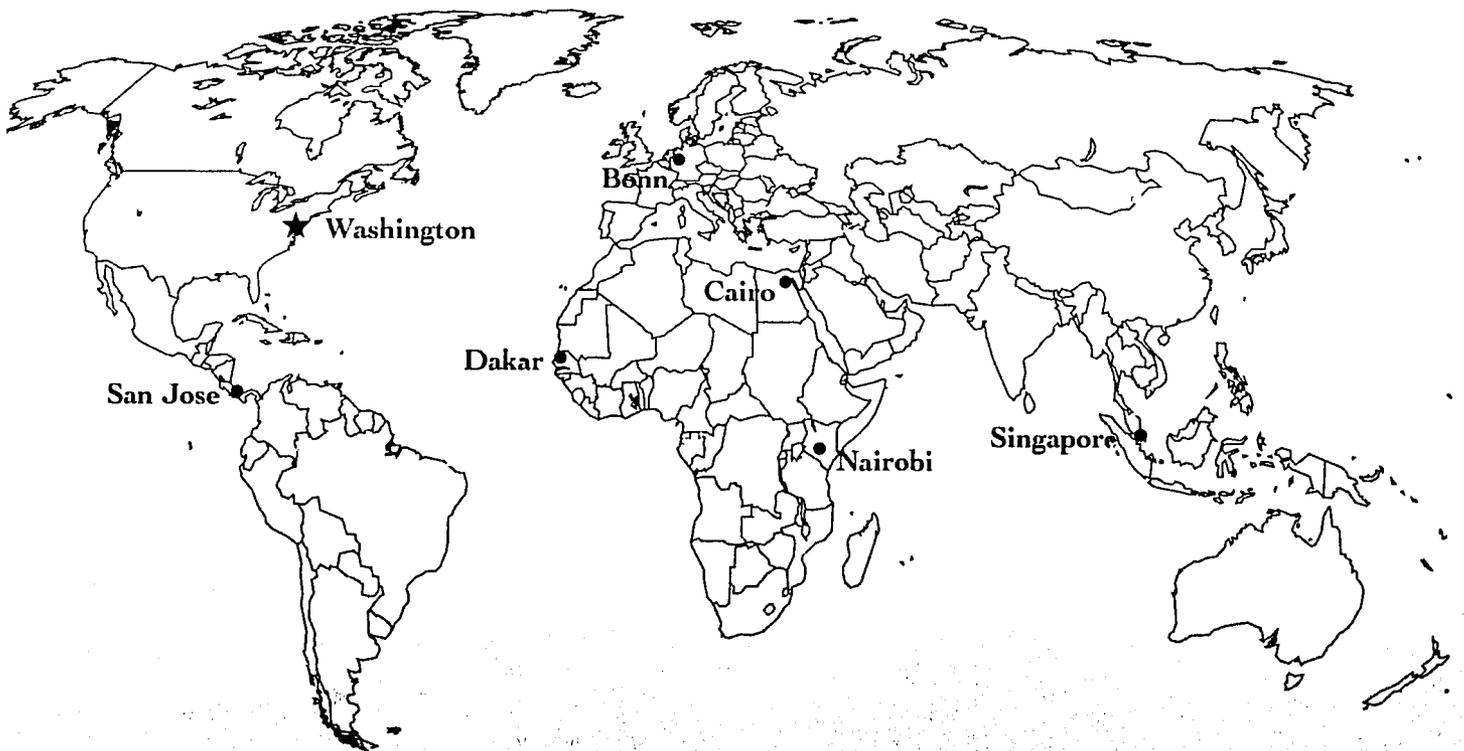


Regional Inspector General for Audit
Frankfurt

Audit of Russian Officer Resettlement Program under USAID Project 110-0008

Audit Report No. 8-118-96-001
December 4, 1995



**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

December 4, 1995

MEMORANDUM

TO: USAID/Moscow - Director, James A. Norris

FROM: RIG/A/Frankfurt, John P. Competello

SUBJECT: Audit of Russian Officer Resettlement Program under USAID
Project 110-0008, Audit Report No. 8-118-96-001

This memorandum is our report on the subject audit. In preparing the report, we considered your written comments on our draft report and these are included in their entirety as Appendix II.

The audit found that USAID designed and implemented a system of internal controls to provide reasonable but not absolute assurance that the Russian Officer Resettlement Program was carried out in compliance with the Program agreements. In particular, the internal control system was effective in minimizing, but not necessarily eliminating, the risk that Russian officers ineligible for housing were receiving program benefits. The report contains no recommendations.

I appreciate the cooperation extended to my staff during the audit.

Background

In July, 1993, President Clinton promised Russia's President Yeltsin assistance to resolve a critical constraint in Russian demilitarization of the Baltic States; that was, providing housing in Russia for demobilized military officers residing in the Baltic States. In January 1994 the United States Agency for International Development (USAID) authorized \$160 million, through an existing USAID Housing Sector Reform Project (110-0008), for the Russian Officer Resettlement Program. After extended negotiations, the United States and the Government of Russia (GoR) signed a bilateral

agreement, in July 1994, committing these funds to a specific program to provide up to 5,000 housing units in Russia for discharged military officers repatriated from the Baltic States and other places outside of Russia.

This \$160 million commitment formed a critical part of the U.S. foreign policy objective calling for withdrawal of Russian troops from the Baltics. This commitment also served in part as an incentive to the Baltic governments to accept bilateral agreements on Russian troop withdrawal. It also separated the issue of withdrawing active Russian troops in these countries from the approximately 5,000-6,000 discharged Russian officers who remained in the region. In August 1994 Russia withdrew all active forces from Estonia and Latvia and negotiations continued on the status of discharged officers. According to U.S. officials in the region, the favorable outcome of negotiations between the GoR and the Baltic governments on troop withdrawal was heavily influenced by the USAID program.

Management and oversight of the Russian Officer Resettlement Program was delegated to USAID/Moscow in January 1994. To implement the program, USAID/M used a pilot and a follow-on activity. The pilot activity consisted primarily of two components—direct construction and a housing certificate test. Based upon the pilot, the two components were refined, the certificate test component expanded and both were incorporated into the follow-on activity. The pilot activity provided 452 housing units for discharged Russian officers.

Under the follow-on activity for the Resettlement Program, it was decided to divide it equally between two components: 1) distribution and redemption of 2,500 housing vouchers/certificates (hereafter referred to as certificates) and 2) construction and awarding of 2,500 housing units built to Russian standards by Russian and/or joint venture (American-Russian) companies.

Subsequent to the U.S. commitment, the Congress rescinded \$15 million from the program. As a result of the rescission, and a decrease in the estimated number of eligible Russian officers, USAID reduced the number of certificates to 2,370 and the number of constructed units to 2,128 for a total of 4,498 units.

As of June 30, 1995, USAID/Moscow reported that about \$150 million was obligated in contracts and \$10 million was being held for contingencies. USAID reported accrued expenditures of about \$110 million (see Appendix III for details). Adjustments to the amount obligated as a result of the Congressional rescission had not been finalized at the time of the audit.

Audit Objectives

As part of its fiscal year 1995 audit plan, the Office of the Regional Inspector General for Audit/Bonn audited USAID funded activities in Russia under the Russian Officer Housing Resettlement Program of the Bureau for Europe and the New Independent States' Housing Sector Reform Project (No. 110-0008). This audit answered the following questions:

1. Has USAID/Moscow ensured that the housing units are provided on schedule and in accordance with applicable construction standards?
2. Has USAID/Moscow ensured that USAID-financed units are allocated to and resided in by eligible Russian officers?
3. Did USAID/Moscow monitor payments to ensure reasonableness of cost?
4. Has USAID/Moscow taken necessary steps to mitigate the risk of default by Russian subcontractors?

AUDIT FINDINGS

1. Has USAID/Moscow ensured that the housing units are provided on schedule and in accordance with applicable construction standards?

USAID/Moscow has reasonably ensured that the housing units are provided on schedule and in accordance with applicable construction standards. USAID/Moscow (USAID/M) accomplished this through contractors—two responsible for implementing the certificate program and another responsible for managing and supervising the direct construction component. USAID/M required that the housing units provided were to Russian norms, that is to existing social norms for size and in conformance with Russian building codes and standards.¹

Discussions within the U.S. Government to decide the final shape of the program took until January 1994. Additional modifications in July 1994 called for evenly splitting the number of units to be provided through the

¹ See Appendix IV for an overview of the certificate and construction components.

certificate and the construction components. The certificates have been distributed and were being redeemed within a reasonable period. As of August 1995, over 90 percent of the housing units to be provided through the certificate component had been provided. As required by USAID/M's implementing contractors (Abt Associates, Inc. and the Urban Institute) prior to redemption of a certificate, the local housing authorities confirmed to the designated Russian bank redeeming the certificate that the housing unit met Russian housing norms.

At the time of the audit, the direct construction component was substantially on schedule and this schedule was closely monitored by USAID/M's construction management and supervision contractor (Ralph M. Parsons Company), as well as USAID/M's program management contractor (Center for Financial Engineering and Development). The construction management and supervision contractor ensured that all construction codes and standards were adhered to and appropriate certificates were obtained from local authorities, such as acceptance of electrical installations and the occupancy certificates.

2. Has USAID/Moscow ensured that AID-financed units are allocated to and resided in by eligible Russian officers?

USAID/Moscow has generally ensured that USAID-financed units are allocated to and resided in by eligible Russian officers. USAID designed and implemented a system of controls which provided reasonable assurance, but not absolute assurance, that eligible Russian officers were allocated or assigned units and resided in these units. For the items tested, we did not identify any ineligible military officers allocated, assigned and/or residing in the USAID-financed units. However, USAID/Moscow (USAID/M) must rely on the Russian Ministry of Defense (MoD) and other Russian organizations for identification and confirmation of eligible officers. While the documentation requirements and established procedures are extensive and have led to identification and disqualification of officers, the high risk environment in which the USAID activity operates makes it impossible to maintain that only eligible officers were allocated and reside in the USAID-financed housing units (see Appendix V for discussion of the review process to ensure the eligibility of Russian officers).

To verify that the eligibility review process was operating as intended, the audit visited 6 of the 12 locations where officers had either purchased units (11 locations in the certificate program) or been assigned units (one location

in the direct construction program). At each of these locations, appropriate local officials from the housing offices, military commissariats, bankers, registration offices, construction contractor and others involved in the program were interviewed. Selected eligibility documentation was reviewed to determine if procedures were being followed as intended. We found the participants to be rigorous in their eligibility reviews. Several officers had either been delayed until they could present every document required or had been eliminated from the program for not meeting one or more requirements.

To confirm that the recipients were the same as those persons occupying the housing unit, we selected 101 officer's records for these six locations—91 from the certificate component and 10 from the direct construction component. The audit team visited each of the 101 housing units in an attempt to interview the officer, verify the eligibility information, confirm that the occupant was the recipient, and inspect the unit. For the 101 officers records selected, we were able to interview 18 officers and distributed questionnaires to the 83 officers who were not home at the time of our visit. We determined that these 18 officers previously resided in the Baltics and were eligible to participate in the program. All of the officer interviewed overwhelmingly expressed their gratitude to the United States for providing housing. The officers said that they would still be without housing if it was not for this program. At the same time, many of the officers expressed that the location of the housing was not ideal for them, and they would have preferred to live closer to their families in other regions in Russia. Similarly, although only 7 of the 83 officers given the questionnaire responded, all 7 officers expressed their appreciation for the program and confirmed their eligibility information.

None of the 18 officers interviewed and the seven responding to our questionnaire, nor the local administration officials interviewed, were aware of or believed that ineligible officers were receiving housing. There was near unanimous agreement that the procedures in place made it highly unlikely that ineligible officers would receive housing without eventually being detected. Nonetheless, two Russian officers were arrested in August 1995 for presenting false papers to obtain additional housing through the certificate component. USAID/M was following-up with the MoD to determine how this case occurred. Also, USAID/M was having its contractor, responsible for officer eligibility, improve its data base on certificate applicants and screen the data base for unqualified recipients. Reports of other irregularities were surfacing and being probed by USAID and its contractor.

The audit also questioned the appropriateness of certain Russian officers receiving housing units who were discharged from non-military Russian organizations. USAID/M discussed this matter with the Russian MoD who has notified their representatives in the Baltic States that only officers from military organizations are to be included in the program.

3. Did USAID/Moscow monitor payments to ensure reasonableness of cost?

USAID/Moscow was monitoring payments to ensure reasonableness of cost. USAID/M through its two primary contractors had valuation studies done to ensure that reasonable prices were paid for housing units under the certificate and construction components. Under the certificate component, these studies were updated periodically to ensure that housing purchased was not overpriced. Under the construction component, these studies were used in establishing the unit costs under fixed-priced contracts. Further, USAID/M contracted with another firm to monitor the activities and costs of this program.

Payments made for housing units under the certificate program were made by the local banks participating in the program. When the housing unit was ready to be closed on, the bank reviewed the officer's supporting documentation and submitted the documents to the U.S. accounting firm for final approval. If the U.S. accounting firm found the supporting documentation complete and acceptable, it approved the release of funds to the bank to complete the sale. The seller and the buyer (recipient) visited the bank for the closing. As soon as the unit was transferred to the recipient, the bank released the funds directly to the seller. The seller signed a form acknowledging receipt. This form was sent to USAID/M's contractor for review and documentation of completed transactions. For each of the 91 units selected for testing, the audit confirmed that the participating local bank had released the designated funds to the sellers (See Appendix VI for details). The banks had retained a signed receipt from the seller in the amount designated.

The Mission controller also had his voucher examiners review the costs incurred in Russia of USAID/M contractors. We reviewed the work of the voucher examiners and found that they had generally determined the submitted vouchers were acceptable and if questions were raised that these questions were resolved. Given this check by USAID/M, and that these contractors costs are subject to further audit, we did not conduct any additional tests.

4. Has USAID/Moscow taken necessary steps to mitigate the risk of default by Russian subcontractors?

USAID/Moscow has taken the necessary steps to mitigate the risk of default by Russian subcontractors. Under the Project Grant Agreement between the United States and the Government of Russia (GoR), it was agreed that the GoR would complete any construction project if the Russian subcontractor defaulted. To date, none of the Russian subcontractors had defaulted. Further, USAID/M's construction management contractor has procedures to review the progress of each subcontractor which are in sufficient detail to identify significant delays. The construction management contractor has at times made payments for materials on behalf of the Russian subcontractors to ensure that the construction continued. We believe that these efforts are sufficient to ensure that the construction will be completed and reduce the chance of default by the Russian subcontractor.

MANAGEMENT COMMENTS AND OUR EVALUATION

USAID/Moscow stated that it found the audit to be thorough and the Draft Report of Audit to be a fair and accurate statement of the program objectives and achievements. It commented further that there were a number of factors in the design of the Program that it felt were important factors in reducing risks and in contributing to its success. The most significant factors noted were–

1. A pilot activity was undertaken which resulted in a number of important lessons learned that were applied in the implementation of the follow-on activity. Principal among these was that USAID obtained the strong support and participation of the Government of Russia (GoR). At each stage of implementation, this support has been crucial in solving problems and keeping the program moving.
2. A Project Grant Agreement was negotiated which clearly delineated the responsibilities of USAID and the GoR, including, most significantly, exemptions from taxes and customs duties, financial support to local administrations for infrastructure development, and a GoR guarantee of U.S. Government funds in the event of default by a Russian design/build subcontractor or local bank.

3. The Project Grant Agreement was structured to be the umbrella obligating document for the program with subsequent contracts being the means to implement the Agreement. This provided for greater flexibility in expeditiously redirecting program resources in response to changing circumstances during implementation.
 4. During program design, in response to lessons learned in the pilot, the proportion of units provided through the housing certificate program was increased to 50 percent. This increased the pace of overall implementation and reduced the exposure to inflation-driven cost increases on direct construction contracts.
 5. Mobilization stage payments, though comparatively small and less than the Russian normal practice, allowed the contractors to proceed with projects on a timely basis. During implementation, the design-build subcontractors cited the dependability and timeliness of monthly progress payments (a rarity in Russia) as a key factor in their ability to perform on schedule.
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SCOPE AND METHODOLOGY

Scope

We audited the activities of USAID's Russian Officer Resettlement Program under the Housing Sector Reform Project 110-0008 in accordance with generally accepted government auditing standards. We limited our audit work to the activities related to providing up to 5,000 housing units under this program. We did not review the pilot activities funded under the Housing Sector Reform Project or the continuation of those activities under the Resettlement Program. Audit work sufficient to answer the audit objectives was conducted primarily in Moscow, Russia at the USAID/Moscow Mission and at 10 program locations in Western Russia. The audit was conducted from April 7, 1995 through August 7, 1995, and consisted of:

- reviewing project documentation, contracts, quarterly progress reports, and other documentation relating to the housing program in Russia;
- interviewing USAID and Department of State officials in Washington, D.C.; Moscow, Russia; Tallinn Estonia; and Riga, Latvia;
- interviewing Government of Russia officials and officials of local government administrations, banks, and construction companies to obtain their views of the program and to determine the status of program activities; and
- site-visits including physical inspection, review of records and interviews with recipients were made to 10 of the 24 program locations in the following nine cities in Western Russia—Kaliningrad, Pskov, Rzhev, Tula, St. Petersburg, Saratov, Stary Oskol, Sochi, and Yaraslovl.

During the course of the audit certain allegations of impropriety and fraud in the certificate component were raised which required additional audit work to comment on these allegations. The audit was expanded to determine what, if anything, USAID/Moscow or its contractors could do to detect possible future instances of impropriety or fraud.

Financial information was obtained from the Bureau for Europe and New Independent States (ENI), USAID/Moscow, and its contractors. Because the financial information was used only for descriptive purposes, the information was not audited. We relied on computer processed data to achieve the audit objectives, particularly the recipient/beneficiary data base maintained by Abt Associates, Inc., and the Primavera System on construction status maintained by Ralph M. Parsons Co. We did not determine the reliability of this data, as testing the reliability of the data would have greatly extended the time of the audit. We did test the information produced from these systems, but we have not made projections based on these data systems.

The audit also did not review the pilot activity carried out under the Housing Sector Reform Project, on which the Russian Officer Resettlement Program was patterned, because the pilot activity was reviewed by the U.S. General Accounting Office (GAO) and the GAO did not report any issues and/or problems which effect our audit objectives.

The audit did not attempt to verify the existence or the number of Russian officers residing in the Baltics except through interview or other documentary evidence provided by the Department of State, USAID or other federal agencies and through discussion with Russian Government officials.

Methodology

To answer each audit objective, we reviewed project authorization and implementing documentation, such as the project memorandum, amendments, the bilateral agreement between the governments of the United States and Russia, and contracts with U.S. and Russian organizations, as applicable. We also interviewed 1) USAID staff in Moscow and Washington, D.C. responsible for managing activities, 2) organizations implementing agreements relating to housing resettlement activities, 3) Russian officers receiving the housing units, and 4) other Russian organizations involved in the program, such as local housing administrators and participating bank representatives.

For each of the following audit objectives, we carried out additional steps as stated:

- For Audit Objective No. 1—we interviewed USAID officials, its contractors, the Russian contractors (construction and bankers) and local Russian officials, as well as documentary evidence provided by these officials. We selected five locations for each component of the program on a judgmental basis to observe the housing units provided and completed during the program.
- For Audit Objective No. 2—we reviewed the specific procedures agreed to by USAID, the contractors, and other US Government Agencies to determine if they were complete and reasonable. We made a random sample of records pertaining to six locations (sites) where Russian officers were resettled in order to determine whether these procedures were followed during the authentication of eligible officers. Interviews with cooperating government officials to determine their opinion of the adequacy of review procedures and actual eligibility determination were made. When we could not locate an officer, we left a letter and questionnaire requesting information to verify the officer's eligibility and to inquire if the officer was aware of any ineligible recipients in the program.
- For Audit Objective No. 3—we reviewed USAID/Moscow's procedures for reviewing payments with both project officers and the controller's office. A judgmental sample of paid vouchers to USAID/M's contractors was reviewed to determine if expenditures seemed reasonable or allowable. We also traced payments to the participating Russian contractors and both the construction contractors and the bankers to ensure that payments were made. To the extent possible, we confirmed payments for the housing units purchased through the certificate component.
- For Audit Objective No. 4—we inquired as to what steps had been taken to mitigate risks of default by the Russian subcontractors. We reviewed the bilateral agreement to determine if appropriate clauses were in the agreement to require the Government of Russia to guarantee performance. We also reviewed the payment and monitoring process of USAID/Moscow's construction management and supervision contractor to determine if problems on construction would be observed at the earliest possible stage.

The objectives of this audit did not allow for sufficient testing to comment on the overall adequacy of internal controls of the Bureau for Europe and New Independent States. Therefore, we did not prepare a separate report on internal controls. Likewise, the audit was not designed to perform sufficient testing to comment on the Bureau's overall compliance with laws and regulations, therefore, we also did not prepare a separate report on compliance with laws and regulations.

MANAGEMENT COMMENTS

October 30, 1995

MEMORANDUM

TO: RIG/A/Bonn - Mr. John P. Competello

[signed]

FROM: USAID/Moscow - Mr. James A. Norris, Director

SUBJECT: Audit of Russian Officer Resettlement Program under USAID Project 110-0008

REF: Management Comments to Draft Report

USAID/Moscow found the audit conducted by the RIG/A/Bonn to be thorough and the Draft Report of Audit to be a fair and accurate statement of the program objectives and achievements. We are pleased that the Russian Officer Resettlement Program has developed so successfully.

There are a number of factors in the design of the Program that we feel were important in reducing risks and in contributing to its success. The lessons and experiences of the Program might be applicable to other projects in the future. The most significant factors are noted briefly as follows:

1. A pilot activity was undertaken which resulted in a number of important lessons learned that were applied in the implementation of the follow-on activity. Principal among these was that USAID obtained the strong support and participation of the central Government of Russia (GOR) as represented by the Interministerial Committee for Implementation of the State Program Housing (IMC), co-chaired by the Ministries of Construction and Defense. At each stage of implementation, this central support has been crucial in solving problems and keeping the program moving.
2. A Project Grant Agreement was negotiated which clearly delineated the responsibilities of USAID and the GOR, including, most significantly, exemptions from taxes and customs duties, financial support to local

administrations for infrastructure development, and a GOR guarantee of U.S. Government funds in the event of default by a Russian design/build subcontractor or local bank. The tax/customs exemptions were a key factor in keeping the project within budget. The financial support for infrastructure development by local administrations was crucial in maintaining their support for the project and their willingness to receive beneficiaries in their cities.

3. The Project Grant Agreement was structured to be the umbrella obligating document for the program, with all contracts serving as earmarks within the obligation. This provided for greater flexibility in expeditiously redirecting program resources in response to changing circumstances during implementation.
4. During program design, and in response to pilot experiences, the proportion of units provided through the housing certificate program was increased to 50%. This increased the pace of overall implementation and reduced the exposure to inflation-driven cost increases on direct construction contracts. The certificate program has proved to be very successful, with completion ahead of schedule and below budget.
5. Mobilization stage payments of up to 20% of contract value were made to the direct construction design-build subcontractors to allow for materials purchases at the start of construction. Typically in Russia, contractors receive at least 50% advance payments before commencing construction, as very few firms have the capital to buy projects and wait for reimbursement. The payments, though comparatively small, allowed the contractors to proceed with projects on a timely basis.

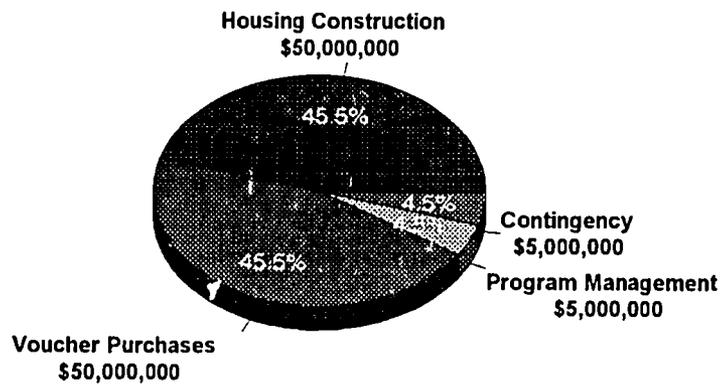
During implementation, the design-build subcontractors cited the dependability and timeliness of monthly progress payments (a rarity in Russia) as a key factor in their ability to perform on schedule.

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Detailed Financial Information on the Program

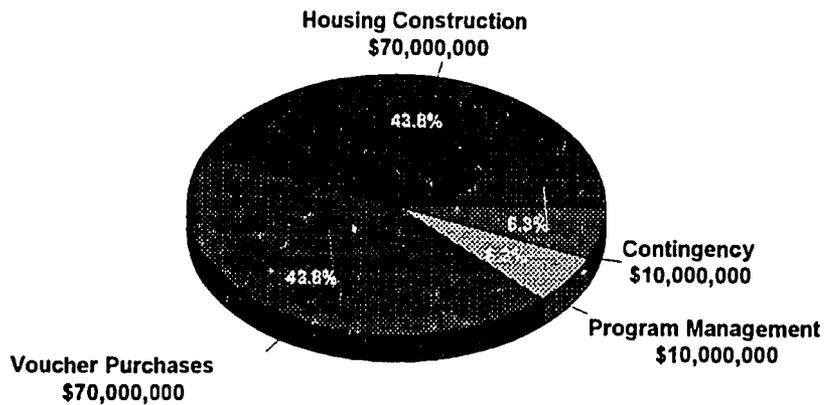
Funding of Russian Officer Housing Resettlement Program as of June 30, 1995 Unaudited

Accrued Expenditures: \$110,000,000



Funding of Russian Officer Housing Resettlement Program as of June 30, 1995 Unaudited

Total Obligations: \$160,000,000



Overview of Certificate and Construction Components

Certificates for Housing Units

USAID/Moscow, through its implementing contractors (Abt Associates and the Urban Institute), and in cooperation with the GoR, identified and selected 11 locations for the housing certificate program. In selecting these locations, USAID required that local housing authorities agree to participate in the program and confirm that sufficient housing was available in the area. The objective of the housing certificate program was to provide 2,500 housing units, but this objective was subsequently reduced to 2,370 as a result of the recision of program funds and other factors. As of August 31, 1995, 2,412 certificates had been issued, 38 certificates were cancelled, 2,374 pre-sales agreements had been approved by USAID's contractors, and 2,201 housing units were actually closed. This represents 93 percent of the revised target of providing 2,370 housing units. The housing certificate program was scheduled to end in July 1996, but USAID/M expects it to be completed by October 1995.

Table 1.1

Location	Certificates Issued	Pre-sales Agreements	Cases Reviewed	Cases Approved	Units Closed
Belgorod	279	278	278	278	275
Nizhy Novgorod	300	296	293	293	289
Pskov	337	318	312	312	299
St. Petersburg	445	438	429	428	369
Saratov	137	134	134	134	134
Serpakov	23	23	7	7	7
Smolensk	66	66	63	63	40
Tambov	191	191	184	184	178
Tula	263	261	257	256	241
Tver	131	129	129	129	129
Yaraslovl	240	240	240	240	240
Totals	2412	2374	2326	2324	2201

Construction of Housing Units

Competing and awarding the contract for construction management and supervision was completed in August 1994. It was known from the outset, according to USAID/M officials, that a period of 24 months would be required to finish the construction activities. We were told that the reality of the situation was that it was not technically possible for construction to be initiated in 1993 and completed in 1995, because of the delays and changes in programming since July 1993.

USAID/M's construction management and supervision contractor (Ralph M. Parsons Company) awarded 14 Design/Build contracts to 11 Russian contractors and 3 joint ventures between December 1994 and January 1995. These covered 2,500 housing units as agreed to by USAID. Each contract was fixed price and turn key operations, that is, the housing units were to be occupiable upon completion of the contract period. The contracted cost per unit constructed ranged from about \$20,300 to \$25,000 per unit. Subsequent to the Congressional rescission in April 1995, USAID/M required the contractor to cancel 372 units, which was done.

During the audit, we visited five of the 13 construction sites listed in Table 1.2 below. Of these, four were on schedule and one—Rzhev—was 1 month behind schedule. It was believed that no further delays would be incurred. One of the sites visited—Stary Oskol—was completed and eligible military officers were moving in. Of the officers interviewed in Stary Oskol, all were pleased with the program and appreciated receiving an apartment. The table on the following page shows the location, the number of units, the number of months of construction, and the estimated or scheduled completion date. Three locations were completed during the audit and Russian officers were moving in.

Table 1.2

Location	No. of Units	Construction Period	Scheduled Completion Date	On Schedule
<i>Stary Oskol</i>	108	5 months	05/95	yes
Volzhski	300	7 months	07/95	yes
Zhiguelievsk	166	7 months	08/95	yes
<i>Tula</i>	160	9 months	10/95	yes
<i>Rzhev</i>	57	9 months	10/95	no ³
Vixa	113	11 months	12/95	yes
Yelsk	75	12 months	12/95	yes
<i>Kaliningrad</i>	113	13 months	01/96	yes
Penza	207	18 months	06/96	yes
<i>Sochi</i>	168	22 months	08/96	yes
Tver	186	20 months	06/96	yes
Kursk	175	24 months	06/96	yes
Novgorod	<u>300</u>	24 months	06/96	yes
Total	<u>2,128</u>	5-24 months		

Further, USAID/M stated that the quality of housing units had been improved because of the supervision provided by its construction contractor. USAID/M pointed out that there were improvements in Russian contractors' project management skills as a result of its activity. Most of the Russian contractors we interviewed mentioned that the quality of the units was stressed and had been improved.

² Locations in *Italics* were visited during the audit.

³ 1 month behind schedule as of August 1995.

Process To Ensure Eligibility of Officers

USAID limited participation in the housing program to Russian military officers demobilized and discharged from military service in the Baltic Republics or other countries outside Russia. The eligible population was separated into the following three categories.

1. At least 80 percent of the recipients must be Russian military officers who were demobilized and departed from military service in the Baltics on or after April 2, 1993⁴, [changed to May 4, 1990⁵] and continue to reside in the Baltics due to lack of housing in Russia.
2. No more than 10 percent of the recipients may be Russian military officers demobilized and departed from military service in the Baltics prior to April 2, 1993 [changed to May 4, 1990⁶].
3. No more than 10 percent of the recipients may be Russian military officers demobilized and departed from military service in other countries besides the Baltics and Russia on or after April 2, 1993.

The Russian Military of Defense (MoD) identifies and proposes recipients for Categories 1 and 2 (or 90 percent of the recipients); whereas, local Russian housing administrations are responsible to identify and propose recipients for the remaining 10 percent and may go to officers under any of the three categories. The local administrations could propose recipients for Category 1 or 2, but in practice did not do so.

Officers from the Baltic States who are to receive housing certificates or units under the direct construction component were designated by the Russian Office of Social Assistance (ROSA), with offices located in Russian

⁴ Initially, the cut-off date was January 28, 1992 and this was used for the first year of the program. It was changed to April 2, 1993 during negotiations of the bilateral project agreement.

⁵ Change approved by the Department of State, National Security Council, and USAID in August 1995 after discussions with Congressional staff. (See cable STATE 199370, August 26, 1995.)

⁶ Ibid

Embassies in the Baltic States. According to USAID/M officials, these offices have been thoroughly briefed on the requirements of the program. USAID's contractor, responsible for implementing the housing certificate component and approving recipients for the direct construction component, maintains frequent contact with these offices to monitor recipient selection progress. The lists of proposed recipients were assembled and "stamped"⁷ by the ROSA in the Baltic States and transmitted to the MoD in Moscow, Russia for a second verification.

Once "stamped" by the MoD, the Baltics lists were transmitted to USAID/M and its contractor (Abt Associates), the ROSA in the Baltics, and to the housing offices of the relevant local administrations. USAID's contractor entered pertinent information on all nominees for any component of the officer resettlement program into a recipient database which they use as a control technique to guard against duplication and to prevent disqualified officers from re-entering the program.

Housing Certificate Component

After the recipients were approved by the Russian MoD, USAID/M's contractor supervises the process and works closely with all parties involved. Initially, the officers were grouped and notified that they were approved for the program. Participating officers were grouped as much as possible according to their preference among the sites selected for the program, according to USAID/M officials. The officers were required to register in the designated participating city on a certain date, attend a briefing on the program and the requirements, and be interviewed individually by the local housing officials. At this point the officers were required to present extensive personal information to confirm eligibility as follows:

1. Copy of **Original Discharge Order** with appropriate official stamp, indicating date, place and nature of discharge;
2. Original **Official Russian Passport**;

⁷ For documents to be considered official in Russia, these must be "Stamped". If not, the document is not considered official.

3. Official **Verification of Family Size and Composition** (for all family members that will be living in the home);
4. Official **Verification of Current Residence** in the Baltics (or elsewhere); and
5. Sworn affidavit that...
 - a. Upon obtaining housing under this program, officer and his/her family will vacate their present dwelling(s) in the Baltic States and will not seek permanent residency in any of the Baltic Republics, and will from then on enter the Baltic Republics only as foreign guests.
 - b. Officer and his/her family (1) neither own, nor will privatize or sell, any dwellings in the Baltics; and (2) have not received, nor will receive, any payments in connection with vacating any dwelling.
 - c. Officer and his/her family do not currently own housing in Russia.
 - d. Officer and his/her family have not made any payments to anyone to gain access to this program or to be placed on lists of people entitled to benefit from the program.
 - e. All information that is required for participation in this program and that is presented either orally or by signed documents, will be accurate, truthful and complete to the best of the officer's ability; with the further understanding that any false information will mean exclusion from the Program and its benefits.
 - f. Officer understands that if he/she is found to be eligible to participate in the Program and if all Program terms and conditions are met, he/she will receive financial assistance for the purchase of a housing unit.
 - g. Officer is participating voluntarily in the Program, and understands that if he/she is currently on a municipal waiting list for housing and does not obtain a dwelling unit under this program, he/she will retain his/her place on the waiting list.

When an individual's eligibility documentation was validated, the registration documents were then processed so that a certificate could be issued to the officer. Each municipality participating in the certificate program was responsible for verifying officer eligibility, enrolling them in the program, and explaining how the selection and purchase of a unit was to be carried out. It is important to note that, during this registration process, each individual officer was personally interviewed by the local housing administration, as well as local bank officials who track him or her through the entire process to the closing on the housing units. These procedures apply to all officers, whether in the Baltics or from local housing waiting lists. An officer was not allowed to register and receive a certificate unless all of the required documents establishing eligibility were presented.

Upon registration in the program, each officer was provided a bank funding letter showing the certificate value. The officer received a housing certificate and was photographed. The housing certificate entitled the officer to a certain amount of money to be used only for the purpose of acquiring a new or existing unit of the size to which he/she and/or family was entitled, according to Russian social norms. The value of a certificate did not exceed \$25,000. The value of the certificate was dependent on the location and size of the unit and was established through regional pricing surveys. Depending upon the size of unit, certificates ranged in value from as low as \$12,900 (one room unit) to the maximum of \$25,000 (three room or four room unit).

The officer registered the certificate with the local administering bank which again reviewed the eligibility documentation and obtained specimens of the officer's signature on a signature card. Upon acceptance by the local bank, the officer could begin to look for a housing unit. Within 90 days of receiving their certificates, officers were to locate a housing unit, negotiate the price, and sign a pre-sales contract with the offeror or owner of the unit and close on the unit.

When a unit is ready for occupancy, the officer or seller notifies the bank that the closing is ready to take place and presents documents demonstrating that fact (Certificate of occupancy, proof of ownership, etc.). The bank physically inspects the unit and certifies that all contractual and program requirements have been met. As an additional control, USAID's contractor responsible for implementing the program required the local bank to submit all the documentation to a designated U.S. accounting firm to review all documentation again and to verify that all documentation was

complete. After this additional review, if no issues were raised, the designated accounting firm advised the USAID contractor that funds should be transferred so that the closing could take place. At closing, the seller received payment for the unit and the officer receives title. The officer was required to register the deed for the housing unit with the local authorities registration office. The bank maintained all program documentation and individual records for each officer.

Once an officer closed on a housing unit under the program, this information was transmitted to USAID representatives in Latvia and Estonia for submission to the Government of Latvia and the Government of Estonia, who may then perform a check to ensure that the officer had vacated the Baltics and did not obtain permanent residency at a later date.

Direct Construction Component

Officers participating in the direct construction component are subject to the same eligibility requirements as those officers participating in the certificate program. The procedures differ in that there is no exchange of funds, therefore the processes with the local bank (and the additional review by the U.S. accounting firm) was not required or done. The officers from the local waiting list were assigned the unit by the local housing administration after review and acceptance of eligibility documentation by the USAID/M contractor. Candidate beneficiaries from the Baltics were placed on lists by the ROSA in the Baltics, which also assigned units to the officers, and were reviewed and approved by the MoD in Moscow. Candidate recipients then attended briefing sessions and their eligibility was reviewed by the USAID contractor. After review and acceptance of the eligibility documentation, these officers were assigned units and they allowed to register the unit as privately owned.

VB

**Confirmation of Payments to Officers under
the Certificate Program**

<u>Region</u>	<u>Number of Officers Files Reviewed</u>	<u>Confirmed Certificate Value Range</u>	<u>Confirmed Pre-sales Agreement Range</u>
Pskov	23	\$15,650 - \$25,000	\$ 2,000 - \$25,000
St. Petersburg	18	\$25,000 - \$25,000	\$25,000 - \$27,600
Yaraslovl	23	\$17,840 - \$25,000	\$12,507 - \$25,756
Tula	16	\$14,902 - \$25,000	\$14,902 - \$25,000
Saratov	<u>11</u>	<u>\$18,100 - \$25,000</u>	<u>\$18,100 - \$25,000</u>
Total	<u>91</u>	<u>\$2,147,546</u>	<u>\$1,938,194</u>