



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S UNLIQUIDATED OBLIGATIONS FOR SELECTED EXPIRED AWARDS AT THE BUREAU FOR GLOBAL HEALTH

AUDIT REPORT NO. 9-000-12-001-P
JANUARY 9, 2012

WASHINGTON, D.C.



Office of Inspector General

January 9, 2012

MEMORANDUM

TO: GH/SPBO, Acting Office Director, Michael Zeilinger
M/OAA, Chief Acquisition Officer and Director, Aman S. Djahanbani
M/CFO, Chief Financial Officer, David Ostermeyer

FROM: IG/A/PA, Director, Steven Ramonas /s/

SUBJECT: Audit of USAID's Unliquidated Obligations for Selected Expired Awards at the Bureau for Global Health (Report No. 9-000-12-001-P)

This memorandum transmits our final report on the subject audit. We considered your comments on the draft report in finalizing the report and have included the Office of Acquisition and Assistance and Chief Financial Officer's consolidated response in Appendix II.

The report contains three recommendations to help strengthen USAID's management of expired awards with unliquidated obligations. On the basis of the information provided by management in response to the audit report, we determined that management decisions have been reached on Recommendations 1 and 2. However, a management decision is still pending on Recommendation 3 because the CFO's office needs to do further study on the broad issue of section 1311 review policy for obligations marked for closeout. Determination of final action on Recommendations 1 and 2 will be made by the Audit Performance and Compliance Division on completion of the planned corrective actions.

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

CONTENTS

Summary of Results	1
Audit Findings.....	4
Unliquidated Obligations Were Valid and Properly Valued, With Some Exceptions	4
Global Health Bureau Strengthened Its Review Process for Expired Awards, but More Can Be Done Agency-wide.....	6
Evaluation of Management Comments.....	8
Appendix I – Scope and Methodology.....	9
Appendix II – Management Comments.....	11

Abbreviations

The following abbreviations appear in this report:

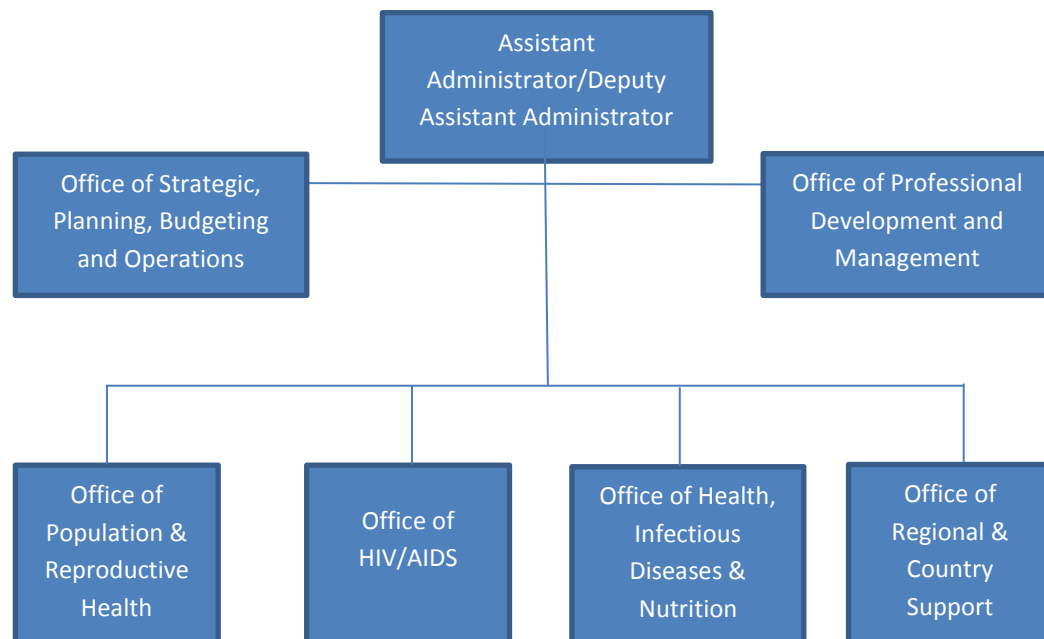
ADS	Automated Directives System
AOTR	agreement officer's technical representative
CFO	Chief Financial Officer
COTR	contracting officer's technical representative
OAA	Office of Acquisition and Assistance
OIG	Office of Inspector General

SUMMARY OF RESULTS

USAID's Global Health Bureau supports field health programs, advances research and innovation in areas relevant to overall Agency health objectives, and transfers new technologies to the field through contracts, grants, cooperative agreements, and other instruments with implementing partners and other donors. In fiscal year 2010, the Global Health Bureau obligated \$2.1 billion in program funds to support activities such as HIV/AIDS and malaria prevention, family planning, and reproductive health care.

The Global Health Bureau manages most of these activities through teams from the bureau's three technical offices: Office of Population and Reproductive Health; Office of HIV/AIDS; and Office of Health, Infectious Diseases and Nutrition. Other activities are managed by the Office of Professional Development and Management; Office of Strategic Planning, Budgeting and Operations; and Office of Regional and Country Support on behalf of the bureau as a whole (as shown below).

Organizational Chart for USAID's Global Health Bureau



USAID's Office of Acquisition and Assistance (OAA) is responsible for awarding, managing, and closing out the Agency's contracts, grants, and cooperative agreements. The Global Health Bureau employs contracting officer's technical representatives (COTRs) and agreement officer's technical representatives (AOTRs) who participate in the contracting process and management of the award instruments.

USAID's Automated Directives System (ADS) 621 provides policy guidance and required procedures to ensure that USAID's obligations are valid and managed in accordance with sound financial management principles. This assurance is made through the Agency's annual review of unexpended obligated balances, also referred to as a section 1311 review (based on the

Supplemental Appropriations Act of 1955¹ as codified in 31 U.S.C. 1108, 1501, and 1502). The section 1311 review is conducted at least annually to determine the amount of unexpended obligations remaining for each funding line item and to identify idle funds that can be reprogrammed for other valid purposes before the end of the fiscal year.

ADS 621.3.17 states:

Unexpended obligated balances must be monitored to ensure that the level of funding is consistent with Agency forward funding guidelines and that balances are deobligated when no longer needed for the purposes for which they were initially obligated. A careful review of unexpended obligated balances strengthens the Agency's internal controls by deleting balances from the accounting system that are no longer required for future payments. This helps to identify funds that can be reprogrammed for current requirements. In addition, the review supports the Agency's formal year-end certification to the Department of Treasury.

The Office of Inspector General (OIG) conducted this audit to determine whether USAID's Global Health Bureau ensured that unliquidated obligations for a selected sample of expired awards were legally valid and properly valued.

The results of our audit tests for validity and valuation were generally positive. The Global Health Bureau had sufficient controls in place for managing expired awards and conducting section 1311 reviews. During the past year, the bureau took steps to strengthen its review of expired awards with unliquidated obligation balances by updating and streamlining its financial review process. However, documentation was not available for 2 of 24 expired awards in our sample. Consequently, a determination of validity and valuation could not be made for those items. In addition, we discovered a significant backlog of awards with unexpended obligation balances that cannot be deobligated until OAA closes out the awards. Because of the significance to USAID, OIG has initiated a separate audit of this issue.

Although ADS 621.3.19 requires assistant administrators, independent office directors and mission directors to annually certify whether unexpended obligated balances are necessary for both ongoing and expired programs, Global Health Bureau financial staff members stated that it was office practice not to perform the section 1311 reviews after awards expired and were sent to OAA for closeout. Staff members in the Office of the Chief Financial Officer (CFO) affirmed this practice and reported that it was understood in the Agency that expired obligations marked for closeout did not require any further section 1311 reviews and that personnel in the Agency knew of this informal policy through communication such as e-mails and word of mouth. While we agree that this practice is reasonable, it should be formalized in the Agency's ADS and supplemental guidance materials.

The audit disclosed the following issues:

- Unliquidated obligations were valid and properly valued, with some exceptions (page 4).

¹ We note an error in the first sentence of ADS 621.3.17, which incorrectly refers to section 1311 of the Federal Managers Financial Integrity Act. There is no such section in that act, and the U.S. Department of State Foreign Affairs Manual [4 FAM 081.3 (2)] identifies section 1311 as part of the Supplemental Appropriations Act of 1955, as codified by 31 U.S.C. 1501 and 1502.

- Global Health Bureau strengthened its review process for expired awards, but more can be done Agency-wide (page 6).

The report recommends that:

1. OAA determine whether the original obligations to the Boston University School of Public Health totaling \$87,250 and to RTI International totaling \$225,751 were valid, and close out the awards (page 6).
2. OAA deobligate the unliquidated obligation balances for the Boston University School of Public Health totaling \$28,389 and for RTI International totaling \$23,247 (page 6).
3. CFO formalize, in ADS and related guidance, as necessary, the section 1311 review policy for obligations marked for closeout (page 7).

Detailed findings follow. Our evaluation of management comments appear on page 8, and the consolidated management response is included in Appendix II. The audit scope and methodology are described in Appendix I.

AUDIT FINDINGS

Unliquidated Obligations Were Valid and Properly Valued, With Some Exceptions

USAID's ADS Chapter 621 provides policy guidance for the annual review and certification of unexpended obligation balances. ADS 621.3.2 states that a valid obligation is:

1. Supported by written evidence.
2. For a purpose authorized by law.
3. Executed by an individual who is authorized to incur an obligation.
4. Required to fill a bona fide need during the period of availability of the appropriation or fund used.
5. Executed during the period of availability of the funds. The validity of an obligation is determined at the time of its execution if not expired or excessive.

For validity and valuation testing of the Global Health Bureau's unliquidated obligations, we selected a judgmental sample of 30 obligations that were associated with 24 separate awards that had been expired for at least 3 years and had remaining unexpended obligation balances. The amount of unexpended obligation balances for the sample tested totaled almost \$4.5 million (Table 1). Except for two awards that could not be tested because of missing documentation, awards in our sample met the five criteria outlined above for validity.

Table 1. Audit Sample: Unliquidated Obligations as of September 30, 2010

FY Award Expired	Expired Awards	Obligations	Total (\$)
1992	1*	2	28,389
1995	1*	2	23,247
2000	1	1	2,805
2001	2	3	944,434
2002	1	1	5,234
2003	1	1	2,737
2004	2	2	2,886,978
2005	2	2	60,776
2006	6	6	208,760
2007	7	10	325,799
Total	24	30	4,489,159

* Missing documentation.

Office of Management and Budget Circular A-123 defines management's responsibility for designing internal controls over financial reporting in federal agencies to provide, among other things, reasonable assurance that all assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated.

Therefore, we also reviewed obligation balances for reasonableness and proper valuation. For the 22 expired awards with documentation that we could review, obligation balances were correctly calculated and reasonable for final closeout purposes. Of course, we could neither test nor make conclusions about the obligations under the two sampled awards with missing documentation, and these obligations were deemed invalid (Table 2).

Table 2. Obligations for Expired Awards With No Documentary Support

Awardee	Award End Date	Original Obligation Amount (\$)	Unliquidated Obligation Balance (\$)
Boston University School of Public Health	9/29/1992	87,250	28,389
RTI International	6/19/1995	225,751	23,247
Total		313,001	51,636

The United States Code states at 31 U.S.C. 1501 (a) that:

(a) An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of:

(1) a binding agreement between an agency and another person (including an agency) that is:

(A) in writing, in a way and form, and for a purpose authorized by law; and

(B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided.

In response to our requests for the supporting documentation for the above-referenced awards, OAA and the USAID Records Liaison Officer informed us that the documentation could not be located. As Table 2 shows, these awards expired 19 and 16 years ago, respectively, but had yet to be closed out by OAA and still had unexpended obligation balances.

The actual cause for the missing documents cannot be determined, but files for activities that ended well over a decade ago easily could have been misplaced, sent to the archives, or destroyed. Additionally, not all award data migrated accurately when USAID changed to a new financial system, and these two awards lacked contract number data in the format required by the new system, making it even more difficult for the Agency to find the records to support the obligations. Nevertheless, as stated in 31 U.S.C. 1501(a), an obligation can be valid only when supported by evidentiary documentation.

This issue illustrates the delays in the closeout process and deobligation of unliquidated obligations from expired awards, leading to a backlog of awards awaiting closeout totaling approximately \$252 million in 2010, according to the Agency. Even the relatively small sample the audit reviewed had unliquidated balances totaling nearly \$4.5 million that needed to be

deobligated and the associated awards closed out. Two of the awards in our sample expired as far back as 1992 (19 years) and 1995 (16 years), and were still pending final closeout and deobligation. To address this issue, OIG has initiated an audit to review the Agency's large backlog of awards awaiting final closeout and deobligation.

In the meantime, we make the following recommendations to address the two sampled awards with missing documentation.

Recommendation 1. We recommend that the Office of Acquisition and Assistance determine whether the original obligations to the Boston University School of Public Health totaling \$87,250 and to RTI International totaling \$225,751 were valid, and close out the awards.

Recommendation 2. We recommend that the Office of Acquisition and Assistance deobligate the unliquidated obligation balances for the Boston University School of Public Health totaling \$28,389 and for RTI International totaling \$23,247.

Global Health Bureau Strengthened Its Review Process for Expired Awards, but More Can Be Done Agency-wide

USAID's ADS 621.3.19 states obligation managers must annually review all unexpended obligated balances. Also, ADS 621.3.17 states that obligation managers must continuously review the status of obligated funds. They must request deobligations when:

- A determination is made that the funds are no longer needed to accomplish activity objectives and the amount to be recovered exceeds a threshold of the \$100,000 dollar amount established by the Bureau for Management, Office of Acquisition and Assistance, or
- The funding exceeds forward funding guidelines without proper authorization.

Initially, senior management in the Global Health Bureau had concerns that the section 1311 review process was not being sufficiently supervised because, at the time the audit began in April 2010, a senior financial controller had not been assigned to the bureau to oversee the review process. However, the bureau addressed the gap by hiring a retired USAID controller as a senior financial manager under a U.S. personal services contract.

The Global Health Bureau has, in the past, been assigned a Foreign Service officer in the financial controller position. During the audit, a controller was temporarily assigned to the bureau. The bureau continued its efforts to fill the vacant controller position by advertising it on the bidding list for consideration by Foreign Service financial staff members. These efforts should provide sufficient financial supervision of the section 1311 review process by the Global Health Bureau staff.

Additionally, the Global Health Bureau strengthened its review of expired awards with unliquidated obligation balances by updating and streamlining its financial review processes. According to bureau officials, bureau personnel perform periodic reviews of unliquidated balances during both the accrual process and the annual portfolio reviews. To streamline these

reviews, the bureau set materiality thresholds to reduce the number of items requiring review without materially increasing the risk of not deobligating unneeded funds.

At the end of fiscal year 2010, the Global Health Bureau added an extra step to the review process by running reports for obligations that had expired but were not marked for closeout. As a result, awards that otherwise might have been overlooked are reviewed again to determine their need for being marked for closeout; that can be done with the next quarterly accrual/unliquidated balance review.

Although ADS 621.3.19 requires assistant administrators, independent office directors and mission directors to annually certify whether unexpended obligated balances are necessary for both ongoing and expired programs, Global Health Bureau financial staff members stated that it was office practice not to perform the section 1311 reviews after awards expired and were sent to OAA for closeout. Staff members in the CFO's office affirmed this practice and reported that it was understood in the Agency that expired obligations marked for closeout did not require any further section 1311 reviews. Further, CFO staff members said that personnel in the Agency knew of this informal policy through communication such as e-mails and word of mouth. They further acknowledged and we agree that the practice should be formalized in ADS and in supplemental guidance.

Generally, the Global Health Bureau had sufficient controls in place for managing expired awards and conducting section 1311 reviews to identify residual funds that are no longer needed, including the reasonable informal practices described above. However, informal financial practices are not a prudent method of conducting funds management and oversight. Practices that are not defined and formalized as a written policy are open to interpretation and inconsistent application, increasing the risk that USAID funds will not be used efficiently and effectively. Therefore, we make the following recommendation.

Recommendation 3. *We recommend that the Office of the Chief Financial Officer formalize, in USAID's Automated Directives System and related guidance, as necessary, the section 1311 review policy for obligations marked for closeout.*

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, OAA agreed with Recommendations 1 and 2, and management decisions have been reached on both. However, the CFO's decision is still pending on Recommendation 3. Determination of final action on Recommendations 1 and 2 will be made by the Audit Performance and Compliance Division on completion of planned corrective actions. A detailed evaluation of management comments follows.

OAA agreed with Recommendation 1 and stated that it will close the two awards but will be unable to prove definitively the validity of the obligations because OAA was not able to locate any physical or electronic records of the award documents. However, OAA believes that internal controls in place at the time ensured that only warranted individuals could make obligations under a contract; thus, it is reasonable to assume that these obligations were valid. Closure of the two awards is expected to be completed by January 30, 2012. As a result, a management decision has been reached on Recommendation 1.

OAA agreed with Recommendation 2 and stated that it will deobligate the unliquidated obligation balances for Boston University School of Public Health totaling \$28,389 and for RTI International totaling \$23,247. The deobligation is expected to be completed by January 25, 2012. As a result, a management decision has been reached on Recommendation 2.

The CFO will prepare a formal decision on Recommendation 3 by January 30, 2012. The CFO stated that additional time is needed to study the broad issue of section 1311 review policy for obligations marked for closeout and how it will be addressed. Therefore, a management decision has not been reached on Recommendation 3.

SCOPE AND METHODOLOGY

Scope

OIG conducted this performance audit in accordance with generally accepted government auditing standards.² Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The objective of this audit was to determine whether the Global Health Bureau ensured that unliquidated obligations for a selected sample of expired awards were legally valid and properly valued.

We conducted our audit at USAID/Washington Global Health Bureau, from April 26, 2010, through September 26, 2011.³ The audit focused on selected expired awards within three program offices in the Global Health Bureau: Office of Health, Infectious Diseases and Nutrition; Office of Population and Reproductive Health; and Office of HIV/AIDS. Because the life cycle of an award funded by USAID involves a number of offices in the Agency, the scope of the audit also included the CFO's office and OAA.

In planning and performing this audit, the audit team obtained an understanding of and assessed the Global Health Bureau's internal controls related to unliquidated obligations. Audit testing was conducted to assess how effective the bureau's internal controls were in ensuring the legal validity and proper valuation of the obligations and in determining whether expired unliquidated balances were still needed. We also obtained an understanding of the internal controls related to the identification, prioritization, and closeout of contracts, grants, and cooperative agreements in a timely manner, as well as completing deobligations and closeout of expired awards.

Methodology

At our request, the Global Health Bureau provided a list of expired awards with unliquidated obligations managed by three bureau program offices: Office of Health, Infectious Diseases and Nutrition; Office of Population and Reproductive Health; and Office of HIV/AIDS. From a population of 355 awards with unliquidated obligation balances of \$22 million, auditors selected a judgmental sample of 24 awards with 30 obligations valued at \$4,489,159 for testing of validity and valuation. No awards were selected as potential replacements.

The audit team performed tests of validity to determine whether each obligation in the sample met the following characteristics of a valid obligation as set forth in ADS 621.3.2:

1. Be supported by written evidence.
2. Be for a purpose authorized by law.

² Government Accountability Office, *Government Auditing Standards*, July 2007 Revision, GA0-07-731G.

³ The time to complete this audit was significantly extended due to changes in assigned staff and focus on expired acquisition and assistance awards in the summer and fall of 2010.

3. Be executed by an individual who is authorized to incur an obligation.
4. Be required to fill a bona fide need during the period of availability of the appropriation or fund used.
5. Be executed during the period of availability of the funds. The validity of an obligation is determined at the time of its execution if not expired or excessive.

Tests of valuation focused primarily on soliciting feedback from each award's COTR or AOTR to determine why the expired unliquidated obligations have not been deobligated and whether the expired balances were still needed. Further, the team reviewed award modifications, contract file documents, and Phoenix reports. The tests focused on expired award balances from the sample to determine whether these balances were comparable to the award files and Phoenix reports.

We met with USAID personnel from the Global Health Bureau, OAA, and the CFO's office to discuss the status of the expired unliquidated obligations and reasons for delays in finalizing the closeout and deobligation process. We interviewed the COTR/AOTR associated with each obligation in the sample and discussed the continued need for each expired unliquidated amount. We reviewed supporting documentation and information contained in the award files. We reviewed supporting documents such as activity files, award files, quarterly accrual documents, and internal correspondence.

We reviewed the criteria set forth in USAID's ADS and in federal policies and procedures. We also reviewed the Global Health Bureau's FY 2010 certification required under the Federal Managers' Financial Integrity Act of 1982⁴ and Agency financial reports for any management control weakness related to deobligations.

We performed tests of compliance with Agency policy for the review of unliquidated obligations related to section 1311 reviews. The team also requested the working papers that provided documentary support for completed section 1311 reviews, which include actions taken by the COTR/AOTR and activity managers.

⁴ Public Law 97-255.

MANAGEMENT COMMENTS



December 8, 2011

TO: Acting Director IG/A/PA, Michael W. Clinebell

FROM: Director OAA, Aman Djahanbani /s/
Chief Financial Officer, David Ostermeyer /s/

SUBJECT: Audit of USAID's Unliquidated Obligations for Selected
Expired Awards at the Bureau for Global Health (Report
Number 9 -000-12-00X-P)

Thank you for the opportunity to respond to the draft audit report. The Office of Acquisition and Assistance and Chief Financial Officer has reached a management decision for two of the following three recommendations under the subject report.

Recommendation No. 1: We recommend that the Office of Acquisition and Assistance determine whether the original obligations to Boston University School of Public Health totaling \$87,250 and to RTI International totaling \$225,751 were valid and closeout the awards.

Management Decision: OAA agrees with this recommendation and will close these awards. OAA however will likely be unable to prove definitively the validity of the obligations given the age of the awards in question, as one expired in 1995 and the other in 1992, i.e., more than 16 years ago. Accordingly, we could not locate any physical or electronic records of the award documents. We believe however that the internal controls in place at the time ensured only warranted individuals could make obligations under a contract and thus it is reasonable to assume that these obligations were valid.

Estimated Completion Date: January 30, 2012

Recommendation No. 2: We recommend that the Office of Acquisition and Assistance deobligate the unliquidated obligation balances for Boston University School of Public Health totaling \$28,389 and to RTI International totaling \$23,247.

Management Decision: OAA agrees with this recommendation and will de-obligate the unliquidated obligation balances for Boston University School of Public Health totaling \$28,389 and to RTI International totaling \$23,247.

Estimated completion date: January 25, 2012

Recommendation No. 3: We recommend that the Office of the Chief Financial Officer formalize, in USAID's Automated Directives System and related guidance, as necessary, the Agency's Section 1311 review policy for obligations marked for closeout.

Management Decision: The Office of the Chief Financial Officer will prepare a formal decision by January 30, 2012. Additional time is needed to further study the broad issue of 1311 review policy for obligations marked for closeout and how it will be addressed.

Estimated Completion Date: January 30, 2012

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: 202-712-1150
Fax: 202-216-3047
www.usaid.gov/oig