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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/ANGOLA'S OPERATING EXPENSES

AUDIT REPORT NO. 4-654-06-001-P
OCTOBER 20, 2005

PRETORIA, SOUTH AFRICA

Office of Inspector General

October 20, 2005

MEMORANDUM

TO: USAID/Angola Director, Diana Swain
USAID/South Africa Director, Carleene Dei

FROM: Regional Inspector General/Pretoria, Jay Rollins /s/

SUBJECT: Audit of USAID/Angola's Operating Expenses (Report No. 4-654-06-001-P)

This memorandum transmits our final report on the subject audit. In finalizing our report, we considered your comments on our draft report and have included your response in its entirety in Appendix II.

This report includes eight recommendations that USAID/Angola: (1) notify the Deputy Chief Financial Officer that an administrative funds control violation occurred; (2) deobligate $17,412 of the $22,462 of unliquidated balances set forth in this report that are no longer needed, (3) complete a review of fiscal years 2003 and 2004 miscellaneous obligations totaling $81,585 and deobligate the balances that are no longer necessary, (4) establish procedures to strengthen the control system for performing and documenting unliquidated obligation reviews; (5) establish control procedures for storing and handling property, (6) establish procedures that require an annual physical inventory and reconciliation and schedule a physical inventory and reconciliation, (7) officially designate two property officers, and (8) complete the required report for the unaccounted for property in this report. In your written comments, you did not fully concur with Recommendation No. 1, but concurred with Recommendation Nos. 2 through 8.

In response to our draft report, USAID/Angola did not fully concur with Recommendation No. 1 and no management decision has been reached at this time. We have consequently revised Recommendation No. 1, and request written notice within 30 days of any additional information related to actions planned or taken to implement Recommendation No. 1. For Recommendation Nos. 2, 3 and 7, USAID/Angola has provided evidence that final action has been taken, including deobligations of $22,462 and $40,756 for Recommendation Nos. 2 and 3, respectively. We therefore consider Recommendation Nos. 2, 3, and 7 to be closed with the issuance of this report. For Recommendation Nos. 4, 5, 6 and 8, USAID/Angola has provided corrective action plans and target completion dates. Therefore, we consider that management decisions have been reached for these recommendations. Please provide the Bureau for Management, Office of Management Planning and Innovation with evidence of final action in order to close those recommendations.

I want to express my sincere appreciation for the cooperation and courtesy extended to my staff during the audit.

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SUMMARY OF RESULTS

This audit was performed by the Regional Inspector General/Pretoria as part of its annual audit plan. The objective of the audit was to determine whether USAID/Angola managed its operating expenses in accordance with USAID and Federal regulations. (See page 2.)

As a result of our audit, we concluded that USAID/Angola has managed its operating expenses in accordance with USAID and Federal regulations. The Mission has recorded its obligations and expenditures accurately and in a timely manner, as well as reviewed and reported on year-end balances. The purposes of the obligations were generally consistent with the purposes of the relevant appropriations act. Accountable property purchases were accurately recorded, property was received as ordered, and accurately recorded in the inventory system. Additionally, inventory records were kept for property issued to the end users, as well as records for disposal of property. (See page 3.)

Nevertheless, this report includes recommendations that will help USAID/Angola strengthen certain areas associated with operating expenses. Those recommendations are that USAID/Angola: (1) notify the Deputy Chief Financial Officer that an administrative funds control violation occurred; (2) deobligate $17,412 of the $22,462 of unliquidated balances set forth in this report that are no longer needed, (3) complete a review of fiscal years 2003 and 2004 miscellaneous obligations totaling $81,585 and deobligate the balances that are no longer necessary, (4) establish procedures to strengthen the control system for performing and documenting unliquidated obligation reviews; (5) establish control procedures for storing and handling property, (6) establish procedures that require an annual physical inventory and reconciliation, as well as the retention of documentation, and schedule a physical inventory and reconciliation, (7) officially designate a Property Management Officer and Property Disposal Officer, and (8) complete the required report for the unaccounted for property in this audit and take the required action. (See pages 4, 6 and 9.)

USAID/Angola did not fully concur with Recommendation No. 1 and no management decision has been reached at this time. We have consequently revised Recommendation No. 1, and request written notice within 30 days of any additional information related to actions planned or taken to implement Recommendation No. 1. For Recommendation Nos. 2, 3 and 7, USAID/Angola has provided evidence that final action has been taken by, respectively, deobligating $22,462 in unliquidated balances, deobligating $40,756 of $81,585 in miscellaneous obligations, and designating the recommended property officers. We therefore consider these recommendations closed with the issuance of this report. For Recommendation Nos. 4, 5, 6 and 8, USAID/Angola concurred with the recommendations and has provided corrective actions plans and target completion dates. Therefore, we consider that management decisions have been reached for these recommendations. See page 10 for our evaluation of management comments.

BACKGROUND

The U. S. Agency for International Development (USAID) receives a separate appropriation to cover its annual operating expenses (OE). Operating expenses represent salaries, benefits, and support costs of all U. S. personnel and non-program foreign national personnel. Support costs include allowances, travel, transportation, housing, and office expenses. Although USAID/Angola received some services from the International Cooperative Administrative Support Services (ICASS) system, the responsibility for most maintenance expenses and management of accountable expendable and non-expendable property was retained by the Mission.

Financial management of OE consists of recording and reporting obligations and expenditures that are consistent with the intended purposes of the OE appropriation act, as well as conducting an annual review and certification of remaining unliquidated obligation balances. Property management of OE is mainly comprised of purchasing, receiving, inventorying, warehousing, issuing, and safeguarding expendable and non-expendable office and residential property in accordance with USAID and Federal guidance. It also includes the disposal of property when required.

The Controller at USAID/South Africa also functions as the Controller for USAID/Angola, while the Executive Officer at USAID/South Africa provides unofficial guidance. USAID/Angola's accounting system is also resident at USAID/South Africa.

The audit period included OE funding from fiscal year 2002 through 2005. For fiscal years 2004 and 2005, USAID/Angola reported total annual authorized OE appropriation funds of $2.1 million for each year.

AUDIT OBJECTIVE

As a revision to the Office of Inspector General's fiscal year 2005 annual audit plan, this audit was conducted to answer the following question:

- Has USAID/Angola managed its operating expenses in accordance with USAID and Federal regulations?

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

AUDIT FINDINGS

USAID/Angola has managed its operating expenses in accordance with USAID and Federal regulations. It has recorded its obligations and expenditures accurately and in a timely manner, as well as reviewed and reported on year-end balances. The purposes of the obligations were generally consistent with the purposes of the relevant Operating Expense (OE) appropriations act. Accountable property purchases were accurately recorded, property was received as ordered, and property was accurately recorded in the inventory system. Inventory records were also kept for property warehoused as well as issued to the end users, in addition to records maintained for the disposal of property.

However, we found three instances of noncompliance with USAID and Federal regulations. We determined that an administrative funds control violation occurred, controls over unliquidated obligations needed improvement, and controls over property management needed improvement. These issues are discussed below.

Forward Funding Controls Need Improvement

Summary: For fiscal year 2003, USAID/Angola paid three months of office rent totaling $99,000 using fiscal year 2002 OE appropriation, contrary to USAID and Federal guidance. Mission officials stated that they were concerned about the availability of OE funds in the next year when the next rental payment was due and wanted to use available fiscal year 2002 funds instead. Consequently, an administrative funds control violation occurred, contrary to appropriations law.

For fiscal year 2003, USAID/Angola paid three months of office rent under lease agreement LE 654-99-004 totaling $99,000 using fiscal year 2002 OE appropriation, contrary to USAID and Federal guidance.

The lease for the Mission office building was required to be paid 12 months in advance at the beginning of each annual rental period, which ran from January 1 to December 31 of each year. To pay for the annual period during fiscal year 2002, USAID/Angola paid the one-year lease period through December 31, 2002 with fiscal year 2002 funds just prior to January 2002 in accordance with the lease terms. Although three months of this period ran into fiscal year 2003, the payment was consistent with USAID guidance because the rental payment was due at the beginning of the 12 month period.

However, in September 2002, USAID/Angola made another office rental payment for the period of January 1 to March 31, 2003 using fiscal year 2002 funds under Voucher No. 654-02-218 dated September 23, 2002. Since the annual 12 month lease period had already been paid in fiscal year 2002, and the next period did not begin and was not due until January 1, 2003, there existed no bona fide need for this payment in fiscal year 2002. In the absence of a bona fide need, the payment from 2002 funds for the additional three months, therefore, was contrary to USAID and Federal guidance.

Automated Directives System (ADS) 621.3.2 states that a valid obligation is required to fill a bona fide need in the period of availability of the appropriation used. The Government Accountability Office's (GAO) "Principles of Federal Appropriations Law" defines the bona fide needs rule. It states that a fiscal year appropriation may be obligated only to meet a legitimate, or bona fide, need arising in, or in some cases arising prior to but continuing to exist in, the fiscal year for which the appropriation was made. It further states that an appropriation may not be used for the needs of some time period subsequent to the expiration of its period of availability. In summary, an appropriation for a given fiscal year is not available for the needs of a future fiscal year.

ADS 621.3.8 states that non-program obligations must be consistent with Agency forward funding guidelines. ADS 603.5.1g states that obligations may be made for rental of space on a monthly, quarterly, or annual basis depending on when payments are due. Obligations for periods beyond September 30th may be made only if the payment of rent for such periods is required on or before September 30th under the lease.

Mission officials stated that they were concerned about the availability of OE funds when the next rental payment was due and wanted to use available fiscal year 2002 funds instead. They also believed that as long as the payment was made before the end of fiscal year, those funds could be used for the next rental period due on January 1, 2003.

The result of the additional lease payment was that OE funds, which were intended under appropriations law to be used in one fiscal year, were used to supplement a succeeding fiscal year appropriation. Consequently, USAID/Angola's operating expense appropriation was not used in accordance with USAID guidance and appropriations law and, therefore, contrary to the intent of Congress. Additionally, the Mission's reported annual OE funds were not accurately stated, with lease expenses for fiscal year 2002 overstated and fiscal year 2003 understated. This constitutes an administrative funds control violation as defined by ADS 634.3.5, which requires a notification be sent to the Deputy Chief Financial Officer.

To address this administrative funds control violation, we have the following recommendation.

> *Recommendation No. 1: We recommend that USAID/Angola notify the Deputy Chief Financial Officer, as required by the Automated Directives System, that an administrative funds control violation has occurred.*

Review of Unliquidated Obligations Needs Improvement

Summary: USAID/Angola has not been performing and documenting unliquidated obligation reviews for its OE obligations as required by USAID guidance. As a result, unliquidated balances that were no longer needed were not deobligated. Mission officials stated that the unliquidated balances were not deobligated because they were concerned about the availability of OE fund balances to cover outstanding expenditures. Staffing constraints were also cited by Mission personnel. Consequently OE funds that were no longer necessary were not identified and deobligated so that they could be made available for other uses.

USAID/Angola has not been performing and documenting unliquidated obligation reviews for its operating expense obligations as required by USAID guidance. We determined that fiscal year 2003 and 2004 documents totaling $22,462 (in Table I of Appendix III) had unliquidated balances of $17,412 that were no longer needed and should be deobligated.

In addition, USAID/Angola used a series of miscellaneous obligation documents to pay local vendors for recurring expenses during fiscal years 2003 and 2004. These documents, totaling $81,585, are provided in Table II of Appendix III. These disbursements were made through the U.S. Embassy controller's office, and processed by the Charleston Financial Services Center, which would then generate an AOC or IPAC[1] that would be sent to USAID/South Africa (USAID/Angola's accounting station) for processing in the Mission Accounting and Control System (MACS). Although this procedure can be lengthy under normal circumstances, if miscoded, an AOC may be further delayed.

USAID/Angola staff stated that the current unliquidated balances for its miscellaneous obligations were being maintained to cover outstanding AOCs from the Charleston Financial Services Center. However, Mission staff stated that they had not identified nor quantified the amounts that were needed for the outstanding AOCs. Therefore, it was not known whether the balances were actually necessary at the time. To determine whether the balances are no longer needed, and should be deobligated, the obligations should be reviewed and the outstanding AOCs quantified.

ADS 621.3.1 states that financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within the controller's office, but includes any source material causing or resulting in a financial transaction. If an action will result in a financial transaction, it must be documented. Source documentation, which must be readily available for audit, is necessary to support the controller's certification of balances at the end of each fiscal year.

ADS 621.2.e continues by stating that mission controllers must coordinate at least annually a mission-wide review of all unexpended obligations to identify excess and unneeded balances for potential deobligation. For OE-funded obligations, USAID's *Deobligation Guidebook,* Section V.C.3, states that the Cognizant Technical Officer (CTO) or other obligation manager, in conjunction with the financial analyst or responsible accountant, will perform a comprehensive review of all obligating documents to ensure that all payments for goods and/or services received have been made and posted to MACS. The responsible accountant will deobligate any residual with a journal voucher cleared by the CTO or requiring officer and approved by the controller. The *Guidebook*, Section V.C.3, further states that, for residual funds in old obligations that are no longer needed for their original purposes, the mission controller's office exercises judgment to deobligate funds.

Mission officials stated that the unliquidated balances were not deobligated because they were concerned about the availability of operating funds to cover outstanding AOCs

[1] An AOC is defined as an Advice of Charge, which is a notification of a payment made in USAID/W or a mission accounting station on behalf of another accounting station. An IPAC is defined as an Intra-governmental Payment and Collection, which is similar and can be made by another government agency on behalf of a mission accounting station.

that had not been processed. Staffing constraints were also cited by Mission personnel. With an accounting staff of only two local voucher examiners, one of which had to perform cashiering duties, and a chief accountant, Mission personnel stated that they did not have time to research and document outstanding miscellaneous obligation balances.

A contributing cause was a lack of a comprehensive control system to record and track each disbursement for miscellaneous obligations for which an AOC is outstanding. Recently, however, USAID/Angola has established a comprehensive system to accomplish this. We believe that this system is adequate to provide Mission staff with the controls necessary for conducting reviews of current unliquidated obligations. For this reason, we are not making a recommendation at this time for the establishment of additional controls for tracking disbursements. However, USAID/Angola still needs to review prior year balances and deobligate balances that are no longer needed as well as strengthen procedures for conducting and documenting unliquidated obligation reviews.

Since USAID/Angola did not maintain required documentation to support unliquidated miscellaneous obligation balances in fiscal years 2003 and 2004, the required support for the annual certification was not maintained. Additionally, OE obligations that were no longer needed were not identified and deobligated so that they could be made available for other uses.

To correct the weakness in the system for reviewing unliquidated obligations, we have the following recommendations.

> *Recommendation No. 2: We recommend that USAID/Angola deobligate $17,412 of unliquidated balances totaling $22,462 set forth in this report that are no longer needed.*

> *Recommendation No. 3: We recommend that USAID/Angola complete a review of fiscal years 2003 and 2004 miscellaneous obligations totaling $81,585 and deobligate the balances that are no longer necessary.*

> *Recommendation No. 4: We recommend that USAID/Angola establish procedures to strengthen the control system for performing and documenting unliquidated obligation reviews.*

Property Management Needs Improvement

Summary: There were four instances of non-compliance with USAID/Angola's property management system. Ten cell phones and four security radios were unaccounted for, annual physical inventories and reconciliations were not completed, expendable items were not inventoried prior to issuance, and a property disposal officer and a property management officer were not designated. For various reasons, USAID/Angola did not comply with USAID regulations or the Mission's property management system. As a result, the required accountability was not maintained, thereby increasing the vulnerability for theft and misuse of Mission property.

Unaccounted For Non-expendable Property – We conducted a physical inventory that identified 14 items totaling $6,312 that were unaccounted for. Specifically, we determined that 10 cell phones were missing out of a universe of 48, and 4 security radios were missing out of a universe of 83, as provided in Table III in Appendix IV.

Concerning the missing cell phones, Mission staff provided a number of explanations. For bar codes 4009 and 4010, Mission staff believed that these were assigned to program people and mistakenly recorded as OE inventory. However, no phones matching the serial numbers in the inventory system were presented for inspection to confirm this, nor were the phones in question recorded on the Cell Phone Users List. For bar code 4032, Mission staff believed that this was an erroneous number, however no documentation was provided. For bar code 3947, Mission staff believed that this phone was assigned to a non-OE officer. However, no signed property receipt form was on file, nor was the phone in question on the Cell Phone Users List. For bar code 3932, Mission staff stated that this phone was lost. However, no documentation was provided to support the report of the loss. For bar codes 3757 and 3756, phones with no bar code were found that matched the serial numbers of the phones in the inventory system. For bar codes 3483, and 3088, no explanation was provided. For bar code 2938, Mission staff stated that the phone was stolen and reported to the Regional Security Officer, but no supporting documentation for this was provided.

Regarding the missing radios, Mission staff believed the loss may have been due to an initial inventory coding error, but could not produce any documentation for support.

Automated Directives System (ADS) 534.3.1 states that the regulations contained in 6 Foreign Affairs Manual (FAM) 220-229, Personal Property Management, are the governing directives for USAID's overseas personal property program. 6 FAM 221.4 states that inventory records must be kept for all accountable[2] property.

According to 6 FAM 223.7, Warehousing and Storing Property, the property management officer (PMO) shall establish conditions to provide for an efficient, secure, and economical warehousing operation. Where it is necessary to store and warehouse property, the PMO shall implement an efficient and economical warehousing program with written procedures for handling and storing property.

6 FAM 226.5 further states that the accountable property officer (APO) must immediately report missing, damaged, or destroyed property to the PMO. The PMO's findings and decisions based on the required report serve to relieve the APO of accountability for the property and establish whether employees are personally, financially liable for damaged and missing property. If it is determined that the damage resulted from carelessness, negligence, or other fault of an employee, that employee may be required to pay the cost of repairing or replacing the property.

The principal cause for the missing items was the lack of good written control procedures governing the assignment of accountable property to employees and the

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[2] Accountable property is defined as all non-expendable residential furniture and equipment regardless of cost or location, and all non-expendable personal property items costing $100 or more. Also included is any expendable stock inventory in the stock room or warehouse. The term "non-expendable" is defined as furniture and equipment which is complete by itself and is of a durable nature with an estimated life of over two years.

return of property from employees. Although the Mission did maintain a Cell Phone Users List, it was not accurate or kept up to date. Additionally, the Mission did not have consistent procedures and documentation for handling cases in which property assigned to employees was lost, stolen or damaged. A contributory cause was the lack of annual physical inventories and reconciliations, which would have assisted in identifying and correcting weaknesses in property controls. This issue is further discussed below.

Currently there is no Mission order in place for property control. Although there is a draft Mission order under consideration, it only provides for official titles for Mission officials and does not contain specific control procedures for storing and handling accountable property as required by Federal guidance.

The result of the above was that the required accountability for Mission property has not been maintained, thereby increasing the vulnerability for theft and misuse of accountable Mission property.

Lack of Physical Inventories and Reconciliations – USAID/Angola has not been performing annual physical inventories and reconciliations. The last complete physical inventory that was taken was in fiscal year 2004, at which time 310 line items were reported missing. However, due to other priorities, no reconciliation was completed to establish the reason for the reported missing items and report the results as required by Federal guidance.

6 FAM 226.1 states that a physical inventory of personal property, including expendable and non-expendable warehouse stock, shall be taken annually and immediately reconciled with the property records. A physical inventory and reconciliation file must be kept in the property office for three complete fiscal years.

Mission personnel stated that this physical inventory had been done very quickly due to lost time as a result of an instruction cable from USAID/Washington that was misplaced in the Embassy cable room. They believed that most of the reported missing items were due to either a change in location of the items or due to the possibility of lost data as a result of an inventory system upgrade that had been completed that year. However, they had no documentation to support this. Additionally, the Mission did not have any written local procedures for conducting physical inventories and reconciliations and maintaining required documentation.

The lack of physical inventories and reconciliations resulted in inadequate accountability, thereby increasing the vulnerability for theft and misuse of accountable Mission property.

Non-inventoried Expendable Property – In testing our sample of accountable property items we noted that USAID/Angola did not inventory computer system expendable property prior to issuance to the end user. The reported current value of these items at the time of our fieldwork in fiscal year 2005 was $2,515.

According to 6 FAM 221.4, accountable property, which includes expendable inventory in the stockroom, must be kept on accountable property records. Mission staff, however, stated that they had no local procedures for inventorying expendable property prior to issuance to the end user.

The lack of inventory records for this non-issued property resulted in reduced accountability, thereby further increasing the vulnerability for theft and misuse of accountable Mission property.

Undesignated Property Officers – In examining Mission controls over property management, we noted that the draft Mission order designating responsibilities to Mission personnel did not include two required positions. The draft Mission order under consideration did not include a property management officer (PMO) and a property disposal officer (PDO).

6 FAM 221 states that the PMO must be a U.S. citizen. It further states that the head of each establishment abroad shall designate, in writing, an officer to serve as PMO. The PMO is responsible for all property management functions. This includes assigning the PDO duties to a U.S. citizen officer in writing. The PDO is generally responsible for the duties of conducting the disposal of personal property.

Mission staff stated that they initially were not aware of these designation requirements, although USAID/South Africa had recently advised them of the requirements.

The lack of designated property officers further reduced the level of accountability, thereby adding increased vulnerability for theft and misuse of accountable Mission property to the property management control system.

To address these weaknesses in property management, we have the following recommendations.

> *Recommendation No. 5: We recommend that USAID/Angola establish written control procedures for storing and handling property, which include inventorying expendable property before issuance, assigning accountable property to employees, returning accountable property to the Mission, and reporting and resolving cases for lost, stolen, or damaged accountable property in accordance with Federal requirements.*
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> *Recommendation No. 6: We recommend that USAID/Angola establish procedures that require an annual physical inventory and reconciliation, as well as the retention of documentation, and schedule a physical inventory and reconciliation in accordance with Federal requirements.*
>
> *Recommendation No. 7: We recommend that USAID/Angola officially designate a Property Management Officer and Property Disposal Officer.*
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> *Recommendation No. 8: We recommend that USAID/Angola complete the required report for the unaccounted for property in this report and take the required action per 6 FAM 226.*

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, USAID/Angola concurred with all of our recommendations except for Recommendation No. 1. The Mission described the actions taken and those planned to be taken to address our concerns. The Mission's comments and our evaluation of those comments are summarized below.

In response to Recommendation No. 1, the Mission stated that it did not fully concur with the finding. The Mission indicated its position that adequate controls were in place for funds control and that the additional three months rent was charged to fiscal year 2002 as a result of a decision by the Regional Controller to modify the period of the office lease. According to the Mission, this was a one-time occurrence and did not reflect a pattern of misapplication of USAID guidance and appropriation's law. Consequently, we changed the finding to state that paying more than 12 months of rent from the fiscal year 2002 annual operating expense appropriation constituted an administrative funds control violation and recommended that the Mission report the violation to the Deputy Chief Financial Officer as required by the Automated Directives System. No management decision has been reached on revised Recommendation No. 1. We have requested that the Mission provide written notice within 30 days of additional information related to actions planned or taken to implement Recommendation No. 1.

Concerning Recommendation Nos. 2, 3 and 7, the Mission provided evidence that final action had been taken. For Recommendation No. 2, the Mission deobligated $22,462 that was no longer needed--$5,050 more than was recommended at the conclusion of the audit fieldwork. For Recommendation No. 3, the Mission completed the recommended review of miscellaneous obligations totaling $81,585, and deobligated $40,756 that was no longer needed. For Recommendation No. 7, the Mission issued Mission Order 502-02-05 designating the recommended Property Management Officer and Property Disposal Officer. Consequently, we consider final action to have been taken on Recommendation Nos. 2, 3 and 7, and close them upon issuance of this report.

In addressing Recommendation Nos. 4, 5, 6 and 8, the Mission reported reaching management decisions for each. For Recommendation No. 4, the Mission was developing procedures in a mission order for performing and documenting unliquidated obligation reviews that should be completed by December 31, 2005. For Recommendation No. 5, Mission was developing procedures in a mission order for property control that should also be completed by December 31, 2005. For Recommendation No. 6, the Mission was incorporating procedures into a mission order for the completion of annual physical inventories and reconciliations. This should be completed by December 31, 2005. For Recommendation No. 8, the Mission will complete the required report for the unaccounted for property by December 31, 2005. Therefore, we consider Recommendation Nos. 4, 5, 6 and 8 to have received a management decision.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria conducted this audit in accordance with generally accepted government auditing standards. Fieldwork for this audit was performed at the USAID Mission in Angola between June 27, 2005 and July 15, 2005. For the review of Operating Expense (OE) funds control, we examined $382,000 of unliquidated obligations out of a total reported of $410,000. For the review of property management, we examined $198,000 of non-expendable property out a total reported of $1,327,000.

For OE funds control, we examined significant internal controls associated with the accuracy and appropriateness of the recording of obligations, the recording of expenditures, and the reviewing and certifying of year end balances. For property management, we examined significant controls associated with purchasing, receiving, inventorying, storing, issuing and disposing of accountable property.

In conducting our fieldwork, we did not rely on the accuracy or validity of computer generated data in the Mission Accounting and Control system or the data in the Mission’s inventory system. Additionally, we found no significant prior audit findings affecting the areas reviewed.

Methodology

To accomplish the audit objective, we interviewed cognizant officials, reviewed applicable USAID and Federal policies and procedures, and assessed significant management controls and risk exposure relating to the management of OE funds controls and accountable property management.

The audit included an analysis of a judgmental sample of various types of original source documents, which included miscellaneous obligating documents, contracts, purchase orders, vouchers, and invoices to determine whether obligations were consistent with the requirements of the OE appropriations act, unliquidated balances were still needed, funds could be deobligated, and data in the accounting system was accurate. The sample was designed so that we could analyze a variety of different types of transactions. The results, however, cannot be projected to the population.

The audit also included an analysis of a judgmental sample of various types of property purchases. We traced purchases through the property records system, which included purchase documents, receiving reports, inventory reports, assignment documents, and disposal documents where appropriate.

Because of the varied nature of the different types of balances tested under funds control and property management, we were not able to establish a single materiality threshold. However, since the Mission was responsible for approximately $2 million a year in OE funding, the monetary impact of the findings in this report are not significant enough to affect our positive answer to the audit objective.

MANAGEMENT COMMENTS

MEMORANDUM

TO: Regional Inspector General/Pretoria, Jay Rollins

CC: Carlene Dei, Mission Director, USAID/South Africa

FROM: Diana Swain, Mission Director, USAID/Angola /s/

SUBJECT: Management Comments on Draft Audit Report on Audit of USAID/Angola Operating Expenses (Report No. 4-654-05-00X-P)

This memorandum transmits our management comments to the referenced RIG/Pretoria Draft Audit Report. Thank you for sharing your draft with the Mission, and providing us the opportunity to make clarifications at this time. We welcome the report and your continuing guidance on how to improve management controls for our operating expense budget, inventory, warehouse and other administrative systems. We have reviewed the draft report with senior Mission staff and the Regional Controller of USAID/South Africa. We provide here additional information to address the draft findings and some of the report's language. In addition we have compiled a number of management actions which we believe fully address the RIG's audit recommendations.

Recommendation No. 1: We recommend that USAID/Angola establish and document controls over operating expenses to ensure that forward funding of obligations is in compliance with USAID and Federal Guidance.

The Mission does not fully concur with this finding. It is mission management's position that adequate controls are in place to comply with USAID and Federal Guidance. We believe the specific case which led to this recommendation was a one-time occurrence. In the judgment of Mission management, including the Regional Controller, it does not reflect a pattern of misapplication of USAID guidance and appropriations law.

A management decision was made in FY 2002 to fund 15 months of the rent and change the annual lease period from the calendar year of January – December to an April – March schedule, in order to shift the burden from the first quarter of the fiscal year. This was a one-time change, to avoid restrictions from continuing budget resolutions at the start of the fiscal year. Unfortunately, no subsequent action was actually taken to amend the lease to formally change the lease payment period, and further documentation is not available.

OE forward funding guidelines have since been amended, with recent changes to ADS

603 and the PPC policy agency notice on August 19, 2004. In conclusion, Mission management feels that this was a judgment call by the Regional Controller at the time and that it was not the result of having inadequate controls in place.

Recommendation No. 2: We recommend that USAID/Angola deobligate the unliquidated balances totaling $17,412 for the documents set forth in this report that are no longer needed.

Mission management concurs with the audit finding. USAID/Angola has deobligated the items in question, completing this management action by the end of FY05.

Recommendation No. 3: We recommend that USAID/Angola complete a review of fiscal years 2003 and 2004 miscellaneous obligations totaling $81,585 and deobligate the balances that are no longer necessary.

Mission management concurs with the audit finding. Mission management, as part of its normal year-end closing process, performed this review and deobligated unnecessary balances leaving an amount remaining to adequately cover unresolved reconciling items associated with those fiscal years.

Recommendation No. 4: We recommend that USAID/Angola establish procedures to strengthen the control system for performing and documenting unliquidated obligation reviews.

Mission management concurs with the audit finding. Mission management will formally establish a procedure requiring that unliquidated obligation reviews take place in conjunction with the quarterly visits conducted by the Regional Controller. This procedure will also require that the reviews be documented and that a file containing that documentation be maintained at the mission. This procedure will be developed, written into a Mission Order and in place by December 31, 2005.

Recommendation No. 5: We recommend that USAID/Angola establish written control procedures for storing and handling property, which include inventorying expendable property before issuance, assigning accountable property to employees, returning accountable property to the Mission, and reporting and resolving cases for lost, stolen, or damaged accountable property in accordance with Federal requirements.

Mission management concurs with the audit finding. Mission management – supported by the Executive Officers from USAID/South Africa and RCSA – will draft these procedures into a new Mission Order. The anticipated completion date for this is December 31, 2005.

Recommendation No. 6: We recommend that USAID/Angola establish procedures that require an annual physical inventory and reconciliation, as well as the retention of documentation, and schedule a physical inventory and reconciliation in accordance with Federal requirements.

Mission management concurs with the audit recommendation. Mission management – supported by the Executive Officers from USAID/South Africa and RCSA – will draft these procedures into a new Mission Order. The anticipated completion date for this is

December 31, 2005.

USAID/Angola does believe that the statement that it has not been performing physical inventories and reconciliations may be a bit categorical. A more accurate statement would be that while USAID/Angola has been performing physical inventories, they cannot be considered complete as adequate reconciliations have not taken place.

Recommendation No. 7: We recommend that USAID/Angola officially designate a Property Management Officer and Property Disposal Officer.

Mission management concurs with the audit recommendation. Mission Order 502-02-05, issued on August 18, 2005, establishes that the Mission Program Officer is the Property Management Officer and the Mission Director is the Property Disposal Officer. We request that this finding be closed.

Recommendation No. 8: We recommend that USAID/Angola complete the required report for the unaccounted for property in this report and take the required action per 6 FAM 226.

Mission management concurs with the audit recommendation. Mission management – supported by the Executive Officers from USAID/South Africa and RCSA – will complete the required report by December 31, 2005.

Table I
Unneeded Unliquidated Obligations

Document No.	Balance	Not Needed
TA-654-02-088	$8,205	$8,205
PO-654-O-00-03-00027	2,644	2,644
PSC-654-S-00-03-00001	1,791	1,000
TA-654-03-069	607	607
TA-654-030070	207	207
TA-654-03-090	903	903
PO-654-O-00-04-00031	2,057	2,057
PO-654-O-00-04-00035	1,660	580
TA-654-04-094	483	483
TA-654-04-096	404	404
TA-654-04-098	3,501	322
Total	$22,462	$17,412

Table II
Unliquidated Obligations Needing Analysis

Document No.	Balance
MO-A3-Courier Services	$1,501
MO-A3-FSN Transport	3,503
MO-A3-Office Guards	1,057
MO-A3-Office Maintenance	4,091
MO-A3-Office Supplies	3,067
MO-A3-Office Supplies	3,973
MO-A3-Residence Supplies	2,750
MO-A3-Residence Utilities	5,694
MO-A3-Subscriptions & Pubs	485
MO-A3-Suspense	1,784
MO-A3-Vehicle Repairs	4,470
MO-A4-FSN Medical	1,237
MO-A4-Office Communication	547
MO-A4-Office Maintenance	454
MO-A4-Office Supplies	671
MO-A4-Residence Maintenance	758
MO-A4-Residence Utilities	714
MO-A4-Suspense	44,829
Total	$81,585

Table III
Unaccounted For Non-expendable Property

Item	Bar Code	Acquisition Price	Total
Cell Phone	2938	$684	$684
Cell Phone	3088	540	540
Cell Phone	3483	500	500
Cell Phone	3756	500	500
Cell Phone	3757	500	500
Cell Phone	3932	450	450
Cell Phone	3947	480	480
Cell Phone	4032	300	300
Cell Phone	4009	300	300
Cell Phone	4010	300	300
Subtotal			$4,554
Security Radio	2691	$222	$222
Security Radio	2740	792	792
Security Radio	2966	440	440
Security Radio	3213	304	304
Subtotal			$1,758
Total			$6,312

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