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

Audit Report No. 5-492-98-005-F

January 30, 1998

Regional Inspector General
Bangkok

January 30, 1998

MEMORANDUM FOR DIRECTOR, USAID/Philippines, Kenneth Schofield

FROM: RIG/Bangkok, Bruce M. Watts

SUBJECT: Audit of USAID/Philippines' Review and Certification of Unliquidated Obligations for Project and Non-project Assistance, Report No. 5-492-98-005-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 excessive obligations totaling $938,803, of which $50,285 could have been deobligated as of September 30, 1996 and an additional $888,518 which could have been deobligated at the time of audit. Furthermore, commitments of $72,111 and $530,114 could have been decommitted as of September 30, 1996, and at the time of audit, respectively. This report recommends that the Mission deobligate and/or decommit the excessive funds. Since your comments to the draft report indicate that these funds have been deobligated and/or decommitted, we consider USAID/Philippines to have completed final action on the recommendation.

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/Philippines was among those missions randomly selected for review.

Mission records indicate that, at September 30, 1996, USAID/Philippines had 70 unliquidated obligations for project and non-project assistance with balances totaling $183,732,592.[1]

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

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 its unliquidated obligations 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 at USAID/Philippines.

Audit Findings

For the items tested, USAID/Philippines generally reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and agency policies and procedures. We noted that the Mission conducted periodic Section 1311 and pipeline reviews to ensure that unliquidated obligations and commitments were valid and still needed. The audit found, however, that one of the tested obligations was excessive at September 30, 1996, while an additional four obligations were excessive at the time of our audit. Our tests also included examining the commitments that had been made under the 16 tested obligations. Two of these commitments were excessive at September 30, 1996, while an additional seventeen commitments were excessive at the time of audit.

Some Obligations and Commitments Had Excessive Balances

Of the 16 unliquidated obligations reviewed during this audit, we found one obligation, in the amount of $50,285, whose balance exceeded anticipated needs at September 30, 1996. Further, while not excessive at September 30, 1996, four additional obligations from our sample, totaling $888,518, had excessive balances at the time of our audit fieldwork. Review of the commitments made under the tested obligations revealed that two commitments, totaling $72,111, were excessive at September 30, 1996 while an additional seventeen commitments, totaling $530,114, 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.

Recommendation No. 1: 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:

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

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

> New Activities - 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.
>
> Continuing Activities - 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.

The obligation found to be excessive as of September 30, 1996 (PA-AID NO. 492-0385), involved a partial refund of a cash advance USAID/Philippines had given to the Philippines Department of Agriculture. The Department had refunded $50,285 of the advance in June 1996 and the Mission had recorded the refund in timely manner. However, the Mission did not deobligate these funds until December 1996, primarily because the cognizant project accountant's 1311 review focused on commitments rather than including both commitment and obligations as required by Mission guidance. Since the grant agreement had expired in December 1991, the obligation was no longer needed and, in our opinion, should have been deobligated at the time the refund was received.

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

Our tests of the 16 obligations included reviewing the commitments made under those obligations. Two of these commitments, which funded various components of the Rural Electrification Project (Obligation No. PA-AID-NO. 492-0429), had excessive balances as of September 30, 1996. One, L/COM 492-0429-96-01, financed the purchase of computers and software for the National Electrification Administration. Although the bill for these items was paid in February 1996, the Mission was still carrying the residual commitment balance of $1,550 at September 30, 1996. The other commitment, PIL# 65, financed the National Electrification Administration's 1995 training plan. After making the last payment for training in January 1996, the Mission was still carrying a $70,938 balance at September 30, 1996. We believe these balances should have been decommitted prior to September 30, 1996, but remained on the books because the cognizant project accountant had not realized that the final payments had been made.

In addition to the commitments which were excessive at September 30, 1996, we identified seventeen more commitments that had excessive balances at the time of our audit. These commitments, 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 indicate they have deobligated excess funds totaling $938,804 and decommitted funds totaling $602,226. These actions are responsive to Recommendation No. 1 and we consider final action on this recommendation to be completed.

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. Furthermore, the OIG did not establish materiality thresholds for this audit at the mission level because it was believed that insufficient items were being tested to provide reasonable assurance at each mission selected for review.

The Regional Inspector General/Bangkok audited USAID/Philippines' review and certification of unliquidated obligations for project and non-project assistance, 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 its obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. We did not determine the accuracy of the balances. From the list, totaling $183,587,597, we randomly selected 15 obligations totaling $24,048,433 for detailed audit testing. We also tested one obligation in the amount of $144,995 that we determined was erroneously omitted from the Mission's list of unliquidated balances. Random sampling will allow the OIG to make Agency-wide projections based on field work performed at a limited number of sites.

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 at USAID/Philippines 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/Bangkok
FROM	:	Kenneth G. Schofield Mission Director, USAID/Philippines
SUBJECT	:	Draft Report on the Audit of USAID/Philippines' Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance, Report No. 5-492-98-00X-F
Reference	:	Lokos-Redder Electronic Mail Report Transmittal dated October 10, 1997

USAID/Philippines presents the following comments and actions taken on the only recommendation contained in the subject report.

Recommendation No. 1:

> "We recommend that USAID/Philippines deobligate and decommit excess balances as described in Appendices III and IV of this report."

Comments/Actions Taken:

The excessive funds identified in this audit are mostly due to cost savings during project implementation and modification in project approach. Given these reasons, we believe that excessive funds identified in this audit should be viewed as a result of effective project management of Mission resources. In addition, the Mission would like the report to note that the amount of $938,803 identified as excessive obligations represents only 0.5% of the total obligations unliquidated as of September 30, 1996.

The Mission would also like to comment on the obligation guidance (page 2) that was used in this audit to determine whether obligations and commitments had excessive balances. We believe that some flexibility is necessary to implement these guidelines because specific activities require funds to be obligated/ committed for the entire life of the activity (i.e., fixed amount reimbursements and fixed price contracts). Closing out activities (i.e., demobilizing, final audit, etc.)

may also take longer than 12 months, especially if the close-out involves a U.S. organization. Furthermore, it is more cost effective to obligate funds for a year and a half than to prepare two contracting actions in order to meet the yearly guidelines for continuing activities. However, the Mission will continue to effectively obligate its funds in order to maximize results and comply with these guidelines as best as possible, given our limited resources.

To date, the Mission has already effected de-obligation actions on this, broken down into: (a) $50,285.37 excessive obligations as of September 30, 1996, and (b) $888,518.39 excessive obligations as of June 23, 1997. The Mission has, likewise, effected deobligation/decommitment actions on the total amount of $602,225.65 identified as excessive commitments.

Details of the above-stated actions taken are presented under **Annex A** of this report.

Based on the above-stated actions that cover all of the findings in this report, USAID/Philippines requests that Recommendation No. 1 be considered resolved and closed.

Mission Management's Representation Letter is shown under **Annex B.**

Thank you.

Attachments: as stated

Appendix III

Amounts Identified as Excessive Obligations
As of September 30, 1996

Obligation No.	Amount of Excessive Obligation	Reason for IG Conclusion
PA-AID-NO. 492-0385	$50,285	Funds related to a refund received in June 1996 were not deobligated until December 1996.

Amounts Identified as Excessive Commitments
As of September 30, 1996

Commitment No.	Amount of Excessive Commitment	Reason for IG Conclusion
L/COM 492-0429-96-01	$1,550	The computers and software financed by this letter of commitment had been paid for in February 1996.
PIL#65	$70,561	Final payment for the training financed by this PIL was made in January 1996.
TOTAL	$72,111	

Amounts Identified as Excessive Obligations
As of June 23, 1997

Obligation No.	Amount of Excessive Obligation	Reason for IG Conclusion
AID 492-0419-G-SS-2124-00	$990	Excess over final voucher.
AID 492-0419-G-SS-0102	$16,800	Excess over results of final audit.
AID 492-0470-G-SS-3028	$20,576	Excess after allowing for final audit.
PA-AID-NO.492-0446	$850,152	Uncommitted funds remaining after PACD
TOTAL	$888,518	

Amounts Identified as Excessive Commitments
As of June 23, 1997

Commitment No.	Amount of Excessive Commitment	Reason for IG Conclusion
492-0395-G-SS-4025	$148,589	The amount of this grant was reduced in August 1997.
492-0395-G-SS-2160	$18,174	Excess based on recipient contracted audit.
492-0395-G-SS-4019	$7,174	Excess based on close out review.

Amounts Identified as Excessive Commitments
As of June 23, 1997

Commitment No.	Amount of Excessive Commitment	Reason for IG Conclusion
492-0395-G-SS-5018	$4,164	Refund by grantee.
492-0395-S-00-5304	$12,899	Excess on completed PSC contract.
492-0395-G-SS-2119	$4,558	Excess based on grantee's final expenditure report.
492-0395-S-00-2038	$8,674	Excess on completed PSC contract.
492-0395-S-00-3059	$7,510	Excess on completed PSC contract.
492-0395-G-SS-6022	$231	Excess funds from completed grant.
492-0395-G-SS-6033	$234	Excess based on final voucher.
492-0395-G-SS-6024	$232	Excess on completed grant.
492-0395-G-SS-6039	$244	Excess on completed grant.
492-0395-G-SS-6045	$227	Excess on completed grant.
492-0446-C-2114	$300,000	Decrease in amount of contract.
492-0446-0-00-6018	$303	Excess on completed PSC contract.

Amounts Identified as Excessive Commitments
As of June 23, 1997

Commitment No.	Amount of Excessive Commitment	Reason for IG Conclusion
492-0446-S-00-2190	$16,822	Excess on completed PSC contract.
PO 492-0-00-97-00615	$79	Exchange rate fluctuation.
TOTAL	$530,114	