



USAID
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OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/SOUTH AFRICA'S UNLIQUIDATED OBLIGATIONS AND BALANCES

AUDIT REPORT NO. 4-674-07-008-P
August 16, 2007

Pretoria, South Africa



Office of Inspector General

August 16, 2007

MEMORANDUM

TO: USAID/South Africa Mission Director, Carleene Dei

FROM: Regional Inspector General, Nathan S. Lokos /s/

SUBJECT: Audit of USAID/South Africa's Unliquidated Obligations and Balances

This memorandum transmits the Office of Inspector General's report on the subject audit. In finalizing this report, we considered management comments on the draft report and have included those comments, in their entirety, as Appendix II.

This report includes one recommendation. In response to the draft report, the Mission agreed with Recommendation No. 1. The Mission has provided corrective action plans to address this recommendation. Therefore we consider that a management decision has been reached on the recommendation. Please provide the Office of Audit, Performance, and Compliance Division (M/CFO/APC) with the necessary documentation demonstrating that final action has been taken on this recommendation.

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

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SUMMARY OF RESULTS

The Regional Inspector General/Pretoria conducted this audit to determine whether selected USAID/South Africa unliquidated obligations and balances for project and nonproject assistance were valid and required as of December 31, 2006 (see page 2).

All of the Mission's obligations tested were executed with valid obligating documents. The Mission ensured that the obligations it executed and managed were valid and properly valued and that balances were still needed for their original purpose and to cover anticipated future expenses (see page 3).

The Mission did not, however, maintain documentation for its Section 1311 reviews¹. No documented evidence indicated how or when the reviews for each unliquidated obligation and subobligation were conducted. The report recommends that USAID/South Africa implement procedures to document its Section 1311 reviews in accordance with USAID guidance (see pages 3 through 5).

¹ Section 1311 reviews are conducted to allow missions the opportunity to annually review unliquidated obligations and balances to identify idle funds that can be reprogrammed for other valid purposes before the end of the fiscal year or completion of a project.

BACKGROUND

The USAID Automated Directives System provides guidelines to ensure that USAID obligations are valid and managed in accordance with sound financial management principles. Agencies need to ensure that only legally valid obligations are recorded in their accounting systems, that the initial funding estimate for each obligation is as precise as possible, and that internal control is in place to ensure that the unliquidated balance of each obligation is reviewed periodically and adjusted upward or downward as appropriate. In addition, USAID procedures require bureaus, offices, and missions to provide annual certification that the obligations they sign are legally valid and properly managed.

The U.S. Code, Title 31 U.S.C. § 1501(a), and the U.S. Treasury Financial Manual require each agency to determine the validity of obligations based on a careful review of all unliquidated obligations. This activity is required for the Agency Controller's annual certification to the Office of Management and Budget made at the end of the fiscal year. To properly certify the validity and accuracy of obligated balances, agencies are required to verify their own accounts at least once each year. This verification is commonly referred to at USAID as the Section 1311 review.

Mission records indicated that as of December 31, 2006, USAID/South Africa was managing 960 unliquidated obligations for project and nonproject assistance, including the Regional HIV/AIDS Program (RHAP), with balances totaling \$160,410,548².

AUDIT OBJECTIVE

To evaluate USAID/South Africa's management of unliquidated obligations and balances, the Regional Inspector General/Pretoria audited selected unliquidated obligations and balances, to answer the following question:

Were selected USAID/South Africa unliquidated obligations and balances for project and nonproject assistance valid and required as of December 31, 2006?

Appendix I describes the audit's scope and methodology.

² This report reflects unliquidated obligations and balances as reported by USAID/South Africa Mission Controller's Office. The audit team did not determine the accuracy of these balances.

AUDIT FINDING

For the items tested, the unliquidated balances were valid and required as of December 31, 2006. USAID/South Africa ensured that the obligations it executed were valid in accordance with (1) Automated Directives System (ADS) 621, Obligations; and (2) 31 U.S.C. § 1501(a).

The obligating documents reviewed:

- Were valid obligations.
- Were supported with obligating documents.
- Had obligating documents stamped “funds available” and bearing the signatures of authorized USAID officials.
- Were properly valued.
- Were recorded within the period funds were available.

Review of the supporting documents and discussions with the cognizant technical officers, activity managers, and financial management staff, regarding the status of unliquidated obligations for each individual transaction, indicated that the balances were still needed for their original purpose and to cover anticipated future expenditures.

USAID/South Africa generally followed USAID policies and procedures in reviewing and certifying its unliquidated obligations for project and nonproject assistance. To fully comply with USAID procedures, however, the Mission needs to strengthen its review process by ensuring that proper documentation of its Section 1311 reviews are maintained. This issue is discussed in detail below.

Section 1311 Reviews Were Not Documented

Summary: The USAID policy for the review of unliquidated obligations at missions emphasizes the importance of and requirement for preparing and retaining complete working papers with supporting documentation that evidence the proper conduct of a valid Section 1311 review. Although USAID/South Africa conducted the reviews as part of its quarterly accrual process, the Mission did not maintain supporting documentation for the reviews. The lack of documentation was attributed to the transition from the Mission Accounting Control System (MACS) to the Phoenix Accounting System. When this transition was made, the MACS report used to previously document such reviews was no longer available, even though the documentation procedures were still required by the applicable Financial Management Bulletin. Without proper documentation of the Section 1311 review, the Mission does not have assurance that the reviews were properly conducted.

Section 1311 reviews assess the validity of a mission’s obligations. The purpose of the Section 1311 review is to allow missions the opportunity to annually review unliquidated obligations to identify idle funds that can be reprogrammed for other valid purposes before the end of the fiscal year or completion of a project. This is an essential funds management function that will enable missions to better weather declining levels of funding.

The Financial Management Bulletin - Part II, No. 14A - Obligation Reviews at Missions³ states that Section 1311 reviews should be adequately documented. This documentation should show the decisions made regarding an obligation's validity and the need to retain its unliquidated balance. Mission controllers must ensure that the documentation is sufficient so that any auditor would conclude that (1) a careful review of each unliquidated obligation and subobligation document was conducted, (2) the review was properly documented, and (3) the findings and conclusions were supported by the analyses and documentation.

It further states that annual Section 1311 reviews must be thoroughly documented with complete working papers for each individual obligation or subobligation account. The mission controller must maintain these working papers to serve as an audit trail. A reviewer of the working papers should be able to conclude that a thorough review of each unliquidated obligation or commitment account was conducted. These working papers are to be retained in the active files for a minimum of three years and should be readily available for review purposes.

The Section 1311 reviews that the Mission conducted were not documented in accordance with USAID requirements. Although USAID/South Africa conducted reviews of unliquidated balances as part of its accrual process and pipeline analysis every quarter, the following information was not documented or maintained: (1) records of information indicating the date when the reviews were completed, (2) the decision made regarding the individual obligation, (3) a summary of the rationale for the decision made for each obligation, and (4) the related actions that should be taken to appropriately adjust the affected obligation. USAID/South Africa attributed the lack of documentation to USAID's transition from the Mission Accounting Control System (MACS) to the Phoenix Accounting System. When this transition was made, the MACS report previously used to document such reviews was no longer available, even though the documentation procedures were still required by the Financial Management Bulletin - Part II, No. 14A - Obligation Reviews at Missions.

USAID guidance for Section 1311 reviews states that a careful review of each unliquidated obligation must be properly documented and that the findings and conclusions must be supported by the analyses and documentation. Without proper documentation, it was not possible to determine the thoroughness and reasonableness of USAID/South Africa's decision to retain the unliquidated obligations and balances. In addition, the lack of an audit trail has implications for financial data, such as potentially being unable to track and retrieve critical financial records of information and to accurately track every transaction.

Without proper documentation, USAID/South Africa does not have the assurance that the reviews were properly conducted. The Mission would benefit from proper documentation of its Section 1311 reviews, including notations of decisions reached for each obligation and subobligation, and from the retention of supporting documents. Accordingly, we are making the following recommendation.

Recommendation No. 1: We recommend that USAID/South Africa implement procedures to document its Section 1311 reviews as outlined in Financial Management Bulletin - Part II, No. 14A - Obligation Reviews at Missions.

³ Agency policy for the review of unliquidated obligations at missions (Section 1311 of the Supplemental Appropriation Act, 1955).

EVALUATION OF MANAGEMENT COMMENTS

USAID/South Africa agreed with Recommendation No. 1, which recommended that it implement procedures to document the Section 1311 reviews and that it maintain documentation as outlined in the Financial Management Bulletin – Part II, No. 14A – Obligation Reviews at Missions. The Mission reported that for the next 1311 review, scheduled for September 2007, sufficient evidence supporting the reviews will be obtained and properly documented. Based on the management comments, we consider that a management decision has been reached for Recommendation No.1.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Pretoria performed this audit in accordance with generally accepted government auditing standards. The objective of the audit was to determine whether selected USAID/South Africa unliquidated obligations and balances for project and nonproject assistance were valid and required as of December 31, 2006. The audit covered unliquidated balances totaling \$103,085,542 for project and nonproject assistance out of a universe of \$160,410,548 managed by USAID/South Africa.

In planning and performing this audit, the audit team obtained an understanding of and assessed the Mission's internal control related to unliquidated obligations. Audit testing was conducted to assess how effective the Mission's internal control was in ensuring the legal validity of the obligations and determining whether unliquidated balances were still needed.

Audit fieldwork was conducted at USAID/South Africa from April 2, 2007, to June 19, 2007.

Methodology

At our request, USAID/South Africa compiled a list of its unliquidated obligations for project and nonproject assistance that had unliquidated balances as of December 31, 2006. The list had 960 unliquidated obligations totaling \$160,410,548 managed by USAID/South Africa. With the assistance of the Office of Inspector General/Washington resident statistician, the audit team randomly selected a stratified sample of 31 obligations, representing 19 different awards, which had unliquidated balances totaling \$103,085,542. The sample was selected from three strata defined by the dollar value of the obligations: (1) more than \$1 million, (2) between \$1 million and \$100,000, and (3) less than \$100,000. Because of the small sample size, the results of the audit cannot be projected to USAID/South Africa's overall universe of unliquidated obligations. Because the audit examined compliance with obligation law, a finding of one instance of noncompliance would have been considered material.

The audit team performed tests of validity to determine whether each obligation in this sample met the following statutory requirements for valid obligations:

- Supported by written evidence.
- For a purpose authorized by law.
- Executed by an individual who is authorized to incur an obligation.
- Required to fill a bona fide need in the period of availability of the appropriation or fund used.
- Executed during the period of availability of funds.

To determine whether unliquidated obligation balances were still needed, the audit team completed the following tasks:

- Interviewed the responsible cognizant technical officers (CTOs) to determine the continued need for the unliquidated amounts.
- Reviewed supporting documentation from CTOs and activity managers.

- Reviewed the Mission's pipeline analysis as of December 31, 2006, including Mission work plans and period of performance for the awards.

To determine whether the amount for each unliquidated obligation was needed, the audit team interviewed the CTOs associated with each obligation in the sample and discussed the continued need for each unliquidated amount. The team reviewed supporting documents provided by each CTO, discussed the status of the unliquidated obligation with the CTO or activity manager, and used the criteria set forth in the Automated Directives System (ADS) 602 for forward funding, ADS 631 for accrued expenditures, and ADS 634 for administrative control of funds.

The audit team 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 indicated the actions taken to examine the validity of each unliquidated obligation and subobligation, including the following:

- Date of the review and names of the reviewers.
- The decision on each obligation/subobligation along with the rationale.
- The action taken to adjust the affected accounts.

The team also reviewed the Mission's fiscal year 2006 Federal Managers' Financial Integrity Act of 1982 annual certification for any management control weakness related to de-obligations.

MANAGEMENT COMMENTS



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FROM THE AMERICAN PEOPLE

UNITED STATES GOVERNMENT ACTION M E M O R A N D U M

DATE : July 17, 2007

TO : Nathan Lokos, Regional Inspector General/Pretoria

FROM : Carlene Dei, Mission Director /s/

SUBJECT : Management Comments – Audit of USAID/South Africa’s Un-liquidated Obligations and Balances

The Mission has reviewed the subject audit report and issued the following comments and management decision:

Recommendation #1: We recommend that USAID/South Africa implement procedures to document its Section 1311 reviews as outlined in Financial Management Bulletin – Part II – No. 14A – Obligation Reviews at Missions.

Management Comments:

USAID/South Africa agrees with the recommendation. With the implementation of Phoenix, the resulted changes in the reports format, and the difficulties to issue financial reports, the Mission failed to properly document the 1311 reviews. However, in spite of the breach in maintaining adequate supporting documentation, Section 1311 reviews have been and continue to be conducted regularly. As a result, all un-liquidated obligations and balances recorded in the financial system were valid, as confirmed by the tests conducted during the audit. USAID/South Africa has already taken corrective actions to systematically document the 1311 reviews. By the next 1311 reviews scheduled for September 2007, sufficient evidence supporting the reviews will be obtained and properly documented.

USAID/South Africa, therefore requests RIG’s concurrence that management decision has been reached.

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