAS that the Agency will not have any additional billing for FY 93 services, so we have deobligated the FY 93 residual balance. This recommendation should be closed.

We appreciate the professional and cooperative manner in which the auditors conducted this audit.

OBLIGATIONS IDENTIFIED DURING THE AUDIT WITH APPARENT EXCESS BALANCES[2]

Obligation Number	Unliquidated Balance
HM2825000	$ 278,494
HM3820001	217,841
MD3691505	108,298
MD4460800	158,403
MD4471036	264,513
MD4471038	210,856
Total	$1,238,405

[2] All but one of these balances were deobligated during the audit. Obligation MD4471038 had not been deobligated by the end of our field work, even though the remaining balance was no longer needed to pay fiscal year 1994 telephone equipment rental expenses.