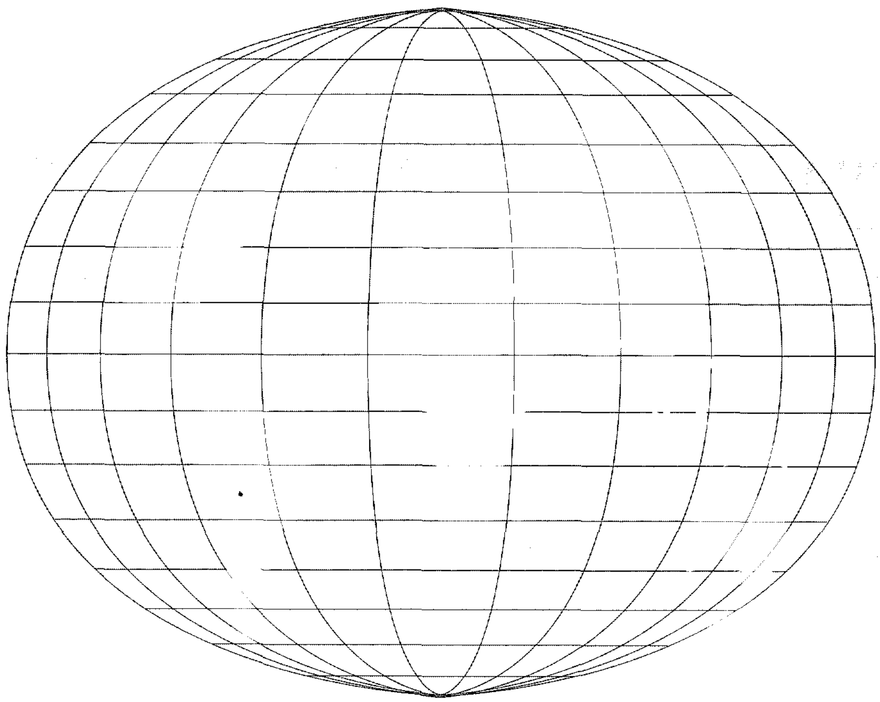
Report of Audit

USAID/Moscow's Unliquidated Operating Expense Obligations At September 30, 1995

Audit Report No. 8-118-96-008
July 24, 1996



Regional Inspector General for Audit, Frankfurt

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN CONSULATE GENERAL FRANKFURT
21 SIESMAYERSTRASSE
60323 FRANKFURT AM MAIN
GERMANY

July 24, 1996

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

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

SUBJECTS: Audit of USAID/Moscow's Unliquidated Operating Expense Obligations at September 30, 1995 (Audit Report No. 8-118-96-008)

This memorandum is our report on the subject audit. The audit found that beginning in May 1995, USAID/Moscow started to perform the required reviews of unliquidated operating expense obligations. However, the Mission has not met all of the requirements for these reviews. In particular, the Mission should not be maintaining unsupported balances in selected obligations. Also the Mission needs to improve operations in several related areas by: 1) eliminating funds control violations, 2) increasing supervision of journal vouchers, and 3) establishing a standard for determining when freight obligations are completed and funds can be deobligated.

The report contains three recommendations. Based on actions taken by the Mission, all three recommendations are considered closed upon issuance of this report. Your written comments to our draft report are included as Appendix II. However, we did not include the referenced Exhibits that were included with your comments, because these Exhibits provided specific evidence to support actions taken to close audit recommendations. Your actions are summarized in this report.

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

Background

The United States Agency for International Development (USAID) receives a separate appropriation to cover its annual operating expenses (OE), which 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

U.S. MAILING ADDRESS:
AMCONGEN Frankfurt
PSC 115 USAID
APO AE 09213-0115

TELEPHONE
49-69-7535-3699
FAX
49-69-7535-3619

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 costs.

USAID/Moscow, which was established in 1992, was allocated only appropriated funds for its OE. The Mission did not have 1) special purpose OE accounts, 2) local currency trust funds, or 3) any other source of OE funds. As shown below, USAID/Moscow had obligated about $16.7 million in OE funds for fiscal years 1992 through 1995. At September 30, 1995, about 17 percent, or about $2.8 million, remained unliquidated.

Status of Operating Expense Funds
Provided to USAID/Moscow as of September 30, 1995

Fiscal Year	Obligated	Unliquidated
	---------- in thousands	----------
1992	$ 240.6	$ 2.6
1993	4,178.2	349.5
1994	6,016.0	384.9
1995	6,245.6	2,062.6
Total	$ 16,680.4	$ 2,799.6

By law[1], 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;

[1] Section 1311 of the Supplemental Appropriations Act of 1955, as amended.

- 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.

USAID/Moscow management is responsible for managing its OE funds. Also, USAID/Moscow is the official accounting station for USAID/Caucasus, USAID/Kiev and itself. Upon taking over the accounting from USAID/New Delhi in June 1993, USAID/Moscow's Controller became responsible for performing the required 1311 reviews for Moscow and the Caucasus (but not for USAID/Kiev because it has its own Controller) and annually certifying the validity of obligations for all three USAID's funds.

Audit Objective

This audit is part of a worldwide audit to determine if USAID effectively managed funds available for operating expenses. The worldwide audit requires reviewing unliquidated OE obligations as of September 30, 1995. The objective of this audit is to answer the following question:

Did USAID/Moscow 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.

Audit Findings

USAID/Moscow was performing reviews of unliquidated operating expense obligations in accordance with USAID policy and procedures, except that it was maintaining balances in selected obligations which were not supported. Also, the Mission did not begin to perform the required reviews until May 1995. Since then, the Mission deobligated about $1.1 million and returned these funds to Washington. However, the Mission should discontinue its practice of maintaining excess funds in selected obligations for "unforeseen expenses" and fully document the need for unliquidated obligations. In related areas, the Mission needs to improve its operations by: 1) eliminating funds control violations, 2) increasing its supervision over preparation and posting of journal vouchers, and 3) establishing a standard for determining when freight obligations are completed and if any excess funds can be deobligated. Of the $2.8 million in unliquidated OE obligations at September 30, 1995, we reviewed $1.3 million and found that $461,388[2] should be deobligated.

According to the former USAID/Moscow Controller[3], the Controller's office was aware that these reviews were necessary and had to be performed. He thought that these reviews were performed on an on-going basis. The former Controller explained that unliquidated obligations were reviewed as part of the Mission's monthly preparation of operating expense reports. He listed problems with Mission start-up and the recruiting and training of staff as impediments to performing proper 1311 reviews. At September 30, 1993, and 1994, the former Controller certified that obligations were valid based on the performance of systematic reviews and documentation supporting funds availability. Nonetheless, since documents of these reviews were not available in Moscow, we were unable to confirm that reviews were performed and that the 1993 and 1994 certifications were accurate.

According to current Controller office staff and the documents they provided, USAID/Moscow began performing section 1311 reviews in accordance with USAID policies and procedures in May 1995. The reviews performed in fiscal year 1995 resulted in the deobligation of approximately $395,000 of obligations for fiscal years 1992 through 1995. The remaining unliquidated obligations at September 30, 1995, numbered 535 and totalled about $2.8 million. Of this, we judgementally selected 113 obligations, totalling approximately $1.3 million, based on their size, age and purpose. The table in Appendix III summarizes our review of unliquidated obligations at September 30, 1995, for each fiscal year.

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

Of the 113 unliquidated obligations that we reviewed, we determined that 51 should remain open [unliquidated] for various reasons such as: 1) awaiting invoice/travel vouchers, 2) awaiting the completion of services or the receipt of goods, 3) awaiting freight charge/verifications, or 4) awaiting follow-up information/research results. We determined that the remaining 62 were in excess of Mission needs and advised the Mission that these funds should be deobligated and returned to USAID/Washington.

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[2] The $461,388 includes $251,860 deobligated by the Mission after September 30, 1995–but before the audit began–plus $209,528 recommended for deobligations by the audit.

[3] The current Controller assumed his responsibilities in August 1995.

For the 113 items tested, the amount of funds in excess of Mission needs at September 30, 1995, was $393,772. At the time of audit, the amount of funds in excess of Mission needs had increased to $461,388. Of this amount, $251,860, consisting of 55 obligations, was deobligated by the Mission after September 30, 1995–but prior to audit. The remaining $209,528 was identified by the audit to be deobligated over what the Mission had already done. Of the 55 unliquidated obligations that the Mission had deobligated prior to the audit, three-fourths of them should have been deobligated much earlier. The unneeded funds were not identified earlier because the Mission had not been completely adhering to the requirements for Section 1311 reviews.

At the exit conference, the Mission essentially agreed with our analysis of the 113 obligations, and they deobligated $177,333 of the $209,528 identified by our review, but the Mission still needs to deobligate the remaining $32,195. Also, the Mission needs to review the remaining 422 unliquidated OE obligations ($1.5 million) not audited and determine those which can be closed and deobligate any excess funds.

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

1.1 review our analysis and deobligate and return $209,528 to USAID/Washington;

1.2 review the remaining unliquidated operating expense obligations which were not audited and deobligate and return to USAID/Washington any excess funds.

Management Comments and Our Evaluation

The Mission concurred with our recommendation. It also concurred with our analysis and deobligated $209,528. Further, the Mission reviewed the remaining unliquidated obligations as of March 31, 1996, and deobligated $71,019 in excess funds. These funds were returned to USAID/Washington. Based on the Mission's action, we close audit recommendation No. 1 upon issuance of this report.

More Management Oversight Needed for Funds Control and Journal Vouchers

While reviewing the unliquidated obligations, we determined that the Controller's office was maintaining surplus balances for selected obligations even though Agency policy mandates that any excess funds be deobligated and the funds returned to USAID/Washington. In addition, we identified 13 funds control violations, which according to USAID's Handbook 19 and the USAID/Moscow Controller, must be reported to the Agency's Chief Financial Officer. Overall, the audit concluded that the funds control violations and maintaining surplus balances in selected obligations occurred because the Controller's Office staff was inexperienced and the staff was preparing journal vouchers increasing balances of obligations and posting these into the Mission's accounting system (MACS) without the knowledge of the Controller.

Funds Control Violations

"Funds control", as defined by USAID Handbook 19, refers to management's control over the use of fund authorizations. In terms of obligations, Agency funds control require obligations to be: 1) made for valid purposes or a "bona fide" need[4], 2) authorized by an appropriate person(s) and 3) supported by proper documentation, i.e., a contract or purchase order. Funds are managed on a fiscal year basis (October 1 through September 30) and Missions are not to obligate more funds than the amount allocated them from USAID/Washington. If violations of funds control occur at an obligation level, i.e., a Mission expends prior year funds to pay for current year charges, the Mission is required to report the violations to USAID's Chief Financial Officer.

The funds control procedures also allow for some obligations and their related expenditures to cover a period of time which is not entirely within one fiscal year. These are called "forward funding" provisions. Under these provisions, obligations are divided into two categories–recurrent and non-recurrent. Recurrent obligations are ones that recur every year (for example: salaries, rent, utilities, post allowances, etc.) Recurrent obligations can be forward funded for a period of up to three months beyond the fiscal year in which it was obligated. Non-recurrent obligations (one-time obligations such as equipment purchases or shipments of household goods) can be forward funded for periods not to exceed 24 months.

In reviewing the 113 unliquidated obligations, the audit found 13 funds control violations, relating to nine obligations. There were two types of funds control violations found and we categorized these as: 1) prior year

4 According to the General Accounting Office's "Principles of Federal Appropriations Law", the test for needs is called the bona fide needs rule. For example, when an obligation is made toward the end of a fiscal year and it is clear from the facts and circumstances that the need relates to the following fiscal year, the bona fide needs rule has been violated.

funds being used to pay for charges incurred in the following fiscal year and 2) obligations being recorded for either the wrong fiscal year, or for a period longer than allowed by the forward funding provisions. In these 13 instances, six fell under the first type and seven fell under the second type. For six in the first category, the obligations were made using one fiscal year's funds, with the expenditures being incurred in another fiscal year. An example of this type of violation is when the Mission, in December 1994, paid $663 from fiscal year 1994 funds for telephone charges incurred in November 1994 (the next fiscal year, e.g. fiscal year 1995). For seven falling into the second category, these obligations either were recorded against the wrong fiscal year or exceeded the forward funding provisions. An example of this violation was when the Mission, on September 30, 1995, increased its fiscal year 1995 obligation for drinking water by $15,000 to cover a period entirely within the following fiscal year (January 1996 through September 30, 1996).

According to the Mission Controller, these violations were largely attributable to inexperienced staff. Appendix IV shows detail for each funds control violation by obligation.

Maintaining Obligations for "Unforeseen" Expenses

In reviewing unliquidated OE obligations, the audit found that the Mission had recovered about $62,000 in previously deobligated funds and increased prior year obligations without a valid need. Specifically, the Mission recorded an increase in a 1994 and 1995 obligation in the current fiscal year (1996) by preparing journal vouchers against the prior year operating expense allowances. The descriptions stated on the journal vouchers were "to adjust funds since final payments have not been made" and "to transfer funds ... to process the **unforeseen expenses**" (emphasis added). These journal vouchers were prepared and approved by Foreign Service Nationals (FSN's) on the Controller's Office staff. The balance in these obligations at the time of audit was $68,364 and they are included in the $209,528 recommended for deobligation above.

When asked about these occurrences, Controller office staff stated that the Mission sometimes keeps miscellaneous obligations open to cover any bills that might come in. However, since there is no valid need for increasing these obligations and Agency policy dictates that only USAID/Washington can recover previously deobligated funds, this practice violates funds control procedures and these excess funds should not be maintained by the Mission.

Further, the audit found that when the Mission received bills[5] over and above the amounts available in the respective prior year obligation, it prepared journal vouchers to make up the shortage. Specifically, the Mission deobligated amounts in "over-funded" obligations and increased the amounts needed in the "under-funded" obligations which related to the incoming bills. In reviewing 1996 journal vouchers (mostly prepared and approved by FSN's), the audit found 16 examples, totalling about $72,000, of USAID/Moscow deobligating "over-funded" obligations to cover bills for "under-funded" obligations. USAID policy mandates that when it is determined that an obligation's unliquidated balance exceeds the funds required, prompt deobligation action should be taken and the funds returned to USAID/Washington. And, that while the practice of "moving funds around", is one way a Mission manages funds, if proper 1311 reviews had been performed, the Mission would not have had any "over-funded" obligations and they would have had to request funds from Washington for these bills as required by USAID policies and procedures.

Based on Controller office staff comments and a review of documents, we determined that an apparent cause for the funds control violations and maintaining excess funds to cover "unforeseen expenses" was that neither the Controller nor the Deputy Controller were aware of the journal vouchers/documents prepared which created these instances. Journal vouchers which increased funding for prior year obligations were prepared by FSN accountants and reviewed by the FSN chief accountant before posting into MACS. In addition, most of the funds control violations can be attributable to inexperienced staff and the lack of approval by Controller office management on the obligating documents. Agency policy gives the Mission Controller overall responsibility for controlling funds. Therefore, journal vouchers and any other document which obligates or controls Mission funds, should be approved by the Mission Controller or other authorized representative.

According to the Controller, they have had difficulty convincing the FSN's to not charge prior fiscal years for current year obligations. On recurrent obligations, the FSN's believe that all prior year funds should be used until they are gone. Both the former and current USAID/Moscow Controllers have noted inexperienced staff as a weakness in office operations. This is due to the relative newness of the Mission in Moscow as well as difficulties in recruiting and training. In 1993, USAID/Moscow identified a lack of

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[5] Bills include Advice of Charges (a payment made by one USAID accounting station on behalf of another accounting station) and statements of transactions (a payment made by a U.S. Disbursing Office on behalf of USAID which are reported on "Statement of Transactions," commonly known as Standard Form 1221 or SF 1221).

adequately trained employees as a material weakness in their Internal Control Assessment (ICA). In their latest ICA (performed in October 1995), they reported improvements in this area but that the insufficient practical experience of employees still remains a burden for the Mission.

<u>Recommendation No. 2:</u> We recommend that the USAID/Moscow Controller:

2.1 report the 13 violations of funds control in a memorandum to USAID's Chief Financial Officer disclosing the cause(s) for the violations and what actions were taken to eliminate future violations;

2.2 issue instructions to his staff advising them that the Mission must discontinue the practice of maintaining excess funds to cover unforeseen expenses;

2.3 issue instructions identifying only those individuals who may approve journal vouchers to ensure that these are reviewed by Controller Office management.

<u>Management Comments and Our Evaluation</u>

The Mission concurred with our recommendation. Based on the audit, the Mission Controller reported by memoranda the identified violations of funds control to the Chief Financial Officer (CFO). The memoranda disclosed the cause for the violations and corrective actions taken. Further, the Controller issued instructions to Controller Office staff which advised them to: a) conduct continuous 1311 reviews and deobligate funds excess to needs; and b) have all journal vouchers approved by one of three authorized U.S. staff members.

In its final comment on the report, the Mission requested that we delete a citation from the Foreign Affairs Manual which states that FSN Personal Service Contractors (PSC's) are prohibited from controlling money. The Mission pointed out that USAID has special authority from the U.S. Department of Treasury for FSN PSC's to be cashiers. Also, the Mission stated that it is normal practice at most USAID Missions to have FSN PSC's process accounting transactions and confirm that funds are available. These functions are part of the FSN's job descriptions. The Mission doubted that the citation pertained to processing accounting transactions. We found merit in the Mission's position and agree that granting USAID authority for FSN cashiers, which is direct control of money, seems to override the citation. Further, we believe that the cited prohibition most likely did not intend to cover the processing of accounting transactions. However, our concern was that FSN staff were processing accounting transactions without proper supervision and instructions. In our view, the FSN staff in the Controller's Office is an integral part of the accounting and fund control process, and they need adequate instruction and supervision.

We believe that the memoranda to the CFO and the instructions to the Controller Office staff are adequate and meet the intent of audit recommendation No. 2. Further, we believe the instructions to Controller Office staff should help eliminate any future funds control violations. Therefore, we are closing audit recommendation No. 2 upon issuance of the report.

USAID/Moscow Needs to Establish a
Standard for Freight Transactions

A recurring problem concerning unliquidated obligations, according to other Office of Inspector General audits, is the length of time it takes for freight charges to be reported and the small amounts involved, i.e., $25 to $50. Also, in the NIS, audits have found that the number of freight charges that are billed to a particular freight obligation were many, that is from 9 to 15. At the NIS Missions, however, we found that they had not conducted studies to determine the length of time needed for freight charges to be completed, nor the number of charges that would come in. The Mission could use the results of such studies during 1311 reviews to determine when freight obligations are complete and if they can deobligate excess funds.

In Moscow, the audit found that nine percent, or 10 of the 113, unliquidated OE obligations, which totalled $98,232, were being kept open at September 30, 1995, because they were awaiting freight charges. Because of the difficulty in determining when all payments for freight obligations had been reported, the Mission was not reviewing obligations involving freight–such as freight for furniture, supplies and post assignment/home leave. Therefore, these types of unliquidated OE obligations were left open.

While we observed many small charges against freight obligations which took more than a year to be posted in Moscow, as well as other NIS Missions, we believe that an analysis of prior freight obligations and their charges will help the Mission determine the normal time-period for a freight obligation and the number of charges. Because the Executive Office is responsible for estimating the funds needed for freight and preparing the obligations, we believe it should work with the Controller's office in analyzing the completed freight obligations. We believe that USAID/Moscow can establish a standard to be used in determining when a freight obligation was completed and if there are funds which need to be deobligated because the standard has been exceeded.

<u>Recommendation No. 3:</u> We recommend that the USAID/Moscow Controller and Executive Offices conduct a study on completed freight obligations to a) determine the length of time needed for freight obligations to be completed, and the number of charges; and b) apply the results of this study to unliquidated freight obligations and deobligate those which appear to be completed.

<u>Management Comments and Our Evaluation</u>

The Mission agreed with the issues raised in the report, but rather than do a study on completed freight obligations, it proposed an alternative solution. The Mission proposed that it would be much more cost effective, easier and just as procedurally correct, to deobligate all but a small amount (around $500) from the unliquidated obligation once the accountant determines that major costs such as packing, sea freight, and overland freight have been paid. This $500 would then be held open for a predetermined amount of time (say 18 months) after the last major cost was incurred. Based on the Missions' comments and its proposed action, we accept its proposal and we close audit recommendation No. 3 upon issuance of this report.

SCOPE AND METHODOLOGY

As part of an Office of Inspector General worldwide audit, the Regional Inspector General's Office in Frankfurt audited USAID/Moscow's unliquidated operating expense (OE) obligations at September 30, 1995, in accordance with generally accepted government auditing standards, except as noted below.

Audit work was conducted from March 4, 1996, through March 14, 1996, at USAID/Moscow offices. In planning the audit, we determined that if the error rate was over five percent of the items test, then the errors were material to the accounting records.

The following table shows the number and total value of unliquidated OE obligations recorded by USAID/Moscow as of September 30, 1995. Also, the table shows the number of items sampled and the total value of these items. Samples were judgementally selected based on object class codes and dollar values.

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

Fiscal Year	Universe		Sample	
	Number	Value	Number	Value
1992	1	$ 2,646	1	$ 2,646
1993	71	349,458	38	281,964
1994	77	384,900	30	215,100
1995	386	2,062,631	44	809,322
Total	535	$2,799,635	113	$1,309,032

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Audit work included reviewing USAID Handbook 19-Financial Management; USAID Financial Management Bulletin Part II, No. 14A; the General Accounting Office's "Principles of Federal Appropriations Law"; 31 U.S.C. § 1501-2; §636 (b) of the Foreign Assistance Act of 1961; the Foreign Affairs Manual; 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/Moscow. Additionally, we interviewed personnel in several USAID/Moscow offices, particularly those in the Controller and Executive offices.

The purpose of the audit was to determine whether USAID/Moscow 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 as of September 30, 1995, 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.

USAID

United States Agency for International Development

MOSCOW, RUSSIA

June 6, 1996

MEMORANDUM

To: RIG/A/F, Andrew J. Olsen, Acting

From: USAID/Moscow, James A. Norris, Director

Subject: Comments on Audit of USAID/Moscow Unliquidated Operating Expense Obligations at September 30, 1995

USAID/MOSCOW concurs with the Recommendations contained in subject audit. Below are Mission responses keyed to each recommendation.

Recommendation No. 1: We recommend that USAID/Moscow:

1.1 Review our analysis and deobligate and return $209,528 to USAID/Washington:

Mission Response:

USAID/Moscow has deobligated $209,528.26 as recommended and hereby concurs with RIG/Frankfurt analysis of these excess obligations. Attached as Exhibit No. 1 are Journal Vouchers recording these deobligations.

1.2 Review the remaining unliquidated operating expense obligation which were not audited and deobligate and return to USAID/Washington any excess funds.

Mission Response:

USAID/Moscow conducted an extensive 1311 Review of all open obligations at March 31, 1996 and conducts continuous 1311 Reviews throughout the year. As a result of these reviews we have deobligated $71,019.27 during the period March 20 - May 24, 1996. Attached as Exhibit No. 2 is Journal Voucher and Accrual worksheets identifying these deobligations.

Recommendation No. 2: We recommend that the USAID/Moscow Controller:

2.1 Report the 13 violations of funds control in a memorandum to USAID Chief Financial Officer disclosing the causes for the violations and what actions were taken to eliminate violations:

Mission Response:

USAID/Moscow advised the Agency's CFO of ten Administrative Funding Violations (two of which we disagreed with), contained in the IG's Discussion paper. The Draft Audit Report lists 13 violations. This occurs because: (1) four transactions were both misapplied to the wrong Fiscal Year and exceeded forward funding guidelines, (two violations each) and, (2) one of the original ten violations was eliminated based on Mission input and /or additional review by IG. In any case, by memo of April 2, 1996, the Agency's CFO was advised of the nature of violations and has again been advised of changes to the initial listing (see Exhibit 3).

2.2 Issue instructions to his staff advising them that the Mission must discontinue the practice of maintaining excess funds to cover unforeseen expenses;

Mission Response:

USAID/Moscow Controller issued instructions to all Controller staff on March 13, 1996, instructing them to conduct continuous 1311 Reviews and deobligate funds excess to needs.

2.3 Issue instructions identifying only those individuals who may approve Journal Vouchers to ensure that these are reviewed by Controller Office management.

Mission Response:

By memorandum dated March 13, 1996, USAID/Moscow Controller identified U.S. staff authorized to approve Journal Vouchers (Exhibit 4).

Recommendation No. 3: We recommend that USAID/Moscow Controller and Executive Offices conduct a study on completed freight obligations to a) determine the length of time needed for freight obligations to be completed, and the number of charges; and b) apply the results of this study to unliquidated freight obligations and deobligate those which appear to be completed.

Mission Response:

USAID/Moscow is a "Consumables Post," and also receives a majority of its freight shipments through ELSO/Antwerp which charges the USAID utilizing Advices of Charge via RAMC/Paris. Discussions with embassy customs/shipping personnel concerning prior freight shipments shows that these two factors effectively negate the meaningfulness of any average freight transaction time or average incidental service time developed through analysis. This occurs because every case is different depending as it does on the individual employee's decisions on timing of consumables shipments, the processing of bills by ELSO from its contractors and the vagaries of RAMC's Advise of Charge system. In order to avoid establishing an elaborate system of monitoring employees' intentions and guessing at future associated charges from RAMC, USAID proposes the following response to this recommendation.

Although Paris does not identify exactly what is being paid, USAID knows by the size of the billings when substantially all major charges have been paid. It will be much more cost effective, easier and just as procedurally correct, to deobligate all but a small amount, say $500, from the unliquidated obligation once the accountant determines that major costs such as packing, sea freight, and overland freight have been paid and that no further consumables are being shipped. The $500 could then be held as an open obligation for a predetermined time, perhaps 18 months, after receipt of the final large bill. These funds would be used to pay any miscellaneous charges from RAMC during that period and any unused balance would be deobligated at the end of 18 months. If this proposal is acceptable to RIG/Frankfurt, USAID/Moscow will apply it to all freight obligations. At the present time we have deobligated all excess freight charges identified in our March 31 and on-going 1311 Reviews.

Based on Mission responses to the Audit recommendations, USAID/Moscow requests that all recommendations be closed upon issuance of the Final Audit Report.

USAID/Moscow also requests that the references on page 8 of the Draft Report pertaining to prohibitions against "Personal Services Contractors (which includes all USAID/Moscow FSN's) from controlling money" be deleted because: (1) It is normal practice, and part of the job description of FSN Personal Service Contractors to provide fund availability through operation of the MACS and, (2) the Agency has special authority from the U.S. Treasury for FSN PSC's to serve as cashiers. In any case, we do not believe the Foreign Affairs Manual reference to "controlling money" was meant to include processing of accounting transaction through the MACS or the provision of "funds availability" stamp on documents.

Summary Results of Unliquidated Operating Expense Obligations Reviewed

At September 30, 1995

Comment	Fiscal Year 1992			Fiscal Year 1993			Fiscal Year 1994			Fiscal Year 1995			TOTAL		
	No.	%	Amount	No.	%	Amount	No.	%	Amount	No.	%	Amount	No.	%	Amount
Should Have Been Deobligated Much Earlier	1	100	$2,646	30	79	$153,190	13	43	$106,104	4	9	$36,533	48	42	$298,473
Deobligate per Audit	0	0	0	2	5	9,519	0	0	0	3	7	4,193	5	4	13,712
Services or Goods Not Received	0	0	0	0	0	0	0	0	0	11	25	375,970	11	10	375,970
Waiting for Invoice/Travel Voucher	0	0	0	0	0	0	2	7	3,281	10	23	80,672	12	11	83,953
Waiting for Freight Charges	0	0	0	3	9	22,604	5	17	59,933	2	5	15,695	10	9	98,232
Waiting for Follow-up/Research	0	0	0	2	5	91,792	3	10	22,285	5	11	202,522	10	9	316,599
Other	0	0	0	1	2	4,859	7	23	23,498	9	20	93,736	17	15	122,093
TOTAL	1	100	$2,646	38	100	$281,964	30	100	$215,101	44	100	$809,321	113	100	$1,309,032

Summary of Funds Control Violations

Type*	Date Occurred	Amount	Description	Comments
1	12/9/94	$ 663	Recurrent-Residential Utilities	Fiscal year 1994 funds used to pay a bill for telephone expenditures incurred in November 1994 (FY 1995)
1 & 2	11/23/94-7/17/95	22,926	Recurrent-MaintenanceService	Fiscal year 1994 funds used to pay for services performed from October 1994 to May 1995
1 & 2	6/5/95	801	Recurrent-Logistical Service	Fiscal year 1994 funds used to pay for services performed in March to April 1995
1	Various	7,255	Recurrent-USPSC Contract	Contract amendment in FY 1995, but never posted into MACS, when payments came in they were charged against the FY 1994 Contract
2	11/10/94	3,856	Recurrent-FSN PSC Contract	Contract Obligated to January 6, 1996 (over 3-month threshold)
1 & 2	9/30/95	27,000	Recurrent-Rent Payments	Obligation made on September 30, 1995 to cover rental period entirely within FY 1996
1 & 2	6/26/95-2/15/96	40,000	Recurrent-Residential Maintenance	Obligation made in FY 1995 to provide services in FY 1996
2	9/28/95	10,000	Recurrent-Office Maintenance	Obligation increased in FY 1995 to provide services in FY 1996
2	9/30/95	15,000	Recurrent-Drinking Water	Fiscal year 1995 funds added to Contract to cover services in FY 1996
	TOTAL	$127,501		

*Types:

1) Prior year funds were used to pay for charges incurred in the following fiscal year.

2) Obligations were recorded for either the wrong fiscal year, or for a period longer than allowed by forward funding provisions.