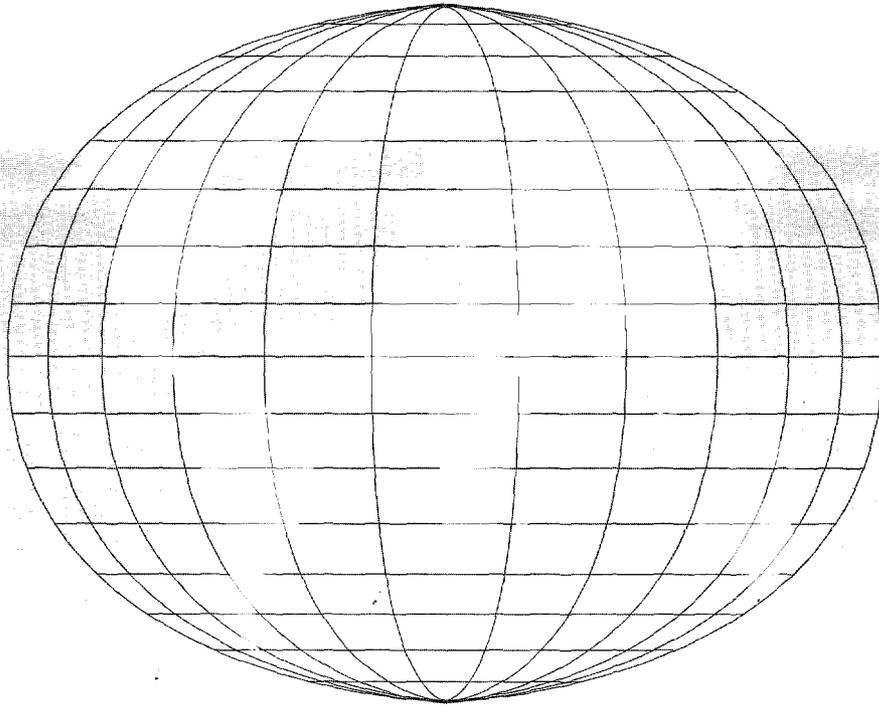


PD-ABQ-076

Report of Audit

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

Report No. 6-263-98-001-F
December 30, 1997



Regional Inspector General for Audit
Cairo, Egypt

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



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

CAIRO, EGYPT

Report No. 6-263-98-001-F
December 30, 1997

MEMORANDUM

TO: USAID/Egypt Director, John R. Westley

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

SUBJECT: Audit of USAID/Egypt's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance

This is our report on the subject audit. In finalizing the report, we considered the Mission's comments on the draft report, which are included in Appendix II. The report contains one recommendation which is closed upon issuance.

We appreciate the cooperation and assistance provided to the auditors on this assignment.

Background

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

The worldwide audit is limited to obligations for project and non-project assistance which had unliquidated balances on 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 then reviewed at each site. A total of 19 sites (USAID/Washington and 18 missions) were selected for review. USAID/Egypt was among those missions randomly selected for review.

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Mission records indicate that, as of September 30, 1996, USAID/Egypt had 195 unliquidated obligations for project and non-project assistance with balances totalling \$2.2 billion. Sixty-five unliquidated obligations for project and non-project assistance with balances totalling \$1.6 billion were selected for detailed audit work.

The level of funding for the USAID/Egypt program is based on a congressional earmark of \$815 million annually. Since 1991, the Foreign Operations Export Financing and Related Programs Appropriations Acts, have allowed funds obligated before their expiration date to remain available until expended.

Audit Objective

The worldwide audit was designed to answer the following question:

Did USAID/Egypt 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 contains a discussion of the scope and methodology for audit work conducted at USAID/Egypt.

Audit Findings

Did USAID/Egypt 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?

For the items tested, USAID/Egypt reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures. We found no invalid obligations¹ among the items tested. We noted that the Mission conducted monthly pipeline analyses and periodic Section 1311 reviews to ensure that unliquidated obligations and commitments were valid and still needed. However, 6 of the 219 tested commitments had excessive balances totalling \$2,064,406 as of September 30, 1996. While the worldwide audit was limited to unliquidated obligations/commitments as of September 30, 1996, we expanded the scope of our audit at USAID/Egypt to cover such obligations/commitments through August 15, 1997. In this expanded period, we found that 11 of the 219 unliquidated commitments reviewed, totaling \$318,569, should have been decommitted.

¹GAO's *Principles of Federal Appropriations Law* defines an obligation as "some action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time." USAID Financial Management Bulletin, Part II, No. 14A, defines a commitment as "funds set aside [for an obligation] to pay for goods or services being procured."

Some Commitments Had Excessive Balances As of September 30, 1996

Each year USAID's Bureau for Policy and Program Coordination issues guidance for the preparation of mission and office budgets. For the period under audit, the guidance required that obligations should provide funding for at least the first 18 months, but not for more than 24 months and that continuing activities' obligations should be sufficient to fund anticipated expenses for no more than 12 months beyond the end of the fiscal year in which the obligation takes place. These are called "forward funding" guidelines. However, in February 1993, USAID/Egypt was granted a blanket exemption from these guidelines.

We reviewed 219 commitments totalling \$897 million under 65 obligations. Of the 219 commitments we tested, we found only 6 of the commitments, totalling \$2.1 million, had excessive (no longer needed) balances as prescribed by applicable U.S. laws, regulations and USAID policies and procedures.

We noted that the Mission continuously reviewed unliquidated obligations/commitments to assure their continued validity. Pipeline analyses were conducted monthly. We reviewed the fiscal year 1996 year end "Section 1311 review"² and found overall it was adequately conducted and documented.

Despite the pipeline analyses and Section 1311 reviews, six commitments totalling \$2,064,406 should have been decommitted as of September 30, 1996 (see Appendix III). One commitment was for \$2.0 million and represented 99 percent of the total recommended for decommitment. The reasons these commitments were not decommitted varied. For example, the Mission did not decommit the balances at September 30, 1996 because financial management personnel anticipated a commitment document extension that never occurred or they anticipated additional payments needed to be processed. In general more vigorous application of existing analyses and monitoring procedures, and more persistent follow-up on unliquidated balances would result in more prompt decommitment actions. Nevertheless, because the Mission decommitted these commitments prior to our audit, we are not making any recommendation.

Other Matters - Commitments After September 30, 1996

While the worldwide audit was limited to unliquidated obligations/commitments as of September 30, 1996, we expanded the scope of our audit at USAID/Egypt to cover such obligations/commitments through August 15, 1997. In this expanded period, we found that 11 of the 219 unliquidated commitments reviewed should have been decommitted.

²Section 1311 of the Supplemental Appropriations Act of 1955

Recommendation No. 1: We recommend that USAID/Egypt decommit \$318,569 in excess balances identified as of August 15, 1997 and as described in Appendix IV of this report.

We reviewed the 219 commitments identified in our sample for the year ending September 30, 1996 and applied the same criteria as stated above, that was: to determine if they were valid and still needed for the purpose and the amount committed as of August 15, 1997.

We noted that the Mission continuously reviewed unliquidated obligations/commitments to assure continued validity for the purpose and the amount of the obligation/commitment. Pipeline analyses were conducted and presented Mission-wide quarterly. We reviewed the 1997 mid-fiscal year Section 1311 review and found overall it was adequately conducted and documented.

Despite the quarterly pipeline analyses and Section 1311 review, we found for the 219 commitments tested, 11 had excessive balances that should have been decommitted as of August 15, 1997. See Appendix IV for a listing. The total amount we considered excessive was \$318,569.

Again, the reasons these amounts were not decommitted varied from case to case; however, for the majority of cases, financial management personnel were not aware final vouchers had been paid. In general, greater persistence in following up on unliquidated commitment balances would help assure more timely decommitment action. The Mission should take action to decommit balances that are no longer needed.

Management Comments and Our Evaluation

The Mission agreed with the audit recommendation.

In response to Recommendation No. 1, the Mission decommitted \$318,569. Based on the action taken by the Mission, a management decision has been reached and final action has been taken. As a result, we consider Recommendation No. 1 closed.

SCOPE AND METHODOLOGY

Scope

This audit is part of the Office of Inspector General's (OIG) worldwide review of USAID's obligations for project and non-project assistance. The worldwide audit is limited to obligations for project and non-project assistance which had unliquidated balances on 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.

In conformance with the worldwide audit, the Regional Inspector General/Cairo audited USAID/Egypt's review and certification of unliquidated obligations (and the 219 commitments under those obligations) for project and non-project assistance, as of September 30, 1996. In addition, we audited USAID/Egypt's review and certification process as of August 15, 1997. The audit was conducted at USAID/Egypt, from June 18, 1997 through November 16, 1997, and was performed in accordance with generally accepted government auditing standards.

Methodology

At the request of IG/A/PA, USAID/Egypt compiled a list of its obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. USAID/Egypt's list contained 195 unliquidated obligations with balances totalling \$2.2 billion. We randomly selected 65 obligations totalling \$1.6 billion, under which there were 219 commitments totalling \$897 million, from the list for detailed audit testing. Random sampling will allow the OIG to make Agencywide projections based on field work performed at a limited number of sites. We have not, however, projected the results of our audit work at USAID/Egypt to the Mission as a whole.³

Because the accuracy and completeness of the Mission's list was crucial to our ability to make Agencywide projections, we interviewed appropriate Mission staff about their methodology in preparing the list and reconciled the list and its totals to other Mission reports.

³Note that we did not establish a materiality threshold for reporting on our work at USAID/Egypt because guidance for the worldwide audit required us to report all instances of non-compliance with USAID guidance.

While conducting our fieldwork at USAID/Egypt, we also performed limited tests of compliance with Agency and Mission procedures related to Section 1311 reviews and pipeline reviews of obligations for project and non-project assistance.

We reviewed each obligation to determine whether it was valid in accordance with the provisions of 31 U.S.C. 1501(a) and decisions of the U.S. General Accounting Office. When amounts were questioned, and if necessary, we contacted responsible activity managers and contracting/grant officers in order to make a determination regarding the validity of the obligation/commitment.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

DEC 22 1997

MEMORANDUM

TO : RIG/A/C, Lou Mundy
FROM : DIR, John R. Westley
SUBJECT : Audit of USAID/Egypt's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance. Draft Report Dated November 25, 1997.

My staff and I have read the results of the subject audit with great interest. The several very positive findings on our overall system of the periodic reviews of our program pipeline, confirmed that our management systems are well conceived and functioning as intended. While the audit found no invalid obligations, it did, however, identify several commitments within the expanded scope period where close-out actions had not been finalized at the time of the audit. The one recommendation made by the audit report, and our completed action are as follows:

Recommendation No. 1:

We recommend that USAID/Egypt decommit \$317,799 in excess balances identified as of August 15, 1997 and as described in Appendix IV of this report.

Mission Response:

Mission reviewed the subject report and agrees with the recommendation. Subsequent to the issuance of the draft report, the amount recommended for decommitment has been revised by RIG/A and USAID/FM/FO to read \$318,569.05. Based on the attached memo from USAID/FM/FO and the accompanying supporting documents, the \$318,569.05 was decommitted through several journal entries. Therefore, it is requested that recommendation No. 1 be closed upon issuance of the final report.

The valuable and collaborative efforts exercised by your staff during the audit are greatly appreciated.

Att: a/s

**Amounts That Should Have Been Decommited
As of September 30, 1996**

Commitment Number	Amount of Discrepancy	Reason for IG Recommendation
AG-NBD/USAID LOAN FUND	\$2,047,192.20	Last disbursement 7/94, reprogrammed in 9/96
CO-PCE-0001-I-16-2051	\$11,911.92	Expired 10/31/94, no activity for 2 years
PIL #12, MFAR QANTARA	\$4,340.31	Final payment made 9/10/96
CO-DHR-5555-Q-16-1085	\$337.00	Final payment made 5/28/96
MC-263-0132-03	\$526.37	Commitment end date 9/23/96, last disbursement 9/17/96
PIL # 16, PROJ 0144 LE	\$98.02	PIL expired 6/30/94, refund received 9/23/96
TOTAL	\$2,064,405.82	

**Amounts Recommended for Decommittment
As of August 15, 1997**

Commitment Number	Recommended for Decommittment (USD)	Reason for IG Recommendation
CO-DHR-5555-Q-38-1085	\$10,750.41	Final voucher paid 7/2/97
PIL # 72, PROJ 0132	\$50,593.93	Final voucher paid 4/24/97
PIL # 83, PROJ 0132	\$15,501.88	Final voucher paid 4/24/97
TA-PRJ-263-96-007	\$705.43	Incorrectly charged to this commitment
JV-263-87-569	\$330.50	Obligating document expired 5/31/97
PIL # 9, PROJ 0170 LE	\$10,203.76	Final voucher paid 7/24/97
L/COM-263-0193-01	\$2,593.36	Final voucher paid 3/26/96
CO-DHR-5555-Q-05-1087	\$1,967.74	Obligating document expired 4/30/96, final voucher paid 4/23/97
CO-263-0152-C-00-5057	\$200.00	Outstanding after decommitment on 2/25/97
PIL # 4, PROJ 0244.00	\$174,341.20	Completion date 9/30/96 and last disbursement 11/10/96
L/COM 263-0132.49	\$51,380.84	Final payment made 7/13/97
TOTAL	\$318,569.05	

Major Contributors to the Report

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Ken Reager, Referencer