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OPERATING EXPENSE ACCOUNT
USAID/PERU
AUDIT REPORT NO. 1-511-82-15
AUGUST 31, 1982

The Operating Expense Account was created to provide financial control of costs directly associated with basic USAID functions and operations. Operating expenses financed by AID totaled about $2.8 million for a 2-1/2-year period.

The review of operating expense budgets and related functions showed that the Mission was generally controlling operating costs in a proper manner. Certain areas require some corrective action or are in need of improved internal controls. They include: (a) a specific approval for warehouse improvements; (b) overcharges by the U.S. Embassy for FAAS costs; (c) excess residential furnishings and equipment; and (d) use of foreign-flag carriers contrary to AID directives.

The report includes 6 recommendations.

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EXECUTIVE SUMMARY

Introduction

The concept of operating expenses was created in 1976 due to increasing Congressional interest in budgetary disclosure and accountability for the total operating expense of AID. Operating expense funds are used to pay several categories of expenditures (salaries, benefits, overhead, etc.). As of June 30, 1982, there were 22 U.S. direct-hire employees, 63 foreign nationals, and 20 contract employees involved in the support of an assistance program of USAID/Peru which has averaged about $65.3 million per year. USAID/Peru's operating expenditures were about $2.8 million over a 2-1/2-year period.

Purpose and Scope

This audit was made to determine if the operating expense funds were used by USAID/Peru (a) for authorized purposes; and (b) in an effective, efficient, and economical manner. The review was conducted in accordance with generally accepted auditing standards and tests were made of selected transactions to the extent deemed necessary under the circumstances.

Conclusions

Our review of USAID/Peru's operating expenses, budgets, and related functions showed that Mission operating costs generally were properly controlled. The Mission's operating expense budgets were correctly prepared according to AID/Washington instructions. The motor pool operation was well managed; the fleet has been standardized, and usage rates are good; charges for nonofficial use of vehicles were made and collected. Mission nonexpendable property was adequately controlled and required inventories and reconciliations were properly done. Locally established policies in regard to household furnishings and equipment were being complied with, and the Mission's replacement program is prudent. We did find some excess furniture and equipment and some obsolete spare parts for vehicles that the Mission needs to dispose of.

This is a report by exception. By its nature, it is critical and contains mostly our comments and recommendations on deficiencies observed during the review. The body of the report does not include our observations on areas and functions that were covered by the scope of this review and found to be satisfactory. Summarized here, and detailed in subsequent sections of this report, are the matters we believe require management's attention. We have made recommendations for corrective action where appropriate.

- There was no written evidence to show that the USAID/Peru warehouse improvement project was properly authorized and approved by AID/Washington in accordance with regulations (page 2).

- USAID/Peru has been overcharged $8,140 in Foreign Affairs Administrative Support by the U.S. Embassy in FY 1982. No information was available for prior years FY 1980 and 1981 (page 2).

- In the area of property management, the Mission has some residential furnishings and equipment that are excess to needs, and the Accountable Property Officer was not a U.S. citizen as required by the regulations (page 3).

- In the area of travel and transportation, the Mission had some vehicle spare parts in inventory that are now obsolete. It also had some spare parts where no issues have been reported in over two years (page 6).

- A monthly average of 75 long distance telephone calls were made to the U.S. and other Latin American countries of which 44 percent lasted 10 minutes or longer (page 11).

- Living Quarters Allowance have not been reconciled with employee's payment receipts for authorized expenses, and a Home Service Transfer Allowance remained uncleared since Calendar Year (CY) 1979 (page 12).

Recommendations

We have included a total of 6 recommendations in the body of the report and in Appendix A. The findings and recommendations in this report were discussed with USAID/Peru officials during the progress of this audit.

BACKGROUND AND SCOPE

Background Information

In 1976 AID created the "Operating Expense Account" to provide better financial control of costs directly associated with basic operations. The concept of operating expenses has been an outgrowth of increasing Congressional interest in budgetary disclosure and accountability for the total operating expenses of AID. Operating expense funds are used to pay the salaries, benefits, and overhead support costs for direct-hire personnel, both U.S. and foreign nationals, in the Washington headquarters and overseas Missions. Direct-hire personnel are engaged in policy, planning, management, and support. In USAID/Peru, overhead support costs include office maintenance, furniture and equipment, living quarters allowances, utilities, supplies, communications, motor pool operations, travel and related costs, and local employment.

The U.S. economic assistance program consisting of reported obligations and loan authorizations for Peru, including P.L. 480 shipments, was $53.3 million in Fiscal Year 1980; $64.4 million in Fiscal Year 1981; an estimated $74.7 million for Fiscal Year 1982; and $68.7 million proposed for FY 1983. As of June 30, 1982, there were 22 U.S. direct-hire, 63 foreign nationals, and 20 contract USAID employees involved in the support of this program. USAID reported operating expenditures for the period beginning in FY 1980 through June 30, 1982, as approximating $2.8 million.

Scope of Audit

A review has been made of USAID/Peru's management of operating expense funds to determine if they were used (a) for authorized purposes, and (b) in an effective, efficient and economical manner. The review concentrated on the budgeting process for fiscal years 1982 and proposed 1983, and expenditures of funds and management of property for Fiscal Years 1980, 1981, and 1982 through June 30, 1982. We examined and analyzed operating expense budgets, and discussed policies and procedures with appropriate Mission officials.

The audit was conducted in accordance with sound auditing standards and procedures. On a selective test basis, we examined transactions, expenditures, and controls pertaining to procurement, various allowances, travel and related costs, personal and real property management, motor pool operations, communications, contract services, utilities, supplies, local employment, and foreign affairs administrative support. Our review was made during June and July 1982.

AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Warehouse Improvement Project

The regulations require that Missions must obtain specific prior authorization on major construction projects costing more than $40,000. USAID/Peru included the estimated construction costs within the FY 1981 and subsequently made improvements to its warehouse facilities which amounted to $80,532. However, the specific authorization prescribed by the regulations still needs to be obtained.

Handbook 23, App. 5A, Section 740 and 750, states the need to obtain specific prior authorization from the Agency for major construction projects costing $40,000 or more. USAID/Peru made improvements to its warehouse facilities which cost $80,532. The USAID was not able to produce the necessary specific approval documentation. The responsible personnel expressed concern that the files did not contain the required approval. They believed that one was requested and obtained. However, none could be found. Without the proper prior authorization USAID/Peru spent operating funds for construction that were not approved as required.

In late 1978, AID bought the building which the Mission occupies. On February 1, 1980, the Mission requested funds to improve the property by constructing a warehouse facility and installing a freight elevator. On February 21, 1980, AID/Washington (LAC and SER/MO) granted approval to undertake such improvement if the Mission could fund the project within its FY 1980 approved operating expense budget level. The Mission was unable to do so in that year.

In the FY 1981 budget, the Mission included $90,700 in a budget line item entitled, "Building Maintenance and Renovations", for the construction of a warehouse and elevator. The FY 1981 budget was approved and the warehouse improvement project was accepted on February 16, 1982, at a cost of $80,532. Although the FY 1981 budget was approved, the specific authorization prescribed by Handbook 23 was not obtained.

Recommendation No. 1

USAID/Peru should request AID/Washington approval of the $80,532 warehouse construction project.

Foreign Affairs Administrative Support (FAAS)

USAID/Peru has been overcharged $8,140 by the U.S. Embassy for support services for pooled vehicle operations in the Foreign Affairs Administrative Support (FAAS) budget. This overcharge has been caused by the Embassy's using the number of "American direct-hire and contract positions" assigned to USAID/Peru rather than "miles driven" in computing charges for this type of support.

The U.S. Embassy used Factor C (Number of American Permanent Positions and Contract Americans) in computing USAID/Peru's share of the cost for the Embassy's vehicle fleet during FY 1981 and 1982. USAID believes this results in an unfair charge because it has its own fleet and only depends on the Embassy for pick-up and delivery of APO mail. The USAID officials discussed pooled vehicle usage with the Embassy's Budget and Finance (B&F) officer and he agreed that Factor J (Miles Driven) would result in a more equitable distribution of costs. However, the B&F officer declined to adjust the FAAS schedules because instructions from the State Department specified the use of Factor C to compute vehicle usage.

In effect, this has cost USAID an estimated $8,140 in operating funds during FY 1982. USAID/Peru did not clear the FY 1982 FAAS report because of disagreement over the use of Factor C. On May 21, 1982, notice of the Mission's non-approval was provided to the Embassy's B&F office.

USAID/Peru has provided full details of the FAAS overcharge problem to the AID/Washington Controller. Schedule FAAS-5 charges for "Vehicle Operations" would be changed from $5,891 to $551 by use of Factor J, a reduction of $5,340 in operating costs. This in turn would cause USAID/Peru to have a lower percentage of Schedule FAAS-6 charges in two line items: Vehicle Repairs and Maintenance, and Auto Fuels and Supplies; and would result in a reduction of $2,800 in operating costs. The combined reduction of operating costs in both schedules totals $8,140.

In FY 1981, USAID/Peru discussed the unfairness of using Factor C with the Embassy B&F officer and sought to obtain a more reasonable basis for computing vehicle support charges. Nearly eighteen months have passed since the issue was first raised but the overcharging continues. We believe that AID/Washington should bring this issue before the FAAS Interagency Council.

In our draft report, we recommended that this be done, along with a request that the U.S. Embassy in Lima be instructed to use FAAS Factor J in determining pooled vehicle mileage usage. In their response the Mission advised us that on July 16, 1982, a memorandum was sent to AID's member on the FAAS Interagency Council and he was requested that the Factor J issue be discussed with the Council for appropriate resolution. We consider this action sufficient and therefore make no recommendation here.

Property Management

We found that the Mission had residential furnishings and equipment that were excess to its needs and that the Accountable Property Officer was not a U.S. citizen as regulations require.

(a) Residential Furniture and Equipment

The Mission had excess residential furniture and equipment in inventory. We believe that the cause stems in part from a combination of factors over the past several years: (a) a freeze on procurement of household furnishings, (b) planning for expected increases in personnel which failed to materialize, and (c) current Mission procurement practices of phasing in new furnishings to replace unserviceable and/or old serviceable items in need of repair. Some of the largest excesses noted were: 95 smoke and fire detectors; 54 table lamps; 35 dining tables; and 53 rugs (sizes 109 - 208 square feet). Exhibit A provides a complete listing.

USAID/Peru plans called for 40 families (average of 4 persons each) to be onboard by the end of FY 1980. Based on this plan, the Mission purchased and received $63,289 of furnishings during the last three fiscal years with an additional $15,914 still undelivered. Procurement plans called for purchases of $82,500 in FY 1982; $97,800 in FY 1983; and $111,800 in FY 1984. As a result of our review, the Mission has revised its FY 1982 procurement plan to $24,900 instead of the original $82,500.

At the time of our review, there were 27 direct-hire families in the Mission. The direct-hire personnel approved for FY 1983 and FY 1984 are 25 and 24, respectively. In addition, there were 13 contract personnel funded by AID/Washington, two long-term Personal Service Contractors (PSC), and five Non-PSC Contractors.

In addition to the direct-hire families, the Mission is also responsible for providing furniture to various contractor personnel. As of August 13, 1982, the Mission reported that they were providing furniture for nine contract employees (both operating expense and project funded) and were expecting the arrival of four more contract employees by September 1982. Thus they need approximately 40 sets of furniture to support its requirements.

Last year the Mission purchased $87,500 of residential furniture and equipment with project funds. This was sufficient to furnish four complete households. Project purchases are accounted for and identified separately but are still part of the total residential inventory. Mission policy is to manage the residential furnishings as one integrated pool in support of total requirements, both operating expense and project, in order to make maximum use of resources and to extend the useful life of the furnishings.

Recommendation No. 2

USAID/Peru should: (a) review FY 1983 and FY 1984 requirements for residential furnishings and equipment and adjust procurement plans accordingly; and (b) redistribute or dispose of excess inventory.

(b) Surplus Freezers

USAID/Peru requested and received from USAID/Panama some advertised surplus freezers. The need for the freezers no longer exists and several have either been disposed of or remain unused.

In 1978, USAID/Panama declared freezers surplus to the Mission's needs because they were no longer authorized for use by its personnel. To fulfill a requirement for such property, which had existed since 1976, USAID/Peru requested and received 29 of the freezers, at a shipping cost of $289 each.

Originally, USAID/Peru had anticipated a need for the freezers because the Government of Peru issued a decree in 1976 that restricted the sale of meats in the stores to only 15 days a month. To provide storage facilities the Mission families during this restricted period, USAID/Peru requested and received the freezers in question. However, the government cancelled the decree in July 1980, and the need for the large quantity of freezers no longer exists.

Since receipt of the 29 freezers, 13 were disposed of by sale or provided as grants-in-aid. Of the remaining 16, 10 have been issued and are in use by Mission families. The remaining six were never used and remain in USAID/Peru's warehouse.

In our draft report, we recommended that USAID/Peru attempt to use the six freezers that are in its warehouse. The Missions' response shows that satisfactory action has been taken. USAID/Peru reported that it had: (a) issued one, (b) processed three for disposal, and (c) retained two in stock for future issue.

(c) Accountable Property Officer

USAID/Peru's Accountable Property Officer position was not filled by a U.S. citizen. The USAID had appointed a foreign national, direct-hire to the position. The reason was that the Mission had only one American in the Executive Office.

Handbook 23, App. 4A, 222.2, authorizes the Property Management Officer (PMO) to delegate to other U.S. citizen officers, preferably members of PMO's staff, the responsibility for numerous functions of property management, including accountability. However, the relinquishing of any delegated position automatically causes the responsibility to revert to the PMO. Based on the handbooks, the PMO should be the Accountable Property Officer - unless some other U.S. citizen is designated to fill the position or AID/Washington grants a waiver or makes changes to the handbook..

We discussed this point in detail with responsible Mission officials. We could see no problem with the assignment of a foreign national direct-hire employee if a waiver was obtained from AID/Washington. In support of this view, we realize that fewer U.S. citizen, direct-hire personnel are being assigned overseas. Thus Missions have to place more foreign national, direct-hire employees in responsible positions. We also informed the USAID that we would query the proper office in AID/Washington to obtain its views.

We subsequently contacted the Overseas Management Division (M/SER/MO/OM) and were told that Handbook 23 was being revised. Consideration will be given to revising the U.S. citizen requirement in order to permit foreign national direct-hire employees to fill such positions.

In our draft report, we recommended that USAID/Peru designate a U.S. citizen from outside the Executive Office to be Accountable Property Officer, or allow the responsibility to revert to the PMO. In its comments, the Mission has advised us that, "USAID/Peru has allowed the responsibility of the Accountable Property Office to revert to the Property Management Officer who is a U.S. citizen. We have also requested AID/W to grant an exception to the Handbook regulations and permit a Foreign National to serve as Accountable Property Officer."

Travel and Transportation

Six different types of problems were found in the area of travel and transportation: (a) some vehicle spare parts in inventory were no longer useable and were in fact obsolete; (b) some spare parts showed no issues in two years; (c) although residence-to-office was being provided, the applicable amount to be charged had not been established; (d) periodic reviews and justification of residence-to-office, as called by the regulations, have not taken place; (e) foreign flag carriers were used contrary to AID travel regulations; and (f) some obligations remained open for travel that had been completed in 1980.

(a) Vehicle Spare Parts

Some vehicle spare parts, in inventory, showed no issues for over two years. Other spare parts were unusable in the present Mission fleet. We provided the Mission with a listing of these items.

The vehicle spare parts inventory numbers 116 line items with a dollar value of $4,332. Of this number, 63 line items valued at $2,256 showed no issues in over two years. An additional 20 line items valued at $1,020 were obsolete because the vehicles they fit were disposed of and the parts are not interchangeable for use on the vehicles in the present standardized fleet.

The reason for non-issuance of the identified spare parts during the past two years may be attributed to better maintenance and some procurement of slow moving items. The obsolete or unusable parts can be attributed to failure to dispose of the parts at the time the old vehicles were either sold or disposed of through grant-in-aid. Carrying these obsolete spare parts in stock only takes up space in the storeroom.

In their response to our draft report, the Mission agreed to implement our recommendation.

Recommendation No. 3

USAID/Peru should: (a) review the need for spare parts unused in over two years and dispose of any excess; and (b) dispose of the 20 line items of spare parts that are now obsolete.

(b) Residence-To-Office Transportation

On May 27, 1980, the Ambassador determined that transportation between residence and office using Government owned vehicles was justified, considering the problems encountered by employees using public transportation in Lima. Effective August 19, 1980, the Mission authorized the commencement of the service with a charge of $0.50 per one-way trip. However, the USAID did not begin the service until January 14, 1981.

Handbook 23, Appendix 6A, 237.2-1.b states that the Chief of Mission will determine the amount to be charged; and that the average cost in the United States of 50 cents per one-way trip should be used as a guide but may be different when, under local conditions, it would be unfair or inequitable.

There was no record at USAID/Peru to document that the Ambassador set the amount being charged, although we were told that Embassy employees paid 50 cents per trip. Further inquiry at the American Embassy, General Services Office, disclosed that the Counselor for Administration set the charge based on the 50-cent guideline shown in Handbook 23. We also learned that annual or more frequent reexaminations of local conditions, to determine whether continued use of vehicles for this purpose was still warranted, had not been made as required by Handbook 23, App. 6A, 237.2-4.

In our draft report, we recommended that USAID/Peru obtain documentation from the Embassy to show that: (a) the Ambassador has determined the amount to be charged for Residence-to-Office transportation; and (b) the local conditions necessitating this service continued to justify use of Mission vehicles. The Mission provided us with evidence that these conditions have been met and therefore no further action is required.

(c) Foreign-Flag Carriers

We found two instances where we believe the Mission should obtain reimbursement from employees for using foreign-flag carriers.

(1) A Mission employee used a foreign-flag carrier over an entire route even though a combination of U.S.-flag/foreign-flag carriers was available. The employee flew from Lima, Peru, to Paris, France, via Air France. The Mission had on file the "Memorandum of Justification for use of Foreign flag Airlines", and cited therein, "DELAY", as being the reason for not using U.S.-flag carriers. Therefore, the U.S. Government paid for this travel.

Our review of the travel documentation and the travel data in the "Official Airline Guide, Worldwide Edition" for May 1981, disclosed that a combination of foreign-flag/U.S.-flag carriers was available for this travel, and no delay in departure or arrival at destination would have resulted.

The employee was originally scheduled to travel from Lima, Peru, to Paris, France and return. The entire travel was to be made on foreign-flag airlines. However, the return travel segment was changed to permit consultation in AID/Washington. Therefore for the Paris, France-Washington, D.C.-Lima, Peru, segment, the traveler used U.S. flag carriers.

The justification submitted by the employee stated that: "American-flag carrier was not used to the furtherest point with a foreign-flag carrier, or a foreign-flag carrier was not used to the nearest interchange point with an American-flag carrier, since its use would have caused a delay of 4 hours or more at the point or a total delay of 8 hours enroute between the points of origin and destination". Also explained, "LIMA-PARIS. It is necessary for me to arrive in Paris by noon on May 24. Air France offers direct service from Lima to Paris, departing 0830, May 23, arriving 0830 May 24. The best Fly American alternative would require departure Lima 0015 on May 22 (BN 978), about thirty hours earlier, and an eleven hour layover in Miami. Arriving in Paris would be at 0930 on May 23 (PA 80), a day earlier and a day more of per diem ($98) than necessary".

Our review showed that the above justification was not entirely proper. The employee could have used U.S. airlines and still arrive in Paris on the same date and only 45 minutes later. The comparison follows:

Actual	Auditor's Proposed Itinerary
Air France Flt 216 Depart Lima 5/23/81 at 0830; Arrive Paris at 0900 on 5/24/81	KL Flt 776 (Foreign-Flag Carrier) - Leave Lima 0725 on 5/23/81; Arrive Panama 1035. BN Flt (US Flag) 970 - Leave Panama 1300 on 5/23/81; Arrive JFK 1845. PA Flt 114 - Leave JFK at 2045 on 5/23/81; Arrive Paris 0945 on 5/24/81.

The Mission responded to our finding as follows: "In accordance with Mission procedures, employee requested and Mission authorized travel by foreign-flag carrier prior to employee initiating travel. (A copy of the Memorandum of Justification which was filed with the GTR was provided to the Auditors prior to their departure). Our procedures are that when justification is submitted by traveler prior to initiating travel, it is reviewed and if approved, filed with the GTR.

"The justification was approved based on the information available to the Mission at that time. Basically, the Lima-Paris trip using an American flag carrier would have involved an eleven hour lay-over in Miami plus departing one and one-half day earlier from Lima. For return travel, a direct flight from Paris to Lima on Air France that permitted the traveler to fly during non-sleeping hours (14:00 to 22:00) was available. The use of American flag service would have required the traveler to make a five-hour stopover in New York, and follow that with an all night flight to Lima, traveling during traveler's normal sleeping hours.

"Therefore, valid justification was made and approved to use foreign flag service and no further action is required."

This response, in our opinion, is not adequate to support the use of foreign-flag carrier by the traveler from Lima to Paris. Our opinion is supported by Handbook 22, Section 134.2, Sub-section C.2), a) which, in part, states:

> "American-flag carriers will be used to the furtherest interchange point with foreign-flag carriers and foreign-flag-carriers will be used to the nearest interchange point with American-flag carriers which will not cause a delay of 4 hours or more at the point or a total delay of 8 hours en route between the points of origin and destination." (underlining supplied)

We believe that our recommended action is valid under the circumstances cited.

Recommendation No. 4

USAID/Peru should obtain reimbursement for the travel costs that were incurred by the employee flying foreign-flag carrier, as outlined in the A.I.D. directive.

(2) While on official business travel, a Mission employee traveled indirect for personal reasons and used foreign-flag carriers: USAID/Peru should be reimbursed for these costs.

The employee was issued Official Travel Orders, AID/Peru 64-80 (Int.) with Amendment #1, dated June 23, and July 1, 1980, respectively. This travel order cited as temporary duty locations: Bogota, and Boyaca in Colombia; Panama City, Panama, Guatemala, etc.. The employee was authorized and used foreign-flag carrier from Lima, Peru to Bogota, Colombia. This use was necessary to assure the traveler's attendance at a scheduled meeting. A "Memorandum of Justification for use of Foreign-Flag Airline", was completed and approved. The flight from Lima to Bogota by foreign-flag service is not questioned.

The employee flew on a foreign-flag carrier from Bogota, Colombia to Cartagena, Colombia, (not a scheduled TDY location) on July 19, 1980 (a Saturday). On Monday, July 21, the employee reported on Annual Leave (A/L) and departed Cartagena at 1630 hrs. on Tuesday, again on a foreign-flag airline for Panama City, Panama. The employee did not charge A/L for Tuesday. The employee recorded the Cartagena location on the "Memorandum of Justification for use of Foreign-Flag Airline", although no explanation was provided other than "No American-flag airline operates on this segment". Although USAID/Peru approved this location for foreign-flag use, the trip, it appears, was for vacation purposes only. Consequently, we believe that the employee should be required to pay the costs for use of unauthorized foreign-flag carriers.

The employee's travel by foreign-flag carriers and the available U.S.-flag carrier is shown here:

Employee used Foreign Flag Carriers:		Airline
	Leave Bogota 7/19/80, 1300 hours	~~AV flt.~~ 1532
	Arrive Cartagena 7/19/80 1400 hours	AV flt. 1532
	Leave Cartagena 7/22/80, 1630 hours	AV flt. 042
	Arrive Panama 7/22/80, 1730 hours	AV flt. 042
Available U.S.-Flag Carrier:	Leave Bogota 7/19/80, 1030 hours	BN flt. 970
	Arrive Panama 7/19/80, 1155 hours	BN flt. 970

Braniff Airways had scheduled flights from Bogota, Colombia, to Panama on Monday, Tuesday, Saturday and Sunday.

In answer to our findings, USAID/Peru responded: "We have again reviewed this trip and have again concluded that the amount paid by employee was correct and no further amount is due. The employee was authorized travel Lima-Bogota-Cartagena-Panama-Guatemala-Washington, D.C., and return to Lima to observe various Health and Population programs. At the time of the travel, U.S. flag service from Lima to Bogota was available only on Wednesday. In order to meet schedule requirements, the employee was required to be in Bogota on Monday morning. Therefore, a Sunday departure which required the use of a foreign flag carrier was necessary. The travel Bogota-Cartagena-Panama-Guatemala had to be on foreign-flag carriers since U.S. flag carriers did not provide service on those routes. From Guatemala to the U.S. and return to Lima, the employee used U.S.-flag carriers.

"Although the employee made a side trip to Panama, our calculation using the Handbook 22 formula has determined that the employee would be liable for approximately $11.00. Since the employee has already paid $45.00, no additional amount is due from the employee.

"Our files (GTR) contain the Memorandum of Justification for using Foreign Flag carrier on this trip."

We reviewed the USAID response and it does not answer the question of why the employee went to Cartagena. The travel authorization did not specifically authorize Cartagena as a TDY location. The traveler's next location after Bogota, Colombia was cited as Panama City, Panama.

We believe that USAID/Peru should address the issue of travel via Cartagena rather than direct from Bogota to Panama City. The official travel authorization and related details of travel, as reported by the traveler, do not support a need to travel via Cartagena on official business. We believe that reimbursement for use of foreign flag airlines is required.

Recommendation No. 5

> USAID/Peru should make the necessary computations for: (a) the employee's use of foreign-flag carriers to and from Cartagena, and (b) issue a bill of collection.

(3) Obligations of $1,064 remained open in the Mission accounts for travel that took place during CY 1980 and 1981. The travelers had not submitted their travel vouchers. Some of the travel was performed by Mission employees who have now left the post.

In our draft report, we recommended that USAID/Peru should advise personnel concerned to submit travel vouchers promptly. In its response, the Mission advised us that employees have been requested to submit travel vouchers. The Mission also mentioned that current reviews are being made of the travel records each month and the employees who have not submitted travel vouchers are notified. We believe the Mission's action is satisfactory and no recommendation is needed here.

Communications

USAID/Peru's long distance telephone calls to the U.S. and other Latin American countries average 75 calls per month. About 44 percent of the calls lasts 10 or more minutes. The monthly cost ranged from a high of $3,609 in June 1981 to a low of $1,251 in April 1982. The annual cost approximates $32,000.

The Mission controls long distance calls through the use of a "Request for Long Distance Phone Call", which must be signed by requesting employees Division Chief for in-country calls, and the employees Office Chief for international calls. Monthly, a list of all calls made was provided to each USAID/Peru office, with an overall summary provided to the Mission Director.

Examination of monthly long distance calls outside Peru, for the period May 1981 through April 1982, showed that such calls averaged 75 per month. Our analysis of these international calls disclosed that an average of 59 were to the U.S. and 16 were to countries in Latin and South America. Of calls to the U.S., an average of 33 calls per month lasted 10 minutes or more. The average length of these calls was 19 minutes. The present cost of a 10-minute call to Washington, D.C. is about $30 ($1 to S/. 678); a 20-minute call costs about $57; and a 40-minute call costs about $109.

Overall, 44 percent of the long distance calls were for 10 minutes or longer. We are of the opinion that adequate control is maintained over the long distance calls for either official or personal use and therefore we are not suggesting any corrective actions. However, we believe efforts should be made to reduce the time length of the calls.

We believe the Mission could explore the possibility of using official telegrams to a greater extent. To assist them in this effort we contacted the AID/W Office of Communications and Records Management Division (M/SER/MO) and we are providing the Mission with the information obtained under cover of a separate memorandum.

Allowances

Living Quarters Allowances have not been reconciled with employee's payment actual amounts receipts for authorized expenses, and a Home Service Transfer Allowance remains uncleared since CY 1979.

(a) Living Quarters Allowances

USAID/Peru approves and makes monthly payments to its employees for authorized Living Quarters Allowances (LQA). However, no reconciliation is made of these payments with the employee's actual payment documentation. Therefore, the amount of the Mission's payments may not equal the employees actual expense payments in those instances where the actual payments are less than the LQA payments.

Standardized Regulations (Government Civilians, Foreign Areas) Section 134.16 requires the Mission to make periodic reconciliations between estimated Living Quarters Allowances and the employees actual expenses.

The employee upon entering into an approved privately leased quarters prepares and submits to USAID, SF 1190, "Foreign Allowances Application, Grant and Report", to request LQA payment. This report contains the employees annual cost for Quarters, and estimates on other allowable expenses, i.e., electricity, water, firewood, etc.. The Mission makes the necessary computations of these expenses, prorates the amount on a monthly basis, payment to the employee.

Our examination showed that the employee is required, by the Mission's Executive Officer, to submit his actual LQ expenses to that office. This information is subsequently forwarded to the American Embassy for periodic computations of the LQ costs for the Official Community. However, the information is not being made available to the Office of the Controller and therefore the reconciliation--required by Section 134.16 of the Standardized Regulations, is not being made. As a result, these employees, whose actual expenses are less than the LQA payments, may be receiving an unauthorized windfall profit.

We believe the Mission should make periodic reconciliations of the employee's LQA and make the necessary adjustments for any over or underpayments.

Recommendation No. 6

USAID/Peru should establish a procedure to reconcile the living quarters allowance payments with employee expenditure receipts at least annually, and make the necessary adjustments or collections.

(b) Home Service Transfer Allowance

In August 1979, USAID/Peru advanced a Home Service Transfer Allowance to an employee being transferred to AID/Washington.

This amount ($1,550) remains uncleared on the records of the Mission. Correspondence in the files shows that USAID/Peru requested AID/ Washington, assistance in contacting the employee and settling the account. However, the account had not been settled at the time of our review.

This is the only account that remains open on the records of the Mission for the FY 1979 Operating Expense allocation and cannot be cleared until the employee's account is settled. We believe the Mission has done all it can to obtain the necessary documentation.

In our draft report, we recommended that USAID/Peru should issue a Bill for Collection in the amount of $1,350. The Mission has advised us that they have done so and have sent it to the employee in AID/Washington. Therefore, no recommendation is needed here.

EXHIBIT A

Operating Expense Review
USAID/PERU
Excess of Furniture and Equipment Over-Planned Needs for 40 Families

Stock No.	Item	Estimated Need 40 Families	Actual Inventory 6/30/82	Estimated Excess
3070	Bed Springs-Double	18	19	1
3120	Blender, food elec.	6	9	3
3220	Chair card	240	264	24
3250	Chair dining	320	361	41
4456	Headboard, Queen	8	9	1
3500	Lamp, floor	40	43	3
3510	Lamp, table	360	414	54
3680	Rug, 0-108 sq. ft	110	138	28
3690	Rug, 109-208 sq. ft	92	145	53
3761	Range, electric	46	48	2
3790	Table, conference	40	42	2
3800	Table, dining/dinette	40	75	35
3920	Washing machine	44	50	6
5990	Mirror wall/dresser	140	146	6
--	Smoke and Fire Det.	40	135	95

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Peru should request AID/Washington approval of the $80,532 warehouse construction project (page 2).

Recommendation No. 2

USAID/Peru should: (a) review FY 1983 and FY 1984 requirements for residential furnishings and equipment and adjust procurement plans accordingly; and (b) redistribute or dispose of excess inventory (page 4).

Recommendation No. 3

USAID/Peru should: (a) review the need for spare parts unused in over two years and dispose of any excess; and (b) dispose of the 20 line items of spare parts that are now obsolete (page 6).

Recommendation No. 4

USAID/Peru should obtain reimbursement for the travel costs that were incurred by the employee flying foreign-flag carrier, as outlined in the A.I.D. directive (page 9).

Recommendation No. 5

USAID/Peru should make the necessary computations for: (a) the employee's use of foreign-flag carriers to and from Cartagena, and (b) issue a bill of collection (page 11).

Recommendation No. 6

USAID/Peru should establish a procedure to reconcile the living quarters allowance payments with employee expenditure receipts at least annually, and make the necessary adjustments or collections (page 13).

APPENDIX B

LIST OF RECIPIENTS

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Director, Office of Legislative Affairs (LEG)	1
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