

Regional Inspector General for Audit
Pretoria, Republic of South Africa

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

Report No. 4-674-98-003-F
November 17, 1997



Regional Inspector General
Pretoria

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MEMORANDUM FOR DIRECTOR, USAID/SOUTH AFRICA, Aaron Williams

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

SUBJECT: Audit of USAID/South Africa's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance, Report Number 4-674-98-003-F

This is our final report on the subject audit. We received your comments on our draft audit report and have included them in their entirety in Appendix II.

The report contains one recommendation for your action. This recommendation involves the deobligation of unliquidated funds totaling \$306,643 relating to seventeen obligations which were identified as having excessive balances as of September 30, 1996. To date, the Mission has deobligated \$80,241 of this amount. The Mission, however, still needs to review the remaining funds and determine the appropriate action to be taken with respect to these funds 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.

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) was selected for review. USAID/South Africa was among those missions randomly selected for review.

As of September 30, 1996, USAID/South Africa had 833 such obligations with unliquidated balances totaling approximately \$251.7 million.

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/South Africa 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.

Audit Findings

For the items tested, our audit found that USAID/South Africa 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, found that the Mission was not closing-out completed activities in a timely manner and identified activities, most awaiting closure, with excessive unliquidated balances totaling \$306,643, out of a total of \$1 million reviewed, as of September 30, 1996.

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 activities with the project officers to ensure that unliquidated obligations were valid and still needed.

Further, in reviewing a sample of the Mission's obligation transactions, we verified that each sampled transaction constituted a valid obligation and was supported by appropriate obligation documents on-file in the Mission's grant files. We also 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 September 1996.

However, our review of the sampled obligation transactions disclosed that a number of the Mission's unliquidated obligations were excessive and needed to be deobligated. Details concerning the audit finding and conclusions on this area are summarized below.

Some Obligations Had Excessive Balances

Unliquidated obligations/commitments covering project funded activities should be considered for deobligation/decommitment upon completion of the original planned activity so that these funds may be reprogrammed. Our audit, however, found that unliquidated balances relating to completed activities were not always deobligated in a timely manner and, in some cases, remained in the Mission's pipeline for a number of years. Although the Mission has initiated efforts to close-out some of these activities, many still continued to maintain excessive balances at the time of our field work and need to be deobligated to ensure that the balances comply with USAID guidance and do not exceed anticipated needs.

Recommendation No. 1: We recommend that USAID/South Africa review and deobligate, as appropriate, unliquidated obligations of \$306,643 related to the seventeen 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 deobligated in a timely manner after the terminal disbursement date had elapsed. Of the 30 obligation transactions reviewed, our audit identified 17 obligations totaling \$306,643 (see Appendix III), out of a total of approximately \$1.0 million, relating to completed activities with excessive balances as of September 30, 1996. One of these activities, with a balance of \$8,826, had an end date of June 30, 1993, yet remained in the pipeline for about four years before closeout actions were initiated.

Delays in the deobligation of these funds were attributed, in part, to (1) the Mission's deferral of deobligations, even when large excess balances were being maintained, until

after activities had been audited and closed out, (2) inadequate staffing within certain strategic objective (SO) teams which resulted in project officers not providing the level of oversight required to effectively monitor their respective pipelines, and (3) limited staff within the Contracting Office with which to reduce the Mission's large backlog of completed activities awaiting closeout. Examples include the following:

- ▶ Three of the 17 activities with excessive funds were awaiting closeout audit reports, but maintained unliquidated balances totaling \$182,623 in excess of projected audit costs.
- ▶ One activity expired on September 30, 1996 with an excess balance of \$100,000 which remained idle since a decision was not made as to whether the activity would be closed out or extended.
- ▶ Four of the 17 activities related to invitational travel under several educational projects which the Mission stated were understaffed, particularly at the time of the last 1311 review in September 1996.
- ▶ Five of the 17 activities related to Indefinite Quantity Contracts (IQCs) with unliquidated balances under \$600 which were given a low priority for closure as a result of the relatively small balances involved and staffing constraints.
- ▶ Four remaining activities related to a variety of different project activities which were awaiting close out by the Mission's close out team as of September 30, 1996 and have since been either closed out or are in the process of being closed out.

While the Controller's Office had indicated during their 1311 review that some of the 17 obligations were ready to be deobligated, the mission was faced with a large backlog of activities accumulated from prior years which were awaiting closeout and had limited staff with which to carry out this task. To reduce this backlog, the mission formed a closeout team within the Regional Contracting Office, consisting of three staff members, in late-1995. Although progress has been made toward reducing this backlog, the closure process is often slow and the closeout team can handle only a limited number of activities at a time. Nevertheless, at the time of our field work, we noted that 15 of the 30 sampled obligations, or half, were either already closed out or in the process of being closed out.

Since delays in the deobligation of these funds prevent the Mission from being able to fully utilize these funds and make them available to be reprogrammed, the Mission needs to review the excessive balances identified by our audit and deobligate these balances, as appropriate, so that the funds may be used for other project activities.

Management Comments and Our Evaluation

The Mission concurred with the audit finding and agreed to review the unliquidated balances identified by the audit and provide a management decision on these funds.

Scope and Methodology

As part of a USAID-wide audit, the Regional Inspector General/Pretoria audited USAID/South Africa'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/South Africa Mission in Pretoria, South Africa from June 11, 1997 through July 9, 1997. The audit universe included the Mission's 833 unliquidated project and non-project obligations which had balances totaling \$251.7 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 30 unliquidated obligations with balances totaling approximately \$1.0 million as of September 30, 1996 and performed limited tests of compliance with USAID procedures related to Section 1311 reviews. These tests included reviewing each sampled obligation to determine if the (1) transaction was valid according to criteria established by Title 31 U.S.C. 1501, and (2) unliquidated balance was sufficient to cover anticipated expenses in accordance with USAID guidance or excessive and needed to be deobligated or reprogrammed, as appropriate. In addition, we determined whether the Mission performed the required Section 1311 and pipeline reviews on 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/South Africa's Mission Accounting Control System (MACS) database.

Management Comments



United States
Agency for
International
Development

memorandum

DATE: November / 4 / 1997

TO: Joe Farinella, Regional Inspector General, Audit

THRU: Henry Reynolds^{HR}, Acting Mission Director

FROM: Robert P. Jacobs, Controller *RJ*

SUBJECT: AUDIT OF USAID/SOUTH AFRICA'S UNLIQUIDATED OBLIGATIONS

We concur with the recommendation that USAID/South Africa should review and deobligate, as appropriate, unliquidated obligations of \$306,643 related to the seventeen obligation transactions identified by the audit as having excessive balances as of September 30, 1996. To date we have deobligated \$80,240.63 related to thirteen obligation transactions, and we plan to deobligate, as appropriate, the remaining \$226,402.81 related to four obligation transactions with our next deob/reob exercise.

APPENDIX III

Amounts Recommended for Deobligation

Obligation No.	Amount Recommended to be Deobligated	Reason for IG Recommendation
TA-674-95-0254	\$164.76	invitational travel to mtg completed in 2/95
IQC-94-SN-WO-031	\$499.07	IQC bal for fin review completed & fully pd for
GA-674-0301-G-SS-3156	\$9,340.08	bal in excess of est. cost of pending RCA audits
674-0230-G-SS-9037	\$117,549.00	bal in excess of est. cost of pending ACA audit
HR-93-674-OF-1-2-017	\$13,000.00	activity completed (end date: 3/5/94)
IQC-94-SN-WO-030	\$75.38	IQC bal for fin review completed & fully pd for
674-0213-G-00-9013	\$8,826.00	activity completed (end date: 6/30/93)
TA-674-96-0289	\$75.71	invitational travel to mtg completed in 5/96
SSH-94-674-P-05	\$40.75	activity completed (end date: 12/21/94)
IQC-94-SN--WO-014	\$27.81	IQC bal for fin review completed & fully pd for
TA-674-95-0246	\$380.00	invitational trvl to mtg in 2/95; no costs claimed
IQC-94-PW-WO-033	\$540.87	IQC bal for fin review completed & fully pd for
TA-674-95-0258	\$91.58	invitational travel to mtg completed in 2/95
PO-674-0302-O-00-6727	\$53.26	bal on fee for conference facility rented in 5/96
IQC-95-PW-WO-047	\$245.07	IQC bal for fin review completed & fully pd for
GA-674-0303-G-SS-3050	\$55,734.10	bal in excess of est. cost of final RCA audit
GA-674-0303-G-SS-2048	\$100,000.00	grant ended 9/30/96; decision to extend pending
Total (rounded)	\$306,643	

 Obligation closed out or in the process of being closed out