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OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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March 25, 1999

Memorandum

To: James Bednar, Director USAID/Morocco

From: Lee Jewel1 III. Acting RIG/D&r

Subject: Audit of USAID/Morocco Fiscal Year 1998 Financial Data
Report No. 7-608-99-004-F

This memorandum is our report on the subject audit. We have considered your comments on the draft report and made changes as appropriate. Your comments are included in their entirety in Appendix II.

Although this report makes no formal recommendations, two reportable audit issues are discussed: 1) loan balances and 2) potential funds for deobligation. I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

Beginning in fiscal year 1996, the Government Management Reform Act (GMRA) requires agencies to complete audited financial statements each year covering all accounts and associated activities of the agencies. Fiscal year 1996 was the first year that the United States Agency for International Development (US AID) prepared consolidated financial statements that cover all accounts and associated activities of USAID.

USAID's management is required to compile financial statements and supplemental information. Management's ability to develop and maintain adequate internal controls. accounting systems and procedures to generate reliable financial statements will be critical to the success of USAID's annual reporting. These financial statements are to be prepared in accordance with the Office of Management and Budget (OMB) Bulletin No. 97-01, and the corresponding audit is to comply with scope and procedures set forth in OMB Bulletin No. 98-08. For fiscal year 1998, audited financial statements are to be submitted to OMB no later than March 1. 1999.

These financial statements are to not only report the financial position and results of operations of the agencies. but are also to provide further information allowing Congress and the public to assess management performance and stewardship of agency resources.

At the end of the fiscal year on September 30, 1998, USAID/Morocco accounting records indicated that it had obligated and expended in support of its active programs a total of approximately $189.8 million and $148.9 million. respectively. USAID/Morocco was one of ten sample missions selected for the Audit of the USAID Fiscal Year 1998 Financial Statements directed by the OIG's Office of Financial Audits (IG/A/FA) in Washington. RIG/A/Dakar staff performed financial audit procedures at USAID/Morocco in support of the Audit of USAID's Fiscal Year 1998 Financial Statements for which the two objectives are described below.

Audit Objectives

The Office of Regional Inspector General/Dakar audited USAID/Morocco's operations to answer the following questions:

Did USAID/Morocco have documentation to support the disbursements made in the fourth quarter of fiscal year 1998, accruals at September 30. 1998, and loans at June 30. 1998?

Were September 30, 1998 balances reported in USAID/Morocco's U 101 report for appropriations 72X1021 and 72X1095 properly stated and adequately supported?

Appendix I describes the audit's scope and methodology.

Audit Findings

Did **USAID/Morocco** have documentation to support the disbursements made in the fourth quarter **of fiscal** year **1998,** accruals at September 30, **1998,** and loans at June 30, **1998?**

USAID/Morocco had documentation to support disbursements made in the fourth quarter of fiscal year 1998 and accruals at September 30, 1998; however, there were some problems with the balances of loans at June 30, 1998 which require the attention of USAID management.

USAID/Morocco is not responsible for all loan transactions. Many of the loan transactions (particularly U.S. dollar reimbursable loans) are accounted for by the Loan Management Division of the Office of Financial Management (FM/LMD) in USAID/Washington. and reported to USAID/Morocco. This situation has contributed to a number of differences in loan balances between USAID/Morocco and USAID/Washington.

Irreconcilable or Incorrect Loan Balances Need Resolution

The Office of Management and Budget (OMB) Circular No. A-127 requires that Federal agency's financial management systems meet the requirements of good financial management. These systems shall provide complete. reliable. consistent, timely and useful financial management information on government operations to enable management to carry out their fiduciary responsibilities. Despite this requirement, a number of problems were identified regarding the balances of loans to Morocco.

The audit disclosed a number of unexplainable differences between the loan balances as recorded in USAID/Washington. and USAID/Morocco. USAID/Washington identified 6 1 direct loans for USAID/Morocco as of June 30, 1998. As of that date. the audit attempted to reconcile the loan balances as recorded between USAID/Washington and. either the Mission or the Government of Morocco/Ministry of Finance (GOM/MOF). As a result of the disparities between USAID/Washington and the Mission. the USAID loan account balances could be incorrectly stated.

Of the 6 l loans reported by USAID/Washington 18 of them do not reconcile with the GOM/MOF reported loan balances. In eleven of the loans, the USAID/Washington balances exceeded what was reported by the GOM/MOF by a total of X919.956. In the remaining seven cases, USAID/Washington reported balances lower than what was reported by the GOM/MOF by a total of $1.5 12,603. (See Appendix III.) Therefore. the USAID/Washington balances are understated by approximately $592,647.

Evidence was provided to substantiate that the. GOM/MOF records were correct in the majority of these differences described above. Determining the specific causes for all of the differences and the correct balances would have required additional audit work in the Loan Management Division of the Office of Financial Management (FM/LMD) in USAID/Washington which was beyond the scope of this audit. However. we believe that one of the factors contributing to this situation is that USAID/Morocco does not receive timely information from USAID/Washington regarding the receipt and posting of payments to the GOM/MOF accounts.

The Mission receives payment information on U.S. dollar loans much later from FM/LMD after it has been paid and posted. If the Mission did receive this information sooner, they could verify and resolve loan accounting differences between USAID/Washington and the GOM/MOF as they occur. Moreover. the Mission could act as an intermediary as they have an ongoing relationship with the host government in accounting for the local currency reimbursable loans, and was previously involved in accounting for the U.S. dollar loans until USAID/Washington, according to the Mission. stopped providing immediate posting information several years ago.

Although the Mission maintains records of all loan balances. they only receive current information for the 20 loans which are reimbursable in local currency. USAID/Morocco receives this payment information directly from the GOM/MOF.

As an example of the differences. two of the problem loans were PL-480 loans. The GOM/MOF provided evidence which showed these two PL-480 loans were paid off but USAID/Washington has an outstanding balance of the equivalent of about
Evidence in the form of an advice of credit. USAID general receipt, and cables to USAID/Washington (as described further below) confirm that proper payment was made by the host government. but it seems, that USAID/Washington did not post the payments to their loan records. Consequently, the USAID/Washington PL-480 loan balances for USAID/Morocco are overstated.

For the two PL-4S0 loans in question. USAID/Washington shows PL-480 loan number 608-R-087 having a balance of DH 1,363,636 ($148,221) as of June The bank advice of credit is dated December 10, 1996 for DH 1,421,591 to include interest payment. Therefore, 18 months after the account was credited for payment. it is still shown as outstanding on the FM/LMD loan ledger as of June 30, 1998, the audit test date. Also, USAID/Washington shows loan number 608-R-09 1 (PL-480 loan) as having a balance of DH 384.547 ($4 1,799) as of June 30, 1998. However, the advice of credit is dated August 1, 1997 for DH 400.893 to include interest payment. Thus, although the loan was paid off a year earlier, it was still being shown as outstanding. In both cases, the available evidence examined during the audit shows the two above described PL-480 loans were fully paid off and no longer had any outstanding balances, which in effect for these loans, means that the USAID/Washington books of record were overstated.

We believe that USAID/Morocco is in a position to play a greater role in maintaining current records of loan balances and keeping USAID/Washington records reconciled with those of the Mission and the GOM/MOF. To correct this situation and prevent future disparities will require a teamwork effort between USAID/Washington and USAID/Morocco. This problem of unreconciled balances and differences previously became a serious issue and needed attention. It was temporarily resolved when in September 1997, USAID/Morocco sent representatives from the Mission and the GOM/MOF to FM/LMD in Washington to reconcile the balances which was successfully accomplished at that point in time. Nonetheless, a year later at the time of our audit, the problem of unreconciled balances persisted.

The Mission has a direct and immediate relationship with the GOM/MOF which enables them to resolve unreconciled differences efficiently. However. the Mission's capability in this area may not be fully utilized by FM/LMD since USAID/Morocco does not receive payment and posting data on a timely basis for the U.S. dollar reimbursable loans. Exploring the reason for USAID/Washington not engaging the Mission on a greater scale was beyond the scope of this audit; therefore, we have decided not to make any formal recommendations. The

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[1]We used the effective exchange rate at the time of the audit which was 9.2 DH = $1.00 U.S.

significant differences described above between USAID/Washington loan records. and those of USAID/Morocco and GOM/MOF demonstrate the importance and necessity of developing a better coordinated working relationship between the Mission and USAID/Washington. We believe USAID/Washington should initiate the lead and follow through with an effort to better coordinate loan transaction activities with the Mission. Accordingly, we encourage the Mission to continue to work with FM/LMD in USAID/Washington by requesting to assume a greater role in accounting for loans and resolving differences in loan balances on a continuing basis.

Were September 30, **1998** balances reported in **USAID/Morocco's U101** report far appropriations 72X1021 and **72X1095** properly stated and adequately supported?

The September 30. 1998 balances reported by USAID/Morocco in the U- 101 report for appropriations 72X102 1 and 72X 1095 were properly stated and adequately supported; however. some unliquidated funds need to be deobligated. Although USAID/Morocco **was** already aware of some of the unliquidated obligations and was in the process of reviewing them for deobligation; this issue warrants additional attention by USAID management.

Old Budget Plan Codes Should
Be Reviewed for **Deobligation**

The audit found that USAID/Morocco has some old obligations which need to be considered for deobligation as required. This is important to avoid the accumulation of excess funds which, if not used, can be dsobligated and reobligated for use somewhere else or returned to the Treasury.

According to section 1311 of the Supplemental Appropriations Act of 1995. as amended, a periodic review of unliquidated obligations is required to determine whether obligations continue to remain valid. The act indicates that if obligations do not continue to remain valid. the funds should be deobligated in a timely manner. USAID has established a policy regarding 13 l 1 reviews which require that: 1) a continuous review of unliquidated obligations for both current and prior year funds should occur throughout the year: 2) a year-end review of the system should occur; 3) the obligation and liquidation records should be examined by USAID financial staff in coordination with the officer responsible for budgeting and using the **funds;** and 4) a set of work papers should be maintained to document the reviews. USAID/Morocco's Mission Order on 13 11 reviews restates the Supplemental Appropriations Act and specifies the duties of Mission personnel in these reviews.

The Mission's June 1998 U- 101 report identified 35 unliquidated obligations totalling approximately $48.5 million for appropriation number 72-X 102 1 (developmental assistance). Twenty-four of these unliquidated obligations. totalling approximately $17 million or 35%. are more than five years old, one of which is ten years old. Several factors may contribute to these aging obligations. including. premature funding of activities. payment charged to an incorrect budget plan code. advice of charges (AOCs)[2] not yet processed. and activities previously funded which have been cancelled. USAID/Morocco management indicated that they were already in the process of deobligating approximately one million dollars in obligations identified to be old and unneeded.

Notwithstanding the AOCs and deobligations in process. the above aging description suggests that additional funds could be deobligated. Accordingly, we suggest that the Mission continue its review of obligations and deobligate those amounts which are excessive. We decided not to make a formal recommendation on this issue because the Mission is already aware of much of the excess funding and is taking action in its own interest to identify and deobligate those amounts which are considered excessive and no longer needed.

Management Comments and Our Evaluation

Although there were no recommendations in the report, USAID/Morocco responded to the two audit issues. Regarding loan balances. USAID/Morocco stated that the Mission has worked diligently to resolve past differences between Government of Morocco (GOM) records and those of the Loan Management Division (FM/LMD) in USAID/Washington. The Mission atated that it would be more than willing to assist again in helping to resolve these differences by working as an intermediary with the GOM on the behalf of and at the direction of FM/LM D.

Regarding the old budget plan codes that should be reviewed for deobligation; the Mission stated that as part of the quarterly 1311 review process, the Mission had identified approximately $2.4 million of funds that should be de-obligated. Approximately half of those funds have been through the Mission's internal clearance process and have been de-obligated. The remaining $1.2 million funds are in the process of being reviewed and de-obligated.

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

[2] An AOC represents an incoming outside the Mission which must he made to an obligation and oftentimes arrive long after a project is completed; but obligated funding must be available for these incoming charges.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Morocco's financial operations related to disbursements, accruals, loans, U-101 reports and related 122 1 reconciliations. We did not assess the overall reliability of the Mission Accounting Control System: however, we did test the validity of data related to disbursements and accruals. Since our audit work was performed as part of the financial statement audit of USAID, at the agency level, for fiscal year 1998 we did perform an assessment of audit risk at USAID/Morocco. The audit was performed in accordance with generally accepted government auditing standards and was conducted at USAID/Morocco's offices in Rabat. Morocco from September 1, 1998 through November 20. 1998.

Methodology

This audit was performed as part of the financial statement audit of USAID for fiscal year 1998. We performed financial audit work at USAID/Morocco as one of ten selected sample missions worldwide, to enable OIG/Washington to provide an opinion on the fairness of presentation of USAID's financial statements as required by GMRA. The ten Missions were selected using a random sample based on statistical sampling techniques.

To accomplish the audit objective, we selected transactions randomly using random number tables. The sample size was determined by statistical sampling techniques based on a confidence level of 90% with a tolerable error rate of +/- 5%. Specifically we examined the supporting documentation for:

* thirty disbursements totalling $4,248,422 which represents approximately 75 percent of the total disbursements of $5,685,412 made in the fourth quarter of fiscal year 1998;

* twenty accruals totalling $4,723,465 which represents approximately 74 percent of the total accruals of $6,384,037 as of September 30, 1998;
* sixty-one loan balances at June 30, 1998 representing all loans;

* two of sixteen U- 101 reports as of September 30. 1998; and

* the reconciliation of the disbursements with the Regional Administrative Management Center (RAMC) in Paris, France for appropriation 72X1021 and that is commonly referred to as the 122 l Reconciliation.

To obtain an understanding of the internal controls. we interviewed officials at USAID/Morocco and reviewed flow charts, narratives and related documents regarding the financial reporting processes. Where problems were found, we verified to the extent practical. the causes of the problems.

In addition. we obtained a management representation letter from cognizant Mission officials containing essential information related to our objective.

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March 15, 1999

Memorandum

To: Henry L. Barrett, RIG/Dakar

From: James Bednar, Director, USAID/Morocco

Subject: Audit of USAID/Morocco's Fiscal Year 1998 Financial Data Audit Report No. 7-608-64 1-9940X-F

This memorandum reflects our comments on the draft report of subject audit

As one of 10 Missions selected for the audit of the Year 1998 Financial Statements, USAID/Morocco is pleased to have bun able to demonstrate the adequacy of its Financial Operations. Although the audit produced no recommendations, the Mission would like to respond to the Audit findings as follows:

Under Audit Objective:

Did USAID/Morocco have documentation to support tbe disbursements made in the fourth quarter of fiscal year 1998, accruals at September 30, 1998, and loans at June 30, 1998?

There were no findings with respect to the disbursements and accruals, but tho audit reports that 18 of the 61 loan balances could not be reconciled. The reconciliation problems all relate to U.S. Dollar loan balances over which the Mission has no control. USAID/Morocco has worked diligently to resolve past differences between Government of Morocco (GOM) records and those of Management Division (FM/LMD) in USAID/Washington. The Mission would be more than willing to assist again in helping to resolve these differences by working as an intermediary with the GOM On the behalf of and at the direction of FM/LMD

Were September 30.1998 balances reported in USAID/Morocco's U101 report for appropriations 72X1021 properly stated and adequately supported?

The audit report indicates Mission has funds that need to be de-obligated. audit, as part of the quarterly 1311 review process, the Mission identified million of funds that should be de-obligated. Approximately half of those funds have been through the Mission's internal clearance process and have been de-obligated. The remaining $1.2 million funds above appropriations are in of being reviewed and de-obligated. It is the Mission's position that all other obligations currently recorded under these appropriations are valid and programmed for expenditure.

USAID/Morocco Loans with Balances Different from USAID/Washington

Item No.	Loan Number	USAID/Washington Balance	GOM/MOF Balance	USAID/Washington Balance Overstated	USAID/Washington Balance Understated
1	608-K-0014	$2,586,385	$3,179,588		($593,203)
2	608-K-0018	$4,314,254	$5,060,741		($746,487)
3	608-H-0020	$771,308	$730,799	$40,509	
4	608-K-0021	$3,066,311	$3,077,420		($11,109)
5	608-G-0030	$1,225,915	$1,298,841		($72,926)
6	608-H-0031	$2,336,901	$2,338,882		($1,981)
7	608-K-0032	$3,565,455	$3,563,029	$2,426	
8	608-H-0036	$2,397,258	$2,481,868		($84,610)
9	608-H-0038	$1,300,645	$1,299,802	$843	
10	608-H-0039	$4,223,683	$4,220,608	$3,075	
11	608-H-0041	$5,875,491	$5,371,751	$503,740	
12	608-H-0042	$6,287,218	$6,289,505		($2,287)
13	608-T-0043	$5,681,287	$5,678,156	$3,131	
14	608-T-0044	$9,621,479	$9,593,308	$28,171	
15	608-K-0054	$12,790,657	$12,647,570	$143,087	
16	608-B-072R	$4,954	$0	$4,954	
17	608-R-0087	$148,221	$0	$148,221	
18	608-R-0091	$41,799	$0	$41,799	
	Total			$919,956	($1,512,603)

NOTE: Loan number 608-G-30 was in Moroccan dirhams and was converted to U.S. dollars in the above table using an exchange rate of 9.2 DH = $1.00.