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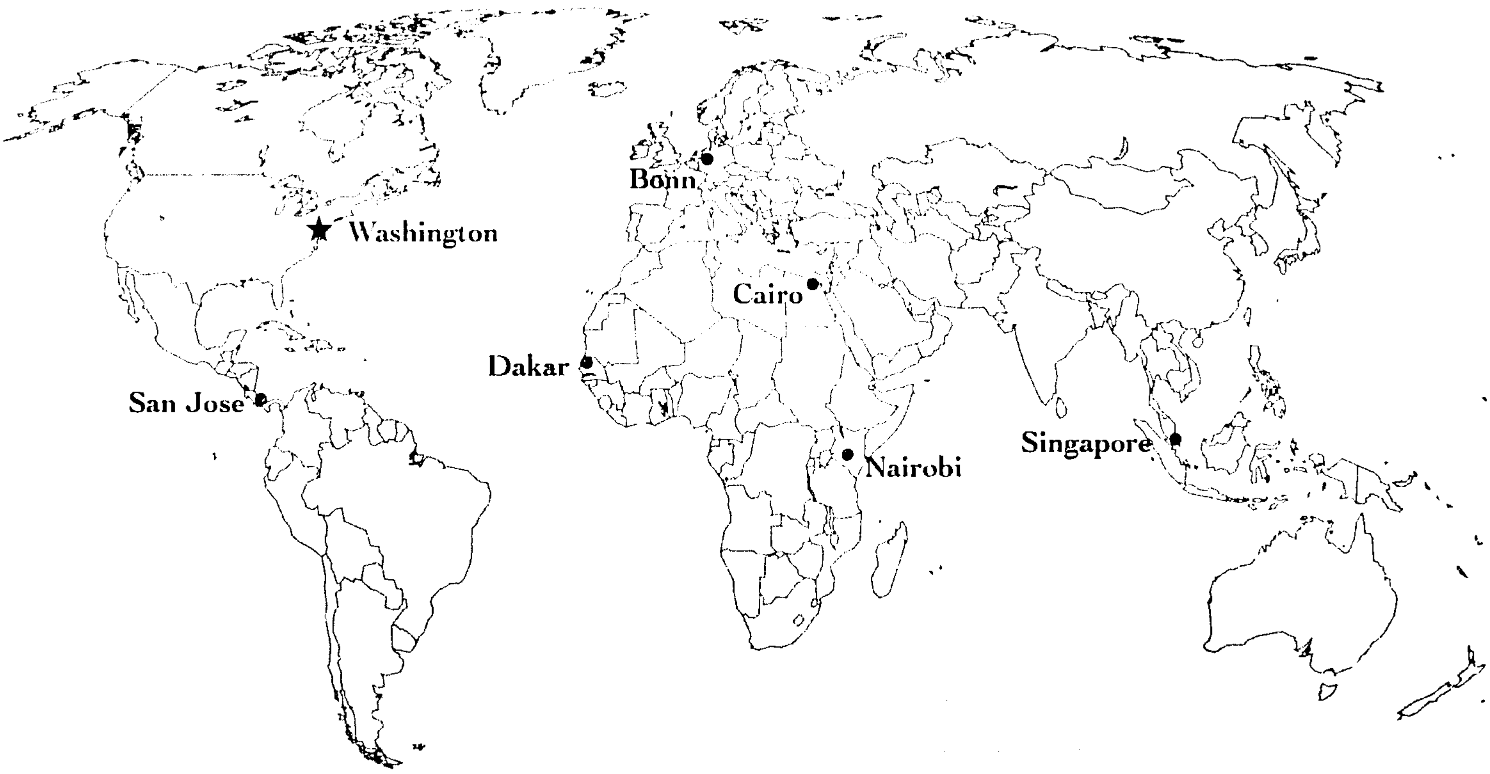
Regional Inspector General for Audit
Bonn

Audit of Operating Expenses at USAID/Kiev

Audit Report No. 8-121-95-013
August 16, 1995



U. S. AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
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GERMANY

August 16, 1995

MEMORANDUM

To: DAA/ENI, Donald L. Pressley
D/USAID/Kiev, Gregory Huger

FROM: RIG/A/Bonn, John P. Competello Bruce M. Watts for

SUBJECT: Audit of Operating Expenses At USAID/Kiev, Audit Report No. 8-121-95-013.

This report presents the results of our audit of USAID/Kiev's operating expenses. The report's major finding is that the Mission's Executive Officer had not followed Agency standards in implementing internal controls for administrative management of operating expenses. We acknowledge receipt of the audit representation letter included at Appendix III to the report.

The ENI Bureau did not respond to the draft report, and the Mission's response did not specifically address the report's audit recommendation. However, the Mission response, presented in its entirety at Appendix IV, did describe measures that are being taken to address the internal control weaknesses cited in the report. These measures meet the intent of the recommendation which is resolved upon issuance of the report. The recommendation can be closed upon presentation of evidence that: (1) the Mission's internal controls for administrative management of operating expenses have been strengthened; (2) non-expendable property records maintained by the Controller's and Executive Offices have been reconciled with the Mission's property inventory; (3) a system for evaluating performance of foreign service national (FSN) employees has been implemented; and (4) training in the importance of internal controls has been provided to FSN employees. Appendix II summarizes the internal control weaknesses noted during the audit and Mission actions to address them. Please provide within 30 days a report on the Mission's progress in implementing the report's recommendation.

The report identifies internal control weaknesses observed at USAID/Kiev. However, other Missions in the Newly Independent States of the former Soviet Union (NIS) may find the report useful in assessing their internal control structures for operating expenses.

I appreciate the cooperation and courtesies extended to my staff.

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Background

Operating expenses represent salaries, benefits, and support costs for U.S. and foreign national direct-hire personnel. These costs include allowances, travel, transportation, housing, and office expenses.

For fiscal year 1994 USAID/Kiev's budgeted operating expenses[1] were:

Leases/Rent	$ 489,700
Service Contracts	403,200
Travel	304,000
Furniture and Equipment	228,200
Vehicles, Maintenance, Supplies, and Materials	113,800
Transportation and Freight	101,000
Miscellaneous and Other	61,600
Educational Allowances	57,200
Building Maintenance	37,500
Office Communication	19,300
Utilities	19,100
Total	$ 1,834,600

USAID/Kiev's Controller and Executive Officer are responsible for financial and administrative management of Mission operating expenses, respectively. The Controller's financial management responsibilities include accounting for financial transactions and processing them for payment, and making payments for local purchases. The Executive Officer's administrative management responsibilities include: (1) establishing Mission manpower requirements and personnel policies; (2) contracting for local-hire personnel, including foreign service nationals; (3) planning and directing the acquisition, management and disposal of expendable and non-expendable property; (4) negotiating and managing leases on Mission housing and office space; (5) managing the Mission motor pool; and (6) handling travel arrangements for Mission personnel.

[1] *In addition, USAID paid about $170,290 to the Department of State for administrative support to USAID/Kiev under a Memorandum of Agreement between the Mission and the U.S. Embassy Kiev. These funds were not included within the scope of this audit.*

Audit Objective

As part of its fiscal year 1995 audit plan, the Office of the Regional Inspector General for Audit/Bonn audited USAID/Kiev's operating expenses to answer the following audit objective:

Did USAID/Kiev Implement Internal Controls to Ensure that Operating Expenses Are Managed Economically and Efficiently and in Accordance with Applicable Financial and Administrative Management Criteria?

Appendix I contains a discussion of the scope and methodology of the audit.

Audit Finding

Did USAID/Kiev Implement Internal Controls to Ensure that Operating Expenses Are Managed Economically and Efficiently and in Accordance with Applicable Financial and Administrative Management Criteria?

The audit determined that the Controller's Office at USAID/Kiev had implemented internal controls to ensure that financial transactions funded from operating expenses are processed properly, timely, and in accordance with applicable financial management criteria. On the other hand, the Mission Executive Office had not implemented internal controls to ensure that operating expense funds are: managed in accordance with Agency administrative policies and procedures and applicable laws and regulations; used economically and efficiently; and safeguarded against fraud, waste, and abuse.

The Controller USAID/Kiev established internal controls in accordance with Agency internal control standards. These standards require:

- separation of key duties and responsibilities in authorizing, processing, recording, and reviewing transactions;
- continuous oversight of staff by qualified supervisors;
- clear and readily available documentation of internal controls, transactions, and significant events;

- access to resources and records limited to authorized individuals;

- accountability for custody and use of resources; and,

- prompt and proper recording and execution of transactions and significant events by authorized individuals acting within the scope of their authority.

We found that key duties and responsibilities within the Controller's Office were distributed among the Office staff. One staff member reserves funds, another manages obligations, and a third processes vouchers for payment by the Controller's Office at USAID/Moscow. A fourth staff member, the Mission cashier, makes cash payments for local purchases. A fifth staff member manages the foreign service national (FSN) payroll. We found the Controller's staff to be knowledgeable of their duties and responsibilities and to understand the need for effective internal controls.

We reviewed 101 financial transactions processed by the Mission Controller's Office during fiscal year 1994 and the first two quarters of fiscal year 1995. The transactions included: reimbursements for official travel; payroll; purchases of expendable and non-expendable property; and, payments for leases, contracts, and services. We found that the transactions were processed in a timely manner and supported by complete documentation, including purchase order and/or payment vouchers and evidence that the items or services had been provided.

However, the audit determined that the Mission Executive Officer had not followed Agency standards in implementing internal controls for administrative management of operating expenses, and that controls needed improvement. These issues are discussed below.

Actions Needed to Improve
<u>Administrative Management</u>

The Federal Manager's Financial Integrity Act requires that managers establish and maintain adequate internal controls over Government operations to safeguard resources and ensure that they are used in accordance with laws and regulations. USAID/Kiev had not established effective internal controls over administrative management of operating expenses in accordance with Agency standards, policies, and procedures: (1) control procedures were inadequate, non-existent, or not being followed; (2) documentation to support management decisions was unreliable or did not exist; and (3) a system for assessing FSN performance had not been implemented. Adequate internal controls had not been established because early on Mission management focused on delivering assistance as soon as possible. Later, a low priority was placed on internal controls. As a result, USAID/Kiev lacks assurance that operating expense funds are safeguarded against fraud, waste, and abuse and are used efficiently and effectively in accordance with laws and regulations.

Recommendation No. 1: We recommend that the Director, USAID/Kiev take action to:

1.1 implement internal controls over operating expenses in accordance with Agency internal control standards as specified in Appendix 1D of USAID Handbook 19 and agency policies and procedures for managing operating expenses contained in USAID Handbook 23; such controls should include Mission Orders specifying local policies and procedures and documentation requirements for managing resources and services funded from Mission operating expenses;

1.2 reconcile records maintained by the Mission Controller's and Executive Offices with the Mission's inventory of non-expendable property to ensure that Mission property is properly recorded and accounted for in Mission records;

1.3 implement a system for assessing the quality of Mission foreign service national employees' work performance against specific criteria, rating that performance, and providing counseling; and

1.4 provide training to the Mission's foreign service national employees defining internal controls, specifying the value of such controls to the efficient and effective management of Mission operations, and clarifying the role of Mission employees in implementing the controls.

USAID management, including USAID/Kiev, is responsible for establishing and maintaining adequate internal controls over operations it supervises. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's

Financial Integrity Act in September 1982. The Act designates the heads of executive agencies and other managers as legally responsible for establishing and maintaining adequate internal controls. In response to the Act, the Office of Management and Budget issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to the guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures. The objective of such policies and procedures is to provide management with reasonable assurance that: (1) resource use is consistent with laws, regulations, and policies; (2) resources are safeguarded against waste, loss, and misuse; and, (3) reliable data is obtained, maintained, and fairly disclosed in reports.

USAID's internal control policies and procedures for administrative management of operating expenses are specified in Agency Handbooks 19, Financial Management, and 23, Overseas Support. Standards for the Agency internal control system are specified in Appendix 1D, Handbook 19.

Effective Controls Over Administrative Management Had Not Been Established

The audit found significant problems in the administrative management of operating expenses at USAID/Kiev. An effective system of internal controls had not been implemented. The audit found that: procedures to ensure effective administrative management of most categories of operating expenses were inadequate, non-existent or not being followed; and documentation to support management decisions was unreliable or nonexistent. These internal control weaknesses are illustrated below.

- There was no separation of duties in the management of USAID/Kiev's non-expendable property. An FSN employee controlled the Mission's $554,000 inventory of furniture, appliances, and office equipment with little supervision. He received and inspected new items, managed the warehouse where property is stored, distributed items to Mission residences and offices, and maintained the database for tracking the location and disposition of property.

- An FSN employee managed the Mission's entire motor pool with little supervision. He assigned vehicles to drivers and jobs, recorded vehicle usage, tracked fuel purchases and consumption, and monitored vehicle maintenance and repairs. The Mission budget for vehicles, fuel, and vehicle repairs in fiscal year 1994 was about $113,000.

- The Executive Office had not implemented procedures to ensure timely preparation and submission of vouchers to the Controller for payment of leases and rents on Mission residences and office space.

- Procedures had not been established to ensure that long-distance telephone calls, averaging $2,000 per month, were for official purposes only.

- A procurement plan for non-expendable property—including furniture, appliances and office equipment—had not been prepared. Yet, at the time of the audit the Mission was planning to hire eleven additional employees under personal services contracts. According to Mission officials, additional furniture, appliances, and office equipment would have to be purchased to accommodate the new personnel. In addition, a system for disposing of unusable property had not been established.

- The computer database for tracking non-expendable property was not secure, allowing for unauthorized access and manipulation.

- Certain motor pool drivers were being paid for overtime without advance approval as required by their contracts. In some cases, overtime charges exceeded employees' base salaries.

- Mission Orders assigning accountability and documenting local policies and procedures had not been prepared for most categories of operating expenses, including expendable and non-expendable property, leases and rents on Mission residences and office space, and long-distance telephone usage.

- Some Executive Office documentation on non-expendable property was unreliable. Therefore, Executive Office records could not be reconciled with records maintained by the Controller's Office. For example, the Executive Office did not routinely prepare receiving reports to document delivery of property to the Mission. As a result, reconciliations between receiving reports and outstanding purchase orders could not always be made by the Controller's Office to ensure that the Mission paid only for delivered items.

- Documents required to account for motor pool operations were unreliable or non-existent. Vehicle use logs prepared by drivers did not routinely identify the Mission official using the vehicle or the purpose for the trip. Requests for vehicle use, generally made by telephone, were not documented.

- Memoranda documenting negotiation of Mission leases were not routinely prepared and evidence of landlords' right to offer property for lease was not available.

In addition, the audit found that a system for assessing and rating FSN performance had not been implemented, although a Mission Order establishing such a system had been issued. Dated November 1994, the Mission Order calls for: an initial meeting between the supervisor and employee to discuss duties and responsibilities and performance requirements; periodic counseling sessions during the rating period; and, annual written evaluations of the FSN's performance. Mission officials said they were waiting until the start of the Mission's next evaluation cycle, then scheduled to begin in April 1995, to implement the system.

The push to begin assistance to the NIS, including the Ukraine, prevented Mission managers from establishing effective internal controls early on. In the initial stages of U.S. Government assistance to the region, Congress and the President placed a high priority on delivering assistance as quickly as possible. The objective was to demonstrate U.S. commitment to the democratization and economic reforms that were occurring. As a result, USAID managers were under intense pressure to accomplish tasks necessary to set up new Missions–including obtaining office space, purchasing equipment and furnishings, leasing housing, and hiring local staff. Most of the tasks are funded from operating expense accounts. Within this intense environment, managers had little time to establish internal control structures.

After the initial pressure eased, however, managers at USAID/Kiev did not take steps to implement the necessary internal controls over administrative management of operating expenses. As evidenced by the audit results, Mission management placed low priority on establishing such controls. Weaknesses in the Mission's internal control structure were pointed out to management by the Controller on several occasions prior to the audit. Nevertheless, corrective action was not taken. For example, a memorandum, dated April 21, 1994, from the Mission Controller to the Deputy Mission Director, identified duplicate receiving reports prepared by Executive Office staff for equipment valued at $3,910. The two reports, each authorizing payment, indicated that the items were received on

January 29, 1994 and April 20, 1994, respectively. The Controller's memorandum pointed out the internal control weakness which could result in paying for items twice and requested corrective action. Likewise, on two occasions–May 3, 1994 and May 13, 1994–the Controller expressed concern to the Mission Executive Officer about excessive overtime being paid to Mission drivers without advance approval. However, no corrective action was taken by management.

Effective Internal Controls Are Needed

Because an effective internal control structure has not been established, USAID/Kiev lacks assurance that operating expense funds are safeguarded against fraud, waste, and abuse and are used efficiently and effectively in accordance with laws and regulations. For example:

- A copy machine valued at about $4,000 was ordered by USAID/Kiev in September 1992 and shipped by the supplier in November 1992. Payment was authorized by the U.S. Embassy Germany's Regional Procurement and Support Office in Bonn. However, at the time of the audit the copy machine was not accounted for in Mission property records and could not be located in Mission offices or the warehouse. The audit found that the Mission Executive Office does not routinely prepare reports when items are received or follow up to ensure that items ordered are delivered.

- Notwithstanding concerns raised by the Mission Controller, USAID/Kiev was reimbursing the landlord for utility costs even though the lease for Mission office space required that the landlord bear the costs.

- The Mission lacked assurance that Mission vehicles were used only for authorized purposes because documentation on vehicle use was unreliable or non-existent.

- Mission vehicles and drivers funded from operating expenses were used to transport project-funded personnel on field trips and site visits. These practices appear to circumvent the appropriations process and contradict Agency funding policy as specified in State 323883, dated October 23, 1993. According to the policy, costs of project-related activities should be paid from project funds. Concerns about these practices were raised to Mission management by the Controller on several occasions, but no action was taken.

The audit found instances where transportation and lodging costs for Mission personnel during field trips and site visits were paid by contractors. Concerns about these practices also were raised by the Controller. The practices may be in violation of the "Standards of Ethical Conduct for Employees of the Executive Branch" as found in Title 5 U.S. Code of Federal Regulations, Part 2635. The Regulation prohibits Federal employees from receiving gifts–including travel and lodging–from entities doing business with the employee's agency.

In addition, some Executive Office FSN employees were unclear as to their duties and responsibilities and did not understand the need for internal controls to safeguard Agency resources and ensure efficient and effective operation of the Mission. As a result, USAID/Kiev lacks assurance that the employees are performing at their best and following prescribed Agency and Mission policies and procedures. For example, an FSN occupying a senior position in the Mission Executive Office was uncertain as to his role in overseeing the motor pool and the Mission's non-expendable property inventory. He stated that USAID internal control policies on operating expenses specified in Agency Handbook 23 were unnecessary and did not apply to the unique situations in the Ukraine. According to the FSN, results are his primary concern–it does not matter how they are achieved.

To increase job knowledge among FSN employees and ensure top quality work, a performance evaluation system is needed. Such a system should assess performance against specific criteria so that counseling can be provided, as necessary. In addition, training in the definition and importance of internal controls is required to ensure that FSNs understand and follow internal control procedures.

At the exit briefing conducted at the conclusion of field work, USAID/Kiev management concurred with the audit finding and agreed that action was needed to ensure the efficient and economical use of the Mission's operating expense-funded resources. The Mission's new Director, who arrived in March 1995, said that he and his staff are committed to strengthening the Mission's internal control structure. He also said that the audit comes at an opportune time. Audit results would serve as a guide for the Mission's new Executive Officer, then scheduled to arrive in late April 1995, in addressing the Mission's internal control weaknesses. Meanwhile, the Acting Executive Officer had taken steps to address some of the weaknesses identified in this report by issuing procedures for managing non-expendable property, requiring that Mission drivers obtain advance approval for overtime, and implementing procedures to ensure that lease payments are made on time.

Other Missions' Internal
Controls May Need Strengthening

We selected USAID/Kiev for our first audit of operating expenses in the NIS. We believe, however, that problems identified at USAID/Kiev could exist at the other three USAID Missions in the NIS. Like managers at USAID/Kiev, managers of the other Missions were under intense pressure to begin delivering assistance as soon as possible. As a result, effective internal controls may not have been implemented. In addition, USAID's Report to the President and Congress for Fiscal Year 1994 under requirements of the Federal Manager's Financial Integrity Act identified a lack of standard operating procedures by Missions in the NIS as a material weakness in the Agency's internal control structure. The report also identified management of non-expendable property–a problem identified at USAID/Kiev–as an Agency-wide weakness.

Management Comments and Our Evaluation

The ENI Bureau did not respond to the draft report, and the Mission's response did not specifically address the report's audit recommendation. However, the Mission response did describe measures being taken to address the internal control weaknesses cited in the report. These measures meet the intent of the audit recommendation which is resolved upon issuance of the report. The recommendation can be closed upon presentation of evidence that: (1) the Mission's internal controls for administrative management of operating expenses have been strengthened; (2) non-expendable property records maintained by the Controller's and Executive Offices have been reconciled with the Mission's property inventory; (3) a system for evaluating performance of FSN employees has been implemented; and (4) training in the importance of internal controls has been provided to FSN employees. Internal control weaknesses noted during the audit and Mission actions to address them are summarized at Appendix II to this report.

SCOPE AND METHODOLOGY

We audited operating expenses at USAID/Kiev. The Mission's operating expense budget for fiscal year 1994 was about $1.8 million. The audit, performed from January 31, 1995 to June 12, 1995 at USAID/Kiev, was conducted in accordance with generally accepted government auditing standards.

In addition to Mission-level expenditures, USAID/Washington transferred funds to the U.S. Department of State under Memoranda of Agreement (MoA) between USAID/Kiev and the U.S. Embassy Kiev. The MoA provide for administrative support by the Embassy to the Mission, including medical care for direct-hire personnel and cable service. Funds transferred under the MoA for fiscal year 1994, totaling about $170,290, were not included within the scope of the audit.

USAID/Kiev is not an official Agency accounting station. Most transactions processed by the Mission Controller's Office are authorized for payment by the Controller at USAID/Moscow. USAID/Moscow also maintains automated accounting records. The scope of the audit was limited to the processing of transactions by USAID/Kiev and did not include authorization and accounting by USAID/Moscow.

The audit assessed the adequacy of USAID/Kiev's internal controls over major categories of operating expenses. The categories, chosen based on the Mission's budget for fiscal year 1994 and concerns noted during the audit survey, included: expendable and non-expendable property; motor pool operations; leases and rents on Mission residences and offices; overtime charges by Foreign Service National employees; official travel; and, long-distance telephone usage. The audit determined whether USAID/Kiev had established internal controls to ensure that: (1) applicable financial management criteria are followed in processing financial transactions; (2) operating expense funds are used economically and efficiently and in accordance with Agency administrative policies and procedures and applicable laws and regulations; and, (3) resources are safeguarded against fraud, waste, and abuse.

To identify internal control procedures in place, we: (1) reviewed USAID/Kiev Mission Orders; (2) analyzed documentation related to operating expenses; and, (3) interviewed staff of the Mission Controller's and Executive Offices. We then tested the procedures through a judgmental sample of transactions from the period September 1994 through January 1995. Because of time and resource constraints, audit testing was limited to those transactions necessary to identify significant weaknesses in the Mission's internal control structure. Mission management concurred with the limited testing approach, and acknowledged that serious weaknesses existed in the Mission's internal controls.

Internal control weaknesses relating to management of operating expenses by USAID/Kiev are presented in the body of the report and summarized at Appendix II. The audit tested compliance with the requirement of the Federal Manager's Financial Integrity Act and USAID Handbook 19, titled Financial Management, that Missions establish effective internal controls. We assessed controls at USAID/Kiev against Agency internal control standards, policies, and procedures for managing operating expenses as specified in USAID Handbook 19 and Handbook 23, titled Overseas Support. In addition, we tested whether official travel by Mission staff was being done in accordance with requirements of Title 5 U.S. Code of Federal Regulations Part 2635 restricting Federal employees from accepting travel and lodging from government contractors.

Assessment of Internal Controls For Operating Expenses USAID/Kiev

The audit assessed the adequacy of USAID/Kiev's internal controls for the following categories of operating expenses:

- expendable and non-expendable property;
- motor pool operations;
- leases and rents on Mission residences and offices;
- contracts for Foreign Service National (FSN) employees;
- official travel; and,
- office utilities and long-distance telephone use.

The categories were selected based on the Mission's budget for fiscal year 1994 and concerns we noted during the audit survey.

To identify internal control procedures in place for each operating expense category, we:

- reviewed USAID/Kiev Mission Orders;
- analyzed documentation related to operating expenses; and,
- interviewed staff of the Mission Controller's and Executive Offices.

We then tested the procedures through a judgmental sample of transactions from the period September 1994 through January 1995.

<u>Expendable and Non-Expendable Property</u>

Expendable property, including such items as office supplies and maintenance materials, is consumed when used or loses its identity by becoming an integral part of another item of property. Non-expendable property refers to items which are complete in themselves, do not lose their identify or become a component part of another item when used, and have an anticipated useful life of more than two years. Included in this category are motor vehicles, furniture, and appliances.

The audit found the following internal control weaknesses in the management of expendable and non-expendable property:

There was no separation of duties in managing expendable and non-expendable property.

- An FSN employee controlled the Mission's $554,000 inventory of furniture, appliances, and office equipment with little supervision. He received and inspected new items delivered to the Mission, managed the warehouse where property is stored, distributed items to Mission residences and offices, and maintained the database for tracking the location and disposition of property.

Documentation needed to manage and account for non-expendable property was not available.

- Procurement plans, required by USAID Handbook 23, Chapter 4A, for non-expendable property items based on the Mission's projected property needs and current supplies had not been prepared. Such plans were particularly critical since the Mission was planning to hire eleven additional employees under personal services contracts.

- Inventories of property in Mission residences and offices had not been prepared and signed by occupants acknowledging receipt and accepting responsibility for the property items, as required by USAID Handbook 23, Chapter 4A.

- Receiving reports were not routinely prepared when items were delivered, and follow-up on purchase orders was not done to ensure that items ordered were received. In some cases, duplicate receiving reports were prepared. As a result, Executive Office records could not be reconciled with Controller's Office records, and the Mission lacked assurance that items purchased were delivered. For example, a copy machine valued at about $4,000 was ordered by USAID/Kiev in September 1992 and shipped by the manufacturer in November 1992. Payment was authorized by the U.S. Embassy Germany's Regional Procurement and Support Office in Bonn. However, at the time of the audit the copy machine was not accounted for on Mission property records and could not be located in Mission offices or the warehouse.

- When non-expendable property was moved between locations, recipients usually were not required to sign for the property items. Although a form was prepared identifying the property and the old and new locations, the form was signed by the delivery person and not by the individual receiving the items as required in Handbook 23, Chapter 4A.

- There was no documentation available concerning methodology or results of a non-expendable property inventory conducted in July and August 1994.

Security of the non-expendable property data base was not assured.

- A computer data base was the primary method for managing and accounting for the Mission's non-expendable property inventory. At least two FSNs had access to the data base. In addition, we were able to access the data base from one of the terminals in the office reserved for temporary duty personnel.

A disposal program for non-expendable property had not been established.

- The Mission warehouse was filled to near capacity with unusable furniture, appliances, and equipment. For example, the warehouse contained 24 American-made refrigerators and freezers which had been transferred to USAID/Kiev from another USAID Mission. According to Executive Office officials, the refrigerators and freezers were too large for apartments in Kiev and could not be used. Other unusable items included Ukrainian-made furniture and equipment that was used in Mission offices prior to arrival of U.S.-made items.

Mission Action

According to its response to the draft audit report, USAID/Kiev has taken the following actions:

- A procurement plan for the Mission has been prepared. It will be used to set priorities for procurement and to monitor expenditures for property items.

- Receiving reports will be prepared for all property received by the Mission. Transfer forms will be prepared when items are moved between Mission locations.

- The Mission's non-expendable property inventory will be reconciled with Controller's Office records quarterly. Mission officials believe that this procedure should prevent the preparation of duplicate receiving reports.

- The Mission has recruited for the following positions in the Property Management Office: a receiving and inspection clerk; supply clerks for expendable and non-expendable property; and two warehousemen. Selections have been made and the employees are scheduled to begin work by September 1, 1995.

- The Mission reviewed the warehouse inventory of furniture, appliances, and equipment and identified items for disposal. The items will be sold prior to September 1, 1995.

- A property inventory will be conducted at the end of fiscal year 1995 and the results reconciled with the Controller's Office. Inventory lists of property in offices and residences will be prepared and signed by occupants.

- Security of the non-expendable data base was improved immediately upon comment by the auditors.

Motor Pool Operations

The motor pool fleet consists of nine vehicles. There are nine drivers and a dispatcher. The motor pool is under the supervision of the Mission's General Services Officer who reports to the Executive Officer.

The audit found the following internal control weaknesses in the management of the Mission's motor pool:

There was no separation of duties in the management of motor vehicles.

- The Mission's dispatcher was responsible for assigning vehicles to drivers and jobs, recording vehicle use, preparing driver's time sheets, tracking fuel purchases, and monitoring vehicle maintenance and repairs.

Documents needed to manage and account for vehicle usage and drivers' time were either nonexistent or unreliable.

- Requests for vehicles were generally made by telephone and no official documentation was prepared.

- Drivers were not properly recording vehicle usage. Vehicle use logs prepared by the drivers did not routinely record: who was using the vehicle; the purpose for the trip and the destination; whether the trip was for official purposes or authorized personal use; and periods when the vehicle and driver were not being used.

- Certain drivers were paid overtime without obtaining advanced approval as required by their contracts. In some cases, overtime exceeded drivers' regular salaries. For example, for the pay period ending February 4, 1995, a driver was paid for 90 hours at his regular salary rate of $1.82 per hour and 63 hours of overtime at one and one-half times his hourly rate. The overtime payment of $171.99 exceeded his regular salary of $163.80 for the pay period.

Mission Action

In response to the draft audit report, Mission officials indicated that the following actions have been taken:

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- The Deputy Executive Officer now supervises the motor pool. He reviews all motor pool records on a monthly basis and approves vehicle requests. The Mission Order on use of motor vehicle has been revised.

- A Mission policy has been issued requiring advance approval of all overtime for Mission employees, including drivers. The only exception is drivers on field trips outside of Kiev.

- Personal use of Mission vehicles now requires advance authorization by the Deputy Executive Officer. A new vehicle request form has been designed which incorporates information needed to monitor vehicle use.

- The motor pool supervisor maintains a spreadsheet to account for motor pool activities, including overtime, vehicle fuel consumption and mileage, and bills for collection for personal use of Mission vehicles.

Leases and Rents

We reviewed documentation related to eight of the Mission's 19 leases. The eight leases covered:

- Mission office space;
- the warehouse;
- four residences,
- storage space for a residence, and
- two parking spaces for Mission vehicles.

The audit found the following internal control weaknesses:

Documentation needed to manage the leases was not available.

- Memoranda documenting negotiation of leases signed prior to fiscal year 1995 were not prepared.

- There was no evidence in the files of landlords' ownership and/or authority to lease the properties, or that the leases were registered with the Ukrainian Government. These issues raise questions concerning legality of the leases and the Mission's legal recourse in a dispute with the lessor.

- The Mission was leasing a storage area for a residence under a separate lease. The rental fee was $1,120 per year. However, there was no documentation as to why the area was being leased separately and no evidence that Washington approval for the lease was obtained as required by USAID Handbook 23, Chapter 5.

- There was evidence in the files that Mission-funded repairs on newly leased residences exceeded $5,000. However, there was no documentation that Washington approval for these repairs was obtained as required by USAID Handbook 23, Chapter 5.

- Lease files for two parking spaces did not include documentation that Washington approval to lease the parking spaces was obtained.

- A residential lease was signed by the USAID/Kiev Executive Officer as the contracting officer for the U.S. Embassy Kiev. However, there was no evidence that contracting authority had been delegated by the Embassy. This raises questions concerning the validity of the lease.

- There was no documentation in the files to support the decision to rent office space in the Rus Hotel under purchase order, nor was there documentation of Washington approval for this arrangement. The Mission began renting the space on September 1, 1994. Payments for the first four months totaled about $3,000 per month. However, as of January 1995, the rate had increased to approximately $7,000 per month--an increase of over 100 percent.

A system had not been implemented to ensure that leases were current.

- Two leases we reviewed terminated on December 31, 1994. At the time of the audit, February 1995, new leases had not been negotiated. However, the Mission continued to use the properties.

- Payments for four leases we reviewed were overdue. For example, payment on a residential lease was due December 1, 1994. However, at the time of the audit, February 1995, payment had not been made because the Executive Office had not prepared vouchers requesting payment by the Controller. The Mission was using the residence for computer training. Mission-owned property including six computers, a television set, and a video cassette recorder was in the building.

Mission Action

The Mission response indicated that the following actions have been taken :

- Lease files have been standardized. Memoranda of negotiation have been prepared for leases signed since October 1994.

- Lease format now requires the lessor to certify that he or she is authorized to make the lease. A local attorney has reviewed the lease format and indicated that it is valid under Ukrainian law.

- Retroactive approval from Washington on parking space leases has been obtained.

- Since the arrival of the Deputy Executive Officer in October 1994 there have been no leases with make-ready costs exceeding $5,000. Costs for refurbishing property for lease are built into the cost of the lease.

- The Mission no longer rents office space at the Rus Hotel. The Mission began leasing office space in an adjoining building in May 1995. According to the Mission response, the new office space accommodates approximately 33 Mission employees at costs comparable to those charged by the Rus Hotel for 16 employees.

- A computer data base has been established to assist the Deputy Executive Officer in determining when payments on Mission leases are due. It is now Mission policy to prepare payment vouchers for leases 60 days prior to the due date.

FSN Contracts

The audit identified the following internal control weaknesses concerning management of FSN employees:

An evaluation system for foreign service national employees had not been implemented.

- A Mission Order, dated November 27, 1994, established policies and procedures for evaluating performance of FSN employees. However, at the time of the audit an evaluation system based on the Mission Order had not been implemented.

Some FSN employees working in the Executive Office were unclear as to their duties and responsibilities and did not understand the need for internal controls.

Mission Action

- The Mission's Executive Officer has rewritten position descriptions for all Executive Office staff and reorganized employees into functional departments. He has also begun implementing job training programs for the staff. The Assistant Systems Manager is taking training in UNIX systems and the Personnel Assistant will attend the Classification and Compensation Course in August 1995. Next fiscal year the Mission plans to send one person to a course on the Federal Acquisition Regulations and provide training to its FSN employees in contracting, property management, computers and English language skills.

- The Executive Officer has instituted a system whereby employees cannot receive annual step increases unless full performance reviews have been prepared by their supervisors. Additionally, a personnel management system based on new Mission Orders will be implemented by the end of summer 1995.

Official Travel

In addition to interviewing Controller and Executive Office personnel concerning travel-related issues, we reviewed 14 randomly selected travel authorizations for travel during January 1995. We analyzed the travel authorizations to determine whether they were timely and properly approved. The work identified the following internal control weaknesses:

Travel expenses for some USAID/Kiev employees were paid by contractors in possible violation of Title 5 U.S. Code of Federal Regulations Part 2635, prohibiting Federal Employees from receiving travel and lodging from entities doing business with the employee's Agency.

- A USAID/Kiev direct hire and an FSN travelled via an aircraft chartered by a USAID-funded Enterprise Fund to Donetsk, Ukraine for meetings with city officials.

- Lodging costs for several USAID/Kiev employees were paid by USAID contractors.

- Drivers and vehicles funded from Mission operating expenses were used to transport project-funded personnel on official field trips and site visits.

Mission Action

- Mission employees have been briefed on the implications of conflict of interest and advised to consult with the Contracting Officer and the Executive Officer if they have questions.

- To provide transportation for project employees, the Mission response indicated that the Mission is purchasing five additional vehicles and hiring five drivers. The vehicles and drivers will be funded from project funds.

Office Utilities and Long-Distance Telephone Use

There were no controls over long distance telephone calls.

- Long-distance calls, averaging about $2,000 per month, could be made from most office telephones without restriction. Detailed lists of long distance calls were not readily available. Requests had to be submitted to the landlord who was reluctant to provide such lists. Rather, the landlord submitted a monthly bill to the Mission for payment showing the total for all long distance calls made during the month.

Although the lease for Mission office space provides that the landlord should pay for utilities, the Mission was reimbursing the landlord for electricity and use of telephone lines.

Mission Action

- The Mission has issued a telephone use policy and instituted a system of monitoring printouts of telephone calls on a monthly basis to control personal use. The policy also requires use of the Embassy tie-line for calls to Washington and the e-mail gateway for faxes. The Mission is creating a computer program that will enable personal calls to be identified. All Mission offices are required to submit a monthly log of long distance calls, including personal calls.

- In the Mission response, officials indicated that wording of the lease for Mission office space is ambiguous as to whether utility costs should be paid by the landlord or the Mission. However, according to the officials it was never the intent that the landlord should pay. Officials indicated that the lease has been amended to clarify this point.

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August 3, 1995

TO: RIG/A/Bonn, John P. Competello

SUBJECT: Audit-Representation Letter--Audit of Operating Expenses at USAID/Kiev

During the period January 31, 1995 to June 12, 1995, RIG/A/Bonn conducted the subject audit for the purpose of answering the following audit objective:

Did USAID/Kiev implement internal controls to ensure that operating expenses are managed economically and efficiently and in accordance with applicable financial and administrative management criteria?

As of (date of letter), and to the best of my knowledge and belief, I confirm the following representations made to you during the audit.

1. For USAID/Kiev resources funded from Mission operating expenses, I am responsible for:

   - establishing and maintaining a system of internal controls within the Mission,

   - compliance with applicable USAID policies and procedures, and U.S. laws and regulations, and

   - the fairness and accuracy of our management information.

2. I have asked the most knowledgeable, responsible members of our staff to make available to you all records in our possession for purposes of this audit. Based on the written representations made by these individuals, and my own personal knowledge, I believe that those records constitute a fair representation as to how USAID/Kiev operating expense funds were used.

3. To the best of my knowledge and beli f, USAID/Kiev has disclosed any known:

   - irregularity involving management or employees who have roles in the internal control structure,

   - irregularity involving any other organizations that could affect the subject audit, and

   - communication from any other organizations that could affect the subject audit.

4. To the best of my knowledge and belief as layman, and not as lawyer, USAID/Kiev has not withheld any information about instances of material non-compliance with USAID policies and procedures or violations of U.S. law or regulations.

5. Following my review of your draft audit report and further consultation with our staff, I know of no other facts as of the date of this letter which, to the best of my knowledge and belief, would materially alter the conclusions reached in that document.

Gregory Huger
Gregory Huger,
D/USAID/Kiev

(If desired, other person(s) with major responsibility and knowledge of the information concerning the activity being audited.)

USAID

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August 10, 1995

MEMORANDUM

TO: Barbara Turner, DAA/ENI

FROM: Gregory Huger, DIR

SUBJECT: Audit of Operating Expenses at USAID/Kiev, Audit Report No. 8-121-95-XXX, Mission Comments

General Comments

Many of the corrections to deficiencies raised in the audit were completed by Mr. Warren Duerbeck at the time of the audit. He was performing as TDY/EXO at that time. Following are our comments on the points raised in the draft report by John P. Competello, RIG/A/Bonn.

Control Procedures

Mission Orders

A Mission Order public directory has been set up in Windows for all employees to have access to USAID/Kiev's Mission Orders. A draft of a Mission Order on Delegations of Authority was sent to all Office Chiefs on 5 June 1995. Drafts of Mission orders on a series (8 in total) of FSN Personnel Mission Orders have been reviewed with one other USDH. They are to be reviewed by an FSN Committee and signed by the Mission Director before the end of August.

Reconciliation of NXP

A program of quarterly reconciliation of NXP with the controller's office is being instituted. Adequate staff has not yet been hired to perform this function (see next item). Systems and training are to be performed to insure that the system is properly maintained.

Separation of controls for NXP Property

We have recruited the following positions for the Property

Management Office of the Executive Office: Receiving & Inspection Clerk, NXP Supply Clerk, EXP Supply Clerk, and two Warehousemen. Selections have been made and these employees are scheduled to start working by 1 September 1995.

Separation of Controls, Motorpool Management

The Motorpool is now under the direct supervision of the Deputy Executive Officer who is delegated authority to approve vehicle requests and who reviews all Motorpool records on a monthly basis. A Mission Order is in place which covers Mission Policy on use of official vehicles. Despite this fact we have reviewed this M.O. and are revising it. The revised order will be issued before the end of July 1995.

Motorpool Drivers being paid overtime without advance approval

Mission Policy has been issued and implemented which requires advance approval of all overtime (not only drivers). The only time that this is not possible is when drivers are on field trips and are required to work overtime outside Kiev.

Documentation to account for motorpool operations unreliable or non-existent

The Motorpool Supervisor now maintains a sophisticated Lotus 1,2,3 series of spreadsheets which accounts for all motorpool activities. These spreadsheets monitor, among other things, overtime, vehicle fuel consumption and milage, vehicle use, bills of collection for personal use, etc.

Documentation of vehicles for authorized purposes not done

Use of vehicles for personal use now requires advance authorization by the Deputy Executive Officer. A new vehicle request form has been designed which incorporates all necessary information to determine purpose of vehicle use. Motorpool Supervisor prepares monthly bills of collection for personal use. The new Mission vehicle policy will further insure that personal use of official vehicles is minimized.

OE Funded drivers and vehicles used to transport project funded personnel

The Mission is purchasing 5 project funded vehicles and hiring five project funded drivers to provide transportation services to project funded employees. The PIO/Ts for both of these activities have been signed. Purchase Orders for vehicles are being prepared (three have been signed and sent to the vendor). The Deputy EXO and Motorpool Supervisor have interviewed and tested drivers and the positions will be filled prior to the arrival of the vehicles.

Preparation of Vouchers for payment of leases

Mr. Fritz brought a Lease Monitoring Data Base System with him from his last post (Burundi). It has been adapted for use in Kiev and is designed to assist the Deputy EXO in determining when lease payment 1034s are to be prepared. It is now Mission policy that these vouchers will be prepared 60 days prior to the payment due date. A copy of a print-out showing payment due dates and amounts is attached.

Memoranda documenting negotiation of Mission leases were not routinely prepared

All lease files have been standardized. Memoranda of Negotiation have been prepared and are in all lease files created since the arrival of Mr. Chris Jones in October 1994.

Signed inventories by occupants of AID leases

The Property Management Office created files for each residence and office. A inventory signed by the occupant of the residence or the occupant of the office has been executed and is on file.

Preparation of duplicate receiving reports

The division of responsibility, required consultation with the Procurement Office, and internal checks within the department should prevent future accidental creation of duplicate receiving reports. The Mission has also implemented a quarterly reconciliation with the Controller's office to catch discrepancies of this type.

Reimbursement of utility costs despite landlord requirement to absorb such costs in the lease

The lease for the office did not provide for the landlord to pay for utilities, however, the statement in the lease is ambiguous. The lease reads; "5.2 payment for rent is effected in the currency of the United States of America and payment for services and utilities provided by the landlord is effected in the currency of Ukraine". There never was an intention for the landlord to pay the utilities, and the Mission has always paid the them. The lease has been amended to make it clear that the Mission is paying the utilities.

Evidence of landlords ownership of leased property

All leases prepared starting in FY 95 have the following statement: "Article 4, the lessor represents and warrants that he/she is duly authorized to make the lease." We have had our lease format checked with our local attorney who has indicated that they are valid under Ukrainian law. Ukrainian legislation does not call for leases to be registered with the Government, further, the Embassy does not register their leases nor require legal opinions as to the authenticity of the ownership of each lease. USAID has been following Embassy practice in this respect.

AID/W approval of lease of storage area not obtained

This lease expired on 8 January 1995 and was not renewed. Because of the lease has expired the Mission did not seek retroactive AID/W approval.

AID/W approval for lease of parking spaces not obtained

Retroactive approval from M/AS/OMS was obtained on 6/12/95.

No documentation for lease make ready costs exceeding $5000

Since the arrival of the Deputy EXO there have been no leases with make-ready costs exceeding $5000. All costs for refurbishing leases are built into the cost of the lease. Even though this cost is built into the lease our average lease cost has dropped from $5500 per month to $2500 per month.

No documentation for lease of RUS hotel space as office space

Systems have been instituted to require creation, authorization, and funding of lease documentation prior to use of space. USAID vacated the RUS hotel and leased office space in an adjoining office building effective 10 May 1995. This office space now houses approximately 33 USAID employees (capacity 42) for approximately the same cost that the RUS hotel charged for 16 employees.

Control of long distance phone calls

The Mission has issued a telephone use policy, has instituted a system of monitoring printouts of telephone calls on a monthly basis to control personal use, and is creating a computer program that will automatically identify calls which need to be reviewed to determine if personal calls have been made. All departments are required to submit, on a monthly basis, a log of all long distance calls, including personal calls. Mission policy has been issued requiring personnel to use the Embassy tie-line to call Washington and to use the E-Mail fax gateway to send all possible faxes. A system to charge for use of fax and telephones by projects is in the design stage.

Procurement Plan

Mr. Fritz completed a procurement plan during the first month of his assignment to Kiev. This plan is now being used to set priorities for procurements and to monitor expenditures. MACS VIEW has been installed to assist in monitoring the OE budget, however, to date the information contained in this system is not adequate to provide useful information.

Copy Machine ordered and paid for without receiving report

The Mission has established a baseline inventory and control systems to prevent this from occurring in the future (a quarterly reconciliation with the Controller's Office is one of the controls).

Disposal of unusable Property

The week of July 7-14 a review of property in the USAID warehouse was conducted by the Executive Officer, the Deputy Executive Officer and the Property Management Officer. Property to be disposed was identified. The Property Management Office has been instructed to prepare disposal sale documentation and conduct a sale prior to Sept 1, 1995.

Security for NXP Database

According to the Systems Manager this issue was addressed as soon as it was pointed out by the auditors.

Expendable property receiving reports not done, generally incomplete documentation

Receiving reports are now done for the receipt of all property without exception. The new Property Management office with its division of responsibilities will further insure proper management of NXP and EXP.

No transfer receipts prepared or signed for transfer of NXP

As stated in the item above, transfer forms are completed for the movement of all property without exception. Unless there is an emergency, these forms are created and approved in advance. As the Property Management Office goes from a one person office to a four person office management and control of the transfer functions will improve greatly. This is even more important as our office grows, obtains more project funded positions (the separation of OE and

Project Property will become a more important issue), and prepares for a move to a new office building.

No results or documentation of NXP inventory conducted in 1994

The 1995 year end inventory will be conducted and documented as required in the regulations. New signed inventories for offices and residences will be prepared and the inventory will be reconciled with the Controller's office.

Transportation and lodging for site visits paid for by contractors

Employees have been briefed on the implications of conflict of interest and currently consult the Contract Officer and the Executive Officer when they have questions.

Documentation to Support Management Decisions

Mission orders assigning accountability and documenting local policies and procedures not prepared

Mission Orders except in a few instances are low on the priority list for this Mission. Procedures and policies have been issued for property management, vehicle management, telephone usage, employee recruitment and selection, etc.

System for Assessing FSN Performance

Training to define internal controls/EXO office employees unclear on duties and responsibilities

The new executive officer has been rewriting position descriptions for all Executive Office Positions, has reorganized employees into functional departments and is implementing both formal and on the job training programs. The Personnel Assistant will be attending the Classification and Compensation Course in August 1995. The Assistant Systems Manager is currently training (July 1995) in UNIX systems. Next fiscal year we plan on sending one of our Procurement staff to the FAR course. We also hope to be able to take advantage of some regional contracting courses as well. Additional in house training is planned for C&R and Property Management. We are planning to have these courses taught by experts from other Missions who are currently working in these fields. Training plans are currently being written in the areas of computer and English language training.

Performance Evaluation

Although a Performance Evaluation Mission Order had existed the system had not been fully implemented. The current Executive Officer instituted a system whereby the employee cannot receive his/her annual step increase unless a full performance review is written by his/her supervisor. The system was discussed with all department heads during a staff meeting and there was consensus that this system of insuring that evaluations are written would be effective. Additionally, as stated above a series of Mission Orders creating an entire system of local personnel management are currently in draft form and are expected to be reviewed by staff and approved before the end of the summer.