



AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
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January 29, 1999

MEMORANDUM FOR USAID/El Salvador Director, Kenneth C. Ellis

FROM: RIG/A/San Salvador, Timothy E. Cox

SUBJECT: Audit of Certain USAID/El Salvador Unliquidated Obligations
(Report No. 1-519-99-001-F)

This memorandum is our report on the subject audit. In finalizing the report, we considered your comments on the draft report. Your comments on the draft report are included in Appendix II.

This report contains one recommendation for your action. Based on the information provided by the Mission, a management decision has been reached on this recommendation. A determination of final action for this recommendation will be made by the Office of Management Planning and Innovation (M/MPI/MIC) when planned corrective actions are completed.

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

Background

Congress, together with the General Accounting Office and the Office of Management and Budget, has developed statutory criteria for determining the validity of an obligation. In order to properly certify the validity and appropriateness of obligated balances, agencies are required to verify their own accounts at least once each year. This verification is commonly referred to at USAID as the Section 1311 review or certification, named after the section of the original authorizing public law.

During a recent audit of 45 obligations at USAID/El Salvador¹, it came to our attention that 10 additional unliquidated obligations, while outside the scope of that audit's sample of obligations, warranted review by the Mission and could potentially be deobligated. These 10 obligations are discussed below.

¹ "Audit of USAID/El Salvador's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance" (Audit Report No. 1-519-98-003-F dated March 18, 1998).

Audit Objective

As part of a recent worldwide audit, the Office of the Regional Inspector General/San Salvador audited 45 USAID/El Salvador obligations which had unliquidated balances as of September 30, 1996. Apart from the obligations covered by that audit, we separately addressed the following question: Did certain USAID/El Salvador obligations as of September 10, 1997 have unnecessary balances that should be deobligated?

Appendix I describes the audit's scope and methodology.

Audit Findings

Did certain USAID/El Salvador obligations as of September 10, 1997 have unnecessary balances that should be deobligated?

Of the 10 obligations with balances of \$163,915 that were covered by the audit, 8 obligations had unnecessary balances of \$151,636 that should be deobligated.

USAID/El Salvador Should Deobligate the Unnecessary Balances for Eight Obligations

GAO's *Policy and Procedures Manual for Guidance of Federal Agencies* and USAID's *Financial Management Bulletin* provide guidance for missions to deobligate amounts that are determined to be no longer needed for the completion of project goals or that are excessive based on updated estimates.

We identified 10 obligations that warranted review by USAID/El Salvador and potentially could be deobligated. After reviewing these obligations at our request, the Mission determined that unliquidated balances totaling \$12,279 were still needed and, in fact, the Mission fully disbursed these balances for goods and services that were received. The Mission determined that unliquidated balances totaling \$151,636 under 8 obligations were no longer needed and should be deobligated. These obligations were all related to projects that had ended in calendar year 1995 or earlier.

We did not identify why these old specific obligations had not already been deobligated. However, our original audit report noted that, instead of partially deobligating large unliquidated balances as activities neared completion, the Mission retained these balances until all administrative close-out procedures were completed. As a result, there were several instances where clearly excessive balances were retained. Our original audit report contained a recommendation to modify this management control procedure, and the Mission concurred with this recommendation. In addition, our original audit noted that, due to staffing shortages, contract close-out actions had not kept pace with current project completions. This was due to the completion of activities resulting from a large portfolio increase over the first four fiscal years

of this decade. The Mission had recognized this staffing issue and took steps to hire additional staff for contract close-out actions. Consequently, we had no recommendation regarding this management control issue. However, we are recommending that the Mission deobligate the unneeded balances under eight obligations.

Recommendation No. 1: We recommend that USAID/El Salvador deobligate \$151,636 in unneeded balances under eight obligations as shown in Appendix III.

Management Comments and Our Evaluation

USAID/El Salvador agreed with the audit recommendation and has completed deobligating balances totaling \$116,523 for seven of the eight obligations. Based on USAID/El Salvador's response, a management decision has been reached for the one report recommendation.

SCOPE AND METHODOLOGY

This audit was performed in conjunction with another worldwide audit which covered 45 USAID/El Salvador obligations. This audit covered 10 obligations which were outside the original audit sample.

The audit was performed in accordance with generally accepted government auditing standards except that we did not review compliance with applicable laws and regulations. Specifically, we did not review (1) each obligation to determine if it was valid in accordance with provisions of 31 United States Code 1501(a) or related decisions of the U.S. General Accounting Office nor (2) the unliquidated balance of each obligation to determine whether, as of September 10, 1997, the balance was needed, in full or in part, to cover anticipated expenses for reasonable future periods and, as such, the excess funds could be deobligated.

As part of the audit steps of the original worldwide audit, we verified the Mission's universe of unliquidated obligations by interviewing appropriate Mission staff about their methodology in preparing the list of obligations and, additionally, reconciling the list to other Mission reports.

From USAID/El Salvador accounting records for project and non-project assistance, we identified 10 obligations (from a universe of 220) related to projects that had ended in calendar year 1995 or earlier as follows. We first identified those obligations with both an unliquidated balance and a project assistance completion date from calendar year 1995 or earlier. From this list, we identified nine obligations. We also identified an additional tenth obligation (outside the sample of the original audit) that pertained to an expired contract (prior to the end of calendar year 1995) for which other unliquidated balances were also found from our original audit to require deobligation.

At our request, the Mission reviewed each obligation to see if it was still needed. We did not independently verify the Mission's analysis because 100 percent of the unliquidated balances under these obligations were either disbursed by the Mission or identified by the Mission as unnecessary balances that should be deobligated.



AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A.I.D.
MISSION TO EL SALVADOR
C/O AMERICAN EMBASSY
SAN SALVADOR, EL SALVADOR, C.A.

DATE: January 27, 1999
TO: Timothy E. Cox, RIG/A/SS
FROM: Kenneth C. Ellis, Director *K. Ellis*
SUBJECT: Audit of Certain USAID/El Salvador
Unliquidated Obligations

USAID/El Salvador concurs with the finding of this audit that the balances of eight obligations totaling \$151,636 should be appropriately deobligated. The Mission has done so in regard to seven of these obligations totaling \$116,523.

While the remaining \$35,113 appear to be excess to the purpose for which they were obligated, the funds represent the unliquidated obligation of a contract issued by USAID/W. To ensure that funds are available to pay any final claims under this contract, the remaining balance can not be deobligated until the Office of Procurement has taken action to close the contract and formally notified the Mission that funds can be deobligated. USAID/El Salvador will continue to seek this notification from the Office of Procurement.

As noted in the audit report, the finding of this audit resulted from extension of audit work beyond the parameters of a related audit. The Mission appreciates the additional effort on the part of your office to identify and bring these matters to our attention for appropriate action.

**Unliquidated Obligations as of September 10, 1997
Relating to Projects Ending in Calendar Year 1995 or Earlier**

Obligation Number	Unliquidated Amount as of September 10, 1997	Amount Subsequently Disbursed	Recommended for Deobligation
CA-5190327A00757504 - L900006	\$1,607	\$1,607	\$0
CA-5190346A00759900 - X101555	\$26,495		\$26,495
CA-5190346A00759900 - X201812	\$63,669		\$63,669
CA-5190373A00039600 - L000086	\$2,606	\$2,606	\$0
CA-5190375A00018200 - S000013	\$201		\$201
CA-5190391A00320400 - L300434	\$491		\$491
CA-5190395A00208000 - T200810	\$19,841		\$19,841
CA-5190400A00211400 - R200459	\$12,263	\$8,066	\$4,197
CO-519-0178-C-00213800 - S300723	\$1,629		\$1,629
LAG-4084C00204300 - S401220	\$35,113		\$35,113
Total	\$163,915	\$12,279	\$151,636