

**Regional Inspector General for Audit
Dakar, Senegal**

**Audit of USAID/Guinea
Self-Help Program**

**Audit Report No. 7-675-99-008-F
September 24, 1999**

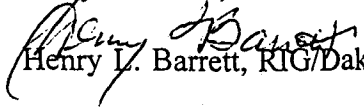
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September 24, 1999

MEMORANDUM

TO: Harry Birnholz, USAID/Guinea Director
FROM:  Henry L. Barrett, RIG/Dakar
SUBJECT: Audit of USAID/Guinea Self-Help Program, Report No. 7-675-99-008-F

This memorandum is our report on the subject audit. We have considered your comments on the draft report and have included them in Appendix II.

This report contains three recommendations. Management decisions have been made for all of the recommendations. Furthermore, Mission management has taken final action on recommendation number 3.2. Consequently, no further action on the part of the Mission is required for this part of recommendation number 3. However, although Mission management is in the process of taking final action on the other recommendations, this action has not been completed as of the date of this report. Consequently, the USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to these recommendations has occurred.

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

Background

The overall purpose of the self-help program is to demonstrate U.S. interest in the welfare and self-help endeavors of local communities in the less developed countries. The program is designed primarily to provide a means of extending limited assistance directly to local communities, rather than government-to-government assistance, by supporting increased local participation in small development activities.

The self-help program provides an administrative mechanism within which the Principal U.S. Diplomatic Officer of authorized countries may respond quickly and without regard to the comprehensive or sectoral strategies of regular bilateral assistance programs. Responsibility for the administration of self-help projects is vested in the Principal U.S. Diplomatic Officer. Furthermore, individual activities which meet certain criteria and cost \$25,000 or less may be

undertaken without recourse to USAID/Washington.

However, the self-help program is still subject to the legislative and regulatory requirements governing the use of funds. Self-help projects are funded from various USAID allotments, and the official accounting for these funds is located in the USAID field accounting stations.

Furthermore, Section 1311 of the Supplemental Appropriations Act of 1955 includes criteria for determining valid obligations. Chapter 10 of USAID Handbook 19 specifies the essential information that must be included in self-help obligating documents. Finally, USAID guidance requires that mission officials ensure the timely usage of USAID funds and deobligate funds when an activity has been completed.

Mission records indicate that as of December 31, 1998 the Mission had 14 unliquidated self-help program obligations totaling \$138,576.

Audit Objective

This audit, which is part of RIG/Dakar's 1999 audit plan, was designed to answer the following question:

Did USAID/Guinea administer, obligate and deobligate the funding of its self-help activities in accordance with USAID's guidelines?

To test the effectiveness of USAID's internal control systems related to this objective, we reviewed self-help obligations that were outstanding at December 31, 1998 to determine whether the obligations were valid and whether their unliquidated balances complied with USAID and federal guidance.

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

Audit Findings

Did USAID/Guinea administer, obligate and deobligate the funding of its self-help activities in accordance with USAID's guidelines?

Based on our audit work, it is our opinion that USAID/Guinea did not administer, obligate or deobligate the funding of its self-help activities in accordance with USAID guidelines. Of the 22 self-help Individual Activity Agreements (IAA's) that we examined, none of them contained all of the essential information required by USAID guidelines. Furthermore, of the 14 unliquidated obligations outstanding as of December 31, 1998, four needed to be liquidated along

with their old outstanding advances.

Additionally, of these 14 unliquidated obligations, we selected 11 for review and noted that two of these 11 obligations actually encompassed 23 Individual Activity Agreements. These 23 agreements, which initially totalled \$117,000, were not properly reflected in the "Mission Accounting and Control System" (MACS), and they should have been shown separately in the Mission's MACS system¹.

We did, however, note that USAID/Guinea generally complied with U.S. laws and regulations and USAID policies and procedures in reviewing and certifying its self-help unliquidated obligations. We found that the Mission:

- conducted the required reviews of unliquidated obligations;
- prepared and retained quarterly unliquidated obligation review workpapers; and
- certified year-end unliquidated obligation balances.

Self-Help Obligor Documents Do Not Contain The Required Information and Terms

USAID guidance identifies specific information and terms, which are required on self-help documents. Of the 22 agreements that we reviewed, none of the 22 complied entirely with USAID guidance. This occurred because Embassy and USAID staffs were not aware of the essential nature of this information, the self-help coordinator thought that it was too difficult to estimate some of the required information and, according to the coordinator, the self-help guidelines and handbooks were outdated and not clearly delineated. As a result, critical information necessary for the proper financial management of the Mission's self-help activities was not available to USAID management.

Recommendation No. 1: We recommend that USAID/Guinea conduct in-country training for USAID/Guinea accounting staff and the Embassy's self-help coordinator regarding the USAID Handbook guidelines and requirements relating to self-help.

USAID Handbook 19, Chapter 10, identifies the IAA (the Individual Activity Agreement) as the primary instrument through which self-help funds may be obligated and committed to a self-help activity. This document is defined as an agreement between the U.S. Government and a local community to undertake a specific activity. Furthermore, this document is described as the basic document underlying implementation of the program and must be executed for each self-help

¹One other obligation encompassed 11 Individual Activity Agreements. However, only \$138 remains to be disbursed under this other obligation. Thus, we did not include this other obligation in our finding, "Twenty-three Self-Help Activities Totaling \$117,000 Are Not Properly Reflected In The Mission's Accounting System."

activity.

The Handbook identifies the following items as some, but not all, of the data that must be included in each Individual Activity Agreement (IAA):

1. The date on which implementation is expected to begin.
2. The signature date (the date or dates that both parties signed the agreement).
3. The delivery period.
4. The terminal date for issuance of implementing documents (such as purchase orders, contracts, requisitions, etc).

We examined 22 Individual Activity Agreements. While all 22 agreements contained some of the information and terms specified in the Handbook, none of these 22 agreements complied entirely with the above-mentioned criteria. Sixteen with initial obligation amounts totaling \$98,550 did not include any of the above-mentioned criteria. Three agreements initially totaling \$70,000 did not include the first two criteria shown above and another three obligating \$30,000 did not include the first three criteria shown above. In summary, 22 agreements obligating \$198,550 of self-help funds did not contain the information and terms required by USAID's guidelines.

There were three principal reasons that the 22 agreements did not comply with USAID's requirements:

1. Signature dates were not reflected on the agreements because Embassy and USAID staff were not aware of the essential nature of the signature dates. Furthermore, USAID management did not take action to require these signature dates before accepting and processing the agreements.
2. The implementation date, delivery period and terminal date for issuance of implementing documents were not included on the agreements because the self-help coordinator believed that it was too difficult to determine when these dates would occur. He explained that the approval and paperwork process involved in funding the activities made it difficult to estimate when funding would actually be provided and, consequently, when the project would be completed. Furthermore, this estimation was complicated by Guinea's heavy rains, which frequently delay the start or implementation of self-help activities.

Additionally, USAID management did not take action to require that this information be included in the agreements, before processing them.

3. According to the self-help coordinator, the guidelines and handbooks available at the Embassy were not clearly delineated and were outdated. Thus, the coordinator

did not have a clear understanding of the data required to be included in each agreement.

As a result of the lack of required information and agreement terms, critical information necessary for the proper financial management of the Mission's self-help activities is not available to USAID management. Without this information, USAID/Guinea management cannot determine when a self-help project was agreed to, when critical documents (such as purchase orders, contracts and requisitions) were needed and when the activity should be completed.

Twenty-three Self-Help Activities Totaling \$117,000 Are Not Properly Reflected In The Mission's Accounting System

As discussed in the previous finding, the IAA (the Individual Activity Agreement) is the primary document for obligating self-help funds and implementing the program. During our review we noted that 23 IAA's totalling \$117,000 were not separately recorded on the Mission's MACS accounting system. Instead, two overall omnibus agreements between USAID and the American Embassy in Guinea -- one for \$60,000 and another for \$57,000 -- were recorded. Mission management was unable to explain why this was done and we could find no reason which explained why the separate IAA's were not recorded. As a result, critical information necessary for efficient financial management of the Mission's self-help projects is not available to USAID management or the Embassy self-help coordinator.

Recommendation No. 2: We recommend that USAID/Guinea adjust its Mission Accounting and Control System records to reflect the 23 self-help activities as individual obligations, and charge recorded expenditures to the appropriate individual obligations.

USAID Handbook 19, Chapter 10 identifies the IAA as the primary instrument through which self-help funds should be obligated for a self-help activity. This document is defined as an agreement between the U.S. Government and a local community to undertake a specific activity. Furthermore, this document is described as the basic document underlying implementation of the program and must be executed for each activity.

However, in fiscal years 1998 and 1997 USAID/Guinea did not record 23 Individual Activity Agreements totaling \$117,000. Instead, two omnibus agreements between USAID and the Embassy were recorded in place of these 23 agreements. More specifically, in fiscal year 1997 the Embassy executed 12 separate Individual Activity Agreements totaling \$60,000 and in fiscal year 1998 the Embassy executed another 11 agreements totaling \$57,000. However these individual agreements were not recorded as separate obligations in USAID's financial accounting system.

As a result of not recording each of the 23 Individual Activity Agreements as separate obligations, critical information necessary for proper financial management of the Mission's self-help program is not available. USAID/Guinea management and the self-help coordinator cannot determine, from the MACS accounting system, the financial status of these 23 activities. For

each of these activities, the amount of expenditures and the remaining unliquidated obligations (i.e. the remaining amount that is available for expenditure) cannot be determined from the MACS system. To obtain this information, management must refer to each individual voucher, and manually charge this voucher to the proper agreement -- a laborious and inefficient process. Furthermore this lack of information accounted for by each self-help project adversely impacts the accuracy and clarity of the Mission's self-help information reported to USAID/Washington.

Unfortunately, Mission management could not explain why they did not record an obligation for each self-help activity, but instead chose to record only two omnibus obligations. Furthermore, we could find no reason which explained why the separate IAA's were not recorded as individual obligations.

Excessive Unliquidated Obligation Balances

USAID guidance requires that: (1) mission officials ensure the timely usage of USAID funds and reprogramming of residual obligation balances, (2) program managers advise the controller when obligated funds are no longer required and (3) funds should be deobligated when an activity has been completed. At USAID/Guinea we found that, four self-help obligations had excessive unliquidated balances totaling \$11,204 and old uncollectible advances of \$5,939. Netting these advances of \$5,939 against the obligations of \$11,204 results in a net amount of \$5,265 that could be deobligated and reprogrammed. These excessive balances occurred because: (1) the Mission did not implement, as a result of inadequate accounting staff resources, the decisions made in its fiscal year-end unliquidated obligations review, (2) the self-help coordinator did not inform the USAID Controller that these activities were completed and the funds were no longer needed, and (3) the self-help recipients had not submitted vouchers to liquidate these advances received. As a result, obligations and related advances were overstated on the Mission's records, and excessive funds were not deobligated and put to better use.

Recommendation No. 3: We recommend that USAID/Guinea:

- 3.1 write-off, collect or justify the retention of \$5,939 in unliquidated advance balances listed in Chart 1 below; and.**
- 3.2 deobligate or justify the retention of the remaining \$5,265 in unliquidated obligations listed in Chart 1 below.**

USAID has established guidance on the performance of Section 1311 reviews for project obligations. This guidance requires that obligations be supported by documentary evidence, and notes that USAID is required to provide an annual report to the President and the U.S. Treasury identifying the amount of the unliquidated obligations and a certification that these funds do not exceed the requirements for which the funds were obligated.

"Agency Policy for the Review of Unliquidated Obligations at Missions" requires that: (1)

mission officials ensure the timely usage of USAID funds and the reprogramming of residual obligation balances and (2) program managers advise the controller when obligated funds are no longer required. The policy states that Section 1311 reviews are a joint exercise involving the mission controller, project accountants, financial analysts, project managers, and contracting officers. This policy requires that reviews of unliquidated obligations be thoroughly documented with complete work papers for each individual obligation account to serve as an audit trail. Any reviewer of the work papers should be able to conclude that a careful review of each unliquidated obligation and commitment document was conducted. When a partial liquidation of an obligation or commitment occurs, the assigned accountant must determine if the remaining balance is still valid.

Additional requirements include deobligating unliquidated obligations when the activity has been completed and ensuring the timely reprogramming of residual unliquidated obligation balances.

We reviewed eleven judgementally selected obligations with unliquidated balances of \$126,332 at December 31, 1998. As noted in the following chart, we found that four obligations had excessive unliquidated obligation balances of \$11,204 and uncollectible receivable balances of \$5,939. After applying the \$5,939 of advances against the \$11,204 in obligations, the resulting net amount of \$5,265 is the amount available for deobligation and reprogramming.

Chart 1
Analysis of Excessive Unliquidated Obligations
and Uncollectible Advances

Activity # and Obligation Date	Unliquidated Obligation \$ Amount	Unliquidated Advance \$ Amount	\$ Amount Available for Deobligation and Reprogramming
IAA-698-DHR-96-001 Sept 24, 96	\$1,760	\$1,760	\$-0-
IAA-698-DHR-96-002 Sept 24, 96	629	-0-	629
IAA-698-DHR-96-003 Sept 24, 96	4,834	336	4,498
IAA-675-9999-A-00-06154 Sept 28, 96	3,981	3,843	138
TOTALS	\$11,204	\$5,939	\$5,265

It was clearly evident in the Mission's September 1998 "1311 Review" workpapers that the Mission was aware of these excessive obligations and intended to deobligate them during the first quarter of fiscal year 1999. However, because of inadequate accounting staff resources (see paragraph below) a quarterly review of obligations was not conducted at the end of December 1998. As a result of these inadequate resources, the need to deobligate these items was overlooked and consequently these items were not deobligated. Furthermore, although the self-help coordinator said that these activities were finished and all available vouchers had been submitted by the recipients, the coordinator had not informed the USAID Mission that these activities were completed.

Regarding the inadequate accounting staff resources mentioned above, the Controller's Office has been plagued with numerous and prolonged vacancies in its staffing. For example, in April 1998 there were four vacant positions in a total staff of nine. From April of 1998 until the time of our

audit in March 1999, only three of the four vacant positions were filled, giving a staffing level of eight out of the nine authorized positions. Furthermore, of these eight members of the accounting staff, five have no formal training in accounting.

As a result, the Mission had not accounted for all of the funds advanced to the recipients and uncollectible receivables were remaining on the Mission's accounting system. Furthermore, the Mission had not deobligated excess and unneeded obligations in a timely manner and had not made these funds available for better use.

Management Comments and Our Evaluation

USAID/Guinea concurred with all of the recommendations in this report. Additionally, USAID/Guinea has taken final action on recommendation number 3.2 and has provided us with documentary evidence that this action has been implemented. Thus, no further action by the Mission is required for recommendation number 3.2.

Furthermore, the Mission is in the process of implementing recommendation numbers 1, 2 and 3.1, but as of the date of this report the Mission had not fully implemented these improvements. Thus, USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to these recommendations has occurred.

Regarding recommendation number 1, USAID/Guinea and the U.S. Embassy/Conakry plan to send a financial management staff member and the Embassy's self-help coordinator to a regional self-help training conference to be held in Senegal in November 1999. This financial management staff member will then conduct a training session for all appropriate USAID/Guinea financial management personnel.

Recommendation number 2 suggested that USAID/Guinea adjust its Mission Accounting and Control System records to reflect 23 self-help activities as individual obligations and charge recorded expenditures to the appropriate individual obligations. Furthermore, our related audit report on cash advances recommended that the Mission establish a work plan to resolve and liquidate 33 of its advances that have been outstanding for more than 90 days. In response to this cash advances recommendation, the Mission plans to write-off the obligation and advance balances of the 12 self-help activities which were executed in fiscal year 1997. This will, in effect, eliminate the problem for the fiscal year 1997 items addressed by this recommendation. Furthermore, for the fiscal year 1998 activities, the Mission plans to implement recommendation number 2 in October 1999.

For recommendation number 3.1 the Mission is in the process of writing-off the recommended amount of \$5,939. However, as of the date of this report, the write-off had not occurred. Thus, the Mission has made a management decision on this recommendation, but has not yet completed the desired final action.

Recommendation number 3.2 suggested that USAID/Guinea deobligate \$5,265 in unliquidated self-help obligations. The Mission has provided us with documentation that they have made these requested deobligations. As a result, we consider that final action has occurred for this recommendation.

SCOPE AND METHODOLOGY

Scope

This audit was performed in accordance with generally accepted government auditing standards and was conducted at USAID/Guinea from March 9, 1999 until March 30, 1999.

The audit scope included obligations for self-help activities, including self-help Democracy and Human Rights activities, which had unliquidated balances at December 31, 1998. This audit did not cover obligations for other project assistance, obligations funded with U.S.-owned local currency, obligations for disaster relief, non-project assistance or obligations maintained by USAID for the Trade and Development Agency.

Using judgmental sampling, we selected eleven unliquidated obligations (79% of the fourteen outstanding) for audit testing totalling \$126,332 (91% of the obligation dollars outstanding). These eleven outstanding obligations were selected from a Mission MACS listing of 14 obligations at December 31, 1998 which totalled \$138,576.

Additionally, the scope of this audit included a limited review of the internal control system associated with unliquidated obligations, including the conduct of Section 1311 reviews relating to self-help activities.

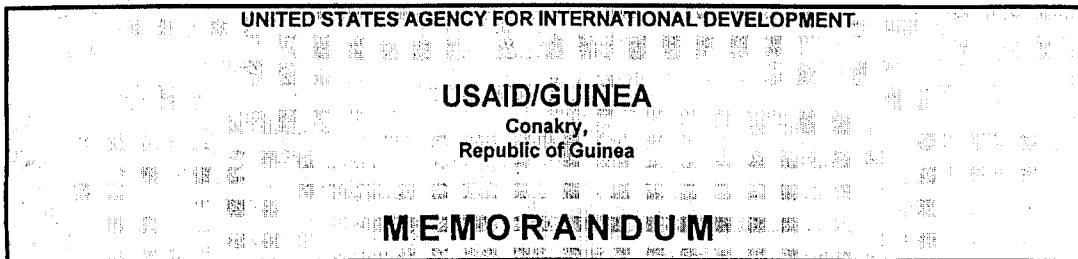
Methodology


Through the eleven obligations selected, plus our review of related internal controls, we audited USAID/Guinea's review and certification of unliquidated obligations for its self-help activities as of December 1998. While conducting our fieldwork at USAID/Guinea, we performed limited tests of compliance with USAID procedures related to the Mission's controls associated with these obligations. These controls and our review included the Mission's Section 1311 reviews, and a review of the obligating documents.

We considered the materiality of transactions, supporting documents and potential disclosure of noted exceptions in the planning, fieldwork and reporting phases of our audit. Because of the relatively small dollar amount of each self-help activity our materiality threshold was set at a relatively low level in relation to USAID as a whole. However, in relation to the program in Conakry, we set materiality at a relatively high level because of the non-liquid nature of these obligations and their relatively low risk of loss.

Each obligation was reviewed to determine whether it was valid in accordance with USAID Handbook 19, Chapter 10. We also reviewed the unliquidated balance of each selected obligation to determine whether, on December 31, 1998, the balance was needed, in full or in part, to cover anticipated expenses for appropriate future periods. In making these decisions, we considered USAID and Embassy guidance for self-help activities including unliquidated obligations, annual Section 1311 reviews, closing out self-help activities and deobligating self-help funding.

In addition, our fieldwork included reviewing information contained in the Mission Accounting and Control System (MACS) reports, documents maintained at both USAID/Guinea and the American Embassy in Guinea, and discussions and communications with appropriate Mission and Embassy staff.



DATE: September 15, 1999
FROM: Harry Birnholz, Director 
TO: Henry L. Barrett, RIG/DAKAR
SUBJECT: Draft Audit report 7-675-99-00X-F

Audit of USAID/Guinea Self-Help Program

As requested, the Mission has reviewed RIG's draft audit report indicated above. Please find below our responses to the report's recommendations.

Recommendation No. 1: We recommend that USAID/Guinea conduct in-country training for USAID/Guinea accounting staff and the Embassy's self-help coordinator regarding the USAID Handbook guidelines and requirements relating to self-help.

USAID/Senegal is planning to host a SSH and DHRF workshop in November, 1999. U.S. Embassy/Conakry plans to send their Coordinator and his assistant to this course. USAID/Conakry's Office of Financial Management (OFM) also plans to send a staff member to the course. This staff member would then be responsible for preparing and presenting an in-country training for the rest of the OFM staff by 3/31/2000. If the workshop in Senegal is not held prior to 12/31/99, the Controller will coordinate with the Controller at USAID/Senegal and other USAID Controllers in the region to gather ideas and training materials to prepare and present an in-country training session for the OFM staff prior to 3/31/2000.

Recommendation No. 2: We recommend that USAID/Guinea adjust its Mission Accounting and Control System records to reflect the 23 self-help activities as individual obligations, and charge recorded expenditures to the appropriate individual obligations.

The 23 activities referred to above represent all activities from FY 97 & 98. In its response to RIG's Audit of USAID/Guinea's Management of Cash Advances (7-675-99-00X-F), Recommendation 1.1, USAID/Guinea is recommending that the balances of all SSH/DHR Advances from FY 96 & FY 97 be written-off. Since the Mission will then liquidate the obligations (the activities are closed), we did not record the individual activities for those activity obligations from FY 97. The Mission will record the individual obligations for the FY 98 activities prior to 10/31/99.

Recommendation No. 3: We recommend that USAID/Guinea:

- 3.1 write-off, collect or justify the retention of \$5,939 in unliquidated advance balances listed in Chart 1 below; and

This amount will be transferred to FM/W and recommended for write-off by 9/30/99 (see USAID/Guinea's response to RIG Auditor's Recommendation 1.1, Audit of USAID/Guinea's Management of Cash Advances (7-675-99-00X-F)).

3.2 deobligate or justify the retention of the remaining \$5,265 in unliquidated obligations listed in Chart 1 below.

This amount has been deobligated.

Based on action taken to date, USAID/Guinea requests that recommendations Nos. 3.1 and 3.2 be closed upon issuance of the final report. USAID/Guinea will advise the USAID Management Bureau's Office of Management Planning and Innovation when Recommendations 1 and 2 have been completed.