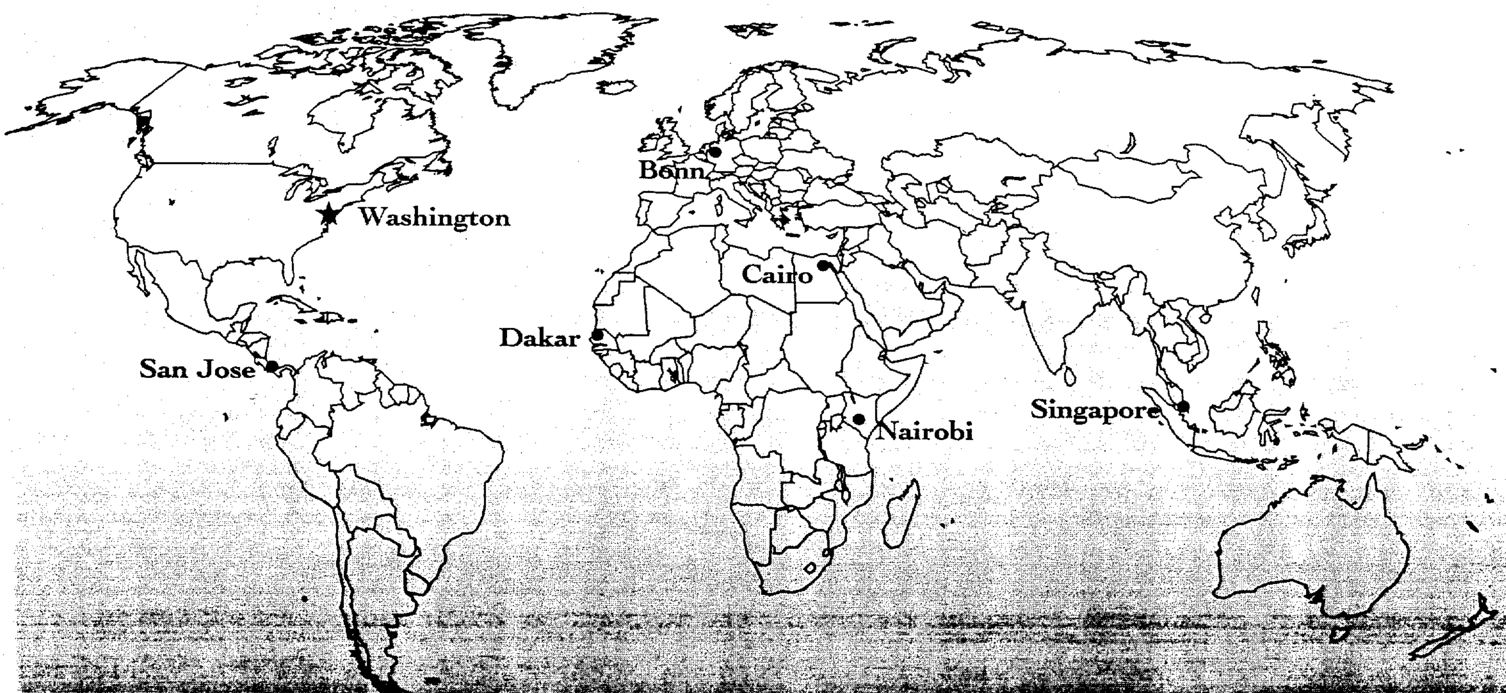
Regional Inspector General for Audit
Frankfurt

Audit of USAID/Almaty's Unliquidated Operating Expense Obligations at September 30, 1995

Audit Report No. 8-115-96-005
March 18, 1996



INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

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March 18, 1996

TO: USAID/Almaty, Director, Patricia Buckles (Acting)

FROM: RIG/A/F, Andrew J. Olsen (Acting)

SUBJECT: Audit of USAID/Almaty's Unliquidated Operating Expense Obligations at September 30, 1995, Audit Report No. 8-115-96-005

This memorandum is our report on the subject audit. The audit found that USAID/Almaty has performed reviews of its unliquidated operating expense obligations as required by USAID policy and procedures. However, rather than return deobligated funds from prior fiscal years as required, USAID/Almaty deposited these funds into a miscellaneous expense account and used them to pay for other prior year obligations that were under-funded. Also, the audit found that USAID/Almaty can improve its process for evaluating unliquidated obligations. In reviewing 79 of the Mission's 595 unliquidated operating expense obligations, we identified 26 (or 33 percent) which should have been deobligated earlier and 53 (or 67 percent) which should remain open.

The report contains five audit recommendations, which are considered resolved upon issuance of this report. Audit recommendation No. 1a is closed based upon your concurrence with the amount recommended for deobligation–$248,507–and the controller's action to deobligate and return these funds to USAID/Washington.

Your written comments are included as Appendix II. We appreciate your concurrence on the deobligations and the other audit recommendations. We agree that the study of freight charges will take several months to complete. Within 30 days, please provide us information of any action planned or taken to close these recommendations.

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

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Background

The United States Agency for International Development (USAID) receives a separate appropriation to cover its annual operating expenses (OE). Operating expenses represent costs of salaries, benefits, and support costs of all U.S. and foreign national direct-hire personnel. Support costs include allowances, travel and transportation, housing and office expenses. Funding sources for OE include appropriated funds, revolving funds of the Housing Investment Guarantee and Excess Property activities, and local currency trust funds. In addition, since 1991, the Agency has been authorized to maintain an Unobligated Carryover Account to fund its operating expenses. In recent years, OE annual appropriations have come under intense scrutiny as part of congressional and administration efforts to reduce federal costs.

USAID/Almaty, which was established in April 1992, was allocated only appropriated funds for its OE. Initially, the Mission had only one OE account[1] for the five countries in its region, but in fiscal year 1995 an OE account was established for each country. The Mission does not have 1) special purpose OE accounts, 2) local currency trust funds, or 3) any other source of OE funds. USAID/Almaty is the official accounting station for the five USAID offices in the Central Asian Republics of the former Soviet Union. Initially, USAID/New Delhi was the official accounting station and was therefore responsible for evaluating unliquidated obligations for the Mission. In June 1993, USAID/Almaty was designated an official accounting station and assumed full responsibility for its OE funds. According to the Controller, because of its newness, USAID/Almaty has little historical knowledge on which to base cost estimates for operating expenses. As with other countries in the New Independent States, the country was going through a transition period and there have been large increases in local prices and in transportation costs from the West.

As shown in the table on the following page, USAID/Almaty had approximately $3 million recorded as unliquidated OE obligations at September 30, 1995. This amount represented obligations for fiscal years 1993 through 1995. USAID/Almaty has been allocated, and they have recorded, about $11.3 million in OE funds for these three fiscal years under review.

1 The account is actually a budget allowance and is referred to as a *Budget Plan Code* or *BPC.*

Status of Operating Expense Funds
Provided to USAID/Almaty

Fiscal Year	Amount Obligated	Amount Unobligated (As of 9/30/95)
	--------in thousands-------	
1993	$ 2,739.9	$ 17.9
1994	4,095.9	640.3
1995	4,414.2	2,430.4
Total	$11,250.0	$ 2998.6

By law[2], agencies are to review unliquidated obligations periodically to determine whether the funds are still needed for the obligation and if not, deobligate these funds. Such reviews are called 1311 reviews. USAID has established policy and procedures regarding 1311 reviews which require –

- a continuous review throughout the year of unliquidated obligations for both current and prior years;
- a year-end review of the system;
- the examination of obligation and liquidation records by USAID financial staff in coordination with the officer responsible for budgeting and using the funds;
- maintaining a set of workpapers to document the review; and
- an annual certification that year-end obligations are valid.

Audit Objective

This audit is part of a worldwide audit to determine if USAID effectively manages funds available for operating expenses. The objective of this audit is to answer the following question:

Did USAID/Almaty Perform Unliquidated Operating Expense Obligation Reviews in Accordance with USAID Policy and Procedures?

See Appendix I for a discussion of the scope and methodology for this audit.

2 Section 1311 of the Supplemental Appropriations Act of 1955, as amended.

Audit Findings

USAID/Almaty has performed reviews of its unliquidated operating expense obligations as required by USAID policy and procedures. However, rather than return deobligated funds from prior fiscal years as required, USAID/Almaty deposited these funds into a miscellaneous expense account and used them to pay for other prior year obligations that were under-funded. Also, the audit found that USAID/Almaty can improve its process for evaluating unliquidated obligations and can deobligate a significant amount of funds.

As required by USAID policy and procedures for these evaluations, the Mission conducted reviews at least annually-and sometimes as frequently as monthly. Further, in each year–

- a year-end review of the system occurred;

- the obligation and liquidation records were usually examined by USAID/Almaty financial staff in coordination with the officer responsible for budgeting and using the funds[3];

- a set of workpapers was maintained to document the review, and

- the Controller certified that year-end obligations were valid.

Prior to the audit, the Mission issued a Mission Order[4] specifically addressing the USAID policy requirements for these reviews.

<u>USAID/Almaty Use of Miscellaneous Expense Accounts</u>

Although USAID/Almaty performed the Section 1311 reviews, it did not return the excess funds to USAID/Washington as required. Instead, a

[3] At USAID/Almaty, the officer responsible for budgeting and using OE funds was the Executive Officer; however, as the Mission grew to its current size both the Mission Director and Controller exercised control over these funds.

[4] Order No. 1212, issued November 14, 1995, entitled: REVIEW OF UNLIQUIDATED OBLIGATIONS AND COMMITMENTS IN AMOUNTS IN MISSION PROGRAM AND OPERATING EXPENSE ACCOUNTS (SECTION 1311 REVIEW)

miscellaneous expense account[5] was maintained by the Controller's Office as a depository of excess funds for each prior fiscal year and USAID office/country. As of December 1995, these miscellaneous accounts had a balance of $141,411. These accounts were funded through de-obligations of prior year funds as a result of 1311 reviews or close-out procedures. These accounts were used (charged) when the Mission received bills, Advice of Charge[6], or statements of transactions (SF 1221s)[7] for amounts in excess of what was available in the respective prior year obligation. The Controller stated that these accounts were used to avoid continuously requesting funds from USAID/Washington for the upward adjustment of prior year obligations upon the receipt of Advice of Charge, SF 1221s, and other bills. For example, the Controller explained that they have had numerous cases of receiving Advice of Charge for freight in excess of amounts originally obligated. He stated that requests to USAID/Washington for prior year funds would depend on funds availability and that there was a risk of violating the Antideficiency Act[8] if the funds paid were not legally available.

During the audit, we recommended that the Controller either obtain approval for this account from USAID's Office of Financial Management or deobligate these funds and return them to USAID/Washington. In January 1996, the Controller told us that the obligated balances in the miscellaneous expense accounts were deobligated and the funds were returned to USAID/Washington.

<u>USAID/Almaty Needs to Deobligate Unliquidated Obligations from Prior Fiscal Years</u>

Of USAID/Almaty's nearly $3 million in unliquidated obligations for fiscal years 1993 - 95, we reviewed 79 unliquidated obligations–including the miscellaneous expense accounts–totalling $630,516 at September 30, 1995. We determined that about two-thirds (53) should remain open

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5 The name of the account was "miscellaneous contractual services" or "miscellaneous" and was established at the beginning of each fiscal year for all obligations which could not be readily charged to a specific budget line item. This account is initially funded by the residual amount authorized/allocated by Washington that is not allocated to other budget line items. Through this account, the Controller processed various obligations.

6 A payment made by one USAID accounting station on behalf of another accounting station.

7 A payment made by a U.S. Disbursing Office on behalf of USAID are reported on "Statement of Transactions", commonly known as Standard Form 1221 (SF 1221).

8 Section 3679 of the Revised Statutes (31 U.S.C. 1341 et seq.), "the Antideficiency Act", which prescribes a system for positive administrative control of funds, designed to restrict obligations and expenditures against each appropriation or fund to the amount available therein.

[unliquidated] for reasons including: 1) awaiting invoice/travel vouchers, 2) awaiting freight charge/verifications, and/or 3) awaiting Advice of Charge. We questioned whether the remaining one-third (26) of those reviewed needed their entire balance to be held open [unliquidated] and advised the Mission that the excess funds should be deobligated and returned to Washington. The balance of excess funds at September 30, 1995 was $198,172 and by December 1995, it had increased to $248,507 due mainly because of de-obligations deposited into the miscellaneous accounts. The table in Appendix III summarizes our review of unliquidated obligations at September 30, 1995, for each fiscal year. The Mission agreed with our analysis of these obligations and promised to take corrective actions.

Recommendation No. 1: **We recommend that USAID/Almaty:**

1.1 review the analysis of unliquidated operating expense obligations and deobligate and return the $248,507 to USAID/Washington;

1.2 review the remaining–unaudited–unliquidated operating expense obligations and deobligate and return to USAID/Washington any excess funds.

USAID/Almaty Needs to Establish a Standard for Freight Transactions

The audit found that sixteen percent of the unliquidated OE obligations, totalling $173,122, were being kept open because the Mission was waiting freight payments to be processed by U.S. disbursement offices, such as RAMC Paris. The Mission was experiencing difficulty in determining when it received all charges related to freight obligations, such as freight for furniture, supplies and post assignment/home leave. Much of the difficulty existed because the Mission had to rely on U.S. Dispatch Agents and the European Logistics Support Operation (ELSO) in Belgium, who in turn process their billings through Disbursement offices located elsewhere. These freight forwarding organizations are authorized to bill U.S. disbursement offices based on fund citations provided by the Mission. Because these organizations generally control all aspects of shipments–timing, method, combining shipments, and cost–the Mission did not know when the items shipped would be received and, more importantly, what the costs would be.

According to the Controller, the freight forwarding and disbursement organizations frequently did not provide underlying vouchers supporting disbursements made on the Missions' behalf. Usually all the Mission receives is the disbursement offices form indicating payment was made in the Mission's behalf–SF 1221. Although the Controller had periodically requested more information, the process calls for the accounting station to pay upon receipt of the SF 1221 and to trace transactions later. As a result, according to the Controller, the Mission had to spend an extensive amount of time reviewing SF 1221s to link a disbursement to one of the Mission's obligations. Further, it was demonstrated that there were many incidental charges involving freight payments and the Mission was never quite sure that it received all the charges against a particular obligation. For example, one completed freight obligation for household goods had 26 separate charges applied against it.

In order to comply with the Antideficiency Act and avoid requesting funds from USAID/Washington, the Controller must have funds available to pay bills or Advice of Charge/disbursements when they are received. Therefore, the Controller's office kept open many freight obligations. There was no analysis at the Mission to show the amount of time it takes from placing an order to the completion of disbursements for freight/transportation charges and their accompanying incidental charges.

> **Recommendation No. 2:** **We recommend that the USAID/Almaty Controller and Executive Offices conduct a study on completed freight transactions to determine a) the length of time needed for freight transactions to be completed and b) the number of incidental service transactions, and then apply the results of this study to unliquidated freight obligations and de-obligate those which appear to be completed.**

In addition to the above reasons, we noted that the Mission has kept open transportation/freight obligations for post assignments/home leave because it did not know if the travelers were fully using their allowances. In two cases, we found that the traveler did not use the full allowance for household effects, automobiles, unaccompanied baggage or consumables. Because the Mission was not following-up with the traveler or asking specific questions about shipments when the traveler arrived at post, the Controller's Office was continuing to maintain unliquidated transportation obligations. Also, the Executive Office did not have a record for each traveler showing whether he/she had used or was going to use the maximum transportation allowances.

<u>Recommendation No. 3:</u> **We recommend that the Executive Office establish a procedure of requiring travelers to advise them on their use of shipment allowances and that the Executive Office maintain a file recording this information.**

Follow-up and Close-out Procedures for
<u>Purchase Orders and Contracts Is Needed</u>

For ease in reviewing unliquidated obligations, the current status of purchase orders and contracts is needed to avoid having to review each individual obligation record. Also, once a purchase order and/or contract is completed, a record of this should be made and the Controller advised that the action is closed. During the audit, we found that the Executive Office was not routinely following-up with vendors/suppliers on the status of its purchase orders or short shipments. Also, after the vendor/supplier had provided the material, the Executive Office was not notifying the Controller's Office that all the materials/services had been received and any excess obligations could be deobligated. For Personal Services Contracts, the Executive Officer stated that they had not performed any close-out reviews nor coordinated with the Controller's Office to deobligate excess obligations on them.

While the Executive Office had a partial list of outstanding purchase orders, it needed to establish a complete listing which recorded a reasonable date for the purchase order to be completed. This would facilitate tracking outstanding purchase orders. Also, the Executive Office needed to follow-up with vendors after about 90 days to ensure that the order was received and was being processed.

After materials were received, the Executive Office was completing a receiving and inspection report and sending it to the Controller's Office. However, the Executive Office did not have a process to follow-up on incomplete shipments or transportation losses. We noted several instances where the shipments of supplies or materials were incomplete, but we could not readily determine if the Executive Office had followed-up with the supplier to determine if the full shipment was provided to the Dispatch Agent or ELSO.

At the audit exit conference, we proposed that the Executive Office establish a purchase order follow-up process to ensure that they–

- set the expected completion date for individual purchases;

- follow-up with vender/suppliers after 90 days to confirm that the purchase orders are being acted upon;

- follow-up on short shipments to determine if the supplier/vendor shipped all the items and if a transportation claim should be filed;

- record completed transactions; and

- notify the Controller's Office of the amounts which can be deobligated, if any.

The Executive Officer agreed with our position and responded that he would be improving their current purchase order follow-up system.

> **<u>Recommendation No. 4:</u> We recommend that USAID/Almaty's Executive Office establish a process for purchase order follow-up.**

During our audit, we also noted that one Personal Services Contract had not been closed out. The contractor had departed post about six months earlier, and all services were apparently received. The Executive Officer told us that this contract had not closed out because they were not certain that all the payments for allowances, such as transportation of effects, had been paid. The Executive Officer and the Controller told us that for another Personal Service Contract, which should be closed, they needed to increase the contract amount because the transportation for effects was greater that the amount obligated. Nonetheless, the Executive Officer agreed that these contracts should be closed out and any excess funds deobligated.

> **<u>Recommendation No. 5:</u> We recommend that USAID/Almaty's Executive Officer review and close-out Personal Services Contracts which are completed and deobligate any excess funds.**

MANAGEMENT COMMENTS AND OUR EVALUATION

The Mission stated they had read the report and agreed with the audit recommendations. The Mission was in the process of implemetning the audit recommendations. (See Appendix II for their complete comments.)

SCOPE AND METHODOLOGY

As part of an Office of Inspector General worldwide audit, the Regional Inspector General's Office in Frankfurt audited USAID/Almaty's unliquidated operating expense (OE) obligations at September 30, 1995, in accordance with generally accepted government auditing standards, except as noted below. At September 30, 1995, USAID/Almaty had OE unliquidated obligations pertaining to fiscal years 1993 through 1995 totalling almost $3 million.

Audit work was conducted from November 28, 1995 through December 7, 1995 at USAID/Almaty offices in Almaty, Kazakstan. The following table shows the number and total value of unliquidated OE obligations recorded by USAID/Almaty as of September 30, 1995. Also, the table shows the number of items sampled (tested) and the total value of these items.

Unliquidated OE Obligations for USAID/Almaty by Fiscal Year and Audit Sample

Fiscal Year	Universe		Sample	
	Number	Value	Number	Value
1993	8	$ 17,879	8	$ 17,879
1994	121	640,278	32	195,325
1995	466	2,340,404	39	417,312
Total	595	$2,998,561	79	$630,516

Audit work included reviewing USAID Handbook 19-Financial Management; USAID Financial Management Bulletin Part II, No. 14A; 31 U.S.C. § 1501-

2; §636 (b) of the Foreign Assistance Act of 1961; previous Inspector General reports; obligating documents; invoices; receiving reports; journal vouchers; computer printouts from disbursement and support offices; and various other documents in the Executive and Controller offices at USAID/Almaty. Additionally, we interviewed personnel in several USAID/Almaty offices, particularly those in the Controller and Executive offices.

The purpose of the audit was to determine whether USAID/Almaty performed unliquidated OE obligation reviews in accordance with USAID policy and procedures. To achieve this objective, we extensively relied on computer-processed data contained in USAID's computerized accounting system, MACS (Mission Accounting and Control System). We did not establish the reliability of this data because the scope of the audit was limited only to unliquidated OE obligations which is a small component of the information contained in MACS. As a result, we are unable to provide projections, conclusions, or recommendations based solely on this data.

MANAGEMENT COMMENTS

USAID

USAID REGIONAL MISSION FOR CENTRAL ASIA
OFFICE OF THE DIRECTOR

MEMORANDUM

TO: John Competello, RIG/A

FROM: Patricia K. Buckles, Acting Director, USAID/CAR

DATE: March 3, 1996

SUBJECT: Audit Written Comments and Representational Letter

Below, please find the comments on the audit recommendations. I regret that management demands in the region prevented an earlier response. Hope this meets your needs. I will ask that Jim Ahn and Don Brady fax to you copyies of the same narrative with their signatures for the record.

We have read the draft and agree with the audit recommendations. We have started to implement these recommendations. The Controller's Ofice has de-obligated $240,507, as identified by the audit. It will perform a Section 1311 review on the remaining unliquidated obligations and advise you of the amounts de-obligated. The Executive Office has begun to close out Personal Service Contracts for FY 1993 and to establish a follow-up system on purchase orders. Also, the Executive Office is establishing procedures to follow-up on use of travel allowances. Finally, the Executive Office and the Controller Office will begin a study of freight charges as recommended, but this will not be omcpleted for several months.

Patricia K. Buckles
Patricia K. Buckles
Acting Mission Director

3 March 1996

Summary on the Results of Unliquidated Operating Expense Obligations Reviewed

At September 30, 1995

	Fiscal Year 1993			Fiscal Year 1944			Fiscal Year 1995			TOTAL		
Comment	No.	%	Amount	No.	%	Amount	No.	%	Amount	No.	%	Amount
Excess Funds *	4	50	$9,130	13	41	$103,680	9	23	$85,362	26	33	$198,172
Waiting for Freight Charges	1	13	$5,858	4	12	$26,862	8	21	$140,402	13	16	$173,122
Waiting for Advice of Charge	3	37	$2,891	0	0	$0	1	3	$9,080	4	5	$11,971
Waiting for Invoice/ Travel Voucher	0	0	$0	15	47	$64,783	9	23	$26,085	24	30	$90,868
Other	0	0	$0	0	0	$0	12	30	$156,383	12	16	$156,383
Total	8	100	$17,879	32	100	$195,325	39	100	$417,312	79	100	$630,516

* The 26 obligations that had excess funds at September 30, 1995, increased to $248,507 by December 1995 due mainly to increases in miscellaneous expense accounts.