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December 10, 1997

MEMORANDUM

TO: OAR/Poland, William M. Frej

FROM: for RIG/Budapest, James R. Bonnell W.T. Burris

SUBJECT: Audit Report No. B-181-98-001-F, Audit of the Office of the AID Representative/Poland's (OAR/Poland) Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance

This is our final report on the subject audit. In preparing the report we considered your comments to the October 10, 1997 draft report and have included these comments as Appendix II. We concur with your decision to issue mission orders as suggested by Recommendation Nos. 1 and 2, and with your action to deobligate $110,464.72 rather than the $900,000 suggested in Recommendation No. 3. Based upon your response to these recommendations, we conclude that no further management action is needed.

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

Background

This audit was part of a world-wide audit led by the Office of Inspector General's Division of Performance Audits (IG/A/PA). The audit was designed to project, on the basis of a statistical sample, the total amount of invalid or excessive unliquidated obligations for USAID's project and non-project assistance as of September 30, 1996. Excluded from the audit were obligations funded with U.S.-owned local currency, obligations for disaster relief, and obligations maintained by USAID for the Trade and Development Agency.

IG/A/PA randomly selected the USAID sites for detailed audit work and using data submitted by the missions, randomly selected the specific unliquidated obligations to be reviewed. A total of 19 sites were selected for this audit (USAID/Washington and 18 missions including OAR/Poland).

As of September 30, 1996, OAR/Poland had 133 unliquidated obligations which had unexpended balances totaling $46,869,949. The statistical sample for the world-wide audit

selected 60 of these obligations with unexpended balances totaling $19,000,986. We reviewed these 60 unliquidated obligations to determine whether the balances were appropriate as of September 1996. The results of this review were submitted to IG/A/PA for its use in preparing the world-wide report.

We subsequently performed a second review of the 60 unliquidated obligations to determine whether the balances were appropriate at the time of audit (July 24, 1997 rather than September 30, 1996). This review was expanded to include an additional 30 obligations because they were associated with the contracts/grants covered by the original sample of 60. The 90 obligations had unliquidated balances of $34,552,518 as of September 30, 1996. The results of the analysis of the 90 obligations form the basis for this report which specifically addresses OAR/Poland.

Audit Objective

This audit was designed to answer the following objective:

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

Appendix I contains a discussion of the scope and methodology for audit work conducted at OAR/Poland.

Audit Findings

For the items tested, OAR/Poland reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations. All 90 of the obligations tested were valid as prescribed by law. Each obligation was supported by a properly executed obligating document (e.g., contract, cooperative agreement or grant), and there were no material discrepancies noted between the descriptive data shown on these documents and comparable data recorded in the applicable financial records. In addition, over 97 per cent of the unliquidated balances tested were appropriate.

However, the audit concluded that approximately $900,000 of the unliquidated balances reviewed were excessive to anticipated needs as defined by USAID's forward funding guidance. We believe this excess funding could have been avoided had the existing internal control system been followed.

Adherence to Internal
Controls Needs Emphasis

OAR/Poland's system of internal controls included, in addition to USAID instructions, written procedures for funds control as well as specific procedures for advances to nonprofit organizations and accruals of quarterly expenditure. For the most part, these controls appeared to be sufficient as all the obligations reviewed were valid and over 97 per cent of the unliquidated balances examined were appropriate. However, OAR/Poland officials did not always adhere to these controls as evidenced by the excess funds identified during the audit. Specifically, they did not always follow USAID's guidelines for forward funding and documenting Section 1311 reviews.[1] Responsible officials were not fully aware of or did not focus on these requirements, and supplementary financial data such as budget/spending plans were not always available to help judge the appropriateness of the amount requested in a funding action. As a result, the audit concluded that as of July 24, 1997, approximately $900,000 in unliquidated obligations were potentially excess to OAR/Poland's requirements and could be either deobligated or reprogrammed for other uses.

> **Recommendation No. 1: We recommend that the Office of the AID Representative/Poland issue a Mission Order which: a) explains USAID's forward funding rules; (b) requires a budget/spending plan justifying the amount requested to accompany a funding request; (c) requires an analysis of the pipeline before approving a funding request; and (d) requires a comparison of the pipeline per contractor/grantee records with those of the Controller Office when the contractor/grantees are late reporting their expenditures.**

> **Recommendation No. 2: We recommend that the Office of the AID Representative/Poland issue a Mission Order which explains how the Section 1311 review should be performed in order to comply with USAID guidelines. This instruction should stress the need to fully document with work papers the work performed to review each obligation and the conclusion reached.**

> **Recommendation No. 3: We recommend that the Office of the AID Representative/Poland deobligate the $900,000 in excess balances described in Appendix III of this report.**

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[1] The Supplemental Appropriations Act of 1955, Title 31 U.S. Code 1501 (a), establishes criteria for recording valid obligations. Under this Federal law, the Agency is required to submit an annual certification that all reported obligations meet the criteria for valid obligations. These reviews are called "Section 1311 Reviews."

The forward funding guidelines issued for fiscal year 1996 stipulated the following requirements for preparing budgets:

- New Projects or activities: Obligations should provide funding for at least the first 18 months, but no 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 applied these guidelines to determine whether any of the obligations tested had excessive balances. If the first test of the unliquidated balance determined that an obligation had an excessive balance as of September 30, 1996, a second test was performed of the balance as of the date of audit (July 24, 1997). This second test was performed to identify excessive balances which could be deobligated or reprogrammed. To make this determination, an unliquidated balance was considered to be reasonable if it was sufficient to fund anticipated expenses through September 30, 1998, the expiration date of the obligation, or the expiration of the project completion date, whichever was earlier. We took into account balances of earlier or planned obligations which affected the continuing need for part or all of the unliquidated balances being audited. Any questioned amounts were discussed with appropriate staff.

Applying these standards to the 90 obligations selected for review showed that eight obligations totaling $900,000 had excessive balances. Appendix III lists these eight obligations and explains the reasons why we believe they are excessive.

USAID's Financial Management Bulletin for Project Accounting (Part II, Bulletin No. 3, dated July 1992) states that work papers providing documentary support for Section 1311 reviews must indicate the action taken to examine the validity of each unliquidated obligation and commitment. Financial Management Bulletin, Part II, No. 14A, Obligation Reviews at Missions, states that the accounting reports used in the Section 1311 reviews should be annotated to show (1) the date of the review and the names of the reviewers, (2) the decision made regarding each obligation/commitment along with the rationale, and (3) the action to be taken to adjust the affected accounts.

OAR/Poland's reviews did not adhere to these requirements. Generally, the only documentation in the work papers was the notation " deobligate" written next to a balance flagged for deobligation. For the majority of obligations/commitments, there were no notations made in the work papers. Without proper documentation, it was not possible to determine the thoroughness and reasonableness of OAR/Poland's decision to retain an unliquidated obligation.

OAR/Poland officials stated that excessive balances occurred because:

- Funding actions were not always critically reviewed by the controller to determine whether the amounts requested complied with the forward funding guidelines (often budgets or cash flow statements were not available).

- Some mission staff did not appear to be fully aware of these guidelines.

- A comparison was not made between the pipeline shown on the contractor/grantee records and the pipeline shown in the Controller Office records before approving a funding action. Contractors/grantees were frequently late in submitting expenditure reports; hence, the Controller Office records did not always give the current status of the pipeline.

- The Section 1311 review could have focused more attention on whether the pipeline may be excessive at earlier stages of implementation rather than when the activity was ending.

In summary, OAR/Poland reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with laws and regulations. The instances where a balance was excessive occurred because OAR/Poland did not always adhere to USAID's forward funding guidelines or the requirements for performing a Section 1311 review. OAR/Poland can ensure better adherence with these requirements by issuing guidance explaining how it will comply with forward funding rules and the requirements for a Section 1311 review. Furthermore, the excessive balances identified during the audit should be deobligated or reprogrammed for other uses.

Management Comments and Our Evaluation

OAR/Poland generally concurred with the findings and recommendations. It acknowledged the internal control weaknesses identified in the audit and demonstrated that it had taken steps to correct the conditions described in Recommendation Nos. 1 and 2. However, it requested a modification of Recommendation No. 3 based on additional information not available at the completion of audit field work. We reviewed this information and concur with OAR/Poland's assessment and their action to deobligate $110,464.72 rather than the $900,000 suggested in recommendation three. Based upon management comments, we conclude that no further management action is needed on the three recommendations (see Appendix II for OAR/Poland's response).

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Budapest audited the Office of the AID Representative/Poland's (OAR/Poland) review and certification of unliquidated obligations for project and non-project assistance. This audit was part of a world-wide audit managed by the Office of Inspector General's Division of Performance Audits (IG/A/PA) and designed to project, on the basis of a statistical sample, the total amount of invalid or excessive unliquidated obligations for project and non-project assistance as of September 30, 1996. The audit excluded obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID for the Trade and Development Agency.

Audit field work began at OAR/Poland in Warsaw on June 23, 1997 and was finished on July 25, 1997. The audit objective was to determine whether OAR/Poland 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. The audit was conducted in accordance with generally accepted government auditing standards.

Methodology

At the request of the IG/A/PA, OAR/Poland compiled a list of its obligations for project and non-project assistance which had unliquidated balances as of September 30, 1996. The list showed 133 obligations with unliquidated balances totaling $46,869,949. Our statistical sample for detailed testing included 60 of these obligations totaling $19,000,986. Since the accuracy and completeness of this list was crucial to the OIG's ability to make such projections, we reviewed the universe of obligations at the beginning of the audit and confirmed that it included all obligations for project and non-project assistance with unliquidated balances as of September 30, 1996.

The results of this random sample were provided to IG/A/PA for its use in making projections. For this report, we expanded our test to include 90 obligations with unliquidated balances of $34,552,518 as of September 30, 1996. We included the additional 30 obligations because they were related to the contracts/grants covered by the original sample of 60.

In this report, we evaluated these 90 obligations to determine whether:

(1) they were valid in accordance with applicable laws, regulations and procedures;

(2) they could be deobligated and/or decommitted and reprogrammed for better use; and

(3) the associated internal controls were effective.

In making these determinations we applied the same criteria and tests as for the results provided to IG/A/PA. The unliquidated balance of each selected obligation was reviewed to determine whether the balance was needed, in full or in part, to cover anticipated expenses during reasonable future periods. For the world-wide report, we analyzed the situation as of September 30, 1996. For this report, this determination was made as of the date the field work was completed.

Internal controls reviewed included OAR/Poland's written procedures for funds control, advances to nonprofit organizations under grants and cooperative agreements, and quarterly expenditure accruals. We also reviewed the two Section 1311 reviews conducted during fiscal year 1996 and the 1996 Federal Managers' Financial Integrity Act certification.

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AIDAC

AID FOR ENI/DGSR/HRDSR CCOLEMAN
AID FOR RIG/BUDAPEST JRBONNELL
E.O. 12958: N/A

SUBJECT: AUDIT OF OAR/POLAND'S REVIEW AND CERTIFICATION OF UNLIQUIDATED OBLIGATIONS FOR PROJECT AND NON-PROJECT ASSISTANCE, DRAFT REPORT DATED OCTOBER 14, 1997

1. OAR/POLAND REVIEWED THE SUBJECT DRAFT AUDIT REPORT AND GENERALLY CONCURS WITH THE FINDINGS AND RECOMMENDATIONS. THE MISSION ACKNOWLEDGES THE INTERNAL CONTROL AND PROCEDURAL WEAKNESSES REPORTED IN THE AUDIT FINDINGS AND IS TAKING STEPS DESCRIBED IN THE FOLLOWING PARAGRAPHS TO CORRECT THE OAR/POLAND SYSTEMS. HOWEVER, WE REQUEST A MODIFICATION OF RECOMMENDATION NO. 3, BASED ON ADDITIONAL INFORMATION AND DISBURSEMENT ACTIONS WHICH PRECLUDE OUR ABILITY TO COMPLY WITH THE RECOMMENDATION AS WRITTEN.

2. RECOMMENDATION NO. 1: THE RECOMMENDED MISSION ORDER HAS BEEN ISSUED TO REFLECT AGENCY/BUREAU FORWARD FUNDING GUIDANCE. THE MISSION ORDER INCLUDES APPROPRIATE PROCEDURES TO ASSURE PROPER JUSTIFICATION OF FUNDING REQUESTS BASED ON AN ANALYSIS OF THE UNLIQUIDATED BALANCES OF PRIOR OBLIGATIONS AND PROJECTED FUNDING REQUIREMENTS, IN ACCORDANCE WITH THE AGENCY/BUREAU GUIDANCE. THE SIGNED MISSION ORDER WILL BE PROVIDED TO RIG/BUDAPEST PRIOR TO THE ISSUANCE OF THE FINAL AUDIT REPORT AND OAR/POLAND REQUESTS THAT THIS RECOMMENDATION BE CLOSED CONCURRENT WITH THE

ISSUANCE OF THE FINAL AUDIT REPORT. THE TEXT OF THE APPROVED M.O. IS BEING EMAILED TO YOU.

3. RECOMMENDATION NO. 2: ANOTHER RECOMMENDED MISSION ORDER HAS BEEN ISSUED REGARDING RESPONSIBILITIES AND PROCEDURES FOR THE CONDUCT OF SECTION 1311 REVIEWS. THE PROCEDURAL REQUIREMENTS INCLUDES GUIDANCE ON THE DOCUMENTATION NECESSARY TO SUPPORT THE ANALYSIS. THE SIGNED MISSION ORDER WILL BE PROVIDED TO RIG/BUDAPEST PRIOR TO THE ISSUANCE OF THE FINAL AUDIT REPORT AND OAR/POLAND REQUESTS THAT THIS RECOMMENDATION BE CLOSED CONCURRENT WITH ISSUANCE OF THE FINAL AUDIT REPORT. THE TEXT OF THIS APPROVED M.O. IS ALSO BEING EMAILED TO YOU.

4. RECOMMENDATION NO. 3: THE AUDITORS ANALYSIS OF OBLIGATIONS UNDER GRANT NO. G-181-0029-G-00-4009, TO THE UNIVERSITY OF MARYLAND FOR THE MANAGEMENT EDUCATION IN POLAND PROJECT, WAS BASED ON THE PROJECTION OF AVERAGE EXPENDITURE RATES, EXPERIENCED DURING THE PRE-AUDIT PERIODS, OVER THE REMAINING LIFE OF THE GRANT. THIS LED TO THE CONCLUSION THAT GRANT EXPENDITURES WOULD NOT EXCEED DOLLARS 1,450,000 FOR THE TOTAL PERIOD OF THE GRANT, MAKING THE ADDITIONAL OBLIGATED AMOUNT OF DOLLARS 800,000 EXCESS TO THE NEEDS OF THE PROJECT.

SUBSEQUENT TO THE AUDIT DATE THE MISSION PROJECT STAFF OBTAINED AN UP-DATED, COMPREHENSIVE PIPELINE ANALYSIS FROM THE GRANTEE WHICH NOT ONLY JUSTIFIES THE AMOUNT ALREADY OBLIGATED BUT CONFIRMS THAT AN ADDITIONAL OBLIGATION IN THE AMOUNT OF DOLLARS 383,888 WILL BE REQUIRED IN THE FINAL GRANT YEAR (FY 98). THE GRANTEE'S REPORT OF EXPENDITURES THROUGH SEPTEMBER 30, 1997, REFLECTS ACTUAL DISBURSEMENTS IN THE AMOUNT OF DOLLARS 1,623,236 AND PROJECTED EXPENDITURES FROM OCTOBER 1 THROUGH DECEMBER 31, 1997, IN THE AMOUNT OF DOLLARS 500,235. THE PROJECTED UNLIQUIDATED BALANCE OF OBLIGATED FUNDS AS OF DECEMBER 31, 1997, IS DOLLARS 126,429. THE PROJECT EXPENDITURES DURING THE FINAL QUARTER OF 1997 INCLUDES EQUIPMENT PURCHASES IN THE AMOUNT OF DOLLARS 279,000, FOR WHICH THE GRANTEE IS AWAITING RCO APPROVAL. THE ORIGINAL GRANT APPROVAL PROVIDED FOR A PROJECT BUDGET IN THE AMOUNT OF DOLLARS 2,633,888, AND THE GRANTEE HAS ASSURED THE MISSION THAT ELABORATION OF THE WORK PLAN FOR THE REMAINING PERIOD OF THE GRANT WILL CLARIFY THE NEED FOR THE REMAINDER OF THE UNOBLIGATED BUDGET.

THE MISSION ACKNOWLEDGES THAT, IN RETROSPECT, THE APRIL 12, 1996, OBLIGATION IN THE AMOUNT OF DOLLARS

1,250,000, EXCEEDED THE FUNDING REQUIREMENTS OF THIS GRANT FOR THE PERIOD OF 12 MONTHS BEYO
ND THE END OF FY
96 (I.E. THROUGH SEPTEMBER 30, 1997), AS PROVIDED IN THE FORWARD FUNDING GUIDELINES. FURTHERMORE, DOCUMENTATION WAS NOT MADE AVAILABLE TO THE AUDITORS TO PROVIDE ADEQUATE JUSTIFICATION FOR THE AMOUNT OF THE OBLIGATION, EITHER AT THE TIME THE OBLIGATION WAS INCURRED OR DURING THE COURSE OF THE AUDIT. THE GUIDELINES ARE INTENDED TO ASSIST THE AGENCY, BUREAU AND MISSION IN THE PRIORITIZATION OF RESOURCES AND TO HELP LIMIT THE SIZE OF PROGRAM PIPELINES, BUT THE GUIDELINES GO ON TO ACKNOWLEDGE THAT, QUOTE SOME FLEXIBILITY IN FORWARD FUNDING MAY BE REQUIRED TO FACILITATE EXECUTION OF SOME ACTIVITIES....END-QUOTE. THE FIRST PARAGRAPH OF THE GUIDELINES DOCUMENT STATES THAT, QUOTE MISSIONS SHOULD JUSTIFY INCREMENTAL FUNDING TO PROGRAMS WITH EXCESSIVE PIPELINE END-QUOTE. WE BELIEVE THAT AT THE TIME THIS OBLIGATION WAS MADE THE BUREAU AND THE MISSION ANTICIPATED THE NEED FOR THE FUNDING AND, CONSIDERING THE PRIORITIZATION OF RESOURCES AVAILABLE THROUGH THE END OF THAT FISCAL YEAR, APPROVED AND RECORDED THE OBLIGATION IN GOOD FAITH. HOWEVER, THE MISSION DID NOT PROVIDE DOCUMENTATION TO JUSTIFY FUNDING OF THE PROGRAM IN EXCESS OF THE PIPELINE GUIDANCE AT THE TIME OF THE OBLIGATION.

THE AUDIT REPORT RECOMMENDS THAT OAR/POLAND DEOBLIGATE THE AMOUNT OF DOLLARS 800,000 DETERMINED BY THE AUDITORS TO BE EXCESS TO UNIVERSITY OF MARYLAND MANAGEMENT PROJECT NEEDS. ACTUAL EXPENDITURES, AS REPORTED BY THE GRANTEE THROUGH SEPTEMBER 30, 1997, HAVE ALREADY EXCEEDED THE AMOUNT COMPUTED BY THE AUDITORS AS BEING REQUIRED FOR THE TOTAL OF THE REMAINING GRANT ACTIVITIES, THROUGH SEPTEMBER 30, 1998. THE UNEXPENDED BALANCE AS OF SEPTEMBER 30, 1997 WAS DOLLARS 626,764 AND ADDITIONAL AMOUNTS HAVE BEEN EXPENDED SINCE THAT DATE. THEREFORE, IT IS NOT POSSIBLE TO COMPLY WITH THE STRICT WORDING OF THE RECOMMENDATION WHICH WOULD REQUIRE THE MISSION TO DEOBLIGATE FUNDS WHICH HAVE ALREADY BEEN EXPENDED. FURTHERMORE, THE GRANTEE HAS PROVIDED DOCUMENTATION TO JUSTIFY RETENTION OF THE OBLIGATED FUNDS AND THE NEED FOR AN ADDITIONAL OBLIGATION UP TO THE TOTAL APPROVED AMOUNT OF THE GRANT. ACCORDINGLY, OAR/POLAND REQUESTS THAT THE RIG MODIFY TO THE DRAFT REPORT WORDING TO ALLOW THE MISSION THE NECESSARY FLEXIBILITY TO DETERMINE WHAT AMOUNT, IF ANY, SHOULD BE DEOBLIGATED WITHIN THE SCOPE OF RECOMMENDATION NO. 3.

WITH REGARD TO OBLIGATIONS WITH EXCESSIVE FUNDING BALANCES IN CONTRACT NO. CO-181-0023-C-00-5202, THE MISSION CONCURS WITH THE AUDIT FINDINGS. THE PROJECT MANAGER CONTACTED THE CONTRACTOR TO DETERMINE THE STATUS OF CONTRACT BILLINGS. THE CONTRACTOR ADVISED THE MISSION THAT THE FINAL INVOICE HAD NOT YET BEEN FORWARDED TO THE MISSION. HOWEVER, THE CONTRACTOR PROVIDED THE AMOUNT OF THE FINAL VOUCHER AND AGREED THAT THE BULK OF THE UNLIQUIDATED BALANCE SHOULD BE DEOBLIGATED, AFTER PROVIDING FOR A REASONABLE RESERVE FOR CONTINGENCIES AND POSSIBLE FINAL OVERHEAD RATE AUDIT ADJUSTMENTS. SUBSEQUENTLY OAR/POLAND DEOBLIGATED DOLLARS 110,464.72 FROM THE CONTRACT BALANCES (THE AUDITORS RECOMMENDED A DEOBLIGATION OF DOLLARS 100,000).

OAR/POLAND IS FORWARDING COPIES OF THE UNIVERSITY OF MARYLAND EXPENDITURE AND PIPELINE REPORTS AND COPIES OF THE MISSION'S COMMITMENT LIQUIDATION RECORDS WHICH REFLECT THE DAI CONTRACT DEOBLIGATIONS. THE MISSION REQUESTS, SUBJECT TO YOUR REVIEW OF THE DOCUMENTATION, THAT RIG/BUDAPEST CLOSE RECOMMENDATION NO. 3 CONCURRENT WITH THE ISSUANCE OF THE FINAL AUDIT REPORT.

5. OAR/POLAND WISHES TO TAKE THIS OPPORTUNITY TO EXPRESS OUR APPRECIATION OF THE VALUABLE SERVICES PERFORMED BY THE RIG IN ASSISTING THE MISSION IN THE EFFICIENT AND EFFECTIVE MANAGEMENT OF OUR DEVELOPMENT ASSISTANCE TO POLAND. REGARDS. CLOUD
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Schedule of Potential Deobligations

The following table summarizes how the audit calculated the Office of the AID Representative/Poland's excessive funding balances:

Office of the AID Representative/Poland Obligations with Excessive Funding Balances as of July 24, 1997				
No.	Obligation Number	Balance of Unspent Funds	Possible Excess Funds	Note
1.	G-181-0029-G-00-4009	$ 1,250,000	$ 800,000	a
2.	CO-181-0023-C-00-5202	21,050	13,811	b
3.	"	24,110	15,819	"
4.	"	37,471	24,586	"
5.	"	8,110	5,321	"
6.	"	15,977	10,483	"
7.	"	3,200	2,100	"
8.	"	42,492	27,880	"
	TOTALS	$ 1,402,410	$ 900,000	

Notes:

(a) USAID's forward funding guidance for FY 1996 states that obligations should be sufficient to fund anticipated expenditures not more than 12 months beyond the end of the fiscal year in which the obligation took place. Grant G-181-0029-G-00-4009 was a four-year grant extending from September 30, 1994 to September 30, 1998. This grant contained the following three obligations:

1. $ 400,000, obligated 9/30/94
2. $ 600,000, obligated 7/27/95
3. $1,250,000, obligated 4/12/96

$2,250,000

Expenditures from September 30, 1994 through December 31,1995 were $290,433. Expenditure history for the first six months of CY 1996 indicate that the contractor has been spending about $35,000 per month. Required expenditures through the end of September 30, 1997 can therefore be calculated as follows:

1. Expenditures through 12/31/95: $ 290,433 (given - see above)
2. Expenditures from 1/1/96 thru 9/30/97 (21 months): $ 735,000 (est. - 21 mos. x $35,000).

$1,025,433

Based on these calculations, we believe that the first two obligations were needed. However, the third obligation should not have been obligated in April 1996. The entire $1,250,000 was excess as of September 30, 1996. We have calculated a reasonable balance for this grant as of the date of the audit as follows:

1. Expenditures through 9/30/97 :	$1,025.433 (estimated - see above)
2. Expenditures from 10/1/97 thru 9/30/98 (12 months):	$ 420,000 (est. - 12 mos. x $35k.)
	$1,445,433 (say $1,450,000)

It would appear that total expenditures on this grant as of its completion date of September 30, 1998 will not exceed $1,450,000. Therefore, the excess unliquidated obligations as of the date of the audit is $800,000 ($2,250,000 obligated less $1,450,000 expended).

(b) Contract CO-181-0023-C-00-5202, which ended on 6/30/97, was funded by seven obligations. During the first three months of 1997, the expenditure rate on this contract was about $52,500 (i.e., about $17,500 per month), and the contractor was expected to spend a similar amount during the remaining three months of the contract. The available funds on this contract as of July 1997 were $152,410; therefore, about $100,000 of this balance was excess and could be deobligated. This excess represents approximately 65.6% of the total unliquidated balance (100,000/152,410). Applying this rate to the unliquidated balances for this each obligation results in a possible excess fund balances shown in the table above. The responsible USAID official agreed that $80,000 to $100,000 should be available for deobligation at the end of the contract.