Audit of USAID/Philippines' Review and Certification of the Regional Support Mission/East Asia's Unliquidated Obligations for Project and Non-Project Assistance

Audit Report No. 5-492-98-004-F
January 30, 1998

Regional Inspector General
Bangkok

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MEMORANDUM FOR DIRECTOR, USAID/Philippines, **Kenneth G. Schofield**

FROM: RIG/Bangkok, Bruce M. Watts

SUBJECT: Audit of USAID/Philippines' Review and Certification of the Regional Support Mission/East Asia's Unliquidated Obligations for Project and Non-project Assistance, Report No. 5-492-98-004-F

This memorandum is our final report on the subject audit. In preparing the report we considered your comments on the draft and included them as Appendix II. The audit identified a potentially invalid obligation totaling $15,000 and excessive obligations totaling $61,544, of which $40,751 could have been deobligated as of September 30, 1996 and an additional $20,793 which could have been deobligated at the time of audit. Furthermore, commitments of $90,681 and $77,608 could have been decommitted as of September 30, 1996, and at the time of audit, respectively.

The report contains two recommendations. Actions taken as described in your comments on the draft report are responsive to both Recommendation Nos. 1 and 2. We consider final action to have been taken on both of these recommendations.

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

Background

This audit is part of the Office of the Inspector General's (OIG) worldwide review of the Agency's 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's Regional Support Mission/East Asia (RSM), which closed on September 30, 1996, was among those missions randomly selected for review. We conducted our audit fieldwork at USAID/Philippines because the RSM's accounting portfolio was transferred to USAID/Philippines.

Mission records indicate that at September 30, 1996 the RSM portfolio included 71 unliquidated obligations for project and non-project assistance with balances totaling $112,589,998.[1]

Audit Objective

This audit was performed as part of a worldwide review and was designed to answer the following question:

> **Did USAID/Philippines review and certify the unliquidated obligations of the former Regional Support Mission/East Asia for project and non-project assistance in accordance with U.S. laws and regulations and agency policies and procedures?**

To test the effectiveness of the Mission's internal control systems related to this objective, we reviewed randomly selected obligations to determine whether the obligations, and their associated commitments, were valid when recorded and whether their unliquidated balances complied with Agency funding guidance. For the purposes of this audit we considered obligations and commitments to be excessive which did not appear to be required to meet immediate funding needs at September 30, 1996 and/or at the time of our audit fieldwork.

Appendix I contains a discussion of the scope and methodology for audit work conducted on the RSM portfolio at USAID/Philippines.

Audit Findings

USAID/Philippines did not review the obligations of the former RSM because it relied on recent reviews performed by RSM staff prior to the transfer of the RSM accounting portfolio. However, based on these reviews, USAID/Philippines did certify the unliquidated obligations of the former RSM for project and non-project assistance in accordance with U.S. laws and regulations and agency policies and procedures. The audit tested 60 or 85 percent of the 71 obligations with outstanding balances as of September 30, 1997. Tested items represented 80 percent of the dollar value of the 71 obligations.

[1] This report reflects unliquidated obligation balances as reported by USAID/Philippines for the Regional Support Mission/East Asia. We did not determine the accuracy of those balances.

The audit found one invalid obligation[2] among the 60 obligations tested. Furthermore, two of the tested obligations had excessive balances at September 30, 1996, while an additional five obligations were excessive at the time of our audit. Our tests also included examining the commitments that had been made under the 60 tested obligations. Two of these commitments were excessive at September 30, 1996, while an additional four commitments were excessive at the time of audit.

While the Mission relied on the reviews performed by RSM staff, we did note that a separate audit of USAID/Philippines' review process found that the Mission conducted periodic Section 1311 and pipeline reviews to ensure that unliquidated obligations and commitments were valid and still needed. Furthermore, while USAID/Philippines was unable to provide us with six requested obligation documents and one requested commitment document, it was not possible to determine whether the documents had been forwarded to USAID/Philippines by the RSM which had closed at the time of our audit.

An Obligation May Be Invalid

Through RSM Mission order 120.01, the Mission Director delegated authority to authorize travel to the Executive Officer. However, for one obligation in our sample, travel funds were obligated by the Deputy Controller in a memorandum without the authorization of the Executive Officer. In this instance, the RSM was funding the official travel of a Population Program fellow, whose salary was paid under a unilateral project. Since the unilateral project had no project agreement to serve as an obligating document, the Deputy Controller obligated these funds via a memorandum. In this isolated instance, the RSM made what may be an invalid obligation of $15,000. If, upon further review, the obligation is determined to be invalid, the Mission should take appropriate action to correct the affected accounting record.

Recommendation No. 1: We recommend that USAID/Philippines obtain a written opinion from the USAID Office of General Counsel as to the validity of the $15,000 obligation shown in Appendix III of this report and take appropriate actions based on that opinion.

[2] GAO'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 the goods or services being procured."

Some Obligations and Commitments
<u>Had Excessive Balances</u>

Of the 60 unliquidated obligations tested during this audit, we found two obligations, totaling $40,751, whose balances exceeded anticipated needs at September 30, 1996. Additionally, while not excessive at September 30, 1996, five additional obligations from the sample, totaling $20,793, had excessive balances at the time of our audit fieldwork. Review of the commitments made under the tested obligations revealed that two commitments, totaling $90,681, were excessive at September 30, 1996 while an additional four commitments, totaling $77,608, were excessive at the time of audit. The Mission should take action to deobligate or decommit balances that exceed anticipated needs or do not comply with Agency guidance.

<u>Recommendation No. 2</u>: We recommend that USAID/Philippines deobligate and decommit excess balances as described in Appendices III and IV of this report.

Each year, USAID's Bureau for Policy and Program Coordination issues guidance for the preparation of mission and office budgets. Guidance applicable to the period under audit stated that budgets should be prepared as follows:

> <u>New Projects or Activities</u> - Obligations should provide funding for at least the first 18 months, but not more than 24 months.
>
> <u>Continuing Activities</u> - 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.

We reviewed obligation balances as of September 30, 1996, and applied the Agency's guidance as follows:

> <u>New Activities</u> - In general, obligation or commitment balances were considered reasonable if they did not exceed anticipated expenses for a period of 24 months following the date of obligation or commitment, or through September 30, 1998, whichever was later.
>
> <u>Continuing Activities</u> - In general, obligation or commitment balances were considered reasonable if they did not exceed anticipated expenses for the 12-month period ending September 30, 1997, the expiration date of the obligating or commitment document, or the project assistance completion date, whichever was earlier. We also took into account balances of earlier or planned obligations which affected the continuing need for part or all of the unliquidated balance being audited. Any questioned amount was discussed with appropriate mission staff.

Finally, when assessing new and continuing activities, we considered USAID's Financial Management Bulletin - Part II - No.14A which contains Agency policy on the review of unliquidated obligations at field missions.

We determined that final payments on the two obligations found to be excessive as of September 30, 1996, had been made prior to that date (GR-493-0342-G-SS-0129 and GA-493-5544-G-SS-0146, see Appendix III). Accordingly, we believe the excessive funds related to these obligations should have been deobligated by September 30, 1996. USAID/Philippines overlooked these final payments because, rather than performing its own 1311 review, it relied on the review performed by the RSM shortly before the transfer of the RSM's accounting portfolio. We do not take exception to USAID/Philippines' reliance on the RSM's review because at that time, in our opinion, the RSM had far greater familiarity with the financial status and progress of the projects it was transferring to USAID/Philippines.

In addition to those obligations which were excessive at September 30, 1996, we identified five more obligations from our sample that had excessive balances at the time of our audit fieldwork. These obligations, as well as the reasons they are considered excessive, are detailed in Appendix IV.

Tests of the 60 obligations included reviewing the commitments made under the obligations. Two of the commitments had excessive balances as of September 30, 1996. The final payment on one of these commitments had been made prior to September 30, 1996 (PO-442-0116-0-00-6172, see Appendix III). The other commitment in question involved the reconstruction of a bridge (CO-442-0109-C-00-2386, see Appendix III). The contractor submitted a "final" bill in June 1996, which noted the payment due, but which also made an allowance for work that had not been completed. USAID subsequently directed the contractor to complete the remaining work and, after doing so, the contractor submitted another "final" bill which was paid in October 1996. In our opinion, since the contractor's June 1996 bill detailed both the amount due for completed work and the amount associated with the incomplete work, the Mission should have made an allowance for a final payment and decommitted the excessive amount prior to September 30, 1996, instead of waiting until May 1997 to decommit the balance.

We believe these excessive commitments were retained at September 30, 1996, because USAID/Philippines relied on the review performed by the RSM rather than performing its own 1311 review. However, as explained above, we do not take exception to the Mission's reliance on the RSM's review because at that time, in our opinion, the RSM had far greater familiarity with the financial status and progress of the projects it was transferring to USAID/Philippines.

In addition to the commitments which were excessive at September 30, 1996, we identified four more commitments that had excessive balances at the time of our audit. These commitments, as well as the reasons they are considered excessive, are detailed in Appendix IV.

Management Comments and Our Evaluation

USAID/Philippines officials concurred with the audit findings and have taken actions to correct the situations cited in the report. In response to Recommendation No. 1, Mission officials indicated that the potentially invalid obligation was only 0.009 percent of the total obligations selected for this audit and that the Mission had already deobligated the unliquidated balance of this obligation. Furthermore, Mission officials indicated that based on the advice of the Regional Legal Advisor, the former Executive Officer of the RSM, who had the authority to make the obligation in question, has prepared a Memorandum to the File which ratifies and confirms the obligation. Based on these actions, we deem that an appropriate management decision has been reached and that final action has been taken by the Mission.

With reference to Recommendation No. 2, Mission Officials have deobligated excess funds totaling $61,544 and decommitted funds totaling $168,289. Actions taken by Mission officials are responsive to Recommendation No. 2 and we consider final action to have been taken on this recommendation.

SCOPE AND METHODOLOGY

This audit is part of the Office of the Inspector General's (OIG) worldwide review of the Agency's obligations for project and non-project assistance. The worldwide review 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, established for disaster relief, or maintained by USAID for the Trade and Development Agency.

The Regional Inspector General/Bangkok audited USAID/Philippines' review and certification of unliquidated obligations for project and non-project assistance for the former Regional Support Mission/East Asia (RSM), as of September 30, 1996. The audit was conducted at USAID/Philippines, from June 23 through August 28, 1997, and was performed in accordance with generally accepted government auditing standards. At our request, USAID/Philippines compiled a list of RSM obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. From this list of 71 obligations, we selected a sample of 60 obligations or 85 percent for testing. The sample obligations had outstanding balances totaling $90,390,639 as of September 30, 1997 and represented 85 percent of the $112,589,998 in total balances outstanding for the 71 obligations listed by the Mission. Of the 60 sample obligations, the Mission was unable to locate six obligation documents totaling $8,108,648 as well as one associated commitment document. At the time of audit, it was not possible to determine whether the RSM had forwarded these documents to USAID/Philippines because the RSM had closed.

Our fieldwork at USAID/Philippines included tests to determine whether the sampled obligations, and their related commitments, were valid. These included limited tests of compliance with USAID procedures related to Section 1311 and pipeline reviews. A section 1311 review assesses the validity of obligations whereas a pipeline review assesses the unliquidated balances of those obligations.

We also reviewed the unliquidated balance of each selected obligation to determine whether, on September 30, 1996, the balance was needed, in full or in part, to cover expenses anticipated during reasonable future periods. In making these decisions, we considered Agency guidance for forward funding, activity-specific budgets and spending plans, actual disbursements, progress reports, accruals and USAID's Financial Management Bulletin - Part II - No.14A which contains Agency policy on the review of unliquidated obligations at field missions. When amounts were questioned, we interviewed relevant activity managers and contracting or grant officers. The results of field work on the RSM portfolio will be consolidated with the results of field work conducted at USAID/Washington and other missions and used to make Agency-wide projections.

In addition to capturing information and making calculations as of September 30, 1996, for Agency-wide projections, we determined whether the unliquidated balances for obligations and commitments reviewed were excessive at the time of our field work. If so, we recommended that the excess funds be deobligated or decommitted, as appropriate.

TO : Mr. Bruce Watts
RIG/A/B

FROM : Kenneth G. Schofield
Mission Director, USAID/Philippines

SUBJECT : Draft Report on the Audit of USAID/Philippines' Review and Certification of Former Regional Support Mission/East Asia's Unliquidated Obligations for Project and Non-Project Assistance, Report No. 5-492-98-xxx-F

Reference : Lokos-Redder Electronic Mail Report Transmittal dated October 9, 1997

USAID/Philippines presents the following comments and actions taken to resolve the two recommendations contained in the subject report.

Recommendation No. 1: We recommend that USAID/Philippines obtain a written opinion from the USAID Office of General Counsel as to the validity of the obligation shown in Appendix III of this report and take appropriate actions based on that opinion.

Comments/Actions Taken:

The obligation identified above pertains to the $15,000 obligation made for the travel of a Personal Services Contractor. Mission records indicate that the actual expenditures under this travel amounted to $8,371.35 or 56% of the obligated amount, and this is only 0.009% of the total obligations selected for this audit. The Mission has already deobligated the unliquidated balance of $6,628.65 per JV 97-141 (Attachment A).

Based on the advice of the Regional Legal Advisor, the former Executive Officer of the Regional Support Mission (RSM) who had authority to make the obligation in question, has prepared a Memorandum to the File which ratifies and confirms the action taken by the RSM's former Deputy Controller. A copy of the memo is shown in Attachment B.

USAID/Philippines, therefore, requests resolution and closure of Recommendation No. 1.

Recommendation No. 2: We recommend that USAID/Philippines deobligate and decommit excess balances as described in Appendices III and IV of this report.

Comments/Actions Taken:

The Mission would like the report to note that the excessive obligation amounting to $61,544 and referred to above represents just 0.07% of the total obligations tested. As shown in Attachment C, the Mission has already effected deobligation actions on this total amount, broken down into: (a) $40,751.23 - identified as excessive obligation as of 9/30/96; and, (b) $20,793.65 - identified as excessive obligation as of 6/23/97.

Furthermore, the Mission has effected decommitment actions on: (a) $90,680.98 - identified as excessive commitment as of September 30, 1996; and, (b) $77,608.09 - identified as excessive commitment as of 6/23/97.

Based on these actions, USAID/Philippines requests resolution and closure of Recommendation No. 2.

Mission Management's Representation Letter is shown under Attachment D.

Attachment: as stated

APPENDIX III

Amount Identified as an Invalid Obligation
As of September 30, 1996

Obligation No.	Amount of Original Obligation	Balance at 9/30/96	Reason for IG Conclusion
DEPUTY CONTROLLER'S MEMO 5/16/95	$15,000	$6,538	Obligation originated by an unauthorized person.

Amounts Identified as Excessive Obligations
As of September 30, 1996

Obligation No.	Amount of Excessive Obligation	Reason for IG Conclusion
GR-493-0342-G-SS-0129	$6,099	Excess over final payment.
GR-493-5544-G-SS-0146	$34,652	Excess over final payment.
TOTAL	$40,751	

Amounts Identified as Excessive Commitments
As of September 30, 1996

Commitment No.	Amount of Excessive Commitment	Reason for IG Conclusion
CO-442-0109-C-00-2386	$90,677	Excess over final voucher.
PO-442-0116-0-00-6172	$4	Excess over final payment.
TOTAL	$90,681	

Amounts Identified as Excessive Obligations
As of June 23, 1997

Obligation No.	Amount of Excessive Obligation	Reason for IG Conclusion
CO-410-0004-S-00-4539	$7,742	Excess on completed PSC contract.
TA-MON-95-016	$3,982	Excess on completed travel.
DEPUTY CONTROLLER'S MEMO 5/16/95	$3,438	The Mission received a refund on an expired lease.
TA-MON-95-017	$4,122	Excess on completed travel.
CO-493-0350-S-00-4540	$1,509	Excess on completed PSC contract.
TOTAL	$20,793	

Amounts Identified as Excessive Commitments As of June 23, 1997

Commitment No.	Amount of Excessive Commitment	Reason for IG Conclusion
GA-442-0100-G-00-2358	$23,092	Excess over final voucher.
FAO-0071-I-00-3070DO26	$51,653	Balance on terminated contract.
PO-442-0000-0-CP-6057	$436	Excess based on review of vouchers.
GA-ANE-0102-G-00-0060	$2,427	Excess based on grant close out.
TOTAL	$77,608	