OFFICE OF INSPECTOR GENERAL

AUDIT OF COMPLIANCE WITH FORWARD FUNDING REQUIREMENTS BY MISSIONS IN THE LATIN AMERICA AND THE CARIBBEAN BUREAU

AUDIT REPORT NO. 1-598-08-006-P
JULY 29, 2008

SAN SALVADOR, EL SALVADOR

Office of Inspector General

July 29, 2008

MEMORANDUM

TO: See Distribution

FROM: Regional Inspector General/San Salvador, Timothy E. Cox /s/

SUBJECT: Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-006-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we have carefully considered the comments on the draft report, and we have included the comments in appendix II of the report.

The report contains two recommendations intended to help missions comply with forward funding policy.

In order to record a management decision for Recommendation No. 1, which will in turn allow the Audit, Performance, and Compliance Division (M/CFO/APC) to record final action when planned actions are completed, we need to reach agreement with each mission that was not in compliance with the forward funding limitations on the amounts, if any, to be deobligated or reprogrammed, along with target dates for competing these actions. The missions in El Salvador, Guatemala, and Honduras have processed waivers to the forward funding restrictions covering $40 million in excess obligations. The mission in Haiti has increased its expenditure projections for FY 2008 so that it now expects that the excess obligations identified in Table 2 will be completely spent by the end of FY 2008, and the mission in Mexico increased its expenditure projections so that it now expects that only about $0.5 million in excess obligations will remain at the end of FY 2008 all under expired agreements that are now candidates for deobligation. The missions in Bolivia, Brazil, Ecuador, Jamaica, Mexico, Nicaragua, Panama, Paraguay, and Peru still need to provide us the amounts to be deobligated or reprogrammed, together with planned target dates.

In order to reach a management decision on Recommendation No. 2, we need to reach agreement with every mission that had excess obligations as of September 30, 2007 on the new procedures to be used to prevent noncompliance with forward funding restrictions in the future, along with target dates for implementing the new procedures. USAID/Peru has already revised its procedures and USAID/Ecuador has a plan, with timeframes, for doing so. USAID/Jamaica and USAID/Paraguay agreed with the recommendation and provided information on how they planned to implement it but did not provide timeframes. To reach a management decision on Recommendation No. 2,

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the missions in Jamaica and Paraguay need to communicate their timeframes for implementing strengthened procedures, and the missions in Bolivia, Brazil, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, and Panama need to develop action plans with timeframes for implementing the recommendation or describe procedural improvements already implemented that will prevent violations of USAID's forward funding limitations in the future.

Determination of final action on the recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC).

I appreciate the cooperation and courtesy extended to the auditors on this assignment.

Distribution: USAID/Bolivia Acting Director, Peter Natiello
USAID/Brazil Acting Director, Eric Stoner
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CONTENTS

SUMMARY OF RESULTS

Automated Directives System (ADS) 602 provides policy direction and required procedures on forward funding for USAID program accounts. ADS Section 602.3.2 states that program managers should not forward fund[1] obligations for more than 12 months beyond the end of the fiscal year in which the obligation takes place. (See page 2.)

As part of its FY 2008 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Did USAID missions in the Latin America and the Caribbean region comply with forward funding limits in Automated Directives System 602? (See page 2.)

Most USAID missions in Latin America and the Caribbean did not comply with forward funding limitations. The missions exceeded forward funding limitations by at least $335 million in FY 2006 and earlier years and, as of September 30, 2007, the missions had $142 million in obligations that they did not expect to be able to spend during FY 2008. Based on missions' expected expenditures of $754 million during FY 2008, the $142 million represented about two months of expected expenditures. (See page 3.)

This report recommends that missions in the Bureau for Latin America and the Caribbean that were not in compliance with forward funding limitations as of September 30, 2007:

- Review their unexpended obligations and deobligate or reprogram $142 million in excess obligations. (See page 7.)

- Revise their procedures for reviewing and periodically deobligating or reprogramming unexpended obligations that exceed forward funding restrictions to better ensure compliance with these restrictions in the future. Each mission's procedures should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections. (See page 7.)

Although many missions agreed with the recommendations, they mentioned several constraints impacting unexpended obligations and their ability and flexibility to meet forward funding guidelines and to reprogram funds. Some constraints mentioned included congressional earmarks, Presidential initiatives, and central or regional programs. Despite these and other constraints, missions stated that they have unexpended obligation management and review systems in place to assist in compliance with forward funding guidelines. Our evaluation of management comments is provided on page 8. Mission comments in their entirety are included in appendix II.

[1] "Forward funding" means the availability of funds to support future expenditures for a specified time period after a planned obligation.

BACKGROUND

Funding decisions by USAID operating units must comply with the policy directives and required procedures in Automated Directives System (ADS) Chapter 602, "Forward Funding of Program Funds." A balance must be achieved between providing adequate funds for activities and the need to limit obligations to only required needs. If obligations are not expended in a reasonable amount of time, funds that could be used to fund other pressing needs will remain idle.

More specifically, ADS Section 602.3.2 states that program managers should not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligation takes place. ADS Section 602.3.3 describes five exceptions to this general requirement:

1. Participant training.

2. Construction activities.

3. New programs (for new programs, obligations must be sufficient to cover at least the first 18 months, but not more than 24 months).

4. Nonproject assistance.

5. Closeout countries.

In addition, this section allows operating unit directors to approve exceptions if compelling reasons exist. Such reasons must be documented.

The 16 missions in the Latin America and the Caribbean (LAC) region had unexpended obligations totaling $868 million as of September 30, 2007.

AUDIT OBJECTIVES

As part of its FY 2008 audit plan, the Regional Inspector General/San Salvador performed this audit to answer the following question:

- Did USAID missions in the Latin America and the Caribbean region comply with forward funding limits in Automated Directives System 602?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

USAID missions in the Latin America and the Caribbean (LAC) region did not comply with forward funding limits in Automated Directives System (ADS) 602. Of the $868 million in total unexpended obligations for the 16 missions in the LAC region as of September 30, 2007, $335 million (or 39 percent) pertained to obligations made in FY 2006 or earlier years that exceeded forward funding limitations. In addition, the unexpended obligations as of September 30, 2007 included $142 million that missions did not expect to be able to spend during FY 2008. Based on missions' expected expenditures of $754 million during FY 2008, the $142 million represented about two months of expected expenditures. The following section discusses these issues.

Missions Should Comply with Forward Funding Guidelines

Summary: USAID policy states that, with some exceptions, missions should not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligations take place. LAC missions exceeded forward funding limitations by at least $335 million in FY 2006 and earlier years and, as of September 30, 2007, LAC missions had $142 million in unexpended obligations that they did not expect to be able to spend during FY 2008. This occurred because of procurement delays, delays in program implementation, and overly optimistic expenditure projections. As a result, funds that could have been used to fund more pressing needs remain idle.

ADS Section 602.3.2 states that program managers must not forward fund obligations for more than 12 months beyond the end of the fiscal year in which the obligations take place. ADS Section 602.3.3 describes five exceptions to this general requirement, including participant training activities, construction activities, new programs, nonproject assistance, and closeout countries. This section also allows operating unit directors to approve exceptions if compelling reasons exist and are documented.

To help comply with the above forward funding guidance, the missions stated that they have instituted internal controls, including preparing monthly and quarterly analyses of unexpended obligations and annual portfolio reviews. Additionally, an analysis of unexpended obligations is required as part of modified acquisition and assistance request documents. Finally, in accordance with ADS 602, mission directors annually certify that funding amounts are consistent with USAID's forward funding policy.

However, most missions in Latin America and the Caribbean have not complied with the forward funding guidance. As of September 30, 2007, $335 million that was obligated in FY 2006 or prior years had not yet been expended, and the unexpended obligations as of September 30, 2007 included $142 million that the missions did not expect to be able to spend during FY 2008.

Of the $869 million in total unexpended obligations for the 16 missions in the LAC region as of September 30, 2007, $335 million (or 39 percent) pertained to obligations made prior to FY 2007 that should have been fully expended by September 30, 2007 if the forward funding policy was followed, as shown in table 1 below.

Table 1: Obligations Made Prior to FY 2007 Remaining Unspent as of September 30, 2007 (Unaudited)[2]

Mission	FY 2003 and Prior Years	FY 2004	FY 2005	FY 2006	Total
Bolivia	$279,992	$2,341,858	$3,030,675	$19,150,057	$24,802,581
Brazil	$26,000	$1,830,000	$165,000	$3,328,000	$5,349,000
Colombia	$4,802,493	$1,034,081	$789,957	$46,398,862	$53,025,393
Dominican Republic	$219,759	$628,827	$1,455,749	$8,533,536	$10,837,871
Ecuador	$266,433	$820,207	$2,324,253	$5,009,695	$8,420,588
El Salvador[3]	$0	$11,112	$10,317,266	$38,720,710	$49,049,088
Guatemala	$949,927	$2,251,592	$3,445,866	$13,717,459	$20,364,844
Guyana	$163	$58,373	$92,233	$357,733	$508,502
Haiti	$8,597,408	$1,841,907	$2,026,210	$0	$12,465,525
Honduras	$128,757	$1,293,746	$2,788,562	$16,289,127	$20,500,192
Jamaica	$0	$139,527	$1,409,057	$3,991,943	$5,540,528
Mexico	$6,910,517	$0	$0	$7,522,980	$14,433,497
Nicaragua	$89,074	$8,877,627	$22,375,858	$43,375,868	$74,718,427
Panama	$219,216	$283,213	$610,498	$4,448,617	$5,561,543
Paraguay	$0	$0	$0	$456,812	$456,812
Peru	$2,129,215	$3,372,783	$5,523,709	$18,140,711	$29,166,417
Total	*$24,618,954*	*$24,784,853*	*$56,354,893*	*$229,442,110*	*$335,200,810*

Moreover, unexpended obligations as of September 30, 2007 included $142 million that the missions did not expect to be able to spend during FY 2008, as shown in table 2.

Table 2: Unexpended Obligations as of September 30, 2007 in Excess of Projected Expenditures (Unaudited)[4]

Mission	Unexpended Obligations as of September 30, 2007	Projected Expenditures for FY 2008	Excess Obligations
Bolivia[5]	$80,794,776	$80,057,000	$737,776

2 This table is based on information reported by missions in November 2007 (later for some missions). When a mission indicated that an exception to the forward funding policy applied as of September 30, 2007, we did not include the obligation in Table 1.

3 On October 26, 2007, USAID/El Salvador's acting mission director granted an exception to the ADS 602 policy directives for all "out of compliance" FY 2005 and FY 2006 unexpended obligations, totaling approximately $48.9 million. The justification for this exception is to ensure that the United States Government's political and developmental interests in the Central American region are met.

4 This table is based on information reported by missions in November 2007 (later for some missions). When a mission indicated that an exception to the forward funding policy applied as of September 30, 2007, we did not include the obligation in table 2. After reviewing an initial draft of this table, some missions provided amended information that is detailed in the subsequent footnotes.

5 On January 29, 2008, USAID/Bolivia provided amended information showing unexpended obligations as of September 30, 2007 of $87.9 million, projected expenditures for FY 2008 of $87.5 million, and unexpended obligations as of September 30, 2007 in excess of projected expenditures of $331,102.

Mission	Unexpended Obligations as of September 30, 2007	Projected Expenditures for FY 2008	Excess Obligations
Brazil[6]	$13,996,000	$10,521,651	$3,474,349
Colombia	$145,840,491	$178,644,869	($32,804,378)
Dominican Republic[7]	$37,969,865	$32,304,251	$0
Ecuador	$31,805,082	$27,989,977	$3,815,105
El Salvador	$81,599,840	$57,900,000	$23,699,840
Guatemala	$57,950,319	$52,310,507	$5,639,812
Guyana	$10,243,215	$12,153,636	($1,910,421)
Haiti[8]	$148,175,831	$105,824,387	$42,351,444
Honduras[9]	$45,546,448	$35,379,678	$10,166,700
Jamaica	$18,449,500	$14,518,000	$3,931,500
Mexico[10]	$27,561,659	$25,533,077	$2,028,582
Nicaragua[11]	$51,944,436	$33,222,000	$18,722,436
Panama	$7,888,618	$3,023,108	$4,865,510
Paraguay	$7,558,462	$6,875,261	$683,200
Peru	$100,370,148	$78,018,575	$22,351,573
Total[12]	*$867,694,690*	*$754,275,977*	*$142,467,828*

Mission officials cited the following reasons for exceeding forward funding guidelines:

- USAID/Bolivia stated that, across its portfolio, implementation has been complicated by challenging U.S.-Bolivia bilateral relations. Building the collaborative and fluid working relationships that enable smooth implementation has taken more time than usual. As a result, expenditure rates have been slower than planned.

- USAID/Dominican Republic stated that the mission received FY 2006 funds late in the fiscal year, and therefore, the funds were not fully obligated until September 30, 2006. The delay in the arrival of the funding coupled with the lead time needed to complete procurement actions (due in part to not being able to complete the actions until the funds were available) caused a delay in disbursement of FY 2006 funds.

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6 On March 13, 2008, USAID/Brazil provided amended information showing unexpended obligations as of September 30, 2007 of $10.9 million and unexpended obligations as of September 30, 2007 in excess of projected expenditures of $464,000.

7 The excess of unexpended obligations over projected expenditures for FY 2008 is for a new program, which is an exception to the forward funding restrictions according to ADS Section 602.3.3.

8 In its June 10, 2008 comments on the draft report, USAID/Haiti revised its estimated FY 2008 expenditures up to $150,768,861.

9 On January 28, 2008, USAID/Honduras revised its FY 2008 projected expenditures upward by about $2.6 million. On January 31, 2008, USAID/Honduras' acting mission director granted an exception to the ADS 602 policy directives for all "out of compliance" unexpended obligations, totaling approximately $7.6 million.

10 On January 30, 2008, USAID/Mexico revised its FY 2008 projected expenditures upward by $1.5 million.

11 On January 31, 2008, USAID/Nicaragua revised its FY 2008 projected expenditures upward to $39.3 million.

12 The total shown excludes the negative balances for Colombia and Guyana.

- USAID/Ecuador mentioned that the actual expenditures were lower than expected because of policy difficulties with the new Government of Ecuador that required USAID/Ecuador to reprogram assistance. This, in turn, slowed project expenditures.

- USAID/El Salvador provided several reasons for excess unspent obligations, including a slower-than-expected implementation pace, delays in the procurement process, redesign of activities because of changing circumstances, difficulties inherent in the transfer of the regional program from Guatemala to El Salvador, and delays associated with the interagency Central America Free Trade Agreement process. In addition, the mission stated that it was hesitant to de-obligate excess obligations during program implementation due to the possibility of not having the funds reallowed to the mission if de-obligated.

- USAID/Guatemala mentioned several reasons why forward funding limitations were exceeded, including special earmarks and congressional directives, host government delays in approving the startup of key activities, political uncertainties during the 2003 and 2007 general elections, delays caused by Hurricane Stan, pending acquisition and assistance closeout actions, and USAID funding allocation delays.

- USAID/Honduras stated that there were two major reasons for the lower expenditure rate during 2006 and 2007. First, USAID/Honduras had to switch from a private procurement agent to a Ministry of Health unit as the disbursing mechanism for its $2.5 million bilateral health activity. Second, from January to June 2007, USAID funding for the MOH was stopped again since Implementation Letter No. 6 required USAID to channel grant funds through the Ministry of Finance. Due to bureaucratic delays, $2.1 million of FY 2006 funds could not be used timely.

- USAID/Jamaica stated that the unexpended obligations as of September 30, 2007 exceeded projected expenditures for FY 2008 for only one program, the Centers for Excellence in Teacher Training cooperative agreement. This is a regional program under a Presidential initiative directed by USAID/Washington. Late in FY 2007, the mission was advised that a two-year allocation was to be sent to USAID/Jamaica for a program in Dominica. This contributed to higher-than-expected unexpended obligations at the end of FY 2007. Additionally, the cooperative agreement is a unilateral obligation, so all funds had to be obligated by September 30, 2007.

- USAID/Mexico mentioned a slower-than-expected implementation pace, difficulties with host country contracting regulations, a need to carry out sub-obligations through a variety of instruments, changes in the Mexican Government, and delays in issuing subawards as reasons for exceeding forward funding limitations.

- USAID/Nicaragua stated several reasons for exceeding forward funding guidelines, including delays in the transition from an old strategy to the new strategy, delays in the activity design process, delays in the bilateral and regional procurement process, redesign of activities due to changing circumstances, slower-than-expected implementation of certain activities, and the decision to mutually terminate some activities in the first 12 months of implementation. In particular, a major economic growth procurement was canceled in the best and final offer stage when it became clear that future year funding would be insufficient to fund the activity, leaving the mission with an unexpectedly large unexpended obligations for the strategic objective.

- USAID/Panama stated that it received FY 2006 funds in late August and obligated the funds in September, generating excess forward funding.

- USAID/Peru stated that the implementation of its regional trade activity, with unexpended obligations of $2.4 million, was delayed because of the long negotiations of Colombia and Peru trade agreements, as well as changing trade policies of Bolivia and Ecuador.

In addition, although missions conducted periodic unexpended obligations analyses to help ensure that unexpended obligations are within acceptable limits, these unexpended obligations analyses included overly optimistic expenditure projections as indicated by the large amount of unexpended obligations as of September 30, 2007 pertaining to FY 2006 and prior years. An inspection of table 1 above indicates that missions' expenditures projections in past years have consistently been over optimistic.

Indeed, consistently over optimistic projections in the past cast some doubt on missions' current projections. We noted many cases when past expenditure projections proved unrealistic when compared with actual expenditures, as well as several cases when current projected expenditures matched unexpended obligation balances to the dollar. These cases also cast some doubt on the reliability of current expenditure projections.

As a result, funds that could have been used to fund more pressing needs remained idle, including $142 million in unexpended obligations as of September 30, 2007, that the missions did not expect to be able to spend during FY 2008. To address this issue, we are making the following recommendations:

Recommendation No. 1: We recommend that missions that were not in compliance with the forward funding restrictions as of September 30, 2007 review their unexpended obligations and deobligate or reprogram $142 million in excess obligations to areas where obligations can be used during FY 2008.

Recommendation No. 2: We recommend that missions that were not in compliance with forward funding restrictions as of September 30, 2007 revise their procedures for reviewing and periodically deobligating or reprogramming unexpended obligations that exceed forward funding restrictions to better ensure compliance with forward funding restrictions in the future. Each mission's procedures should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

EVALUATION OF MANAGEMENT COMMENTS

In commenting on Recommendation No.1, several missions referred to constraints that make it difficult for them to reprogram funds, and in retrospect Recommendation No. 1 as it appeared in our draft audit report may have been drafted too narrowly. In this final report, we have slightly reworded the recommendation to permit missions to either deobligate or reprogram funds.

In order to record a management decision for Recommendation No. 1, which will in turn allow the Audit, Performance, and Compliance Division (M/CFO/APC) to record final action when planned actions are completed, we need to reach agreement with each mission with excess obligations identified in table 2 on the amounts, if any, to be deobligated or reprogrammed, along with target dates for completing these actions. The missions in El Salvador, Guatemala, and Honduras have processed waivers to the forward funding restrictions covering $41 million in excess obligations. The mission in Haiti has increased its expenditure projections for FY 2008 so that it now expects that the excess obligations identified in table 2 will be completely spent by the end of FY 2008, and the mission in Mexico increased its expenditure projection so that it anticipates that all but $0.5 million of its excess obligations will be spent by September 30, 2008. (The remaining $0.5 million is obligated under expired agreements that are candidates for deobligation.) The missions in Bolivia, Brazil, Ecuador, Jamaica, Mexico, Nicaragua, Panama, Paraguay, and Peru still need to provide the amounts to be deobligated or reprogrammed, together with planned target dates.

To streamline the report recommendations, we have combined Recommendation Nos. 2 and 3 from our draft report into the current Recommendation No. 2, and we have slightly reworded the recommendation to clarify that it only applies to missions that were not in compliance with the forward funding restrictions as of September 30, 2007. In commenting on this recommendation, several missions agreed with the recommendation but others disagreed, maintaining that their current procedures were adequate or describing constraints that make it difficult to reprogram funds in some circumstances.

In order to reach a management decision on Recommendation No. 2, we need to reach agreement with every mission that had excess obligations as of September 30, 2007 on the new procedures to be used to prevent noncompliance with forward funding restrictions in the future, along with target dates for implementing the new procedures. USAID/Peru has already revised its procedures and USAID/Ecuador has a plan, with timeframes, for doing so. USAID/Jamaica and USAID/Paraguay agreed with the recommendation and provided information on how they planned to implement it but did not provide timeframes. To reach a management decision on Recommendation No. 2, the missions in Jamaica and Paraguay need to communicate their timeframes for implementing strengthened procedures, and the missions in Bolivia, Brazil, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, and Panama need to develop action plans with timeframes for implementing the recommendation or describe procedural improvements already implemented that will prevent violations of USAID's forward funding limitations in the future.

The LAC Bureau also provided comments on the draft report. The Bureau indicated that adoption of the new foreign assistance framework, increased Washington direction/involvement in establishing budget element levels and implementing instruments, the elimination of strategic objectives, and the greatly increased level of earmarks and directives that shape development programs suggest a need for new guidance on forward funding. The Bureau also suggested some edits to Recommendation No. 1 and suggested that a separate recommendation be addressed to each of the 13 missions that were out of compliance with the forward funding guidance. Finally, the Bureau estimated that the amount ultimately reprogrammed by missions would be approximately $20 million. In commenting on the current Recommendation No. 2 (which was two separate recommendations in our draft report), the Bureau agreed with the recommendation but thought that better guidance is needed on the level at which the forward funding policy should be applied. We do not take issue with any of these comments.

SCOPE AND METHODOLOGY

Scope

As part of its FY 2008 audit plan, the Regional Inspector General (RIG)/San Salvador conducted this performance audit in accordance with generally accepted Government auditing standards to determine if USAID missions in Latin America and the Caribbean complied with forward funding limits in Automated Directives System 602. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Audit fieldwork was conducted from November 5, 2007, through April 28, 2008.

The evidence to support our answer to the audit objective came from the information provided by the missions in the Latin American and Caribbean region in response to an information request from RIG/San Salvador. The information that missions provided was supplemented by e-mail correspondence and telephone calls to clarify the submissions.

In planning and performing the audit, we reviewed the effectiveness of the missions' controls along with written procedures designed to help ensure that the missions complied with forward funding requirements. The missions' controls identified included preparing monthly and quarterly analyses of unexpended obligations and annual portfolio reviews. Additionally, an analysis of unexpended obligations is required as part of the modified acquisition and assistance request documents. Finally, in accordance with ADS 602, mission directors annually certify that funding amounts are consistent with USAID's forward funding policy.

Each mission in the Latin American and Caribbean region provided a summary report on program obligations at the Strategic Objective (SO) level as of September 30, 2007, including amounts obligated, expended (including accruals) and unexpended obligations for each year since the inception of the SO.

The 16 missions in the Latin America and the Caribbean region had unexpended obligations totaling $868 million as of September 30, 2007.

We did not audit the data on unexpended obligations that LAC missions provided to us, but we reviewed the data for reasonableness, reperformed calculations, removed extraneous data, and summarized the data provided as required to obtain consistent information on unexpended obligations. We also provided our analyses to the missions for their review and resolved any differences.

Methodology

We analyzed information obtained from missions to determine compliance with forward funding limits in Automated Directives System 602. We requested and obtained the following information from the 16 LAC missions:

1. A description of mission controls along with any written procedures to help ensure that the mission complies with forward funding requirements, including the name or names of the person or persons responsible for compliance.

2. A summary report on program obligations at the SO level as of September 30, 2007, including amounts obligated and expended (including accruals) and unexpended obligations for each fiscal year since inception of the SO.

3. For SOs where there is no strategic objective agreement (SOAG) and obligations are made through unilateral contracts, grants, or cooperative agreements, a summary report on program obligations at the SO level as of September 30, 2007, including amounts obligated and expended (including accruals) and unexpended obligations for each fiscal year since inception of the SO as of September 30, 2007.

4. Identification of obligations that fall within the exceptions in ADS Section 602.3.3, providing a brief description and the amount of the obligation, along with supporting information to show which exception applies.

5. Unexpended obligations analyses (including original projected expenditures for each fiscal year and any subsequent revisions) for each SO for FYs 2006, 2007, and 2008.

6. In any cases where forward funding limitations were exceeded, an explanation of why they were exceeded.

Some missions amended their original submission after reviewing preliminary versions of tables 1 and 2 (see pages 4 and 5). The amended information is detailed in the footnotes on pages 4 and 5.

MANAGEMENT COMMENTS

MEMORANDUM

Date: June 2, 2008

From: Peter Natiello, USAID/Bolivia Acting Mission Director

To: Timothy Cox, Regional Inspector General/San Salvador

Subject: Requested USAID/Bolivia comments to draft Audit Report No. 1-598-08-00x-P

Reference: RIG/ San Salvador, Timothy E. Cox to USAID/Bolivia, "Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)" Memo dated May 15, 2008

This memorandum transmits USAID/Bolivia's comments to the references memorandum and subject draft audit report.

Mission Comments:

USAID/Bolivia makes every effort to comply with the forward funding guidelines. We have a rigorous pipeline management and review system in place to assist with compliance, which implements the recommendations from this audit report. However, the report fails to note that there are many issues impacting pipelines outside of the Mission's control, and that do not allow for the immediate reprogramming of funds. For example, a significant portion of USAID/Bolivia's program is bilateral, meaning we work with the host country government ad cannot unilaterally reprogram funds to vary implementation and accelerate spending when pipelines go beyond forward funding guidelines. Furthermore, reprogramming funds to increase implementation and expenditure rates is complicated by acquisition and assistance regulations and the Operational Planning (OP) process. Issues adversely impacting implementation and spending rates include Bolivia's unpredictable social and political context, changing weather patterns and natural disasters (flooding in Bolivia over the last few years). Additionally, USAID/Bolivia (and other donors) are experiencing significant challenges working with foreign assistance programs. Inefficiencies and philosophical differences in the bilateral relationship have slowed implementation and spending rates. Inefficiencies and philosophical differences in the bilateral relationship have slowed implantation and spending rates.

We appreciate the work of the RIG. The report addresses an important issue for which we all need to stay vigilant.

MEMORANDUM

Date: June 19, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Jennifer Adams, USAID/Brazil Mission Director

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

Dear Mr. Cox,

Thank you for sending the Forward Funding Audit report and for the opportunity to review it. Please see or comments on the recommendations stated in the report:

Recommendation No. 1: We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

We understand that this recommendation is not applicable to USAID/Brazil. As we stated in the amended information sent on March 13, 2008, excessive pipelines were dully explained through remaining balances in program funded PSC contracts and one earlier closed activity in the Health Program. These balances were all de-obligated and effectively reprogrammed.

Recommendation No. 2: We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

We concur with this recommendation, but would like to stress that USAID/Brazil is satisfied that its current procedures are effective and allow mission management to identify any funds that need to be reprogrammed.

Recommendation No. 3: We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections

We concur with this recommendation, but note that current mission financial management procedures conform to this recommendation. Our pipeline analysis and portfolio review process are in line and takes into consideration all elements stated in the recommendation. Also, the Financial Status Report issued by the RFMO in Lima with close participation of our Financial Office and the team of CTOs has proven to be an effective tool for the mission to monitor obligations expenditures and unexpended balances, and to comply with forward funding limits.

MEMORANDUM

Date: June 5, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Liliana Ayalde, USAID/Colombia Acting Mission Director

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

Dear Mr. Cox:

We have reviewed the draft audit report of the "Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau" of which USAID/Colombia was a part. Regarding the findings we have the following comments:

Late arrival of funds:

Most of the funds from obligations made prior to FY 2007 that remain unspent as of September 30, 2007, which for Colombia were $53,025,393, were FY 2006 funds that were received in June, 2006 and obligated during the last quarter of FY 2006. The funds for FY 2007 were received in September, 2007 and the Mission was able to partially obligate these funds the last day of fiscal year 2007. The remaining FY 2007 funds were not available for obligation until January, 2008 due to a Congressional hold. In our opinion, the late receipt of annual funds and the Congressional holds are factors to be considered in the compliance of forward funding guidelines which is beyond Mission's control.

Timing of use of funds:

When our Mission obligates and pays we are using the "first in first out-FIFO" rule in which we try to expend old funds first. However, with charges through Letter of Credit this is not always the case. This process is performed in Washington.

"Unexpended Obligations as of September 30, 2007 in Excess of Projected Expenditures":

For Colombia the Excess Obligations showed in the report is a negative balance of $32,804,378. We have now estimated what would be the Excess Obligations using the FY 2008 first and second quarter's actual expenditures to estimate the burn rate for FY 2008. See Attachment 1. We found that if the Mission continues to expend at an $11.9 million monthly rate ($13.5 including SO4) at the end of FY 2008 the excess obligations would be $2.6 million ($4.6 million including SO4) which is only one fourth of the monthly expenditure rate. Considering that most of these funds are expended by active instruments both small and large we expect to burn the remaining funds during the first month of FY 2009.

Our specific comments on the 3 Audit Recommendations are:

Recommendation No. 1: We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

We agree with the recommendation. USAID/Colombia performed financial and programmatic analysis frequently, and we are confident that all the funds obligated are needed and will be used in on-going activities in a reasonable amount of time.

Recommendation No. 2: We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

We agree with the recommendation. The Mission has different procedures to follow up on excess obligations such as Quarterly Pipeline Reviews, Portfolio Reviews, 1311 Review, and quarterly review of Procurement Plans. These processes allow the Mission to perform adequate follow up of the activities and obligations and make decisions on reprogramming funds if necessary.

Recommendation No. 3: We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

As mentioned above, Mission agrees and processes are in place to monitor actual expenditures versus projected expenditures and to ensure that procurement actions are completed on time.

MEMORANDUM

Date: June 13, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Richard J. Goughnour, Mission Director, USAID/Dominican Republic

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

Dear Mr. Cox:

Thank you the opportunity to comment on the subject draft report. In general we noted that the audit finding and recommendations are focused on compliance with the forward funding guidelines but it may be helpful to have some discussion on the risks of strict compliance. We generally receive our funding in the last quarter of the fiscal year and complying with the forward funding guidelines is not always feasible. Not only are lead times needed to complete contracting and grant actions but contractors and grantees may have to begin closing-out the agreements months before the funds actually run out on September 30th because of uncertainty of future funding.

In addition, the risk of underestimating projected expenditures far outweighs the risk f overestimating expenditures. In the above example the problems would have been exacerbated if the contracts and grantees ran out of funds on August 31st because of conservative expenditures estimates. You may want to consider a recommendation to review the current forwarding funding guidance and see if it would be prudent to add more flexibility to the guidance in order to ensure the continuity of program implementation. It is worth noting that in Table 2 of the audit report the $149.2 million in Excess Obligations equals just over two months of projected expenditures.

There are also a number of other factor that limit a Mission's ability to predict and manage pipelines you may want to highlight in your repost such as earmark limitations; long lead-times for completing procurement actions; inherent delays in implementation; and missions receiving funding above what was requested. To illustrate this last point, we were recently told that Dominican Republic would receive $10 million more in HIV/AIDS money this fiscal year. While the funding is welcome it was never contemplated in our planning and will affect our pipeline for a number of years.

Recommendation No. 1:

We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

We agree with this recommendation but the $5.6 million of Excess Obligation shown in Table 2 in the audit report fall under a new strategy and can be forward funded for up to two years in accordance with ADS Section 602.3.3. Therefore, no reprogramming will be needed. We have attached copy of the new Limited Scope Assistance Agreement that obligated these funds.

It should also be noted that we previously reported that we would close out three old SOAG agreements at the end of fiscal year 2008, but we are now projecting a pipeline of about $1.6 million in our Health SO at the end of this fiscal year and have extended the SOAG for one more year to complete ongoing activities.

Recommendation No. 2:

We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

We concur with this recommendation and while we believe we have effective procedures in place, there is always room for improvement. The Mission normally holds Semi-Annual Reviews of our programs, that include detailed pipeline analyses, and continuously monitors pipelines throughout the year. We have also been proactive in adjusting planned funding levels and procurement plans based on our implementing partners' performance. This has been especially true this past year as we have been trying to ensure the remaining funds in our old strategy are effectively programmed and expended.

Recommendation No. 3:

We recommend that each mission revise its methodology for preparing and reviewing analysis of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

We concur with this recommendation. While we believe that our current methodology for analyzing our unexpended obligation has served us well, we agree that some improvements and fine tuning can be made.

MEMORANDUM

Date: June 16, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Alexandria L. Panehal, Mission Director, USAID/Ecuador

Subject: Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No.1-598-08-00X-P)

The purpose of this memorandum is to transmit the position of USAID/Ecuador with respect to the recommendations of the subject audit report.

Recommendation No. 1. We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

USAID/Ecuador agrees with the recommendation. The draft audit report shows excess obligations for USAID/Ecuador in the amount of $3,815,105. Of this amount, Mission will reprogram $2,639,000 into new activities within the same program areas. The difference of $1,176,105 will not be reprogrammed as it corresponds either to balances of activities that are closing out or to balances that are within the exceptions of the forward funding limitations. Given that reprogramming is for new activities, the funds will not be expended during the current fiscal year, in accordance to ADS 602.3.3.

Recommendation No. 2. We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

USAID/Ecuador agrees with the recommendation. However it is important to mention that sometimes there is not enough flexibility to reprogram funds, especially because of congressional earmarks. Additionally, the new Operational Plan which on the one hand helps Missions to program in detail the use of the resources, also sets serious limitations on the reprogramming of funds.

Recommendation No. 3. We recommend that each mission revise its methodology for preparing and reviewing analysis of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

USAID/Ecuador agrees with the recommendation. The Mission already has in place an effective system to review unexpended obligations. On a quarterly basis, the Mission prepares a comprehensive financial status report and reviews with each technical team their plans for new obligations and de-obligations of projected unexpended balances. During these meetings, compliance with the forward funding guidance is discussed in detail. USAID/Ecuador will issue a Mission policy by July, 2008, to formalize the current methodology for preparing and reviewing these analyses. The following principles will be included:

1. Mission Director will approve exceptions to the forward funding policy when compelling reasons exist, as stated in ADS 602.3.3.

2. In most cases, the Mission will use the annual work plan prepared by recipients as the basis to project future expenditures.

3. If projected expenditures described in the annual work plan differ significantly (plus or minus 20%) from historical rates, the Cognizant Technical Officer (CTO) must justify this in writing, explaining how the projected rates will be met. A cash flow projection should be attached to this justification.

4. Mission will continue quarterly financial reviews to evaluate the status of unexpended obligations. Among other things, these meetings will assess whether recipients are spending at projected rates. Significant deviations (plus or minus 20%) between the projected and actual expenditures will be evaluated and a decision will be made as to whether it is feasible to reprogram the funds.

5. Mission will document all decisions made regarding the analysis of forward funding and pipelines.

6. Annual employee evaluation forms will reflect internal control responsibilities.

The Mission wants to acknowledge the professionalism of RIG´s staff responsible for this audit, which has helped USAID/Ecuador to evaluate its current procedures and reinforce our internal controls.

MEMORANDUM

Date: June 16, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: USAID/El Salvador Director, Deborah Kennedy-Iraheta

Subject: Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No 1-598-08-00X-P)

This memorandum conveys our comments on the subject draft report dated May 15, 2008. We are providing general comments as well as specific comments keyed to individual recommendations included in your draft report.

General Comments: We recognize there are pipeline issues, but we also realize that, in part, they exist because the Agency has not addressed certain underlying issues. These issues need to be resolved before mission-specific pipeline matters can be fully addressed.

The issues include whether the forward funding guidelines as currently prescribed in the ADS should be applied at the obligation or the sub-obligation level. Bilateral obligations risk having larger and older pipelines because USAID works collaboratively with host governments over a multi-year strategy period. Furthermore, Missions do not receive current year allocations until late in the fiscal year when it is extremely difficult to rationally and responsibly sub-obligate the funds into implementing awards. Due diligence and USG procurement procedures require a reasonable amount of time to properly make an award (sub-obligation). Pipelines at the sub-obligation level are easier to control in the short term since this is where the spending takes place. Current pipeline guidance makes no distinction between obligation level pipelines and sub-obligation level pipelines, yet USAID's budgetary and procurement processes create timeframes that reasonably support distinct pipeline parameters.

Another underlying issue relates to the fact that increasingly, USAID is required to work on an interagency level and often takes directions from other federal agencies or interagency councils that do not understand nor accept our Agency's more restrictive internal funding requirements. For example, The CAFTA-DR Interagency Working Group (including State/WHA, State/OES, USTR and DOI) continually disregard USAID's forward funding guidelines and direct us to follow the Working Group's implementation plan. This environment creates a duality that needs to be addressed at the Washington level.

Of major concern to USAID/El Salvador is who the audit report is addressed to. As currently drafted, the report is addressed jointly to 16 Mission Directors in LAC. Who then is responsible for the "management decisions" that will need to be made and ultimate closure of the recommendations? As drafted, it appears that all 16 Directors jointly and severally are responsible. Therefore, a Mission that quickly makes a management decision and takes action to close the recommendation will still have outstanding open recommendations until the last Mission complies. USAID/El Salvador believes that the report should properly be addressed to the LAC Bureau. Alternatively, recommendations could be identified by individual Missions. Either option would provide a better management control system and be more consistent with the Agency's chain of command.

Recommendation No. 1: "We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year."

Comments: The draft audit report is dated May 15. Allowing the standard 30 day comment period and the time required to have the final report approved and cleared by OIG, the earliest the final report will be issued is July 2008. It would be irresponsible (if not impossible) to negotiate modifications and/or terminations of existing procurement instruments in a time frame that would allow re-subobligating the funds into instruments that would spend the funds by the end of the "current fiscal year."

Of the amount recommended for reprogramming, $23.7 million pertains to USAID/El Salvador ($15.7 million related to the bilateral program and $8.1 million related to the CAM regional program) and represented unexpended obligations as of September 30, 2007 in excess of projected expenditures for fiscal year (FY) 2008. The draft audit report recommends reprogramming of excess obligations that were unexpended as of September 30, 2007 "to areas where obligations can be used during their current fiscal year."

As stated in our memorandum dated November 6, 2007, and as acknowledged by the draft audit report, USAID/El Salvador followed ADS procedures and approved an exception to the forward funding requirements and thus does not concur with the suggested reprogramming of its out-of-compliance pipeline as of September 30, 2007. The $23.7 million figure was valid as of approximately nine months ago, but has now been overtaken by the dynamic nature of implementation events. In light of these events, the Mission continually reexamines pipeline figures, projected expenditures and programmatic needs to realign funding based on realistic projections and on-the-ground needs.

Please note that the audit report acknowledges that "when a mission indicated that an exception to the forward funding policy applied, we did not include the obligation in the table." However, Table 1 of the audit report includes USAID/El Salvador's obligations. Therefore, the report appears to have an internal inconsistency.

Recommendation No. 2: "We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year."

Comment: USAID/El Salvador does not concur with this recommendation because it is already being done. The Mission holds periodic portfolio review meetings and analyzes its pipeline regularly. These procedures and other programmatic and developmental considerations allow the Mission to make the necessary and timely decisions regarding any possible reprogramming of funds. In this regard, it is important to note that some funds are subject to soft or hard congressional earmarks and designated for specific purposes, thus limiting reprogramming options. We believe the procedures USAID/El Salvador has established effectively identify excessive obligation amounts and, to the extent there is ability, reprogram funds for immediate expenditure. It was these procedures that identified the need at the end of FY 2007 to consider an exception to the forward funding guidelines when it was clear the funds could not be reprogrammed.

Recommendation No. 3: "We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections."

Comment: USAID/El Salvador does not concur with this recommendation, again because it is already being done. The Mission has procedures in place that keep program managers and Mission management abreast of the status of its obligations, expenditures and pipeline. The Mission operates under the ADS chapters which provide operating policy guidance related to budget, obligations, expenditures, procurement and other business processes. Expenditures are planned annually and revised as deemed necessary. Our Controller's Office performs a quarterly analysis of planned versus actual expenditures, which shows the status of obligations and pipeline. Program managers make realistic estimates of their budgetary needs and planned expenditures. In order to make credible expenditure estimates, the Mission uses a team approach that takes into account perspectives from offices responsible for different business processes such as program implementation, procurement, and financial analysis. The methodology we use includes reliable expenditure estimates factoring in the risk of implementation delays. The impact of prior period projections and conditions is captured in our quarterly analyses and adjustments to projections are made as needed.

MEMORANDUM

Date: June 17, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Kenneth C. Ellis, USAID/Guatemala Acting Mission Director

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Audit Report No. 1-598-08-00X-P, dated XX)

USAID/Guatemala appreciates the opportunity to comment on the contents of subject draft audit effort and to report on actions taken to request closure for the Mission of all audit recommendations upon issuance of the final report. Details in support of this and other requests can be found below and in Annexes 1 through 5 of this memorandum.

The Mission concurs with the results of the subject audit effort in that they will help Agency authorities better understand the difficulties Missions are facing in trying to effectively meet USG assistance priorities and also the stringent time frames provided in ADS-602 guidelines. However, one alternative would be to bring ADS-602 guidance more in line with the timing realities for allowing funds to field Missions, and then field Mission committing/sub-committing, obligating/sub-obligating and finally for the development partners to disburse. Current forward funding guidelines allow under normal conditions only 18 and 12 month periods for completing the process for funds allowed/obligated early or late in the fiscal year respectively.

The Mission considers that the draft report does not fully address Mission director's authority to approve exceptions to the maximum length of forward funding nor the need to include DCA funded activities as an exception to the ADS-602 guidelines, therefore, we request RIG/SS consideration of the following in their final report findings and recommendations.

A) ADS-602.3.3 Section on "Exceptions to the Maximum Length of Forward Funding" which reads in its second paragraph "Operating unit directors have the authority to approve exceptions to the policy directives and required procedures if compelling reasons exist. Such reasons must be documented. This authority may not be redelegated";

B) The need to include DCA subsidy obligation pipelines in the list of activities exempted from ADS-602 forward funding guidelines. This is requested based on the contents of ADS-249.3.11.2, the Federal Credit Reform Act of 1990 (FCTA) – PL 101-508 as amended, and Washington's interpretation of said guidance/legislation; and,

C) Based on B above, revise downward Guatemala "total" figures on tables 1 and 2 of the draft report by DCA subsidy obligation pipelines in the amount of $893,243 and $510,213 respectively.

We feel giving due consideration to the above in the final audit report will help better balance report content and improve on the portrayal of field Mission realities in meeting USG priorities within ADS-602 provided time frames.

In line with the above request and suggestions for the final audit report, please find below a summary description of actions taken by the Mission to address the spirit of the draft audit findings and recommendations.

Recommendation No. 1: "We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year."

As reflected in Annex 1 to this memorandum, USAID/Guatemala already performed an in-depth review of its portfolio, and in accordance with ADS 602.3.3, on March 25, 2008, the Mission Director approved an exception to the forward funding guidelines covering pipelines as of September 30, 2007, and 2008 resulting from FY 07 and prior year funded obligations. Pipeline figures in exception memorandum are net of the DCA amounts mentioned in sections B and C above. Please note that the "Action Memorandum" clearly addresses the requirements of ADS 602.3.3 for documenting the compelling reasons. Therefore, USAID/Guatemala has already made a determination not to reprogram unexpended funds as of the above dates.

Recommendation No. 2: "We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year."

Mission pipeline levels and validity of obligations are reviewed during different internal management and oversight exercises and time frames. As reflected in our comments to recommendation No. 3 below, these reviews include our total strategic objective project portfolios on an annual basis, the validity of our obligations (1311) on a semi-annual basis, accrual generation exercises on a quarterly basis, and others. The results of these exercises serve as the basis for establishing the status and deciding on the most appropriate use of pipeline amounts in excess of current forward funding guidelines. Our decision on unexpended obligations as of September 30, 2007 and 2008 for funds obligated in late FY 07 and prior years is reflected in Annex 1 to this memorandum.

With these actions we feel we are well equipped to continue addressing the status of the Mission's pipeline and that unexpended obligation balances are used effectively and for their intended/mandated purposes.

Recommendation No. 3: "We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditures projections."

Current portfolio review methodology conforms to this recommendation (See Annex 2). Our annual portfolio reviews, quarterly 1311 reviews and quarterly accruals generation activities have also served to validate projected expenditures.

In addition, USAID/Guatemala continually reviews and analyzes unexpended obligations through the implementation of a variety of actions such as: a) Commitment and sub-commitment funding actions where projected expenditure levels are reviewed by clearing officials for compliance with current forward funding guidelines (See Annex 3); b) the Regional Contracting Officer's Annual Procurement Plan process (See Annex 4); c) Quarterly pipeline reports by obligation and sub-obligation reflecting historical and projected expenditure information for senior Mission Management review, discussion and action as necessary (See Annex 5 for an example of reporting content), d) In-depth review of prior year unliquidated obligations before approving any new year (FY 08) funding under the Mission's Strategic Objective Agreement (bilateral obligation).

Based on the above, USAID/Guatemala requests RIG/SS agreement to:

- Give due consideration to sections A and B above in their final audit report;

- Exclude DCA obligations for Guatemala on Tables 1 and 2 of the draft and final reports;

- Close the three draft audit recommendations for the Mission upon issuance of the final report.

In closing, we would like to thank RIG/SS auditors for their professionalism and understanding during the performance of this complex audit effort.

MEMORANDUM

Date: July 3, 2008

To: Timothy E. Cox, Regional Inspector General/San Salvador

From: Peter R. Hubbard, USAID/Guyana Mission Director

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

We appreciate the opportunity to comment on the subject draft audit report's findings and recommendations. We are aware of the comments made on this audit by our colleagues in the USAID Dominica Republic Mission (USAID/DR). USAID Guyana agrees with and fully supports USAID/DR's assertion to have broader discussions on the "risks of strict compliance" on the forward funding guidelines and that it is equally important "to consider a recommendation to review the current forward funding guidance," with an objective view toward determining whether it would be prudent to add more flexibility into the guidance in order to ensure the continuity of program implementation. Greater flexibility in the guidelines would in fact alleviate program implementation issues and expenditure compliance pressure(s) associated with the late receipt of program fund allowances (4th QTR of the Fiscal Year) – an operations process reality that is beyond the management control of USAID Missions.

Recommendation No. 1:

We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

We agree with this recommendation when reprogramming is feasible. In Guyana's case, projected expenditures were in excess of obligations leading to a negative $1.9 million. Given that FY 2008 funding allowances from Washington were received very late in the fiscal year, this is largely responsible for the variance. A review and analysis of the Mission's March 2008 pipeline, indicates that overall the Mission is in compliance with the forward funding guidelines. USAID Guyana will continue to make every effort to utilize obligations during the fiscal year in which the funds are obligated.

It should also be noted that in addition to our OYB, we received $6.7 million in one time MCC funding at the end of fiscal year 2007. These funds cover and are to be used over the life of this two-year program. These funds were not included in the audit since they are MCC funds and in accordance with the agreement the Mission is required to spend these funds by February 2010.

Recommendation No. 2:

We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

We concur with this recommendation and while we believe we have effective procedures in place, there is always room for improvement. The Mission normally holds quarterly reviews of our programs, that include detailed pipeline analyses, and continuously monitors pipelines throughout the year. We have also been proactive in adjusting planned funding levels and procurement plans based on our implementing partners' performance. This has been especially true this past year, the final year of our current program strategy, as we have been trying to ensure the remaining funds are effectively programmed and expended.

Recommendation No. 3:

We recommend that each mission revise its methodology for preparing and reviewing analysis of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

We concur with this recommendation. While we believe that our current methodology for analyzing our unexpended obligations has served us well, we agree that some improvements and fine tuning can be made.

MEMORANDUM

Date: June 10, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Paul Tuebner, Mission Director, USAID/Haiti Acting Mission Director

Subject: Mission Response to the Draft Audit Report of RIG's Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P).

Dear Mr. Cox:

This memorandum represents USAID/Haiti's formal response to the draft audit report of RIG's Audit of compliance with forward funding requirements by missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P). USAID/Haiti appreciates the time and effort of the RIG staff in carrying-out this audit and for the professional and cooperative manner in which the audit was conducted.

General Comment:

Overall, we believe that the audit report findings and recommendations are constructive. The auditors identified opportunities to ensure effective and efficient financial management of mission resources in accordance with ADS 602. However, we believe that USAID/Haiti fully complies with the Agency Forward Funding Guidelines.

USAID/Haiti started a new three-year Strategy/Program (2007-2009) with an estimated amount of $312,099,612, a cumulative obligated amount of $176,337,869 and a pipeline of $148,175,831 as of September 30, 2007. This new three-year Strategy will help Haiti reduce internal conflict and provide the basis to rebuild by addressing key sources of instability in social, economic and political spheres, notably through (1) creating employment and rebuilding assets for sustainable livelihoods (economic), (2) increasing access to primary health services and education (social), and (3) fostering improved rule of law and responsive governance (political).

This new three-year Strategy's estimated unliquidated obligation of $148,175,831 as of September 30, 2007 should be fully expended on new activities in compliance with ADS 602.3.3.c "New Program: Obligations must be sufficient to cover at least the first 18 months, but no more than 24 months, if the life of the program funding is $2 million or more."

FY2008 program accrued expenditures for the first 6 months (as of 03/31/08) are higher than originally estimated mainly due to the urgent need to address the current political, social, and economic crisis in Haiti. Therefore, the draft audit report's estimated excess unliquidated obligation of $42,351,443 should be fully expended as of September 30, 2008 in compliance with ADS 602.3.3.c as follows:

Unexpended obligations as of 09/30/07: $148,175,831

Reversed accruals as of 10/01/07:	22,510,607
Accrued expenditures for the first 6: months as of 03/31/08	(76,446,066)
Estimated accrued expenditures for: the remaining 6 months as of 09/30/08	(96,833,402)
Negative pipeline:	($2,593,030)

Recommendation No. 1:

We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

As previously stated, FY 2008 program accrued expenditures for the first 6 months (as of 03/31/08) are higher than originally estimated mainly due to the urgent need to address the current political, social, and economic growing crisis in Haiti. The draft audit report's estimated excess unliquidated obligations of $42,351,444 should be fully expended as of September 30, 2008 in compliance with ADS 602.3.3.c. Furthermore, the Mission requested emergency funding of $15,585,000 in the third quarter of FY2008 to address the current growing political, social, and economic crisis facing Haiti this year due to the global increase in food and fuel costs. $13,562,000 in emergency funding was received on April 23, 2008. Therefore, USAID/Haiti should not have excess obligations to reprogram as of September 30, 2008.

Recommendation No. 2:

We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

USAID/Haiti's Program Office, on a semi-annual basis, conducts management portfolio reviews to engage the Front Office, the Objective Teams and the Support Offices (OAA, FM and EXO) in discussions/meetings about how best to continue implementation of activities to meet goals and foreign assistance objectives. The purpose of these management portfolio reviews is to (1) review the status of program issues and discuss new implementation issues that have surfaced and results achieved, (2) review results achieved and identify any indicators in which results planned in the performance report will not be met and discuss what actions will be taken, (3) discuss pipelines, sub-obligations and future funding needs to meet mortgages, identifying planned use of any funds not sub-obligated for each program area, (4) review and update the procurement plan and (5) if necessary, reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

***Recommendation No. 3*:**

We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission's methodology should include a *realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.*

The Technical Office Chiefs and the CTOs, the Program Office and the Financial Management Office (FM) are responsible as a joint team to ensure that policy directives and required procedures on forward funding for USAID program funds are complied with in accordance with ADS 602 – Forward Funding on Program Funds. USAID/Haiti prepares quarterly financial reports covering (1) grantees/contractors/staff quarterly pipeline reports, (2) summary pipeline, (3) detailed pipeline, and (4) SOAG and Foreign Assistance Objective Program Area financial reports for the purpose of reviewing and analyzing unexpended obligations. Semi-annual management portfolio reviews are also conducted to assess historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays and the impact of unrealistic past expenditure projections.

Note that it appears (table 1, page 4) that each year's pipeline is being added-up. Therefore, USAID/Haiti obligations made prior to FY 2007 remaining unspent as of September 30, 2007 should be $38,107,543 (mainly FY2006) not $50,573,068.

In closing, we would like again to express our appreciation for the professional manner in which the audit was conducted.

MEMORANDUM

Date: May 30, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Randall G. Peterson, USAID/Honduras Acting Mission Director

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

Dear Mr. Cox:

Thank you for allowing us to review the subject draft report and for the professional and cooperative way in which this audit was conducted. Following are our comments on the results of the audit and on the report's recommendations.

General Comment:

The results of the audit are all presented in dollar (amount) terms. In our view, this presents an incomplete picture of the audit results and does not convey a clear sense of the magnitude of the problem vis-à-vis the forward funding limitations. The guidance on this is stated in terms of number of months, not amounts of money, i.e. no more than 12 months beyond the end of the fiscal year in which the funds are obligated. It would be helpful if management is also informed in the same context. As of 9/30/07 our out-of-compliance amount is $7.6 million; however, given our projected burn rate this represents only 2.4 months in excess of the 12 month maximum. When also considering that the Mission is planning new activities for this fiscal year (for which the guidelines allow forward funding of up to 24 months), it becomes clear that the identified "excess" funding really represents prudent financial management rather than "funds that could have been used to fund more pressing needs…."

The report also mentions "overly optimistic expenditure projections." When trying to predict the future, prudence and good financial-management practice dictate that we budget for contingencies and unexpected needs. Therefore, when dealing with projections one must be flexible when judging actual-versus-projected expenditures analyses. As they say in the investment trade "past performance is no guarantee of future results." Even the IRS takes this into account when dealing with "estimated tax payments," by allowing a 10% excess in taxes due before applying any penalties. Thus, when one takes into account that our development work is conducted in unpredictable and often volatile overseas environments, it seems reasonable to allow a 10 to 20 percent margin on either side of the equation (1.2 to 2.4 months).

Recommendation No. 1:

We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

We do not concur with this recommendation. However, as noted in our Action Memorandum dated January 31, 2008 submitted to your office on February 1, 2008, as part of the documentation to be reviewed by the auditor for this report, the Mission did review its pipeline as of 9/30/07. Based on the authorities provided in ADS 602.3.3, we approved an exception to the twelve-month forward funding guidelines. Thus, Mission has no plans to reprogram any of the amounts identify as “excess” funding in the draft audit report.

Also, as a general comment in regards to this recommendation, consideration must be given to the fact that the majority of USAID funds are: subject to soft or hard congressional earmarks; often designated for specific funding of multiple Presidential initiatives; or provided as part of central or regionally funded activities. This severely restricts any Mission’s ability to reprogram such funds for purposes outside these restrictions, even if they are in excess of the Agency’s forward funding guidelines.

Recommendation No. 2:

We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

We do concur with this recommendation, but also note that the mission is satisfied that its current procedures are effective and allow mission management to identify any funds that need to be reprogrammed.

Recommendation No. 3:

We recommend that each mission revise its methodology for preparing and reviewing analysis of unexpended obligations. Each mission’s methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

We concur with this recommendation, but also note that current mission methodology conforms to this recommendation. Our quarterly pipeline review process validates projected expenditures, taking into account all the elements noted in the recommendation, i.e. historical and projected expenditure rates, procurement constraints, and, as much as possible, contingency financial planning for unexpected events that may result in the delay or acceleration of implementation actions.

MEMORANDUM

Date: June 10, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Robert Birkenes, USAID/Jamaica/OPDM

Subject: Jamaica mission's response to RIG's draft audit on forward funding

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Dear Mr. Cox:

Correction. In the middle of p. 6, the sentence should read: 'Late in FY 2007, the mission was advised that a two year allocations was to be sent by USAID/Jamaica for a program in Dominica' (instead of 'the Dominican Republic').

Re: Recommendation #1. We do not concur with the recommendation to re-program funds, but USAID/Jamaica has taken several actions over the past six months in response to excessive pipelines. Approximately 70% of Jamaica's program funds are earmarked for specific uses, and it is often not feasible to reprogram from one sector to another as this would likely contradict Bureau and Agency levels set for Jamaica in the areas of Biodiversity, Basic Education, HIV/AIDS, and Micro-Credit. Further, a portion of our OYB is specifically notified for work in community policing. Our semi-annual portfolio and pipeline review in Fall 2007 did highlight a slow burn rate for the Rural Enterprise, Agricultural and Community Tourism (REACT) project, which we initially attempted to remedy but ultimately terminated; the $1.834 million in un-subobligated funds (unused ceiling for REACT) are now being used by other rural development projects. Shifting earmarked money out of a slow-moving instrument was feasible in this case because we have multiple implementers in the biodiversity/agriculture sector, but in most cases where we have one instrument per earmarked sector it is not always possible for the operating unit to reprogram into another faster-moving obligation.

Re: Recommendation #2. We agree with the recommendation to establish effective procedures to reprogram excess obligations, and note that Jamaica mission already has a good periodic review system to help managers identify and fix any forward funding issues. We have been reviewing pipelines on a quarterly basis for many years. These intensive pipeline review meetings involve the Mission Director, FM, the technical office's Office Director and Deputy Office Director, CTOs, the Program Management Assistant, A&A specialist, and Program Office representatives. During these meetings, senior management targets excessive pipelines that require action, and the responsible parties take action over the coming quarter. We have notes from all of these quarterly pipeline review meetings.

Jamaica mission currently exceeds proposed ADS 203.3.7 requirements to hold portfolio reviews once per year; we hold Portfolio Implementation Review (PIR) meetings twice per year. During these meetings, we focus mainly on performance of contracts and grants (and programs, at a higher level). Since project performance is usually directly related to expenditures, burn rates and pipelines are also part of the portfolio review discussions. Again, as with the quarterly portfolio review meetings, outstanding actions are identified, tracked, and then revisited (during the next review) to ensure they were completed. While we believe we currently have adequate procedures in place, given our recent downsizing and greater reliance on the Regional Center in the Dominican Republic, we plan to review and update these procedures.

Re: Recommendation #3. We agree with the recommendation to revise our method for reviewing unexpended obligations. We note that Jamaica mission already is revising its review procedures in line with its recent streamlining. Our mission recently became a full-service client of USAID/Dominican Republic, which involves following the lead of FM, RCO, and RLA offices in the DR. Specifically with respect to pipeline review, Jamaica mission is now using reports that the DR generates, and will rely on its additional oversight with respect to meeting the forward funding requirements. Jamaica mission has already been sharing procurement plans, which we update on a quarterly basis, and requests for incremental funding with RCO in the DR, and this will continue. With the establishment of service standards under the Regional Service Provision MOU (soon to be signed by DR and its client missions), these procedures are laid out explicitly to ensure they comply with ADS requirements and client needs.

MEMORANDUM

Date: June 19, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: USAID/Mexico Director, Rodger D. Garner

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

This memorandum conveys our comments on the referenced draft report dated May 15, 2008. Our comments are keyed to individual recommendations included in your draft report.

Recommendation No. 1: We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

Comment on Recommendation No. 1: USAID/Mexico does not concur with this recommendation. Of the amount recommended for reprogramming, only $0.5 million pertains to USAID/Mexico as mentioned on footnote 8 of the draft audit report. We cannot reprogram this amount because these funds are obligated to now expired acquisition and assistance instruments that are candidates for deobligation, and will not be able to be recovered by the Mission.

As a result of the audit recommendation, we reviewed current unexpended obligations and based on compelling reasons, the Mission Director approved an exception for the Mission pipeline in excess of the forward funding guidelines.

Recommendation No. 2: We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

Comment on Recommendation No. 2: USAID/Mexico does not concur with this recommendation. However, we believe USAID/Mexico's established procedures are effective and allow mission management to identify any funds that need to be reprogrammed. It is important to note that some funds are subject to soft or hard congressional earmarks, thus limiting reprogramming options.

Recommendation No 3: We recommend that each mission revise its methodology for preparing and reviewing analysis of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, ant the impact of unrealistic past expenditures projections.

Comment on Recommendation No. 3: USAID/Mexico concurs with this recommendation and is planning on revising its methodology to ensure realistic assessment of future expenditure as well as instituting a procedure for comparing actual with planned expenditures. We expect to implement this by the end of the fiscal year.

We appreciate the effort made by you and your staff to undertake this challenging audit and the recommendations that arose from it. We make our best effort to adhere to the existing rules and regulations as well as to implement complex activities that benefit both Mexico and the U.S.

MEMORANDUM

Date: June 13, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: Carol J. Horning, Acting Mission Director, USAID/Nicaragua

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

Dear Mr. Cox:

Thank you for sharing the subject draft report. USAID/Nicaragua appreciates the RIG staff carrying out this audit and appreciates the professional and cooperative manner in which the audit was conducted. USAID/Nicaragua has implemented an effective pipeline review process that ensures the best possible compliance with forward funding guidelines, while implementing a complex program subject to many issues outside of our control. Since the date of the audit, USAID/Nicaragua has reduced its pipeline significantly and expects to be just one month over forward funding guidelines by the end of the fiscal year. Following are our comments on the results of the audit and on the draft report's recommendations.

Recommendation No. 1:

We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

USAID/Nicaragua does not concur with this recommendation. The Mission has two important analytical tools to review expenditures and pipeline, an obligation memo and a detailed quarterly pipeline report at the SO and instrument levels. In FY 2007, the program office instituted the use of obligation memos for each SO, which serve as a tool to assure that all pre-obligation requirements are met and require pipeline analyses for each of the instruments that will receive funding. If any of the instruments receiving NOA funds exceed forward funding guidelines, funding must be justified through an Exception to Forward Funding approved by the Mission Director. To date, the Mission has had only two exceptions.

In addition, in FY 2007 the Mission changed the methodology for preparing pipeline reports. The budget and financial analysts of the two offices review and vet the figures together, and in the process, resolve differences in numbers using the same methodologies and assuring that the numbers are consistent from the financial and programmatic perspectives. They then meet with each technical office to go over the results in detail with a particular focus on forward funding guidelines. This has the double benefit of clarifying the pace of implementation of the different activities and obtaining reasonable explanations of expenditure patterns.

The pipeline meetings are carried out every quarter and those activities with pipeline exceeding forward funding guidelines are flagged to the CTOs. This practice is now used to identify delays and implementation and encourages the partners to focus on improving performance and burn rates whenever necessary. This practice has also significantly improved pipeline problems as it has become a very effective and efficient way to track expenditures overall.

As a result of this concentrated joint effort, as of March 31, 2008, the Mission had decreased the pipeline from 18 to 15 months. USAID/Nicaragua projects that by September 30, 2008, the Mission will have a pipeline of 13 months, including the FY2008 Operating Year Budget. USAID/Nicaragua does not anticipate reprogramming any of the amounts identified as “excess” funding in the draft audit report.

As a general comment to this recommendation, USAID/Nicaragua has congressional earmarks managed centrally or regionally. It is difficult to fully influence implementation and burn rates for earmarked funds not managed directly by the Mission. Local Activity Managers for regional instruments communicate pipeline problems to the regional activity CTOs and target delays in implementation; however the lack of an in-country representative with CTO authority hampers follow-up.

Recommendation No. 2: *We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.*

USAID/Nicaragua does not concur with this recommendation. USAID/Nicaragua’s current procedures have proven effective in allowing Mission management to identify any funds that need to be reprogrammed. As noted in the general comment above, reprogramming funds can be difficult. Even if reprogramming were possible, it would require substantial work to design or expand a new scope in order to use the funds within the current fiscal year. To this effect, please note that we are in the last funding year for the current strategy 2003-2009.

Recommendation No. 3: *We recommend that each mission revise its methodology for preparing and reviewing analysis of unexpended obligations. Each mission’s methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.*

USAID/Nicaragua does not concur with this recommendation. The Mission’s methodology is very effective as shown by the decrease in the pipeline. Throughout the year, the Mission is constantly analyzing all of the elements in this recommendation. This is done through quarterly pipeline meetings where the Mission validates projected expenditures, analyzes expenditure reports and discusses procurement plans. Additionally, the obligation memos and procurement plans are adjusted constantly to address any issues or recommendations that arise. As noted in the March 31, 2008 expenditure report, mid-way through the fiscal year USAID/Nicaragua had already achieved 43% of estimated expenditures for fiscal year 2008. The Mission expects actual expenditures to equal 90 -100% of projected expenditures for fiscal year 2008.

MEMORANDUM

Date: June 10, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: USAID/Panama Director, Kermit C. Moh

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

Dear Mr. Cox:

Thank you for the opportunity to respond to audit Report No. 1-598-08-00X-P entitled "Audit of Compliance with forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau." We have reviewed carefully, and would like to make the following comments:

General Comment:

During much of FY 2006 and 2007, USAID/Panama was on a closeout trajectory. In FY 2006, we were told to prepare for such an event and, in early FY 2007, were instructed to prepare a closeout plan for the Mission and submit it to the LAC Bureau in Washington. This was done and the closeout plan was submitted on May 9, 2007. It was not until the end of FY 2007 that we were told that USAID/Panama was no longer a closeout mission.

The audit that you conducted occurred during the time that we were planning for a closeout and had set aside funds for severance, winding down programs, etc. Thus, we do not dispute that forward funding obligations were more than 12 months beyond the end of the fiscal year in which the obligation took place. However, we do note that ADS Section 602.3 exempts closeout countries from this general requirement and USAID/Panama was clearly in such a situation.

Since we are no longer a closeout Mission, funds set aside for the closeout are being reprogrammed and we do not anticipate a forward funding issue once this takes place.

Recommendation #1: We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligation to areas where obligations can be used during this fiscal year.

USAID/Panama does not concur with this recommendation. This is already taking place and thus there is no need to do anything further.

Recommendation #2: We recommend that each mission establish effective procedures to periodically reprogram excess obligation to program areas where the funds can be used within the current fiscal year.

USAID/Panama does not concur with this recommendation. USAID/Panama carries out semi-annual reviews on all its ongoing activities. During these reviews, pipelines are examined and any issues regarding forward funding are vetted. Should forward funding issues be identified, plans would be put in place to resolve this at the time and a follow-up schedule implemented. Further action is not required.

Recommendation #3: We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

USAID/Panama does not concur with this recommendation. All estimated expenditure projections that CTO's make at a particular time are realistic. They take into account such items as a contractor's past performance, anticipated changes to project implementation that might slow down or speed up expenditures, and the environment in which the project is operating. There are times when we are unable to anticipate an event that might slow implementation but, for the most part, we are satisfied with existing systems that are in place.

MEMORANDUM

Date: June 19, 2008

To: Timothy Cox, Regional Inspector General/San Salvador

From: USAID/Paraguay Director, John A. Beed

Subject: Comments on the Draft Report of the Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau (Report No. 1-598-08-00X-P)

Dear Mr. Cox:

We have reviewed the audit report sent by your office. We appreciate the work done and we thank you for the professional and cooperative way in which this audit was conducted. Following are our comments to the recommendations found in the audit report.

Recommendation No. 1: We recommend that each mission review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

While this recommendation may be valid in the larger context, it is not applicable to USAID/Paraguay. As previously mentioned, the Mission's "excess obligations" of $788,745 (LAC region's smallest amount of "excess") comes from delays in initial startup of programs and/or new programs. Reprogramming this money was not an option, as these are unique acquisition/assistance instruments or direct obligations that do not fall under a broader SOAG. Expenditures projections were made based on the rate of expenditures of last two years, or the worst case scenario. Actions are being taken to avoid this situation for FY2008 and, according to information provided by the grantees to the CTOs, this amount will be significantly less. We consider our overall resulting pipeline as appropriate for our mission needs.

Recommendation No. 2: We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

We concur with the recommendation. USAID/Paraguay and our Regional Controller have been working to put in place quarterly financial status reports, procedures and meetings to support the mission's review of unexpended balances and to prevent forward funding violations.

Recommendation No. 3: We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission's methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

We concur with the recommendation. As stated in the previous comment, USAID/Paraguay already has a new process to prepare and review analysis of expended obligations, taking into account all of the issues mentioned in this recommendation.

MEMORANDUM

Date: June 27, 2008

To: Timothy E. Cox, Regional Inspector General/San Salvador

From: Paul Weisenfeld, USAID/Peru Mission Director

Subject: Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau

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USAID/Peru Mission appreciates the opportunity to respond to the "Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau." Below are the Mission's comments on the three recommendations outlined in the audit.

Recommendation No.1: We recommend that each mission review its existing unexpended obligations and reprogram $ 149 million in excess obligations to areas where obligations can be used during their current fiscal year.

To the extent this recommendation applies to the Mission, USAID/Peru agrees that we should review existing unexpended obligations and notes the Mission already has procedures in place adequate to this task. The Mission believes that the amount stated as excess FY07 obligations misrepresents the true figure because it fails to take into account funds obligated for new activities, as noted below.

The Mission recently re-examined the reported FY07 excess pipeline and revised our projected expenditures for FY08. Based on this analysis, the projected pipeline at the end of FY08 was $26 million. Given that forward funding guidance allows for an initial obligation of up to 18 months of pipeline for new activities (pointed out in our response to the draft report), we then projected FY09 expenditures for the large number of new instruments stated in late FY08, arriving at the amount of $17.4 million. By taking into consideration these valid pipelines, we arrive at a more accurate figure for excess pipeline at the end of FY08 of only $8.6 million (vs. the $22.9 million stated in the report).

Finally, the Mission currently has in place a comprehensive process of periodically reviewing unexpended balances and reprogramming any excess obligations.

We leveraged this existing process to take three actions on this final balance:
(a) Reprogram excess obligations to instruments that could spend the funds in FY08 - this was especially true with closing instruments that had unexpended balances;
(b) Discuss rate of expenditure and expected changes to determine the necessity for reprogramming. In some cases, especially those related to Peru Trade Promotion Agreement (PTPA) implementation, expenditure rates have improved considerably since the agreement was signed in December 2007, and major questions about priorities for assistance are being resolved. For example, a major PTPA-related instrument has more than tripled its rate of expenditure between FY07 and Q2, FY08; and
(c) Take decisions regarding potential need for creating new instruments, where we found sufficient pipeline to warrant such a decision.

In addition, it should be noted that the late allowance of funds to the missions has significantly truncated the period available to spend these funds from a theoretical 18 months to a minimal 12 months, if the Mission receives funds in September, as happened in 2007.

Recommendation No. 2: We recommend that each mission establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

USAID/Peru concurs with the recommendation and notes that the Mission has, over the past year, already strengthened such procedures by putting in place a formal quarterly financial review of all project activities. During these meetings, technical teams present their financial status reports, funding recommendations and projections of pipelines to senior management. If it appears activity implementation is lagging and creating excess pipelines, the teams are directed to reprogram any excess obligations. As a side note, this process and its associated tool (called “OPS Master”) has received very favorable attention from the M Bureau and is being considered by the CFO and CIO’s office as a potential model for a standardized worldwide OYB management tool.

Recommendation No. 3: We recommend that each mission revise its methodology for preparing and reviewing analyses of unexpended obligations. Each mission’s methodology should include a realistic assessment of historical and future expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays, and the impact of unrealistic past expenditure projections.

USAID/Peru agrees with the recommendation and notes that it has already put in place quarterly financial reviews, under which each technical team completes a detailed analysis of unexpended obligations. The projections of future expenditures are then compared to the historical expenditure rates over the past four quarters, and adjustments to the projected amounts are considered. The Mission believes it already has an adequate methodology in place to address the risk of overstatement of projected expenditures.

MEMORANDUM

Date: July 15, 2008

To: RIG/San Salvador, Timothy E. Cox

From: AA/LAC, Jose Cardenas

SUBJ: LAC Regional Inspector General's "Audit of Compliance with Forward Funding Requirements by Missions in the Latin America and the Caribbean Bureau."

The LAC Bureau appreciates the opportunity afforded us to comment on the subject audit which has recommendations directed to our 16 field offices. We hope these comments will be included along with those of the Missions in the RIG's final report.

RIG Recommendation One:

Each LAC Mission should review its existing unexpended obligations and reprogram $149 million in excess obligations to areas where obligations can be used during their current fiscal year.

LAC Bureau Response to recommendation one:

The audit identified significant variances in interpretation and application among the LAC Missions, and indeed with the RIG/San Salvador, of ADS 602 guidance on Forward Funding of Programs – differences we believe the RIG will find as it expands the scope of the audit to other geographic regions. This, coupled with the adoption of the new Foreign Assistance framework, increased Washington direction/involvement in establishing budget element levels and implementing instruments (e.g, the inter-Agency CAFTA-DR budget process), the elimination of strategic objectives, and the greatly increased level of earmarks and directives that shape our development programs, suggests the need for an urgent revisiting and re-issuance of Agency guidance. We intend to raise this issue with other regional Bureaus and the CFO.

With respect to the specific audit recommendation to LAC, we suggest that the recommendation be revised to read as follows:

Each LAC Mission should review its existing unexpended obligations and, prior to September 30, 2008, determine the amount of any excess obligations and initiate steps to reprogram available balances to further our development objectives while remaining consistent with Congressional directives, earmarks and eligible uses.

In fact, LAC Missions have already initiated some reprogramming, but the amount of funds that can be reprogrammed will, in our estimate, approximate $20 million, not $149 million. As the individual Mission responses indicated, due to exceptions permitted in current ADS guidance, the RIG finding significantly overstates the total amount of excess obligations. We also note that it may not be possible to complete the reprogramming of funding to activities which would disburse *during the current fiscal year* (i.e., within the next two months), as recommended by the RIG. Deobligation and reobligation of funds often involves multiple levels of negotiation (both with host governments, as well as implementing contractors and grantees) and congressional notifications, in addition to the time required to design, negotiate and complete the procurements to launch new activities. While there might be ways to expend the funds on "short-order" through, for example, procurements of commodities, these types of activities are not always the best way to advance achievement of our development goals.

We understand that RIG/San Salvador is reviewing additional information provided by the Missions relevant to exceptions to forward funding guidance outlined in ADS 602.3.3 and may revise its estimate of excess obligations. The LAC Bureau looks forward to working with RIG to identify and then ensure that available funds that could be used to address more pressing needs are reprogrammed. To the extent that there are excess obligations, we request that the recommendation be disaggregated to specify which Mission must address how much, so that we may track and close the recommendation promptly.

Recommendations two and three:

Establish effective procedures to periodically reprogram excess obligations to program areas where the funds can be used within the current fiscal year.

Each Mission should revise its methodology for preparing and reviewing analyses of unexpended obligation. Each Mission's methodology should include a realistic assessment of historical and further expenditures, the time required to complete procurement actions, the risk of unanticipated implementation delays and the impact of unrealistic past expenditure projections.

LAC Bureau Response to recommendation two and three:

The LAC Bureau concurs with this recommendation, but underscores the importance of the Agency working as a whole to define the appropriate level to conduct the review of each "program." The audit used the Strategic Objective level, as recommended by the ADS, while most Missions used the level of implementing instruments or the program element line which is now being used as the "control" by the Agency. The LAC Bureau believes that there should be a careful review and revision of the strictures of ADS 600 to make them more responsive to the difficult and dynamic environment in which our Missions work.

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