UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

UNITED STATES ADDRESS
RIG / DAKAR
AGENCY FOR INTERNATIONAL
DEVELOPMENT
WASHINGTON. D.C. 20521 - 2130

INTERNATIONAL ADDRESS
RIG / DAKAR
C/° AMERICAN EMBASSY
B.P. 49 DAKAR SENEGAL
WEST AFRICA

May 26, 1999

MEMORANDUM

TO: Thomas E. Park, Director, USAID/Benin

FROM: Henry Barrett, RIG/Dakar

SUBJECT: Audit of USAID/Benin's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance, Report No. 7-680-99-006-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 five recommendations. In response to Recommendation Nos. 1.2 and 1.3, USAID/Benin has submitted documentation showing that the $93,053 of unneeded unliquidated commitments and $592,967 of unneeded earmarks have been decommitted and deearmarked, respectively. The submission of supporting documentation indicates that the planned final action has been reached and no further action on the part of the Mission is required for Recommendation Nos. 1.2 and 1.3.

In response to Recommendation No. 2, USAID/Benin has submitted appropriate documentation indicating that the Mission has provided the recommended training. Since the training constitutes final action, no further action on the part of the Mission is required for Recommendation No. 2.

Concerning Recommendation No. 3, USAID/Benin has submitted appropriate documentation confirming that the Mission has now included the recommended responsibilities in the position descriptions of appropriate project/program officials. Therefore, we consider that a management decision and final action have been taken and no further action on the part of the Mission is required for Recommendation No. 3.

USAID/Benin has submitted suitable work plans and time schedules with respect to the outstanding 1221 reconciling items and outstanding advances in Recommendation Nos. 4.1 and 4.2. The Mission's preparation of these work plans and time schedules constitutes final action for these two recommendations.

In response to Recommendation No. 5, USAID/Benin has submitted appropriate documentation indicating that the Mission has provided the recommended training. Since the training constitutes final action, no further action on the part of the Mission is required for Recommendation No. 5.

Based upon your comments concerning Recommendation No. 1.1, no management decision has yet been made. USAID/Benin should notify RIG/Dakar when a management decision has been made. After a management decision has been reached, the USAID Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final action related to this recommendation has occurred.

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

Background

Section 1311 of the Supplemental Appropriations Act of 1955[1] includes criteria for determining valid obligations. However, even though obligations may initially have been valid, they may no longer be needed, or they may be excessive. An audit of USAID in 1991 by the General Accounting Office found that from 5 to 21 percent of the unliquidated obligations at six USAID missions was excessive and suggested that unliquidated obligations were excessive at other missions as well.[2] Furthermore, a recent audit by the Office of Inspector General[3] estimated that approximately $495 million of USAID's unliquidated obligations was in excess of requirements at September 30, 1996. USAID/Washington subsequently published detailed guidance in an attempt to limit obligations that are no longer needed, and also to limit excessive forward funding. Although USAID controllers are tasked with the responsibility for the control of obligations by taking action to ensure that unliquidated obligations are used efficiently, current guidance requires full participation by all project and procurement officers, as well as accounting officers.

Mission records indicate that, as of September 15, 1998, USAID/Benin had 18 unliquidated obligations related to locally managed activities for project assistance with unliquidated balances totalling $39,829,000. This amount does not include any of the other countries for which USAID/Benin has accounting responsibilities, nor obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by USAID/Benin for the Trade and Development Agency. Also, USAID/Benin reported no non-project assistance.

As of September 1998, USAID/Benin also reported (1) outstanding reconciling items between USAID/Benin and the disbursing office totaling $836,735; and (2) outstanding advances totaling $438,140. Without the timely clearance and liquidation of these items USAID/Benin is unable to determine the proper amount of funds available for deobligation or decommitment.

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[1]Section 1311 is now codified as Title 31, United States Code, Section 1501(a), [31 U.S.C. 1501(a)].

[2]Audit Report No. NSIAD-91-123, entitled "Foreign Assistance: Funds Obligated Remain Unspent for Years," dated April 1991.

[3]Audit Report No. 9-000-98-003-F, "Audit of USAID's Review and Certification of Unliquidated Obligations for Project and Non-project Assistance," dated March 27, 1998.

Audit Objective

This audit was designed to answer the following question:

> Did USAID/Benin review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures?

To test the effectiveness of USAID's internal control systems related to this objective, we reviewed seven judgmentally selected unliquidated obligations to determine whether the obligations were valid when recorded and whether their unliquidated balances complied with USAID and federal funding guidance. Additional testing included various other funds control responsibilities associated with reconciliation items and outstanding advances which indirectly affect obligation balances.

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

Audit Findings

Did USAID/Benin review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures?

For the items tested, USAID/Benin generally complied with U.S. laws and regulations and USAID policies and procedures in reviewing and certifying its unliquidated obligations for project assistance[4] with certain exceptions. We found that the Mission:

- recorded initial obligations based on valid obligating documents;
- produced a quarterly list of unliquidated obligations and notified appropriate Mission personnel of the required reviews;
- conducted quarterly reviews of unliquidated obligations;
- decommitted unliquidated balances as a result of quarterly reviews;
- prepared and retained quarterly unliquidated obligation review work papers; and

[4] There was no non-project assistance managed by USAID/Benin.

- certified year-end unliquidated obligation balances.

However, we also found that USAID/Benin's reviews of unliquidated obligations for project assistance were not always as complete and thorough as required by applicable guidance, which resulted in excessive and unneeded balances. We found other weaknesses in funds control procedures resulting from numerous unreconciled items with disbursing offices, and numerous outstanding advances, both of which affect unliquidated obligations. Additionally, we found two instances in which services were obtained without the issuance of an authorizing commitment document.

Unliquidated Obligations
Were Not Adequately Reviewed

USAID guidance requires that: (1) mission officials ensure the timely usage of USAID funds and reprogramming of residual obligation balances and (2) program managers advise the controller when obligated funds are no longer required. At USAID/Benin we found that, although quarterly unliquidated obligation reviews were conducted, they were not done as thoroughly and completely as required by guidance. As a result, two unliquidated obligations had excessive forward funding totaling $2.1 million. We also identified $93,053 of unliquidated commitments and $592,967 of earmarks that were no longer needed.[5] Individual documents are identified in Appendix III. These excessive and unneeded balances occurred because participating staff had not taken timely action to analyze and confirm the continued need for unliquidated balances, and the staff had not deobligated or decommited balances on documents that had expired or had been inactive for several years. These analyses and determinations were lacking because the Mission was understaffed and participating individuals may not have fully understood their responsibilities in conducting unliquidated obligation reviews. As a result, excessive funds were not deobligated, decommitted or deearmarked in a timely manner and put to better use.

Recommendation No 1: We recommend that USAID/Benin:

1.1 deobligate or justify the retention of $2.1 million in unliquidated obligation balances listed in Appendix III;

1.2 decommit or justify the retention of $93,053 in unliquidated commitment balances reflected in Appendix III; and

[5] In USAID's project accounting system, "obligations" are formalized in the form of signed project agreements or similar contractual documents. These "obligated funds" are then "earmarked" for certain actions with the signing of project implementation orders or project implementation letters. After "earmarking" of funds, the next step in the process is the "commitment" of funds. This "commitment" of funds is formalized with the signing of a contract document such as a purchase order or contract for services. Multiple "commitments" can exist for a single "earmark" and multiple "earmarks" can exist for a single "obligation."

1.3 **deearmark or justify the retention of $592,967 in uncommitted earmark balances detailed in Appendix III.**

<u>Recommendation No 2</u>: **We recommend that USAID/Benin conduct in-country training for its program/project, procurement and accounting staff in the requirements of 1311 reviews and forward funding.**

<u>Recommendation No 3</u>: **We recommend that USAID/Benin include unliquidated obligation review responsibilities in the work objectives of appropriate program/project staff members.**

USAID has established guidance on the performance of Section 1311 reviews for project obligations, earmarks and commitments. 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 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 and commitments be thoroughly documented with complete work papers for each individual obligation or commitment 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. These criteria add that once commitments have been executed, residual earmark balances are to be deearmarked.

Additional requirements include ensuring timely reprogramming of residual unliquidated obligation balances. Current USAID forward funding guidance, originally issued in fiscal year 1993, requires obligations for ongoing projects to be sufficient to fund anticipated expenses for no more than 12 months beyond the end of the fiscal year in which the obligation takes place. The guidance further states that obligations for new projects should provide funding for at least 18 months, but not more than 24 months of anticipated expenditures.

We reviewed seven judgmentally selected obligations with unliquidated balances of $20.9 million at September 15, 1998. As noted in the following table, we found that two obligations had excessive unliquidated obligation balances of $2.1 million, three obligations had unneeded commitment balances totalling $93,053, and two obligations had unneeded earmark balances of $592,967.

SUMMARY RESULTS OF UNLIQUIDATED OBLIGATIONS REVIEWED
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Project Number	Unliquidated Balance 9/15/98	Excess Forward Funding	Unneeded Commitments	Unneeded Earmarks
680-0208	$9,153	$1,000	$ 37	$ 441
680-0212	4,807	1,100		
680-0217	1,110		10	
680-0218	2,719			
680-0219	1,110			
680-0220	825			
698-0463	1,149		46	152
Total	$20,873	$2,100	$ 93	$ 593

Forward Funding

Although USAID/Benin was conducting periodic Section 1311 reviews, the related work papers indicated that the reviews were being done primarily at the commitment level. Our analysis of forward funding at the obligation level did not indicate that overall obligation balances were consistently being reviewed to determine if unliquidated obligations were meeting the requirements of forward funding guidance.

Project No. 680-0208, the Children's Learning and Equity Foundations Project, which began in September 1991, is an example of this excess forward funding. As of September 30, 1997, the project had an unliquidated obligation balance of $9.1 million. Actual expenditures recorded during fiscal year 1998 were approximately $2.9 million. Since this was an ongoing project, forward funding should have approximated the expenditures for fiscal year 1998. Thus, this activity was funded at September 30, 1997 by approximately $6.2 million more than what was necessary for fiscal year 1998 actual expenditures, which represents excessive forward funding.

As of September 15, 1998 this project had an unliquidated balance of $9.2 million. Of that amount, $4.8 was earmarked for planned activities in fiscal year 1999--leaving $4.4 million uncommitted and unearmarked. From that $4.4 million, program officials anticipate additional activities of $3.1 million from what they have classified as priority one and priority two activities. Also, program officials have already earmarked an additional $300,000 for anticipated expenditures in the next twelve months. Therefore, this project had excess funding of approximately $1 million ($4.4 million less $3.4 million) as of September 1998.

Project No. 680-0212 began in September 1994 with a grant agreement to World Education. In September 1997 an additional grant agreement (obligation/commitment document) was issued which obligated and committed $3.5 million. This new grant agreement and project budget planned for a five year project extension of $9.1 million. Activities and expenditures were to begin in June 1998 and conclude at the end of June 2003. The agreement further specified that by June 1999, the first year of the project, only $1.8 million would be spent, which corresponds to one fifth of the total budget. Nevertheless, the grant agreement was obligated for $3.5 million in late September 1997. Because this had been an ongoing project since 1994, the obligation in September 1997 should have only been for anticipated expenditures for the following fiscal year, which was approximately $400,000. Therefore, this obligation was excessively funded by approximately $3.1 million as of September 30, 1997 ($3.5 million less $.4 million).

Furthermore, this obligation was still excessively funded at September 1998. The recipient initially reported that actual and anticipated expenditures in the last quarter of fiscal year 1998 were approximately $400,000, with approximately $2.0 million of estimated and actual expenditures in the total project budget for the first 12 months of the project (through June 1999). Allowing for an additional $400,000 for the period from July to September 1999, the total anticipated expenditures from the beginning of the grant agreement comes to $2.4 million. This amount results in excessive forward funding at September 1998 of $1.1 million ($3.5 million less $2.4 million).

When asked about the September 1999 excessive obligation, program officials requested that the recipient submit a revised budget. The revised budget was $1.2 million greater than that originally submitted to us, and represented more than one third of the life of project budget, although it constituted only the first year of a five year project extension. The entire increase was due to subgrantee costs which primarily consisted of a substantial increase in parent-teacher-type organizations with whom the subgrantees were scheduled to work. However, the recipient did not submit documentation to show that the subgrantees were, in fact, obligated to work with this increased number of parent-teacher organizations in the first year (217 versus 508). The agreements with the subgrantees did not include the number of parent-teacher organizations included in the project. The grant agreement initially allowed only $1.8 million (or one fifth of the total project) to be spent in the project's first year. The Mission could not provide any amendments increasing this authorization amount.

In the absence of (1) documentation to support the increase in parent-teacher groups in the first year of the project, and (2) an amendment to the grant agreement to allow an increase in first year spending of $1.7 million over the authorized amount of $1.8 million, we believe that our original estimate of $1.1 million in excess obligations is reasonable and that amount should be deobligated.

As of September 1998, the two projects discussed above--Project No. 680-0208 and Project No. 680-0210--had excess forward funding of approximately $2.1 million. Thus, this $2.1 million should be deobligated.

Commitments

The primary problem with the Section 1311 reviews at the commitment level was that the controller's staff did not complete the required analysis to support the retention of each unliquidated balance. We noted, however, that the Mission's reviews are becoming more thorough, with the last review in June 1998 being the most comprehensive. Although most commitments contained some type of notation, many notations merely noted what analysis should be done to support the balance, such as the need to contact another accounting station or obtain additional information from a recipient. They did not note what had been done to support the individual commitment balances, as required by applicable guidance. Occasionally, some notations simply stated that more research was required and contained no support for retaining the balance.

For Project No. 698-0463, the Human Resources Development Assistance Project, one commitment dated back to fiscal year 1993. On one participant training document, which expired in January 1994, the obligation was no longer needed because the expenditures were processed against another document. The Section 1311 work papers had a series of notations referring to the need to contact another accounting station. However, there was no evidence that anyone actually contacted the other accounting station to determine the true status of the commitment balance. Therefore, the unliquidated balance that was no longer needed was not decommitted in a timely manner and continued to be included in each successive set of Section 1311 review work papers.

One unliquidated commitment that we found was the result of its partial liquidation by a final payment. For document CO-OUT-ALP-I-800-96-04, a final payment was processed leaving an excess commitment of $10,391. As required by applicable guidance, a request for closeout of the commitment document should have been prepared when the final payment was processed. Although we only found one instance of this condition, the close out request should still have been done to avoid leaving an unnecessary commitment balance.

Without the required analysis of commitment balances, USAID/Benin was not able to identify and decommit unneeded balances in a timely manner. As a result, we found 44 commitment documents with a balance of $93,053 that were no longer necessary and that should be decommitted. Appendix III contains a schedule of these documents.

Earmarks

The Section 1311 work papers did not indicate that uncommitted earmarks were being analyzed to determine if they were still necessary. In two of our sample obligations, there were numerous uncommitted earmark balances that were no longer needed because all associated commitments had been liquidated; however these balances were not being analyzed and deearmarked. For example in Project 680-0463, 24 unneeded earmark balances that were reported in the accounting system in September 1997 were still being reported in the system at September 1998.

Without the required analysis of earmark balances, USAID/Benin was not able to identify and deearmark unneeded balances in a timely manner. As a result, we found 76 earmarks with a balance of $592,967 that were no longer necessary and that should be deearmarked. Appendix III contains a schedule of these documents.

The above conditions were the result of a number of factors. Since March 1998, USAID/Benin has been understaffed after taking over its own accounting responsibilities from the USAID West Africa Accounting Center (WAAC) in Abidjan, Cote d'Ivoire. To fulfill these added responsibilities USAID/Benin was given two additional accounting positions which have only recently been filled. These two unfilled positions, in addition to another vacancy in the accounting department, have contributed to the Mission's inability to complete thorough unliquidated obligation reviews. However, in our view, the recent hiring of the two additional accounting personnel should resolve this problem.

A contributory cause was a lack of understanding among the staff of review requirements and responsibilities and an uncertainty of what these responsibilities included. We were told that not all project/program officers were aware of the requirements of conducting Section 1311 reviews and therefore, were not reviewing obligations and commitments under their respective projects to determine the reasonableness of the unliquidated balances. We found that several USAID/Benin project/program officers did not have unliquidated obligation review responsibilities as part of their work objectives. For example, the work objectives for two personal services contractors on the Basic Education Team did not contain any references to unliquidated obligation review responsibilities. In order to meet requirements, it is important that the staff responsible for project/program oversight, as well as accounting and procurement staff, are aware of the importance of the requirements for the timely completion of unliquidated obligation reviews and timely deobligation or decommitment of unneeded balances.

All participating staff members should have review responsibilities as part of their work objectives, and receive a comprehensive training course on current requirements of unliquidated obligation reviews and forward funding guidance. Training should include the need to review documents at not only the commitment level, but at the earmark and obligation levels as well.

With respect to forward funding, Mission officials stated that they had received pressure from USAID/Washington to obligate as much funding as possible, and therefore, have not regarded forward funding limitations as a priority issue. Instead, they have placed a greater emphasis on obligating as much as possible, especially in earmarked areas at the end of the fiscal year.

As a result of the above, excess or unneeded funds were not deobligated, decommitted, or deearmarked in a timely manner and were not made available for better use in accordance with USAID guidance.

Two Situations Adversely Affecting
Control Of Unliquidated Obligations

With respect to control over unliquidated obligations, USAID guidance discusses the importance of the timely clearance of 1221 reconciling items and the timely liquidation of outstanding advances. We noted the existence of 482 outstanding 1221 reconciling items[6] totaling $836,735 and 188 outstanding advances[7] totaling $438,140, of which 104 totalling $72,219 had been outstanding more than six months past their accountability due dates. Although these reconciling items and advances have occurred in the normal course of the Mission's activities, many of the older outstanding items are due to the lack of a clear delegation and acceptance of responsibility--which was not resolved until 1995/96--between WAAC and USAID/Benin. Without the timely clearance and liquidation of these outstanding reconciling items and advances, USAID/Benin cannot accurately determine the amount of its unliquidated obligations and commitments, and is thus unable to determine the proper amount of funds available for deobligation or decommitment.

Recommendation No 4: **We recommend that USAID/Benin:**

4.1 **establish a work plan and time schedule to reduce the 482 outstanding 1221 reconciling items totaling $836,735, and the 104 advances totaling $72,219 that are more than six months past their accountability date; and**

4.2 **in conjunction with the U.S. Embassy and Peace Corps, establish a work plan and time schedule to resolve and liquidate the 46 advances totaling $41,925 due from the U.S. Embassy and Peace Corps in Benin.**

1221 Reconciling Items

USAID's "Financial Management Bulletin" Part II No. 14B discusses the importance of the timely reconciliation and clearance of 1221 reconciling items. More specifically, this bulletin says it is the responsibility of each mission controller to establish and maintain an appropriate system of internal controls over mission accounting functions, including the reconciliation of mission disbursement records with the disbursements reported by the U.S. Disbursing Office (USDO). This bulletin adds that mission controllers have a responsibility to perform reconciliations on a cumulative basis to assure that reconciling items are eventually cleared. Furthermore, this bulletin mentions the importance of keeping "Mission Accounting and Control System" (MACS) data current by ensuring that all information from Regional Administrative Management Centers (RAMCs) and USDOs is entered into MACS in a timely manner. To accomplish this current

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[6]These reconciling items represent the differences between disbursements recorded by the Mission and the disbursements actually made by the servicing disbursement office, in this case the Regional Administrative Management Center in Paris.

[7]According to the Foreign Affairs Manual (section 4 FAM 033.5), advances are cash outlays made to employees, contractors, grantees and others to cover the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires.

accountability in its MACS data, reconciling items need to be researched and cleared by charging the reconciling items to the appropriate accounts.

During our review of the Mission's internal controls associated with its outstanding obligations and commitments, we noted the existence of 482 outstanding 1221 reconciling items totaling $836,735. In concept, these reconciling items are similar to the reconciling items included in bank reconciliations prepared by individuals and companies throughout America. These reconciling items represent, in effect, adjustments that, when researched and cleared will impact--by either increasing or decreasing--the unliquidated obligation and commitment balances recorded on the Mission's records. Thus, to have an accurate accounting of the Mission's outstanding obligations and commitments, 1221 reconciling items should be researched and cleared in a timely manner. Conversely, the larger the quantity and dollar amount of outstanding 1221 reconciling items, the more inaccurate are the unliquidated obligation and commitment balances. Therefore, the timely investigation and resolution of these reconciling items will provide the Mission with a more accurate picture of its true unliquidated obligations and commitments, further improving the Mission's controls over its entire financial operations.

Many of these reconciling items arose in past years during the normal course of the Mission's business. However, the age and number of reconciling items outstanding was exacerbated by the lack of a clear delegation and acceptance of responsibility for this reconciliation function between WAAC and USAID/Benin.

Until March 1998, the accounting station for USAID/Benin was located at WAAC. While there was a Controller position in Benin before March 1998, there was not a clear delegation and acceptance of responsibility between WAAC and USAID/Benin for researching and clearing 1221 reconciling items until the 1995/96 time period, when it was decided that USAID/Benin would assume this responsibility. As a result of this confusion over responsibilities, the number of outstanding 1221 reconciling items grew to more than 3,700 items.

However, while disclosing this problem in our report, we must also emphasize that the Mission has made good progress in clearing many of these old reconciling items. As evidence of this progress, in March 1996 there were 3,785 reconciling items outstanding, compared to only 482 as September 1998. Thus, although we would definitely conclude that the Mission is making good progress eliminating many of its old reconciling items, continuing efforts are needed to resolve the remaining ones.

Without these efforts and the resultant reduction in reconciling items, USAID/Benin will not be able to accurately determine the amount of its outstanding obligations and commitments, and thus will be unable to determine the proper amount of funds available for deobligation.

Outstanding Advances

In addition to the above reconciling items, we also noted the existence of 188 outstanding advances totaling $438,140. Handbook 19 Chapters 1 and 3 specify that advances should be made for the recipients' immediate disbursing needs, which are generally assumed to be the recipients' cash requirements for 30 to 90 days. In addition, USAID's "Financial Management Bulletin" Part II No. 3 (Project Accounting) says that "advances must be closely monitored with the unliquidated advanced amounts and cumulative disbursements not exceeding the commitment amount." Without this close monitoring and timely liquidation of outstanding advances, missions are unable to determine the proper amount of funds available for deobligation.

As with the 1221 reconciling items, these outstanding advances represent, in effect, adjustments that, when researched and cleared will impact--by most frequently decreasing--the unliquidated obligation and commitment balance recorded on the Mission's records. Thus, to have an accurate accounting of the Mission's outstanding obligations and commitments, all outstanding advances, which are past their due date for repayment/liquidation (their accountability due date), should be researched and cleared. Conversely, the larger the quantity and dollar amount of these advances, the more overstated are the unliquidated obligation and commitment balances. Thus, the investigation and resolution of these advances will provide the Mission with a more accurate picture of its true unliquidated obligations and commitments, further improving the Mission's controls over its entire financial operations.

While all advances outstanding past their accountability due date are a concern because of their adverse impact on the Mission's controls over its unliquidated obligations and commitments, we would like to disclose that many of these advances and a major part of the dollar amount--84 advances totaling $365,921--were less than six months past their liquidation due date. For the most part, these advances were being cleared and liquidated in the normal course of USAID/Benin's business, and were thus not a problem for the Mission's control over its obligations and commitments.

However, another 104 advances totaling $72,219 have been outstanding for more than six months past their accountability due dates. In this report, we would like to focus on the bulk of these old advances--46 advances totaling $41,925--which are due from the U.S. Embassy and Peace Corps in Benin. These advances arose from the Embassy managed Self-Help and Democracy Human Rights Fund (DHRF), and from Peace Corps education activities. Although, according to USAID/Benin, some progress has been made in resolving these old advances, the age, quantity and dollar amount indicate that additional emphasis and a higher priority need to be placed on resolving these remaining items by USAID/Benin, the Embassy and Peace Corps.

These old advances were initially the result of the lack of a clear delegation and acceptance of responsibility between WAAC and USAID/Benin, which was not resolved until the 1995/96 time period. In addition, however, a lack of emphasis and precedence by USAID/Benin, Peace Corps and the Embassy has allowed these intragovernmental advances to remain outstanding.
Without the timely liquidation of these advances USAID/Benin will be unable to determine the correct amount of its outstanding obligations and commitments, and thus will be unable to determine the proper amount available for deobligation.

Procurement of Services
Without an Authorizing Document

During our audit we noted that USAID/Benin had ordered services from another U.S. Government agency without having the proper authorization and approval and without a commitment document. GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Chapter 3, p7-3-7, says that agencies shall institute appropriate control procedures for ensuring that all interagency transfers for reimbursable work are made in accordance with law and are documented recorded and reported as required by law. This policy further says that such procedural controls should be integrated with agency budgetary and accounting fund control systems. However, we noted two instances where a project/program office of USAID/Benin had ordered the same type of training services from the same U.S. Government agency without having prepared or issued the proper commitment documents. This occurred because the members of the project/program office did not understand the significance of having purchase orders (commitment documents) approved and issued before requesting and obtaining services. As a result of this lapse, USAID/Benin employees were able to obtain services--in both fiscal year 1997 and fiscal year 1998--without the proper authorization and without commitment of the funds.

Recommendation No 5: **We recommend that USAID/Benin conduct in-country training for its program/project, procurement and accounting staff in obligation/commitment controls and the importance of these controls.**

USAID's Financial Management Bulletin Part II No. 3 defines a "commitment" as "the completed, fully signed, contract document, e.g. finalized purchase order or contract for services." In addition, these bulletins include commitments in a listing of source documents and key information for MACS transactions. In relation to this definition, GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Chapter 3, p7-3-7, says that agencies shall institute appropriate control procedures for ensuring that all interagency transfers for reimbursable work entered into on behalf of the government are made in accordance with law and are documented, recorded and reported as required by law. Such procedural controls should be integrated with agency budgetary and accounting fund control systems.

As part of the Mission's overall development efforts, it obtains English language training for selected Beninois from the American Cultural Center in Benin. However, in fiscal year 1997 and again in September 1998, based on verbal requests from the "Education Team," this training commenced before an approved commitment document--authorizing the acquisition of this service--was issued. In fiscal year 1997, training began on September 27, but the purchase order was not issued until October 15, more than 2 weeks after the service commenced. In August 1998 training started for a new class, but as of September 30, 1998 we noted that the Mission had not yet issued a purchase order (commitment document) to authorize the purchase of this service. The American Cultural Center estimated that its training charges for this new August 1998 class were approximately $2,000.

This lapse in control occurred because the employees involved did not understand the significance and importance of having purchase orders (commitment documents) approved and issued **before** requesting and obtaining services. In addition, because this practice occurred in fiscal year 1997, it became the normal method of obtaining English language training services from the American Cultural Center in fiscal year 1998.

As a result, there may be a possible overcommitment by the Mission of U.S. Government funds. In addition, in fiscal year 1998 goods and services totaling $2,000 were obtained without proper authorization and approval.

Management Comments and Our Evaluation

USAID/Benin partially concurred with Recommendation No. 1. For Recommendation Nos. 1.2 and 1.3, USAID/Benin concurred with the recommendation and decommited and deearmarked, respectively, the amounts set forth in the draft audit report recommendation. Therefore, we consider final action to have been taken at this time on Recommendation Nos. 1.2 and 1.3. Additionally, USAID/Benin concurred with Recommendation Nos. 2, 3, 4, and 5 and has completed the recommended actions. We, therefore, consider final action to have taken place on these recommendations.

USAID/Benin, however, did not concur with Recommendation No. 1.1. The Mission stated that, in their efforts to address forward funding compliance, they had deobligated funds under a different program, as well as notified USAID/Washington of further reductions to be made in other program funds. We would like to compliment USAID/Benin on these actions, however, due to the fact that our audit work was limited to our sample items, we did not examine documentation regarding the issues in these other programs. Consequently, we can only comment on the programs that we actually audited.

USAID/Benin further stated that the funds recommended for deobligation are needed for program implementation in one of the subject programs, and that all funds in the other subject program will be expended by the project completion date. We do not disagree with the fact that all obligated funds will be needed during the life of the program. This is not the issue. The issue is whether the amount of funds that USAID/Benin had obligated exceeded the amount of estimated expenditures for the future period that USAID guidance allows. Forward funding limits were established by USAID and are an important part of good cash management practices. Likewise, obligating funds that will not be needed for several years is not an efficient way of using financial resources.

In its response, USAID/Benin also referred to a RIG/Dakar report for another mission which included a reference to excessive obligations. USAID/Benin asked for similar consideration as received by the other mission. In the referenced report, however, the issue regarding excessive obligations did not concern forward funding, but rather concerned obligations that had been recorded more than five, and up to ten, years earlier under old or completed programs. The report stated that Section 1311 reviews were needed to identify possible excess funds that were no longer needed. The issue with the other mission is the same one as is addressed above under Recommendation No. 1.2, for which the Mission has already completed final action. This issue did not concern forward funding levels for anticipated expenditures under ongoing programs.

In calculating excessive forward funding, we based our recommended deobligation on two figures. The recommended deobligation represents the difference between the amount of unliquidated obligations and our estimate of what would be expended in the period provided by current guidance. As requested, USAID/Benin presented additional documentation, however, the submission did not support the Mission's anticipated spending and did not indicate that our original estimate of program expenditures was inaccurate. The Mission's comments state that the obligated funds will be expended by the project anticipated completion date (PACD). However, they neglected to state that these PACD's are two and four years in the future; the PACD for project no. 680-0212 is 6/29/03 and for project no. 680-0208 is 12/29/01. Therefore, we continue to consider valid our calculations that the subject programs have excessive forward funding beyond that necessary in the period provided for by current guidance. Consequently, to comply with USAID forward funding guidance, the recommended deobligation should be made.

The full text of management's comments on our report are attached as Appendix II.

SCOPE AND METHODOLOGY

Scope

This audit was performed in accordance with generally accepted government auditing standards and was conducted at USAID/Benin from September 14 through October 9, 1998. The audit scope included obligations for project assistance which had unliquidated balances as of September 1997 and 1998. It did not cover 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. Although our audit objective included non-project assistance, the Mission did not manage any non-project assistance activities during the period of audit. Thus, this type of assistance was not included in our scope. Also, the scope did not include other countries for which USAID/Benin is responsible.

Using judgmental sampling, we selected seven unliquidated obligations for audit testing totalling $20,873,000. These seven outstanding obligations were selected from a Mission listing of obligations at September 15, 1998 which totalled $39,829,000.

Additionally, the scope of this audit included a limited review of the internal control system associated with unliquidated obligations. This included the conduct of Section 1311 reviews as well as the management of reconciling items and outstanding advances.

Methodology

Through the seven obligations selected, plus our review of related internal controls, we audited USAID/Benin's review and certification of unliquidated obligations for project assistance, as of September 1997 and 1998. Furthermore, in order to determine the reasonableness of the unliquidated balances for the original seven sample obligations, we reviewed the corresponding earmarks and commitment documents under each obligating document.

While conducting our fieldwork at USAID/Benin, we performed limited tests of compliance with USAID and Mission procedures related to the Mission's internal controls associated with its obligations and commitments. These controls and our review included the Mission's Section 1311 reviews and forward funding reviews of obligations for project assistance, as well as controls over 1221 reconciliations and outstanding advances.

Each obligation was reviewed to determine whether it was valid in accordance with the provisions of 31 U.S.C. 1501(a) and decisions of the U.S. General Accounting Office. When amounts were questioned, we interviewed relevant activity managers.

We also reviewed the unliquidated balance of each selected obligation to determine whether, on September 30, 1997 and September 15, 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 guidance for forward funding, activity-specific budgets and spending plans, actual disbursements, progress reports, and interviewed relevant activity managers. In addition to capturing information and making calculations as of September 15, 1998, we determined whether the unliquidated balances of any obligations reviewed during the audit had excessive balances at September 30, 1997 for the purpose of analyzing how consistent control procedures were followed in the prior reporting period. Our analysis was based upon information contained in the Mission Accounting Control System (MACS) reports and discussions and communications with appropriate Mission and USAID/Washington staff. We did not, however, attempt to verify the overall reliability of computer generated data in the MACS.

We limited our conclusions to the items tested; we did not project the results of our tests to the universe of all unliquidated obligations. Since our sample was judgmental and designed to select only those documents that had unliquidated obligations that appeared to be unneeded or invalid, we believe that the sample error rate was higher than the population error rate. For this reason, we determined that the error rate in the sample should be at least 15 percent of the sample before answering the audit objective negatively. Since the sample error rate was less than 15 percent, we concluded that the Mission reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and USAID policies and procedures.

U.S. Agency For International Development

MAY 0 3 1999 memorandum

DATE: April 23, 1999

TO: Mr. Henry Barrett, RIG/A/Dakar

FROM: Thomas E. Park, Mission Director, USAID/Benin

SUBJECT: Draft Audit Report Number 7-680-99-00X-F of USAID/Benin's Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance

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As requested, the Mission has reviewed the RIG's draft audit report on USAID/Benin's review and certification of unliquidated obligations. Please find below our response to the report's recommendations.

Recommendation No 1: "We recommend that USAID/Benin:

1.1 deobligate or justify the retention of $2.1 million in unliquidated obligation balances listed in Appendix III;

1.2 decommit or justify the retention of $93,054 in unliquidated commitment balances reflected in Appendix III; and

1.3 deearmark or justify the retention of $592,967 in uncommitted earmark balances detailed in Appendix III."

Summary: USAID/Benin assumed accounting station responsibility for its records in March, 1998, and with the support of the audit team, used this audit of the Mission's unliquidated obligations as a tool to assist in the process of closing the old outstanding accounting records. The funds identified in recommendations 1.2 and 1.3 were mutually agreed upon by the Mission and the RIG auditors for decommitment and deearmark, and action was completed prior to the auditors' departure from post in mid-October.

Unfortunately, the RIG and Mission have not yet been able to mutually agree on audit recommendation 1.1, and this is the one audit report recommendation which remains outstanding.

USAID/Benin understands the RIG's concerns regarding compliance with the forward funding guidance, and has taken steps as described under audit recommendation number two to train the Mission staff on forward funding guidance compliance. In order to address forward funding compliance and pipeline issues, the Mission has also deobligated $14 million in NPA funds, and has provided notice in the Mission's Results Review and Resource Request to Washington of reductions to be made in future year Family Health Team funds.

However, the $1.1 million recommended for deobligation under project 680-0212 has already been earmarked and committed by the Mission to World Education grants. Based on the most recent expenditure forecast submitted by World Education to the RIG and USAID/Benin, these funds are needed for program implementation, and the Mission does not want to jeopardize program results by removing grant funds at this point in time.

The Mission also has serious misgivings about deobligating $1 million from project 680-0208 as assistance activities are being implemented in girls' education and teacher training which will expend all available funds by the project completion date.

Based on the actions that USAID/Benin is taking to increase expenditures, reduce pipeline, and comply with forward funding guidance, the Mission believes that we have and are continuing to make good faith efforts to address the issues raised in audit recommendation 1.1. We noted that per 1998 RIG audit report 7-608-99-004-F for another USAID Mission, RIG decided not to make a formal recommendation regarding the deobligation of old project funds because the Mission was already aware of much of the excess funding, and was taking action to identify and deobligate those amounts considered excessive. USAID/Benin would like to be considered in that same light, and we are hopeful of reaching a mutually acceptable management decision with the Regional Inspector General's Office.

Recommendation No 2: "We recommend that USAID/Benin conduct in-country training for its program/project, procurement and accounting staff in the requirements of 1311 reviews and forward funding."

Summary: USAID/Benin held a training session for Mission staff on the preparation of accruals, the 1311 review process, and USAID's forward funding guidance the end of January, 1999. Upon submission of the training session syllabus and list of attendees to the RIG, this audit recommendation was closed. However, as follow-up, the Mission is scheduling another training session in May, 1999 to provide training to those who missed the first session, and to review the prior session's training for those staff who require additional assistance.

Recommendation No 3: "We recommend that USAID/Benin include unliquidated obligation review responsibilities in the work objectives of appropriate program/project staff members."

Summary: As agreed upon with the auditors, the Mission amended a total of thirteen program/project USPSC and FSNPSC position descriptions to incorporate participation in project financial management responsibilities such as the 1311 review process. These position description amendments were completed and submitted to RIG in November, 1998, thereby closing this audit recommendation.

Recommendation No 4: "We recommend that USAID/Benin:

4.1 establish a work plan and time schedule to reduce the 482 outstanding 1221 reconciling items totaling $836,735, and the 104 advances totaling $72,219 that are more than six months past their accountability date; and

4.2 in conjunction with the U.S. Embassy and Peace Corps, establish a work plan and time schedule to resolve and liquidate the 46 advances totaling $41,925 due from the U.S. Embassy and Peace Corps in Benin.

Summary: In preparing the action plans for closing the Mission's outstanding advances and 1221 reconciliation items, the following modifications were made to the above figures. Due to the net effect of the negative 1221 reconciliation amounts, the total 1221 reconciliation amount was calculated to be $592,586.49 instead of $836,735. An additional small change was that the 1221 item count was increased by one from 482 to 483 outstanding reconciling items. The Mission also confirmed that the 46 advances described in recommendation 4.2 were included in the 104 advance total described in audit recommendation 4.1.

As grim as the above figures are, they represent a significant improvement from the situation that existed in the past when the Mission had literally thousands of outstanding 1221 reconciling items. Significant progress in cleaning up the Mission's remaining outstanding advances and 1221 reconciliation items has been made, and is continuing, using the action plans which were submitted to the RIG in April, 1999.

These work plans reflect the progress that has been made to date. Since the audit team left in October, 1998, the Mission has continued the clean-up work, and closed a little over 25% of the 1221 reconciliation backlog dollar amount, and more than 45% of the total advance backlog that remained at the time of the audit.

Of the 46 advances the Mission had outstanding with the other U.S. Government agencies at post, 28 or a little over 60% have been closed including all of the advances with the Peace Corps. Early in March, 1999, the Embassy hired a new Self-Help/DHRF Coordinator who was involved in the process of developing the action plan which was submitted to the RIG for closure of the remaining outstanding Self-Help/DHRF advances by the end of the year.

USAID/Benin appreciates the effort that the audit team made to develop audit recommendations that have further enabled the Mission's work to resolve these outstanding advances and 1221 reconciliation items.

Recommendation No 5: "We recommend that USAID/Benin conduct in-country training for its program/project, procurement and accounting staff in obligation/commitment controls and the importance of these controls.

Summary: Soon after the auditors left post, the regional contracting officer assigned to Benin visited the Mission and provided a training session to Mission staff on obligation/commitment controls. The training session syllabus and attendance list were submitted to RIG the end of October, 1998 thereby closing this audit recommendation.

During this same time period, an evaluation of the Mission's procurement system was conducted by USAID/Washington procurement staff which noted that the Mission has many project personnel who are new in their positions. As a result, the Mission has developed a training plan which includes courses on the acquisition process. The Mission has also established a series of in-house classes in collaboration with the Regional Contracting Officer, the Mission's Contracting Specialist, the Regional Legal Advisor, and the Executive Officer to provide additional training to Mission staff regarding their roles in the acquisition and assistance process.

Conclusion:

With the exception of audit recommendation 1.1, all the audit report recommendations have been mutually agreed upon, and have been implemented by the Mission. USAID/Benin appreciates the RIG's assistance in satisfactorily addressing the above audit recommendations, and is hopeful that a mutually agreeable management decision can be reached on the one audit recommendation that remains outstanding.

Recommended Deobligations

Document No.	Amount
680-0212	$1,100,000
680-0208	1,000,000
Total Deobligations	$2,100,000

Recommended Decommitments

Document No.	Amount
Project No. 698-0463	
PIO/P 680-0463-1-20017	$5,000
PIO/P 680-0463-1-30039	8,110
PIO/P 680-0463-1-30068	1,266
PIO/P 680-0463-1-55028	80
PIO/P 680-0463-1-60010	15
PIO/P 680-0463-1-00015	1,335
PIO/P 680-0463-1-20085	660
PIO/P 680-0463-1-30092	1,954
PIO/P 680-0463-1-55069	288
PIO/P 680-0463-1-60001	1,088
PIO/P 680-0463-1-80017	1,658
PASA 680-0000-P-3037	7,002
PO 680-0463-0-00-4340	235
PO 680-0463-0-00-5282	665
PO 680-0463-0-00-5262	3,010
PO 680-0463-0-00-5108	2,402
PO 680-0208-0-00-5321	374

Document No.	Amount
PO 680-0463-0-00-5389	700
PO 680-0463-0-00-6228	2,807
PO 680-0463-0-00-8043	11
PO 680-0463-0-00-8158	123
PO 680-0463-0-00-8045	23
PIO/P 680-0463-1-30098	248
PIO/P 680-0463-1-30094	864
PIO/P 680-0463-1-80019	5,512
Total Proj. No. 698-0463	$45,532
Project No. 680-0217	
CO-OUT-ALP-I-800-96-04	$10,391
Total Proj. No. 680-0217	$10,391
Project No. 680-0208	
CO-680-0208-S-00-7240	9,313
CO-680-0208-S-00-7151	3,548
TA-680-97-002	151
CO-680-0208-S-00-6272	145
CO-680-0208-S-00-7285	4,868
CO-680-0208-C-00-7161	435
CO-680-0208-S-00-7248	1,927
PO-680-0208-O-00-3147	136
MCD-680-93-001	2,754
MCD-680-94-005	5,912
CO-680-0208-S-00-7150	4
CO-680-0208-S-00-7369	647
CO-680-0208-S-00-6255	110
CO-680-0208-S-00-7239	199
MCD-680-0208-95-001	3,205

Document No.	Amount
PO-680-0208-O-00-6257	2,600
CO-680-0208-C-00-7309	1,176
Total Proj. No. 680-0208	$37,130
Total Decommitments	$93,053

Recommended Deearmarks

Document No.	Amount
Project No. 698-0463	
PIO/T 680-0463-3-30045	2,114
PIO/T 680-0463-3-30060	2,421
PIO/T 680-0463-3-30064	4,567
PIO/T 680-0463-3-30077	9,297
PIO/T 680-0463-3-30081	9,705
PIO/T 680-0463-3-30082	1,296
PIO/T 680-0463-3-30084	85
PIO/T 680-0463-3-55024	1,413
PIO/T 680-0463-3-55062	1,070
PIO/T 680-0463-3-60007	7,441
PIO/T 680-0463-3-30078	10,073
PIO/T 680-0463-3-80005	572
PIO/T 680-0463-3-55038	1,943
PIO/T 680-0463-3-55039	827
PIO/T 680-0463-3-55040	6,561
PIO/T 680-0463-3-55049	348
PIO/T 680-0463-3-55053	1,770
PIO/T 680-0463-3-55056	9,960
PIO/T 680-0463-3-55058	7,074

Document No.	Amount
PIO/T 680-0463-3-55059	9,983
PIO/T 680-0463-3-55060	22,672
PIO/T 680-0463-3-55061	3,206
PIO/T 680-0463-3-55063	1,206
PIO/T 680-0463-3-60002	5
PIO/T 680-0463-3-60003	1,870
MAARD 680-0463-3-30097	800
MAARD 680-0463-3-60012	519
PIO/T 680-0463-3-55019	1,056
PIO/T 680-0463-3-30093	1,085
MAARD 680-0463-3-70014	2,632
MAARD 680-0463-3-70016	3,498
MAARD 680-0463-3-70017	866
MAARD 680-0463-3-70025	2,852
MAARD 680-0463-3-70033	7,280
MAARD 680-0463-3-70035	13,990
Total Proj. No. 698-0463	$152,057
Project No. 680-0208	
PIO/C 680-0208-4-20049	488
PIO/T 680-0208-3-10046	141
PIO/T 680-0208-3-20060	11,235
PIO/T 680-0208-3-20064	11,582
PIO/T 680-0208-3-20069	4,407
PIO/T 680-0208-3-10028	78,206
PIO/T 680-0208-3-10029	1,204
PIO/T 680-0208-3-10034	9,134
PIO/T 680-0208-3-20068	2,792
PIO/T 680-0208-3-20071	4,503

Document No.	Amount
PIO/T 680-0208-3-55026	48,550
PIO/C 680-0208-4-10025	504
PIO/C 680-0208-4-10038	6,979
PIO/C 680-0208-4-20031	11,152
PIO/T 680-0208-3-10032	4,921
PIO/T 680-0208-3-10033	1,015
PIO/T 680-0208-3-10047	10,792
PIO/T 680-0208-3-10055	9,982
PIO/T 680-0208-3-10057	16,258
PIO/T 680-0208-3-10059	4,091
PIO/T 680-0208-3-10060	4,621
PIO/T 680-0208-3-10061	673
PIO/T 680-0208-3-10062	620
PIO/T 680-0208-3-20023	2,857
PIO/T 680-0208-3-20024	4,803
PIO/T 680-0208-3-20047	318
PIO/T 680-0208-3-20048	8,513
PIO/T 680-0208-3-20060	13,899
PIO/T 680-0208-3-10063	1,775
PIO/T 680-0208-3-55023	8,097
PO 680-0208-0-00-3321	142
PIO/C 680-0204-4-10040	2,014
PIO/C 680-0208-4-10036	1,070
PIO/C 680-0208-4-10037	3,057
PIO/C 680-0208-4-10039	7,789
PIO/T 680-0208-3-20070	3,259
PIO/T 680-0208-3-20081	1,109

Document No.	Amount
PIO/T 680-0208-3-20079	789
PIO/T 680-0208-3-66021	128,355
MAARD 680-0208-3-66027	8,928
Total Proj. No. 680-0208	$440,910
Total Deearmarks	$592,967