

Regional Inspector General for Audit  
Pretoria, Republic of South Africa

Audit of  
USAID/Zambia's Review and Certification of Unliquidated  
Obligations for Project and Non-project Assistance

Report No. 4-611-98-004-F  
November 21, 1997



Regional Inspector General  
Pretoria

November 21, 1997

**MEMORANDUM FOR DIRECTOR, USAID/ZAMBIA, Walter E. North**

**FROM:** Regional Inspector General/Pretoria, Joseph Farinella

**SUBJECT:** Audit of USAID/Zambia's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance, Report Number 4-611-98-004-F

This is our final report on the subject audit. We considered your comments on our draft audit report and have made changes wherever appropriate. The comments are included in their entirety in Appendix II.

The report contains two recommendations for your action. Based on your comments, we believe an acceptable management decision has been reached on Recommendation No. 2. Once final actions to address this recommendation have been completed, please notify the Office of Management Planning and Innovation, Bureau of Management (M/MPI).

Recommendation No. 1, however, is still awaiting a management decision. This recommendation involves the review of unliquidated funds totaling \$1,179,386 related to specific earmarks and commitments which had balances that were found to be excessive as of September 30, 1996. To date, the Mission has closed out \$243,692 of this amount through de earmarks and decommitments. The Mission, however, still needs to review the remaining balance of funds (i.e., \$935,694) and determine the appropriate action to be taken with respect to these funds, taking into account any projected funding needs based on outstanding Advice of Charges (AOCs) as well as the results of any pending decisions on final decommitment actions. The Mission needs to make this determination before a management decision can be reached. Please notify our office once this decision has been made.

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

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## **Background**

This audit is part of the Office of Inspector General's (OIG) USAID-wide review of USAID's obligations for project and non-project assistance. The OIG's Division of Performance Audits (IG/A/PA) is leading this effort, with the assistance of auditors from all offices of the Regional Inspectors General.

The USAID-wide audit is limited to obligations for project and non-project assistance which had unliquidated balances as of September 30, 1996. It does not cover obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID for the Trade and Development Agency.

IG/A/PA randomly selected USAID sites for detailed audit work and also determined the number of unliquidated obligations to be randomly selected and reviewed at each site. A total of 19 sites (USAID/Washington and 18 missions) were selected for review. USAID/Zambia was among those missions randomly selected for review. As of September 30, 1996, USAID/Zambia had 93 obligations with unliquidated balances totaling approximately \$44.8 million.

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## **Audit Objective**

As part of a USAID-wide audit, the Office of the Regional Inspector General, Pretoria, conducted this audit to answer the following question:

**Did USAID/Zambia review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures ?**

Appendix I describes the audit's scope and methodology.

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## **Audit Findings**

For the items tested, our audit found that USAID/Zambia generally reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID procedures. Our audit, however, identified activities with unliquidated balances totaling \$1,179,386, out of a total of \$13.2 million reviewed, which were considered to be excessive as of September 30, 1996. In addition, the audit disclosed several record-keeping deficiencies associated with the Mission's internal records which did not always accurately reflect the unliquidated balance of funds available under individual commitment documents.

As required under Section 1311 of the Supplemental Appropriations Act, the Mission conducted a comprehensive review of its unliquidated obligations to support its year-end certification on the validity of these obligations as of September 30, 1996. In addition to this year-end review, we determined that the Mission had a continuous review process in place to monitor its unliquidated obligations. This process included regular pipeline reviews conducted by the Mission's project accountants, in conjunction with the quarterly accrual review, in which the accountants reviewed the status of individual project activities with the project officers in order to ensure that unliquidated obligations and commitments were valid and still needed.

In reviewing a sample of the Mission's obligations, we also verified that each constituted a valid obligation and was supported by appropriate documents on-file in the Mission's grant files. In addition, we determined that the Mission complied with Section 517 of the Foreign Assistance Act and properly converted FY 1991 appropriation funds subject to Section 517 to "no-year" funds as directed in a cable issued by USAID's Office of Financial Management (M/FM) in October 1995.

However, our review of the sampled obligation transactions identified funds earmarked or committed under several of the obligations that were excessive and needed to be either deearmarked or decommitted. We also noted that the Mission's internal records were not being properly maintained and did not always accurately reflect the unliquidated balance of funds available under each commitment. Details concerning our audit findings and recommendations on these areas are discussed below.

### **Earmarks and Commitments Had Excessive Balances**

Of the 15 sampled obligations reviewed during our audit, we identified six which had earmarks and commitments with balances exceeding anticipated needs as defined by USAID guidance. The total amount considered to be excessive was \$1,179,386, out of a total of approximately \$13.2 million reviewed. Although some of these earmarks and commitments were closed (i.e., decommitted) subsequent to our September 30, 1996 cut-off date, many still continued to maintain excessive balances at the time of our audit field work. These funds need to be either deearmarked or decommitted to ensure that balances comply with USAID guidance and do not exceed anticipated needs.

**Recommendation No. 1: We recommend that USAID/Zambia review and deearmark (or decommit), as appropriate, unliquidated earmarks and commitments of \$1,179,386 related to six obligation transactions identified by the audit as having excessive balances as of September 30, 1996.**

U.S. Code, Title 31 and the U.S. Treasury Financial Manual require each Agency to determine the validity of obligations based on a careful review of all unliquidated obligations. In December 1993, M/FM issued guidance intended to clarify for mission management, and particularly mission controllers, all operational aspects of USAID's

regulations pertaining to the review of unliquidated obligations (also known as a “Section 1311 review”). In discussing this review, the guidance states that:

*It is incumbent on the mission controller to assure that Section 1311 reviews for bilateral project funds include analyses at both the obligation and commitment levels and, if the valid period of the corresponding obligation/commitment accounts has expired (passed their assistance completion (PACD) or terminal disbursing dates), to take action in concert with other mission managers to either extend the Agreement or decommit/ deobligate the related amounts.*

Our audit, however, found that unliquidated balances related to completed activities were not always dearmarked/decommitted in a timely manner after the terminal disbursement date had elapsed and, in the case of continuing activities, sometimes exceeded anticipated expenses. Of the 15 obligation transactions reviewed, six were found to have excessive balances totaling \$1,179,386 as of September 30, 1996. Under these six obligations, we identified 19 earmarks and 11 commitments with excessive balances totaling \$247,551 and \$931,835, respectively (see Appendix III). Examples include the following:

- ▶ One activity, with a balance of \$8,714, had a commitment-end date of November 30, 1994, yet remained open and was not decommitted until January 1997.
- ▶ A participant training activity which was completed in June 1993 had a balance of \$16,913 that was still committed in July 1997.
- ▶ The Mission earmarked \$102,200 for the procurement of commodities, of which only \$36,230 was needed resulting in an excess balance of \$65,970 that could have been dearmarked as of September 30, 1996, but was not.
- ▶ A contract terminated in July 1996, 14 months prior to its original end date, left an unliquidated balance of \$201,545 which was not decommitted during the FY 1996 year-end review as the Mission was awaiting a final voucher which later claimed only \$51,748, leaving an excess balance of \$149,797 still committed.

Delays in the dearmarking or decommitment of these funds were attributed, in part, to the Mission’s backlog of unreconciled items. During FY 1996, USAID/Zambia was not reconciling disbursements made by its Regional Administrative Financial Center (RAMC/Paris) with the data reported in the Mission’s MACS reports, a procedure known as the “1221 reconciliation,” on a monthly basis as required. As a result, the Mission accumulated a large backlog of reconciling items, including disbursements, which needed to be posted. As of September 30, 1996, the mission had over 1,500 outstanding reconciling items, consisting mostly of correcting entries. In light of this backlog, the controller staff claimed that they tended to be a bit more cautious about dearmarking and decommitting unliquidated balances during their last 1311 review in September 1996, even if the terminal disbursement dates had elapsed. This backlog was reported as a weakness in the Mission’s FY1996 FMFIA report, and the problem has since been

corrected, as evidenced by the sharp decline in the number of pending “1221 reconciling” items. As a result, we are not issuing a recommendation addressing this area.

In addition to the backlog of “1221 reconciling” items, we noted several instances where appropriate funding balances for certain activities could not be determined due to delays in the processing and receipt of Advice of Charges (AOCs) from USAID/Washington. For example, we identified one activity which had a commitment-end date of May 16, 1996, yet still maintained its original unliquidated balance of \$52,613 as of July 1997 since the activity was still awaiting its initial AOC. These delays, however, are attributed to USAID/Washington and do not stem from problems within the Mission. Therefore, we will not be issuing a recommendation to the Mission relating to this area.

Delays in the dearmarking and decommitment of project funds prevent the Mission from closing out completed activities in a timely manner and from fully utilizing the balance of funds so that they may be made available to be reprogrammed for other purposes. As a result, the Mission needs to review the excessive balances identified by our audit and dearmark or decommit these balances, as appropriate, so that the funds may be used for other project activities.

### **Record Keeping Procedures Need to be Strengthened**

While conducting our field work at USAID/Zambia, we observed that the Mission’s internal records were not always being properly maintained and, in some cases, did not accurately reflect the unliquidated balance under individual commitments.

**Recommendation No. 2: We recommend that USAID/Zambia establish appropriate procedures to ensure that its commitment liquidation records are properly maintained and accurately reflect the unliquidated balance for each commitment.**

USAID guidance on the review of unliquidated obligations, as set forth in Financial Bulletin, Part II, No. 14A, instructs mission controllers to examine the accounting files for each open obligation/commitment account in conjunction with the Section 1311 review. The guidance further requires that non-accounting station posts, such as USAID/Zambia, maintain a manual liquidation record sheet in the accounting file for each obligation or commitment. This record represents the mission’s internal “cuff” record to assure that all disbursements, particularly incoming AOCs, have been captured and not just those processed at the mission’s official accounting station. As a result, the liquidation record sheet must be manually updated by the mission with each transaction.

During our review of the accounting files for the sampled obligation/commitment accounts, we found that the liquidation records were not always being properly maintained and identified several instances where records were either missing or did not

accurately reflect the current unliquidated commitment balance. For example, our review of the 49 commitments under the 15 sampled obligations disclosed the following errors:

- ▶ Eight commitment files had liquidation record sheets that reflected an incorrect balance (e.g., final de-commitment was not reflected).
- ▶ Two files contained records showing advances being posted in an inconsistent manner, creating confusion as to what the actual unliquidated balance was.
- ▶ Two files did not have any record sheets contained in them.

We attributed these record-keeping problems to simple oversight, clerical errors, failure to post transactions in a timely manner, as well as confusion on the part of the controller staff as to the proper procedures for maintaining the records.

Although the audit did not disclose any major funding problems resulting from these record keeping deficiencies, it is important that the mission maintain accurate internal liquidation records as these records reflect the current unliquidated balances of its commitment accounts and serve as a control document that can be referred to in the event of any possible posting errors or delays in the posting of transactions by the mission's accounting station. Further, since the balance reflected in the liquidation record sheet is reviewed during the Section 1311 reviews, errors or the omission of data resulting from improper maintenance increase the risk of balances being overstated which, in turn, may cause the mission to expend (or decommit) in excess of the actual amount available under its commitment accounts.

To minimize this risk, it is essential that the Mission take appropriate steps to ensure that these records are properly maintained and accurately reflect account balances for each commitment. During our audit, these deficiencies were discussed with the mission and efforts were initiated to improve existing procedures in order to address this problem. For example, the Controller's Office was in the process of designing a new liquidation record sheet which would be easier for the project accountants to maintain and facilitate both the record-keeping and the review processes.

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## **Management Comments and Our Evaluation**

In responding to our draft audit report, USAID/Zambia generally concurred with the audit findings and stated that they believed the audit provided a thorough review of its 1311 process for reviewing unliquidated obligations and that the report will assist the Mission in improving its overall performance in this area.

Recommendation No. 1 recommends that USAID/Zambia review and de earmark (or decommit), as appropriate, unliquidated earmarks and commitments of \$1,179,386 identified by the audit as having excessive balances as of September 30, 1996.

In response to this recommendation, USAID/Zambia agreed with the audit finding that some of its obligations had earmarks and commitments with balances which exceeded anticipated needs. Of the \$1,179,386 identified by our audit, the Mission indicated that it has to date closed-out \$243,692 through de earmarks and decommitments. The Mission stated that the remaining balance of \$935,694 had not been liquidated due to problems in Washington which have resulted in delays in the receipt of Advice of Charges (AOCs). This balance included one commitment which was reported to have an excessive balance of \$714,604. The Mission stated that the balance was still needed to cover anticipated expenditures based on further analysis using expenditure information obtained from the contractor subsequent to our field work. According to the Mission, most of the \$714,604 will be needed to cover expenditures through September 30, 1997, leaving an estimated pipeline of about \$191,741, a balance the Mission did not consider to be excessive. In addition to this commitment, the remaining balance also included a contract that had been closed, leaving a residual balance of \$149,797, but was still awaiting a final decision on decommitment action pending confirmation on whether or not there was a final claim.

Since the remaining balance (i.e., \$935,694) is comprised of funds relating to earmarks and commitments that are awaiting either the receipt of an AOC or a final determination on decommitment actions, the Mission is unable to determine how much of this balance is excessive at this time. Therefore, no management decision has been made to address Recommendation No. 1. In order to reach a management decision, the Mission needs to review the remaining balance of funds and determine the appropriate action to be taken with respect to these funds.

Recommendation No. 2 recommends that USAID/Zambia address the record keeping deficiencies identified by our audit by establishing appropriate procedures to ensure that its commitment liquidation records are properly maintained and accurately reflect the unliquidated balance for each commitment.

USAID/Zambia agreed with this recommendation and stated that it is implementing new record keeping procedures and will issue a controller's office notice to the staff outlining these procedures. These procedures include the use of a revised commitment liquidation record sheet, designed by the controller's office, which will reflect data from the MACS reports and enable staff to maintain the commitment liquidation records more effectively. Based on USAID/Zambia's comments, we consider the actions taken to be appropriate and conclude that a management decision has been reached on Recommendation No. 2. The determination whether final action has been taken on the audit recommendation will be made by the Office of Management Planning and Innovation (M/MPI).

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## Scope and Methodology

As part of a USAID-wide audit, the Regional Inspector General/Pretoria audited USAID/Zambia's review and certification of unliquidated obligations for project and non-project assistance. This audit was performed in accordance with generally accepted government auditing standards.

The audit was conducted at the USAID/Zambia Mission in Lusaka, Zambia from July 21, 1997 through August 14, 1997. The audit universe consisted of 93 unliquidated project and non-project obligation transactions which had balances totaling \$44.8 million as of September 30, 1996. It did not include obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID for the Trade and Development Agency.

To accomplish the audit objective, we randomly selected 15 obligations with balances totaling approximately \$13.2 million as of September 30, 1996 and performed limited tests of compliance with USAID procedures related to Section 1311 reviews. These tests included (1) examining documents supporting each sampled obligation to determine if the transaction was valid according to criteria established by Title 31 U.S.C. 1501, and (2) reviewing individual earmarks and commitment transactions under each sampled obligation to determine whether their unliquidated balances were sufficient to cover anticipated expenses in accordance with Agency guidance or excessive and needed to be deearmarked, decommitted or reprogrammed, as appropriate. As of September 30, 1996, we identified a total of 62 earmarks and 49 commitments funded under our 15 sampled obligation transactions which were reviewed as described above. In addition to these reviews, we determined whether the Mission performed the required Section 1311 and pipeline reviews on its unliquidated obligations. Materiality thresholds were not established at the mission level for this audit since the number of items tested was insufficient to provide reasonable assurance at this level.

We also reviewed the Mission's internal control assessment report for fiscal year 1996 to identify any material weaknesses relating to the Mission's review and certification of unliquidated obligations and obtained written representations from cognizant Mission officials for all essential assertions relating to our audit objective.

The audit universe and our sample of unliquidated obligations were obtained from USAID/Zambia's Mission Accounting Control System (MACS) database which is maintained by the Mission's accounting station, the Regional Financial Management Center (RFMC) in Nairobi.

**U.S.A.I.D / ZAMBIA  
memorandum**

DATE: October 20, 1997

REPLY TO: Walter North, Director USAID/Zambia  
ATTN OF:

SUBJECT: Comments on Draft Audit of USAID/Zambia's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance Report No. 4-611-98-00x-F

TO: Joseph Farinella, Regional Inspector General/Pretoria

REF: Memorandum dated September 19, 1997 to Walter North

We have reviewed the draft Audit Report of USAID/Zambia Unliquidated Obligations as of September 30, 1996. Our comments provided below are intended to address the recommendations of the report.

We believe that the audit staff performed a thorough review of USAID/Zambia 1311 review process of unliquidated obligations. Moreover, the report will assist us to improve our overall performance in this important area of financial control.

**Earmarks and Commitments had excessive balances**

We agree with the audit finding that some obligations had earmarks and commitments with balances which exceeded anticipated needs as defined by Agency guidance. Details of the actions taken on these excessive balances are included under recommendation 1 below.

**Recommendation No. 1:** We recommend that USAID/Zambia review and de earmark (or decommit), as appropriate, unliquidated earmarks and commitments of \$1,179,386 related to six obligation transactions identified by the audit as having excessive balances as of September 30, 1996.

In response to Recommendation 1, USAID/Zambia has reviewed the unliquidated earmarks and commitments noted in the recommendation. It should be noted that \$243,692.00 of earmarks and commitments were closed subsequent to September 30, 1996. The remaining balance of \$935,694.00 could not be liquidated as a result of Advice of Charge (AOC) problems in Washington.

**UNITED STATES A.I.D. MISSION TO ZAMBIA**

Commitment no. DPF-3052-A-00-0014-45 was noted to have an excessive pipeline of \$714,604. However, based on further analysis by the controller's office, it appears that the estimated "burn rate" that the auditor used to calculate the estimated annual expenditure was imprecise. According to this contractor, expenditures between July 96 - July 97 were \$850,336 and from August 97 - September 97 were \$257,923. As a result, the contract estimated pipeline as of 9/30/97 is only \$191,741. This is not excessive. However, USAID/Zambia is unable to post these expenditures in MACS until we receive AOCs from FM/CMP in Washington. This delay in posting appears to be a systematic problem and surfaced as an issue in our FMFIA report.

The contract under commitment no. 623-0226-C-00-41015 for \$149,797 has been closed. However, the contractor has not submitted to RCSA/Gaborone the COTR which would confirm whether there will be a final claim or not. We are following up with Gaborone to determine decommitment action.

A summary of the action taken is tabulated in attachment 1.

#### **Record keeping procedures need to be strengthened**

We agree with the audit finding on record keeping procedures. USAID/Zambia had noted record keeping problems before the audit and actions are being taken. Last year, RFMC/Nairobi assessed our controller's office and identified several internal control weaknesses, including poor record keeping. The controller's office has been resolving those weaknesses and implementing appropriate procedures. Notably, we have reduced our unreconciling items with Paris and RFMC from 1500 in August 1996 to 65 in August 1997.

**Recommendation No. 2:** We recommend that USAID/Zambia establish appropriate procedures to ensure that its commitment liquidation records are properly maintained and accurately reflect the unliquidated balance for each commitment.

In response to Recommendation 2, USAID/Zambia has implemented its new liquidation record sheet and will issue a revised controller's office notice on record keeping procedures (see Attachment 2). The revised liquidation record sheet will reflect the information in the various MACS reports such as the A03, A04, and A07.

Again, we appreciate the constructive comments to our controller's office staff during the audit.

**UNITED STATES A.I.D. MISSION TO ZAMBIA**

## Amounts Recommended for De earmark

Earmark No.	Amount Recommended for De earmark	Reason for IG Recommendation
PIOT6110214.00-3-90037	\$26,949	balance of uncommitted funds no longer needed
PIOT6980463.11-3-10029	\$3,200	balance of uncommitted funds no longer needed
PIOT6980463.11-3-10086	\$34,362	balance of uncommitted funds no longer needed
PIOC6980463.11-4-10018	\$3,005	item procured; uncommitted funds not needed
PIOC6980463.11-4-10019	\$1,001	item procured; uncommitted funds not needed
PIOC6980463.11-4-10024	\$1,286	item procured; uncommitted funds not needed
PIOC6980463.11-4-10030	\$151	item procured; uncommitted funds not needed
PIOC6980463.11-4-10032	\$21	item procured; uncommitted funds not needed
PIOC6980463.11-4-10044	\$2,750	item procured; uncommitted funds not needed
PIOT6110237.00-4-50031	\$6,108	balance of uncommitted funds no longer needed
PIOT6980462.11-3-90019	\$1,566	PACD expired 9/30/93
PIOT6110226.00-3-30029	\$28,988	balance of uncommitted funds no longer needed
PIOC6110226.00-1-30066	\$65,970	item procured; uncommitted funds not needed
PIOC6110226.00-4-30037	\$10,028	balance of uncommitted funds no longer needed
PIOC6110226.00-3-30103	\$2,676	balance of uncommitted funds no longer needed
PIOC6110235.00-4-30099	\$36,271	item procured; uncommitted funds not needed
PIOC6110235.00-4-30104	\$16,020	item procured; uncommitted funds not needed
PIOC6110235.00-4-30116	\$4,145	item procured; uncommitted funds not needed
PIOC6110235.00-4-30122	\$3,054	item procured; uncommitted funds not needed
<b>Total</b>	<b>\$247,551</b>	

### Amounts Recommended for Decommitment

Commitment No.	Amount Recommended for Decommitment	Reason for IG Recommendation
623-0214-C-00-9045-00	\$8,714	commitment end date expired 11/30/94
PIOP6110214.00-1-90035	\$7,068	commitment end date expired 9/17/93
PIOP6980463.11-1-10055	\$16,913	training activity completed in 6/93
TR-611-96-0015	\$265	funds committed for travel completed 3/4/96
611-0235-0-00-5203-00	\$3,379	end date expired 2/26/96; purchase cancelled
623-0226-C-00-4105	\$149,797	contract cancelled 7/96; bal.>final voucher est.
PO-611-94-0238	\$875	commitment end date expired 9/8/94
611-0226-0-00-5218-00	\$423	commodity procured as of 5/29/96
PIOP6110226.00-1-30064	\$8,407	commitment end date expired 9/30/94
DPF-3052-A-00-0014-45	\$714,604	excessive based on est. of annual expenditures
611-0235-C-00-5223-00	\$21,390	procurement was completed as of 4/96
Total	<b>\$931,835</b>	