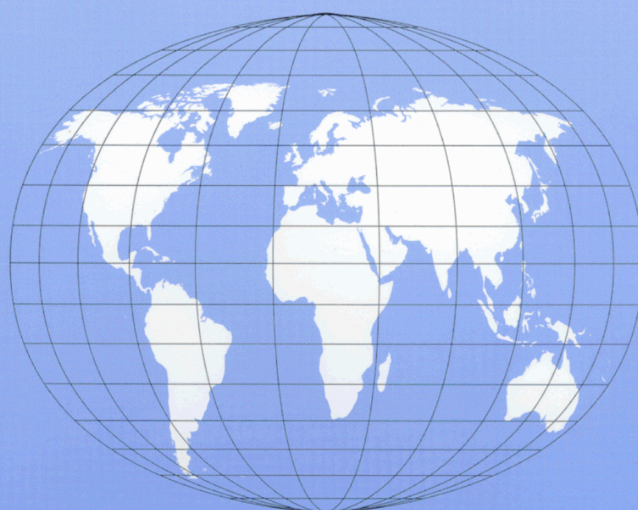
Report of Audit

Audit of USAID's Bureau for Africa's Management of Unliquidated Obligations

Audit Report No. 9-000-01-001-F
March 9, 2001



Washington, D.C.

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

March 13, 2001

MEMORANDUM

TO: DAA/AFR, Keith E. Brown

FROM: IG/A/PA, Dianne L. Rawl

SUBJECT: Audit of USAID's Bureau for Africa's Management of Unliquidated Obligations (Report No. 9-000-01-001-F)

This memorandum is our report on the subject audit. In finalizing this report, we considered your written comments on our draft report and included them in their entirety as Appendix II to this report.

This report contains three recommendations for action by your office. Based on your written comments on the draft report, we consider Recommendation Nos. 1 and 3 to have received management decisions. Within 30 days of the issuance of this report, please provide written notice to the Office of Management Planning and Innovation relating to actions the Bureau for Africa (hereafter "the Bureau") has taken to close these two recommendations.

As for Recommendation No. 2, you have not fully commented on the $8,060,293 in efficiency savings identified in Appendix III to this report. We are therefore withholding our concurrence with the management decision described in your comments until we receive the results of your review of each of the figures in bold print in Appendix III. In some cases, your response noted that certain actions, which may affect an amount we recommended for deobligation, are still pending. For example, you suggested that an opinion from General Counsel would be sought as to how to address the unliquidated obligation balance of one award. In others, the response asserts that the unliquidated amount "currently" does not exceed forward funding guidance, but supporting evidence is not provided. Accordingly, we have summarized in this report actions that are required for a management decision. Recommendation No. 2 can be closed when amounts currently found to be in excess of needs are deobligated.

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

Background

This audit was designed to review the Bureau's management of its unliquidated obligations. In particular, the audit sought to determine whether these obligations were both legally valid and properly valued. An obligation is a legally binding pledge of Government funds to pay for specific goods or services.

As of March 31, 2000, the Bureau was managing more than 300 awards that had unliquidated balances. About $500 million had been obligated for these awards, of which more than $160 million was unliquidated. Although officials from other offices signed most of these awards on behalf of USAID, Bureau officials signed 137 of them. The amount obligated for the 137 Bureau-signed awards totaled about $160 million, of which about $63 million was unliquidated.

Federal laws and internal USAID guidance require the effective management of obligations—from creation through liquidation. Agencies need to ensure that only legally valid obligations are recorded in their accounting systems, that the initial funding estimate for each obligation is as precise as possible, and that internal controls are in place to ensure that the unliquidated balance of each obligation is reviewed periodically and adjusted upward or downward as appropriate. In addition, USAID procedures require bureaus, offices, and missions to provide annual certifications that the obligations they sign are legally valid and that those they manage are properly valued.

Over the years, the Office of the Inspector General (OIG) has conducted many audits of unliquidated obligations, each time noting that a significant number of obligations had excess or unneeded balances available for deobligation. Auditors attributed the problems primarily to inadequate guidance and inadequate and/or incomplete reviews of unliquidated obligations by program managers. In response to recent audit findings, USAID's Chief Financial Officer (CFO), among other actions, issued new guidance to and developed and conducted comprehensive training programs for obligation managers. However, because of continuing concern that managers were not reviewing obligation balances as directed, the CFO asked the OIG to initiate another series of audits on the management of unliquidated obligations.

Audit Objective

This audit is the first of series of audits to be conducted at the request of the CFO and was designed to answer the following question:

Did the Bureau for Africa ensure that its obligations were both legally valid and properly valued?

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

Audit Findings

Did the Bureau for Africa ensure that its obligations were both legally valid and properly valued?

For the items tested, the Bureau generally ensured that the obligations it executed were valid and the obligations it managed were properly valued. On the positive side, all of the Bureau-signed awards tested contained valid obligations, and the majority of Bureau-managed awards tested contained properly valued obligations. With regard to the legal validity of the obligations associated with the active awards reviewed, (1) documentary evidence for obligations made was available, (2) obligating documents bore signatures of authorized USAID officials, and (3) funds were obligated within their period of availability. With regard to valuation, obligations were properly valued for 28 of the 39 awards reviewed.

However, there are two areas of concern where improvements would minimize future risk of noncompliance with Federal laws or USAID policy and procedures. First, in October 1999, Bureau officials certified that all obligations executed and recorded by the Bureau's officials were supported by appropriate documentation, i.e., they were valid obligations. However, the officials who prepared these certifications were generally unaware of the requirements for certifying validity and had not conducted any reviews to determine whether the Bureau-signed obligations were in fact valid. Secondly, with regard to valuation, the Bureau had not, as of March 31, 2000, initiated any systematic reviews of its unliquidated obligations to identify excessive or unneeded balances for possible deobligation since October 1997. As a result, excess and unneeded obligation balances were not identified or deobligated.

The next two sections of this report will discuss two areas for improvement.

Controls Are Needed to Properly Certify the Validity of Obligations

After the end of fiscal year 1999, the Bureau submitted a certification to the CFO stating that all obligations entered by its officials into USAID's accounting system were valid, as defined by 31 U.S.C. 1501. Contrary to Federal law and USAID procedures, the Bureau submitted this certification without conducting any review to ascertain whether the statement was correct. The Bureau did not conduct a review because its officials were uncertain about requirements to do so, and because the Bureau's certification was not based on any objective testing, it could not be considered reliable. Nonetheless, the Bureau's certification formed part of the USAID's certification of validity, delivered to the Department of the Treasury on November 15, 1999.

> **Recommendation No. 1: We recommend that the Bureau for Africa devise and carry out a plan for conducting and documenting reviews supporting its annual certification of the validity of its obligations.**

Detailed Discussion – Federal agencies are required by law to submit an annual certification that their recorded obligations are consistent with law. In practice, this certification is effected by the electronic submission of the Form 2108 to the Treasury. USAID's certification is prepared and submitted by the USAID's CFO. The CFO's certification is itself based on certifications submitted to him by USAID's bureaus, offices and missions in accordance with directives found within the USAID's Automated Directives System (ADS). In addition, the Bureau's Assistant Administrator signed a Memorandum of Understanding with the CFO in December 1998, which outlined the Bureau's certification responsibilities. According to this memorandum, the Bureau is required to make an annual certification to the CFO that every obligation signed by Bureau officials since the previous certification was valid. Additionally, the Bureau was directed to implement controls, such as periodic reviews, to ensure certifications are reliable.

The Bureau submitted a certification, dated October 29, 1999, stating that all of the obligations it executed were valid. However, the Bureau had not conducted any review prior to submitting the certification to determine whether its controls ensured that (1) obligations were valid and (2) only valid obligations had been entered into the accounting system.

When asked why they had not established required controls, Bureau officials said they had been uncertain about the criteria to be used during reviews, the priority of these reviews, and the scope of the certification. One manager said that, when the Office of Financial Management (FM) informed bureaus and offices on January 16, 1998, that they must promulgate new procedures describing responsibilities for preparing and supporting certifications, neither FM nor the CFO provided details as to how bureaus should devise effective reviews. Bureau managers were also uncertain as to whether they were required to certify the validity of all Bureau-managed awards, or only Bureau-signed awards—an uncertainty which was only resolved after both parties (the Bureau and the auditors) requested clarification.

Other bureaus, however, either understood, or obtained clarification of the requirements for reviews and the scope of the certification. For example, the Bureau for Europe and Eurasia devised a fairly extensive policy for its reviews.

In our opinion, the Bureau's management did not place a sufficiently high priority on obligation management, and consequently did not take the initiative to devise procedures or execute reviews. As a result, the fiscal year 1999 Bureau certification as to the validity of obligations could not be relied upon, and, while the audit found no invalid obligations, there was nevertheless a risk that the Bureau-signed obligations might not be valid.

Improved Controls Are Needed
<u>to Ensure Obligations Are Properly Valued</u>

The review of unliquidated obligation balances and the deobligation of excess funds strengthen financial internal controls by deleting balances from the accounting system that are no longer needed. Nevertheless, for over two years, the Bureau did not systematically review its unliquidated obligations, and as of March 31, 2000, had not deobligated excess funds for 11 of the 39 awards tested by the audit. The Bureau had not done so for a number of reasons. First and foremost, the responsibility for initiating the review of unliquidated obligations was decentralized from FM to the bureaus in fiscal year 1997, and the Bureau had not developed procedures to manage its unliquidated obligations. As a result, excess funds totaling over $9.1 million, at March 31, 2000, could have been deobligated and made available for other purposes (see Appendix III).

> **<u>Recommendation No. 2:</u> We recommend that the Bureau for Africa review the balances described in Appendix III and deobligate excess or unneeded funds.**
>
> **<u>Recommendation No. 3:</u> We recommend that the Bureau for Africa develop procedures to systematically review the valuation of its unliquidated obligations. Procedures should include (a) establishing a universe of those obligations for which it is responsible; (b) performing annual reviews of obligation balances, so as to ensure that excess balances are identified and deobligated; (c) assigning "cognizant technical officers" for each obligation award—including awards which have expired; and (d) enforcing compliance with forward funding guidance.**

Detailed Discussion – There are numerous regulatory and USAID-specific requirements pertaining to the review of unliquidated obligations—and to the deobligation of excess funds. For example:

- Office of Management and Budget Circular No. A-34 requires that agencies review obligations to ensure that they are not overstated and that they deobligate "appropriate amounts."

- USAID guidance (Automated Directives System, Chapter 571) requires a "periodic review of unliquidated balances" and the prompt deobligation of funds found to be excessive.

- USAID guidance prohibits excessive "forward funding" of obligations. Generally, program mangers must not fund obligations for more than 12 months into the future beyond the end of the fiscal year in which the obligations take place. Funds found to be in excess of the needs for this period should be deobligated.[1]

[1] For the current audit in which we reviewed unliquidated obligations as of March 31, 2000, this means that generally awards as of that date should not have obligated funds for expenses beyond September 30, 2001.

Up until the implementation of USAID's new accounting system in fiscal year 1997, FM had ensured that there was a systematic review of unliquidated obligations. Up until that time, FM was responsible for "devising, implementing, and maintaining a comprehensive system for the control of obligations…." FM initiated annual reviews of unliquidated obligations, issued instructions and worksheets, provided lists of unliquidated obligations to the bureaus, and processed recommended deobligations. Bureaus, on the other hand, were responsible for conducting the reviews by following FM instructions.

However, all of this changed in fiscal year 1997 with the decentralization of the responsibility for reviewing unliquidated obligations to the bureaus and FM's elimination of USAID's internal requirement for *annual* reviews. FM asserted that the law did not require annual reviews and that USAID had the discretion to determine how reviews were to be done. As a result, FM no longer initiated an annual review process as it had done in the past. It no longer reminded the bureaus to do reviews, and did not provide instructions, worksheets and lists of obligations in order for bureaus to do the reviews.

As a result of these changes, the Bureau did not systematically review its unliquidated obligations for a period of over two years. The Bureau did not establish procedures to manage its obligations, identify the universe of the obligations it managed, or perform comprehensive annual reviews. Accordingly, as of March 31, 2000, for the awards tested, the Bureau had not deobligated funds that were in excess of needs. Specifically, of the 39 awards tested by the audit, 11 were found to have excess funds (see Appendix III).

Funds were found to be excessive for a variety of reasons. Four awards had expired more than five years ago—sometimes with little documentation on file as to the history of the associated obligations. Five of the awards included obligated funds that exceeded forward funding guidelines, and at least two of these awards had no readily identifiable cognizant technical officer assigned to follow up. In other words, more funds were obligated than were needed to cover the period for which forward funding is allowed, and nobody was clearly responsible for monitoring the awards. For two awards, plans had changed such that some of the obligated funds were no longer needed. One award had excess funds due to an apparent inaccurate entry of an obligation into the accounting system. One award had funds judged to be excessive for more than one reason. Several examples are discussed below:

- A $5.0 million grant to the International Bank for Reconstruction and Development expired in 1995 with a $3.4 million unliquidated balance. USAID records showed that $5.0 million had been advanced to the Bank, that the funds were available for expenditures through September 1995, but that only $1.6 million had been spent. The grant agreement required that any funds not expended when the grant expired were to be refunded. Also, the agreement required the Bank to submit a final Financial Status Report within 60 days after expiration, showing total advances, disbursements, and "any cash remaining on hand"—a sum which was to be refunded to USAID. No such final report was located. The audit recommends that the entire $3.4 million be reviewed for deobligation and a refund, if any, be sought.

- A contract with Tulane University for goods and services in support of USAID's famine early warning system had an unliquidated balance of $1.0 million as of March 31, 2000. The contract was initiated in 1989, completed in 1995, and per the contractor, the final voucher was submitted to USAID in 1996. USAID deobligated the $1.0 million remaining balance during the audit in August 2000.

- An interagency agreement with the U.S. Department of Agriculture to combat grasshopper and locust outbreaks in Africa had excess unliquidated obligations totaling of $333,385 as of March 31, 2000. Of the excess amount, $254,282 related to a technical advisor who was deleted from the project, and $79,103 related to funds obligated in excess of what was permitted by forward funding guidance. The audit recommends that these funds be reviewed for deobligation.

- An expired contract with the Rhone Poulenc AG Company for pesticide purchases dated from 1988. With $66,250 in unused funds, no activity in the accounting records since 1996, and little documentation in the files to support the obligation, the audit recommends that the entire amount be reviewed for deobligation.

- The amount of a modification to an interagency agreement with the Department of Health and Human Services was apparently incorrectly entered into the accounting system. When auditors compared the accounting system amount to that in the signed obligating document, they found an overstatement of $18,786. The audit recommends that the overstated amount be reviewed for deobligation.

While there are a number of interrelated reasons why excess funds had not been identified and deobligated prior to March 31, 2000, most revolve around a lack of procedures to replace those that had formerly been initiated by the FM. Notably, after the decentralization of responsibility for reviewing unliquidated obligations, the Bureau had not developed procedures to systematically review and deobligate excess funds. Specifically,

- The Bureau did not establish a universe of the obligations or awards it managed;

- It did not conduct systematic, periodic reviews of its unliquidated obligation balances;

- The Bureau did not ensure that each award had an assigned "cognizant technical officer," an official who is knowledgeable about the terms of an award (the audit found that such assignments were often not up-to-date); and

- Obligation managers did not always follow forward funding guidance and believed that compliance with the guidance was not a management priority.

Without a universe of obligations and without FM to initiate and encourage periodic reviews of unliquidated obligations, the Bureau had no systematic approach to reviewing the obligations for which it was responsible. In addition, neither FM nor USAID had provided overall guidance as to how bureaus were to carry out their new responsibilities. In short, decentralization was not accompanied by sufficient guidance, monitoring—or training—to ensure that essential requirements were met.

This situation has begun to change. In response to an earlier audit, FM initiated a Washington-wide review of old, expired awards to see if excess and unneeded amounts for those awards could be deobligated. In addition, the Bureau for Management inaugurated a series of training programs for obligation managers. In September 2000, USAID issued new guidance clarifying Bureau responsibility for obligation management and establishing that bureau Assistant Administrators are responsible to "ensure that effective procedures are in place" for managing their obligations. A key procedure specified by the new guidance is an annual certification of unexpended balances by which the bureau would certify as part of the annual budget process that unexpended balances are needed for on-going programs and that the funding is consistent with USAID guidelines for forward funding. This certification is in addition to the annual statutory certification on the validity of obligations discussed in the first part of this report. This new guidance should help ensure that the Bureau's responsibility for reviewing its unliquidated obligations is carried out.

It remains to be seen how the new review and annual certification process will work. At the very least it should help re-institute a more systematic annual review of unliquidated obligations, and put bureaus on notice as to their responsibilities for obligation management.

In the Bureau for Africa, as a result of (1) a lack of systematic reviews and (2) forward funding noncompliance, excess balances have accumulated—and funds that were not needed for future payments have remained idle. Notably, for the items tested, the audit found excess funds totaling over $9.1 million at March 31, 2000, which could have been deobligated and made available for other purposes. This constitutes 9.2 percent of the dollar value of the unliquidated obligations reviewed by the audit. In terms of the number of awards with excess funds, 11 out of the 39 awards reviewed contained funds judged to be excess as of March 31, 2000. Of special concern is the number of old and expired awards that remained in the system: 4 of the 11 awards had expired more than five years prior to March 31, 2000.

It should be noted that the audit reviewed only about one seventh (50 of 330 awards) of the Bureau's total awards as of March 31, 2000, and it is therefore conceivable that awards not reviewed may also include significant excess funds. We, therefore, recommend that the Bureau first review the excess amounts identified in Appendix III to determine whether these funds can be deobligated, and then put procedures in place, consistent with the new USAID guidance, to ensure that all other obligations for which the Bureau is responsible are subject to systematic review. These procedures should include (a) establishing a universe of obligations for which the Bureau is responsible, (b) performing reviews and an annual certification of unliquidated obligation balances, (c) making sure that cognizant technical officer assignments are up-to-date, and (d) enforcing compliance with forward funding guidance.

Management Comments and Our Evaluation

The Bureau concurred with the audit report's recommendations.

Based on the Bureau's written comments on the draft report, we consider Recommendation Nos. 1 and 3 to have received management decisions. In response to Recommendation No. 1, the Bureau is drafting operating procedures to support its annual certification of the validity of its obligations. In response to Recommendation No. 3, the Bureau plans to implement procedures to systematically review the valuation of its unliquidated obligations. These procedures will include establishing a universe of obligations, implementing annual reviews, maintaining a registry of cognizant technical officers, and taking into account forward funding guidance when recommending resource allocation levels. Both recommendations can be closed when procedures are issued.

In response to Recommendation No. 2, the Bureau conducted a review of the unliquidated balances described in Appendix III. However, the Bureau did not fully comment on the $8,060,293 in efficiency savings identified in the Appendix. We are withholding our concurrence with the management decision described in the Bureau's comments until we receive the results of the Bureau's review of each of the figures in bold print in the table in Appendix III. In some cases, the Bureau's response noted that certain actions, which may affect an amount we recommended for deobligation, are still pending. In others, the response asserts that the unliquidated amount "currently" does not exceed forward funding guidance, but supporting evidence is not provided.

Accordingly, we are summarizing, in the table on the following page, actions required for a management decision for Recommendation No. 2. When these actions have been taken for all of these awards, and the Bureau reports an efficiency savings figure to us, a management decision can be achieved. The requirement for recommendations involving monetary savings is that there must be agreement between the OIG and management on the dollar amount of any efficiency savings for there to be a "management decision" on a recommendation. To help arrive at this agreement, we have summarized in the fourth column of the table below "Further Actions Required for a Management Decision."

Award Name	Excess Funds at 3/31/00	Response per Bureau Comment	Further Actions Required for a Management Decision
Africa Business Roundtable	$89,240	Deobligated 9/27/00	None
The International Bank for Reconstruction and Development	**3,402,860**	Will request an opinion from General Counsel	Provide copy of a plan of action based on General Counsel's response
African Center for Constructive Resolution of Disputes	**319,444**	Currently does not exceed forward funding guidelines	Provide evidence to support this assertion and/or deobligate any excess
Rhone Poulenc AG Company	**66,250**	Has requested deobligation	None
Tulane University	1,008,834	Deobligated 8/3/00	None
Department of Agriculture	**333,385**	Currently does not exceed forward funding guidelines	Provide evidence to support this assertion and/or deobligate any excess
Department of Health and Human Services	**702,673**	Period of performance extended; currently does not exceed forward funding guidelines	Provide evidence to support this assertion and/or deobligate any excess
U. S. Information Agency	**1,296,000**	Currently does not exceed forward funding guidelines	Provide evidence to support this assertion and/or deobligate any excess
General Services Administration	**1,737,500**	Steps will be taken to deobligate funds deemed to be to be in excess of forward funding guidelines	Indicate amount to be deobligated
Department of Agriculture	**183,395**	New activity inaugurated; currently does not exceed forward funding guidelines	Provide evidence to support this assertion and/or deobligate any excess
National Institutes of Health	**18,786**	"made the necessary correction to the incorrect entry"	Provide evidence for the amount adjusted and/or deobligated

Recommendation No. 2 can be closed when amounts *currently* found to be in excess of needs are deobligated.

Finally, the second page of the comments contains three suggestions for minor changes to the text of the audit report. First, we did not modify the language in the report to read "could have been considered for deobligation," rather than simply "could have been deobligated." Secondly, we did not modify or delete the reference to other bureaus having devised policies to support the annual certification of the validity of their obligations. Both assertions are factual and we believe they are relevant to the audit's findings. And third, with regard to the uncertainty of whether the Bureau was responsible for certifying the validity of all Bureau-managed awards or only Bureau-signed awards, we agree that, in the end, both the Bureau and the auditors requested clarification on the issue. Accordingly, per your suggestion, we added a sentence to that effect to the final report.

Scope and Methodology

Scope

This audit was conducted in accordance with generally accepted government auditing standards. The audit assessed the validity and valuation of obligations associated with samples drawn from three hundred and thirty awards, which had unliquidated obligation balances. The fifteen sampled awards used to evaluate the Bureau's efforts to ensure legal validity had total obligations of $102,458,526 and total unliquidated obligations totaling $58,165,973 as of March 31, 2000. The thirty-nine sampled awards used to evaluate the Bureau's efforts to ensure proper valuation had total obligations of $273,757,044 and total unliquidated obligations totaling $98,520,909 as of March 31, 2000. Audit testing was conducted on these samples, to assess how effective the Bureau's internal controls were in ensuring legal validity and proper valuation. The relatively small size of the samples precluded us from making projections about the entire universe of the Bureau's awards. However, the report's findings and recommendations address control weaknesses, which have the potential for affecting all of the Bureau's awards.

Methodology

We addressed the audit objective concerning validity and valuation, by conducting tests on awards managed by the Bureau in Washington, D.C. It was determined early on in the audit that the Bureau could not provide a reliable universe of awards from which samples could be drawn. Accordingly, the audit team devised a universe by extracting data from USAID's accounting system. The audit team compared this universe to a Bureau printout of awards and a list of expired awards compiled by the Bureau for Management for its unliquidated obligation initiative. Most importantly, Bureau personnel also reviewed the universe. With 330 awards, the OIG-devised universe was, at the time, the most comprehensive available, and the only list available in electronic form.

For the purpose of sampling, we divided this universe into five groups: 77 grants, 59 contracts, 26 interagency agreements, 10 "other" agreements, and 68 awards with unclear management responsibility. The remaining 90 awards were travel authorizations, which are not covered in the current audit.

With the assistance of the OIG's resident statistician, a probability-proportionate-to-size sample of 50 awards was drawn from the five groups. This technique involved stratifying each group according to dollar thresholds, devising a rough weighted-average to ensure that each group's sample size would capture at least 60 percent of the group's total dollar amount, and determining how many of the 50 awards would be selected from each group's stratum. The audit team made the 50 sample selections, and when judgement was necessary, awards with larger unliquidated amounts and older obligations were selected. No awards were selected as potential replacements.

When audit testing began, it was discovered that 10 of the awards selected were no longer the management responsibility of the Bureau. Two awards selected were in fact a single award, half of which retained the numbering system from the previous accounting system, and the second half from the current accounting system. These adjustments left thirty-nine awards for valuation testing (i.e., awards currently managed by the Bureau). This included the fifteen awards to be tested for validity (awards which were managed *and* executed by the Bureau).

Audit testing involved two distinct areas—valuation and validity. Tests of validity focused on whether on not individual obligations met the following statutory requirements that obligations:

1. satisfied *bona fide* needs,
2. were for specific goods or services,
3. were supported by documentary evidence,
4. had a signed agreement,
5. were made within the period of availability of the funds, and
6. were made by individuals authorized to incur an obligation.

Tests of valuation focused primarily on soliciting feedback from the award's cognizant technical officer to determine (1) if plans existed to use all of the unliquidated obligations, (2) if forward funding guidance had been followed, (3) if plans had changed, or (4) if there were any other indications of over-funding.

In planning for the audit, we concluded that if unliquidated obligations in the sample were found to be overstated by at least five percent, a "qualified opinion" would be reported. If excessive unliquidated obligations greater than ten percent were found, an "adverse opinion" would be given. With respect to the validity of obligations, we determined that any finding of obligations that did not meet statutory requirements would merit reporting.

FEB 21 2001

MEMORANDUM

TO: IG/A/PA, Dianne L. Rawl

FROM: DAA/AFR, Keith Brown /s/

SUBJECT: Bureau Comments: Report of Audit of USAID's Bureau for Africa's Management of unliquidated Obligations, Report No. 9-OOO-OO-XXX-F

We have received and reviewed the subject draft audit report. The Africa Bureau concurs with the audit report's recommendations that USAID's Bureau for Africa should:

1. Devise and carry out a plan for conducting and documenting reviews supporting its annual certification of the validity of its obligations.

2. Review the balances described in Appendix III and deobligate excess or unneeded funds.

3. Develop procedures to systematically review the valuation of its unliquidated obligations. Procedures should include
(a) establishing a universe of those obligations for which it is responsible; (b) performing annual reviews of obligation balances so as to ensure that excess balances are identified and deobligated; (c) assigning "cognizant technical officers" for each obligation award - including awards which have expired; and (d) enforcing compliance with forward funding guidance.

We feel, however, that some passages in the draft report do not accurately reflect the Bureau's understanding of the agreements reached between the auditors and the Bureau during the auditors' briefings:

On page four, the last sentence in the second full paragraph indicates uncertainty by Africa Bureau managers as to whether the Bureau for Africa is responsible for the validity for all Bureau-managed or only Bureau-signed awards. It should be noted that all parties, including the IG/A/PA, also requested clarification of this issue. This issue was first raised by the Africa Bureau and GC at the exit conference held on November 2. The Africa Bureau and GC challenged IG/A/PA's assertion that the scope included all Africa Bureau managed awards, as opposed to Africa Bureau signed awards only. The Africa Bureau called a meeting with the IG/A/PA, M/CFO, M/OP, AFR/DP and AFR/GC on November 7 to discuss this issue with all relevant offices. As a result of that meeting, it was agreed by all parties that the Bureau is only responsible for the validity of Bureau-signed awards.

In the next paragraph on the same page, reference is made to the performance of other bureaus in this same area. The Bureau considers this reference to be improper and we feel it should be stricken from the report. Other bureaus have not yet been audited for their management of unliquidated obligations. The audit team informed us in the entrance briefing that Africa Bureau was selected to be the first bureau audited in this area and that audits of other bureaus would occur in due time after this audit was completed. Thus, the reference to other bureaus' performance in this area is not substantiated, does not contribute to the objective of the audit, and should be removed.

In the first partial sentence on page five, reference is made to balances which "could have been deobligated". The auditors stressed that it is not their role to force us to deobligate funds. It is up to the Bureau to determine which amounts are available for deobligation. It is more appropriate for the auditors to inform us about balances that they found which did not appear to fit forward funding guidelines and "could have been considered for deobligation."

Page eight, third full paragraph: Again, the auditors' role should be limited to advising the Bureau as to which obligations they found appeared to be in excess, and "which could have been considered for deobligation."

Recommendation No. 1:

The Africa Bureau concurs with this recommendation, and we are implementing new procedures to address this weakness.

When the Assistant Administrator for Africa signs annual certifications of validity, we will ensure that 1) the certifications apply to the full universe of AFR Bureau signed awards, and 2) complete information on each obligation is provided to the AA/AFR for his/her review.

The certification memorandum presented to the AA/AFR will contain a summary table that clearly identifies for each award the award name and number; the amount of the award; the date the award was signed; the name of the individual signing the award; and the cognizant technical officer. A copy of each signed award will also be included in the package for the AA/AFR's review.

We are drafting an Africa Bureau Standard Operating Procedure (ASOP) that clarifies Africa Bureau award tracking. The ASOP will spell out the following:

1) The Program Analyst in AFR/Sustainable Development is the coordinator for all Africa Bureau signed awards;

2) A copy of each signed award, along with the information noted above concerning award value, date, CTO etc. must be on file with the AFR/SD Program Analyst within 5 days of award signing;

3) AFR/DP/PAB will work with the AFR/SD coordinator and use both the Phoenix accounting system and Business Objects (a Phoenix-linked reports package) to run quarterly reports to capture all Bureau issued obligations. AFR/DP will reconcile these reports with the records maintained by the AFR/SD coordinator to ensure the full universe is captured.

4) The final verification package for the AA/AFR will also include a copy of the September 30 Phoenix report ensuring that the tracking system maintained by the AFR/SD Program Analyst ties to the obligations as recorded in Phoenix, the official Washington accounting system.

We will issue this new ASOP not later than March 16, 2001. We request that audit recommendation No. 1 be closed.

<u>Recommendation No. 2</u>: The Africa Bureau has conducted a review of the unliquidated balances described in Appendix III of this report. The following provides information on the status of each item listed in Appendix III. Each award identified in the

audit and discussed below is listed with the name of the recipient followed by the grant, contract or other agreement number in parentheses.

Africa Business Roundtable (6240438G00214000) - unliquidated balance of this award was deobligated on September 27, 2000.

World Bank (6980536G00106000) - This is an award to a multi-donor trust fund, originally anticipated to total $76 million. USAID originally anticipated a total contribution of $10 million for the entire life of the activity through 2002. An initial $5 million was obligated for expenditures through Sept. 30, 1995, but due to funding cuts, the additional $5 million was never obligated. USAID has continued to participate in the programmatic aspects of the activity through the current time, as reflected in the MOU signed in 1991.

As is usual for grants to PIOs for multidonor trust funds, USAID's funds are commingled with those of other donors, and can not be directly identified with specific expenditures. The reporting requirements in the grant agreement reflect this. Since it was planned that the Bank would provide most of the grant funds to the African Capacity Building Initiative (ACBI), the grant agreement provides for certain reporting from ACBI directly to tJSAID, in addition to reporting from the World Bank.

The Bank has informed us that, since the Trust Funds itself runs through June 2002, it will not be able to produce a final report specifying the actual amount of USAID funds that have been liquidated until that time. However, the grant agreement contains a number of provisions which suggest that there may be alternative means by which it can be.determined that USAID's funds have been liquidated. For instance, the grant agreement contains a number of items for which it states that USAID funds can be used, to which USAID funds possibly could be attributed. The grant agreement recognizes that certain reporting may flow directly from ACBI to USAID, and AFR/SD will seek to obtain more recent ACBI annual reports. The grant agreement does not require that funds be attributed on a pro rata share among donors, and, in any case, amounts and timing of donor contributions have not been fully uniform or provided as initially planned.

AFR/SD will request an opinion from GC as to whether there are alternative bases on which to consider USAID's obligation as fully liquidated, or whether it is possible to consider extending the estimated grant completion date to encompass USAID's participation in the full period of the Trust Fund.

African Center for Constructive Resolution and Development (AOT-G-OO-97-00369) - The forward funding issue has now been resolved by the disbursement of funds in December 2000. The current unliquidated balance does not exceed the forward funding guidelines.

Rhone Poulenc AG Company (AFRO517COO2O8200) - This firm merged with Aventis CropScience USA, LP. Contact was made with Matthew S. Keefer (financial officer) and a letter was sent requesting .the final SF 269 specifying the liquidation of the obligation. No response was received. The Bureau has requested that the funds be deobligated and has forwarded the request to FM for action.

Tulane University (AFR0466C00903500) - Unliquidated balance of this award was deobligated on August 3, 2000.

Department of Agriculture (AOT-R-AG-92-00166) - Emergency funding was obligated under this agreement to cover the possibility of grasshopper and locust plagues in Africa. Currently the unliquidated balance does not exceed the forward funding guidelines.

Department of Health and Human Services (AFR-P-OO-98-00012) - On December 12, 2000 the American Institute for Research (AIR) requested a no-cost extension to Task Order No. 10 to 6 May 2001 because the existing Task Order was due to end on February 5, 2001.

Several factors have influenced implementing the existing Task Order, which has resulted in an unanticipated lag in using the available resources. These include (1) key personnel who were seconded to other activities that were covered by other implementing mechanisms and (2) the changing conditions in targeted countries that delayed the implementation of planned activities. An extension of the period of performance is expected to provide a more appropriate and realistic time frame that will permit the successful completion of the overall agenda of this Task Order. Based upon our discussions with the Grantee regarding the time required to complete planned activities, we have extended the task order through April 30, 2001. By our current estimates, the unliquidated balance does not exceed the forward funding guidelines. Finally, we do not anticipate providing additional extensions and intend to initiate a review to determine whether or not a balance remains to be de-obligated when this Task Order ends on April 30, 2001.

U.S. Information Agency (AFR-P-OO-99-00002) - This action was taken under the Education for Development and Democracy Initiative (EDDI). The initial obligation to USIS was $2.7 million in September 99. The second was $7.0 million in August 2000. Most of these amounts were obligated for participant training, for which forward funding guidelines anticipate full funding at the time of obligation. The remainder of the funds was obligated for technical assistance to establish partnerships and USIS management costs. A good faith judgment was made at the time of each obligation that these activities would be completed by the following September. Unanticipated delays in implementing the program occurred. These delays are attributable in part to the management structure of the EDDI program which is carried out by an Interagency Working Group (IWG) and requires a great deal of consultation and collaboration, resulting in a slower decision-making and implementation process. Currently, this activity is fully within the forward funding guidelines, since all currently-obligated non-training funds are expected to be expended by August 2002.

General Services Administration (AFR-P-OO-99-00008) - At the time this agreement was signed, the demand for scholarship funds exceeded the available funding. It is important to note that the Education for Development and Democracy Initiative (EDDI) does not function exclusively in countries where there is USAID presence. Therefore, country checklists were not in place for all countries planning to participate in the EDDI program. And while it was known how and where the funds were to be spent, and that these funds were for participant training that would require immediate full funding, only the countries with checklists on file were authorized to have the scholarships begin. In full consultation with the General Counsel's office, a process was put into place utilizing project implementation letters to effect a change and add countries as they were approved for expenditures. The process has significantly increased the liquidation rate and the pipeline is expected to assume reasonable proportions shortly. Note that the pipeline will be reviewed on a periodic basis, at which time, steps will be taken to de-obligate funds deemed by the project managers to be in excess of the funding guidelines.

Department of Agriculture (AOT-R-OO-95-00123) - Additional funding was obligated under this agreement to provide the necessary funding for the revised program that is now Famine Early Warning System Network (FEWS NET). This new activity was inaugurated in June 2000 and required startup funds for a transition that may not have been available otherwise. Currently the unliquidated balance does not exceed the forward funding guidelines.

National Institute of Health (AOT-P-HI-92-00171) - The Office of Procurement has made the necessary correction to the incorrect entry into the accounting system regarding the agreement with the National Institute of Health.

At this time, the Africa Bureau requests closure on recommendation No.2.

Recommendation No. 3

The Africa Bureau concurs with this recommendation, and will implement the following procedures to address this weakness:

(a) As noted in the discussion for recommendation no. 1 above, we are instituting a procedure to ensure full documentation of those awards signed by Africa Bureau staff. We will also be sending to M/OP by March 1, a memorandum requesting that they provide copies of all M/OP signed awards, incurred through Africa Bureau funding actions (but excluding Field Support), within 10 days of award signing to the AFR/SD Program Analyst. The AFR/SD Program Analyst will work with AFR/DP/PAB staff to establish a reconciliation procedure to ensure that copies of all Africa Bureau funded awards (exc.luding Field Support) recorded in Phoenix are on file with the coordinator in AFR/SD. This reconciliation will be performed quarterly. The first reconciliation will be completed not later than March 15.

(b) The Africa Bureau will implement an annual review of all awards managed by the Bureau in Washington, both active and expired, to ensure that excess balances are identified and deobligated. Because the Phoenix accounting system is not yet used to track obligation accrual information (targeted Agency start date according to M/FM is June 2001), the first year's review planned for April 2001 will rely on CTO cuff record tracking to determine accrual balances. AFR/DP/PAB will establish and publish a Standard Operating Procedure by March 15 for obligation reviews similar to the procedures formerly used by M/FM in the Section 1311 reviews. We have already alerted M/FM to our desire to work closely with them to 1) structure implementation of Phoenix system functionality for recording and tracking obligation accruals; and 2) structure an annual obligation review that can utilize the information contained in Phoenix, the Agency's official accounting system for AID/W transactions.

The ASOP will also affirm the Bureau's policy on the need to better manage obligations, and reference the relevant sections of the ADS relating to obligation management and pipeline parameters.

Following each annual review of obligation balances, a progress report memorandum will be issued to the AA/AFR, with a copy to the M/CFO summarizing the Bureau's findings, and actions proposed.

(c) The AFR/SD Program Analyst will maintain a registry, to be reviewed by AFR/DP/PAB on a quarterly basis, which will list each CTO in the Bureau, with a complete list of obligations (both active and expired) for which they are responsible. The initial registry will be completed not later than March 15. The AFR/SD Program Analyst and AFR/DP/PAB will share this registry with M/OP and work with OP to ensure that valid signed CTO instruction memoranda are on file and up to date for each active award.

(d) As a result of information gained during the annual review of Africa Bureau obligations, AFR/DP will take into account pipeline and forward funding guidance when recommending resource allocation levels to the AA/AFR.

We request that audit recommendation No. 3, parts (a), (b), (c) and (d) be closed.

The Africa Bureau appreciates the collaboration and assistance that was provided by the auditors during the course of the audit.

Bureau for Africa Awards
With Balances that Appear to be Excessive
As of March 31, 2000

Award Name and Number	Unliquidated Obligations at 3/31/00	Excess Funds at 3/31/00	Reason for Excess
Africa Business Roundtable 6240438G00214000	$89,240	$89,240*	Expired Grant *(deobligated 9/27/00)*
The International Bank for Reconstruction and Development 6980536G00106000	3,402,860	**3,402,860**	Expired Grant
African Center for Constructive Resolution of Disputes AOT-G-00-97-00369	2,308,449	**319,444**	Excessive Forward Funding
Rhone Poulenc AG Company AFR0517C00208200	66,250	**66,250**	Expired Contract
Tulane University AFR0466C00903500	1,008,834	1,008,834*	Expired Contract *(deobligated 8/3/00)*
Department of Agriculture AOT-R-AG-92-00166	841,324	**333,385**	Changed Plans/ Excessive Forward Funding
Dept. of Health and Human Services AFR-P-00-98-00012	2,275,000	**702,673**	Changed Plans
U. S. Information Agency AFR-P-00-99-00002	2,058,200	**1,296,000**	Excessive Forward Funding
General Services Administration AFR-P-00-99-00008	3,426,483	**1,737,500**	Excessive Forward Funding
Department of Agriculture AOT-R-00-95-00123	1,642,509	**183,395**	Excessive Forward Funding
National Institutes of Health AOT-P-HI-92-00171	5,440,753	**18,786**	Incorrect Entry into Accounting System
Total		$9,158,367	

***Less amounts deobligated during the audit**	**$** 1,098,074
Excess amounts to be reviewed for deobligation (in bold)	**$ 8,060,293**