Audit of USAID/Russia's Financial Operations and Management Controls

Audit Report No. B-118-01-001-F
November 30, 2000

Budapest, Hungary

U.S. Agency for
INTERNATIONAL
DEVELOPMENT

RIG/Budapest

November 30, 2000

MEMORANDUM

FOR: USAID/Russia Mission Director, Carol A. Peasley

FROM: Director of Audit Operations/Budapest, Nathan S. Lokos

SUBJECT: Audit of USAID/Russia Financial Operations and Management Controls (Report No. B-118-01-001-F)

This is our final report on the subject audit. In preparing the report, we considered your comments on the draft report and included them in their entirety in Appendix II.

The report contains four recommendations and we consider management decisions to have been reached on all four recommendations. Furthermore, we consider Recommendation Nos. 3 and 4 closed upon issuance of the report.

We appreciate the cooperation and assistance extended to the auditors on this assignment.

Summary of Results

USAID/Russia needs to establish and improve internal controls over its quarterly accrual process to provide a more accurate estimation of the Mission's accrued expenditures. In particular, very old unliquidated commitments should be researched and cleared out of the Mission's financial records rather than continuously accrued each quarter. USAID/Russia also needs to establish written policies and procedures for its project cash advance process to ensure consistent application and documentation of advance activities and to limit cash advances to current disbursement needs. Finally, SF 1221 reconciliations should be adequately reviewed and show evidence of this review.

Background

Beginning in fiscal year 1996, the Government Management Reform Act (GMRA) requires agencies to complete audited financial statements each year covering all accounts and associated activities of the agencies. USAID management's ability to develop and maintain adequate internal controls, accounting systems and procedures to generate reliable financial statements will be critical to the success of USAID's annual reporting under GMRA.

As part of the fiscal year 1999 GMRA audit, the Office of Inspector General identified several material systemic deficiencies at USAID/Washington and three statistically selected overseas accounting stations. We found that USAID/Washington and the overseas accounting stations were improperly calculating and reporting the accrued expenses and related accounts payable. Also, the overseas accounting stations were not properly reconciling disbursements and collections with the U.S. Disbursement Offices and the U.S. Treasury and were not properly reporting outstanding advances at yearend. As a result, these areas were selected as the primary focus for the fiscal year 2000 GMRA audit.

Audit Objective

This audit was a part of the Office of Inspector General's audit of USAID's fiscal year 2000 financial statements as required by the Government Management Reform Act (GMRA). The Office of the Regional Inspector General/Budapest performed this audit to answer the following audit objective:

- Did USAID/Russia establish and implement adequate internal controls to account for and report advances and prepayments, accrued expenditures, and its Standard Form 1221 reconciliations?

Appendix I describes the audit scope and methodology.

Audit Findings

Did USAID/Russia establish and implement adequate internal controls to account for and report advances and prepayments, accrued expenditures, and its Standard Form 1221 reconciliations?

USAID/Russia did not have adequate internal controls to account for and report accrued expenditures and did not have documentation evidencing the supervisory review of its Standard Form (SF) 1221 reconciliations. Furthermore, while the mission generally had adequate internal controls over advances, some grantees have received cash advances in excess of their current disbursement needs. In addition, the overall advance process could be strengthened with written policies and procedures.

Grantees Have Received Excessive Cash Advances

Standard grant provisions for non-U.S. nongovernmental grantees provide for periodic advances of USAID funding under certain conditions. Although the provision regarding advances has undergone some revision in recent years, it generally allows periodic advances when (1) the grantee has an acceptable accounting system, (2) the grantee has the ability to maintain procedures that will minimize the time elapsing between the transfer of funds and the disbursement of funds, and (3) the grantee's financial management system meets certain standards for fund control and accountability.

In addition, this provision limits periodic advances to "the minimum amounts needed to meet current disbursement needs and [requires that advances] be scheduled so that the funds are available to the grantee as close as is administratively feasible to the actual disbursements by the grantee for program costs". The current provision[1] defines current disbursement needs as generally 30 days. There are similar procedures in 22 CFR 226.22 concerning advance payments to U.S. grantees. When requesting advances, grantees should report on their cash needs over the specified period and also on unused or remaining proceeds from earlier advances that should be offset against the current request.

These provisions are in line with ADS Section 636.5.3 (2/15/00 revision) which states that advances are limited to the minimum amount needed for "immediate disbursing needs". This is defined as up to 30 calendar days (one month) from the date received until expended.

We initially identified USAID/Russia portfolio recipients with outstanding project advances as of March 31, 2000. These 15 U.S. and non-U.S. entities had 33 advances with unliquidated balances totaling $1,540,143. From these recipients we focused our review on five Russian and two American nongovernmental organizations (NGOs) with large outstanding advance balances as of July 10, 2000, the date of our review. At that date, these seven organizations had unliquidated advances totaling $1,610,550.

NGOs	Unliquidated Advance
Academy of Management and the Market	$477,866
Institute for Urban Economics	$313,219
Moscow Public Science Foundation	$277,502
Junior Achievement-Russia	$178,350
American Chamber of Commerce	$168,675
Moscow Helsinki Group	$123,196
U.S.-Russia Business Council	$71,742
Total	$1,610,550

[1] Provision No. 1, dated October 1998 of the Standard Provisions for Non-U.S., Nongovernmental Recipients

Based on our review of the outstanding advances for these seven NGOs, we identified the following three areas where internal controls should be established or strengthened to improve the mission's control of cash advances.

- First, advances for four of the seven grantees exceeded current disbursement needs. This occurred because the Mission has not always taken funds leftover from prior advances into account when approving subsequent project advances.

- Second, three of the NGOs have requested and received advances for more than a month's disbursement needs.

- Third, USAID/Russia had no written policies or procedures regarding the advance process. We would expect to find guidance covering areas such as the types of documentation required of the recipient organization, the contents of advance files maintained by the USAID/Russia Office of Financial Management (OFM), the responsibilities of Mission program and OFM personnel in approving the advances, and detail concerning how the Mission determines the appropriate amount for an advance. We believe the absence of such policies and procedures contributed to the other problems described above.

Project Advances Not Offset By Leftover Prior Advance Funds – Only two of the seven NGOs reviewed submitted information on leftover funds from prior advances when requesting new advances. The other five NGOs simply reported the amount of cash needed for the upcoming period and received it without consideration given to any accumulating unspent cash balances from earlier advances. As a result, four of these five NGOs have advance balances in excess of current disbursement needs.

For example, the Moscow Helsinki Group submits a monthly Standard Form 270 (Request for Advance or Reimbursement) and enters financial information only on selected lines of the form with "estimated net cash outlays" and the "amount requested" being the same. The organization had received cash advances of $875,870 for the period October 1998-May 2000 but spent only $840,124 for the same period. The excess $35,746 advance should have been offset against the $45,075 advance subsequently processed for the month of July 2000.

Another, similar example, the U.S.-Russia Business Council received monthly advances totaling $680,934 for the months of October 1997 through May 2000 but spent only $647,643 for the same period. The excess $33,291 leftover from those advances should have been offset against the $17,611 advance subsequently processed for the month of July 2000.

Project Advances In Excess Of One Month's Disbursement Needs – Three of the seven NGOs reviewed have requested and received advances for two or three months' disbursement needs and in one case, even more. For example, the Academy of Management and the Market (AMM) has consistently received three-month advances and on two occasions has received advances to cover four months of future disbursement needs. On August 12, 1999, the Academy received $200,000 to cover anticipated expenses for September through December 1999. On November 30, 1999, it received an additional $75,000 to cover expenses through March 2000. USAID/Russia should limit project advances to one month's disbursement needs in accordance with ADS Section 636.5.3.

Incomplete Documentation And Advance Files Not Always Properly Maintained – Our review of the manual advance files and the related payment schedule files for these seven NGOs disclosed 1) that these organizations submitted incomplete documentation when requesting advances and 2) inconsistencies in the Mission's maintenance of advance files.

As discussed earlier, we found that some organizations requested advances by submitting a Standard Form 270 (Request for Advance or Reimbursement) while others submitted a detailed listing of budget items and the amount they expected to spend on each. However, using either method, most organizations did not provide information on leftover advance funds already available for immediate use. Information on leftover advance funds is specifically requested on SF 270 and should be required of any new advance request.

In addition, while five of the seven NGOs had well-organized manual advance files with spreadsheet ledgers clearly showing the history of the organization's advance requests and liquidations, the files for the other two NGOs were disorganized and lacked a spreadsheet ledger or any other analysis or control document. Finally, in some cases we found on file a completed project officer checklist from the activity manager for specific advance requests although in other cases, the checklist was either not submitted or was not readily located.

Many of the problems discussed in the preceding sections may have been avoided if USAID/Russia had written policies and procedures regarding the processing of project advances. USAID/Russia can improve its control over cash advances by identifying what is required of each participant in the process (the recipient organization, the applicable activity manager, and the voucher examiner), properly documenting the advance approval process and limiting cash advances to current disbursement needs. At a minimum, the USAID/Russia Office of Financial Management should prepare a detailed memorandum for its staff to emphasize areas where improvements in the advance process are needed.

Recommendation No. 1: We recommend that USAID/Russia prepare written policies and procedures regarding project advances to address such items as identifying documentation required to request or approve an advance, limiting advances to current disbursement needs, and the maintenance of the Mission's Office of Financial Management's manual advance files.

Internal Controls For Accrued Expenditures Are Ineffective

At the end of each quarter of the fiscal year, USAID missions review their unliquidated commitments and determine the amount that should be recorded as accrued expenditures. These accrued expenditures—accruals—represent costs that have been incurred for goods and services already received but for which the billing has not yet been received or paid. These accruals are posted to USAID's accounting records on the final day of each fiscal quarter and are reflected in the financial statements or summaries for that quarter. The accruals are automatically reversed by the Mission Accounting and Control System (MACS) on the first day of the following quarter.

Our review focused on USAID/Russia's accruals for the second quarter of fiscal year 2000 that totaled $50.295 million. We identified three areas where internal controls could be established or strengthened to result in a more accurate estimation of the Mission's quarterly or yearend accruals. First and most important, we noted a lack of participation by USAID/Russia Office of Financial Management personnel in determining accruals, compounded by inadequate review of old unliquidated commitments that have been repetitively accrued for multiple years. In addition, we found that there were no second party reviews of accrual input summaries before entry into MACS and no review or adjustments of accruals to reflect late quarter disbursements.

Lack of Participation by Controller's Office in Determining Accruals – USAID/Russia Mission Order 19-05, dated October 19, 1993, describes the procedures to be used in developing quarterly accruals. The mission order calls for the Mission Controller to meet with each project officer to assist in the review and determination of the project accruals for their section's unliquidated commitments, which are listed on the Project Accrual Worksheet (PO9 worksheet). Project officers are also required to attach supporting documents to their worksheets for any accrual in excess of $1 million.

We reviewed the PO9 worksheets for the second quarter fiscal year 2000 accruals and interviewed both project and Office of Financial Management (OFM) personnel concerning how the accrual process actually functions at USAID/Russia. All personnel reported that OFM strictly relies on the PO9 information as determined and submitted by the project activity offices with no participation from OFM in their reviews of unliquidated

commitments. The supervisory accountant reported that many project offices found that joint meetings to review their PO9 worksheets were time consuming and preferred to perform the review on their own. During our review, we also noted 8 accruals totaling $17.2 million (34 percent of all project accruals) where the individual accrual exceeded $1 million. However, no supporting documentation was submitted with any of the PO9 worksheets related to these accruals.

In reviewing USAID/Russia's PO9 worksheets and the corresponding Commitment Liquidation Records (PO4 reports) we noted several unliquidated commitments that were three years or older. In several cases, USAID/Russia had consistently accrued the entire amount of the commitment each quarter—but had either never actually posted a disbursement against the commitment or, for the oldest commitment, had not posted a disbursement in the last four years. These 11 commitments, listed in Appendix III of this report, total $11,661,973, and represent 23 percent of USAID/Russia's project accruals for March 31, 2000.

With most of these commitments, it was clear that USAID/Washington had apparently already paid for the corresponding goods and services that Mission personnel were certain had been received years earlier. However, USAID/Russia had never received disbursement data from USAID/Washington for posting to its accounting records nor had mission staff done the research and/or communication with USAID/Washington necessary to resolve these long idle commitments. Project activity personnel were waiting for the USAID/Russia Office of Financial Management to take that necessary action so that these long outstanding commitments could be liquidated in the Mission's accounting records.

One example is a $15 million commitment USAID/Russia established for goods and services from the Urban Institute on July 27, 1994. The project was completed in 1995 and the activity manager was certain all funds had been spent and that the contractor had been paid. The Mission's accounting records, however, show that no disbursements have been posted since July 18, 1996 and the remaining unliquidated balance of $6,354,673 has simply been accrued and reversed every fiscal quarter since then.

As stated in Mission Order 19-05, the Mission's OFM is responsible for maintaining project accounting records, and the development of reliable accrued expenditures is a management team responsibility to be shared with the appropriate technical office. Direct involvement and active participation by OFM is necessary to provide assurance of an accurate determination of accrued expenditures. The mission order should more specifically define an accrual process and level of OFM participation that the Mission is prepared to implement and enforce. In the case of the 11 accruals listed in Appendix III, OFM should immediately research and determine the correct status of the commitments—including communicating with USAID/Washington—rather than simply accruing these amounts each quarter.

No Second Party Reviews of MACS Input – Each fiscal year quarter, the Mission's Office of Financial Management prepares a Batch Project Accrual Entry File (P15 Report) that summarizes the information on individual accruals that has been manually entered on the PO9 worksheets by the various project activity offices. The P15 report is later electronically entered into MACS, thereby establishing the accruals in the Mission's accounting records.

Under current procedures, one individual (generally the supervisory accountant) prepares the P15 report and also double-checks his/her own work to ensure the PO9 data has been correctly entered. During our review, we noted one error in data entry where an accrual of $387,000 on the PO9 worksheet was input as only $387. We believe that a second party review—which is a basic internal control to ensure the accuracy of entered data—would likely have caught this error. Although, in this instance, we only noted one error which amounted to less than one percent of the total amount accrued, we are convinced that the risk of future errors would be minimized by conducting a second party review—a review that would require less than one hour to complete.

No Adjustments of Accruals for Late Posted Disbursements – The source document that initiates the accrual process is the OFM-prepared Project Accrual Worksheet (PO9 worksheet) which lists all unliquidated project commitments. Project activity managers annotate the accrual amount for each commitment on the worksheet and then return that worksheet to OFM.

Each fiscal quarter, these managers should develop the accruals for their commitments by gathering actual or projected cumulative expenditures from vendors and then subtracting the disbursements already posted to the mission's accounting system, as reflected on the Project Accrual Worksheet. However, in the time it takes the project activity manager to complete the review of PO9 worksheets, other billings from grantees and contractors are simultaneously being processed and paid, which impacts the amount that should be accrued.

For instance, the second fiscal quarter's PO9 worksheets were prepared as of March 20, 2000, but the accruals were not posted until the end of the quarter on March 31. In the intervening eleven days, several disbursements were paid and posted to the accounting records. Our audit sample of 30 accruals included 9 accruals totaling $925,325 that had had disbursements posted to them after the PO9 worksheets were prepared. The accrued amounts on the PO9 worksheets will in most cases be overstated unless the worksheets are reviewed and adjusted for any disbursements made late in the fiscal quarter.

An effective accrual process must include a system or methodology for adjusting accrual amounts when the actual payments for applicable goods

and services are made. Accrual adjustments for late posted disbursements may often be relatively insignificant as a part of the Mission's total accruals but an effort should be made to identify and make as many of these adjustments as possible. Without a review of late quarter disbursements and an adjustment of the corresponding accrual amounts, USAID/Russia's accrual process can not be considered effective and the accrual amounts can not be considered entirely reliable.

Recommendation No. 2: We recommend that USAID/Russia revise and update its Mission Order No. 19-05 to include: a) second party reviews of accrual data input, b) a provision for adjustment of accruals due to late quarter disbursements, and c) a sufficient level of USAID/Russia Office of Financial Management participation in the accrual process.

Recommendation No. 3: We recommend that USAID/Russia review the eleven commitments listed in Appendix III of this report to determine the correct status of these commitments.

Internal Controls For SF 1221 Reconciliation Are Ineffective

USAID overseas missions commit and obligate funds that are disbursed by the United States Disbursing Offices (USDOs). The USDOs send a Standard Form (SF) 1221 report to the mission listing all of their fund activity for each appropriation for the month. At the end of each month, the mission controllers' offices conduct a SF-1221 reconciliation between the fund activities in their accounting system and that reported by the USDOs. The SF-1221 reconciliation is used to determine the overseas portion of USAID's fund balance with the U.S. Treasury and the USAID missions report their SF-1221 reconciliation to USAID/Washington via a monthly U-101 report.

We reviewed USAID/Russia's procedures for performing the SF-1221 reconciliation and specifically reviewed the February and March 2000 SF-1221 reconciliations for three appropriations (72X1000, 72X1021, and 72X1093) and traced key figures to USAID/Russia's corresponding U-101 reports.

Our review found that the SF-1221 reconciliations are not adequately reviewed before submission of the U-101 reports to USAID/FM/Washington. We noted a $2000 footing error on the reconciliation for the 72X1093 appropriation that had gone undetected for at least four months prior to our review. Although the reconciliations are supposed to be the supporting documentation for the U-101 report, there is no evidence of second party or supervisory review of these reconciliations. *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States call for internal control and all transactions and other significant events to be clearly documented with the documentation readily available for examination.

Recommendation No. 4: We recommend that USAID/Russia retain evidence of supervisory review of SF-1221 reconciliations for each U-101 report.

Management Comments and Our Evaluation

USAID/Russia agreed with the audit findings and either agreed with the audit recommendations or offered acceptable alternatives to achieve corrective action.

With respect to Recommendation No. 1, USAID/Russia's Office of Financial Management (OFM) plans to provide detailed guidance concerning project advances as contained in the recommendation. The guidance will (1) require awardees to deduct funds remaining from prior advances from current advance requests, (2) limit advances to one month's needs, and (3) specify the documentation to be maintained in OFM files.

Concerning Recommendation No. 2, OFM has assigned the assistant accountant the duty of reviewing accrual data input and has instituted quarterly meetings with technical divisions to review and determine the adequacy of accruals. OFM is developing a worksheet and procedure to identify late quarter disbursements so that quarterly accruals can be adjusted for these payments.

USAID/Russia has systematically followed up on the commitments cited in Recommendation No. 3 and the largest of these, Urban Institute, has already been deobligated. The other commitments are in various stages of research with USAID/Washington and USAID/Russia's Chief Accountant is also going to Washington to expedite the resolution of these old commitments.

Concerning Recommendation No. 4, a signature showing evidence of supervisory review of the SF-1221 reconciliation is now being maintained for each U-101 report.

Based on USAID/Russia's response, we consider that management decisions have been reached on all four recommendations and that final action has been taken on Recommendation Nos. 3 and 4. The planned guidance in connection with Recommendation No. 1 must be prepared before a determination of final action can be made for that recommendation. Similarly, the worksheet and related procedure for late quarter disbursements is needed for final action on Recommendation No. 2.

Scope and Methodology

Scope

The Office of the Regional Inspector General/Budapest conducted an audit, in accordance with generally accepted government auditing standards, to determine if USAID/Russia had established and implemented adequate internal controls to account for and report advances and prepayments, accrued expenditures, and its Standard Form 1221 reconcilations. The audit was a part of the Office of Inspector General's audit of USAID's fiscal year 2000 financial statements as required by the Government Management Reform Act. Audit coverage of advances centered on USAID/Russia's project advances to 15 different organizations totaling $1.54 million as of March 31, 2000. Audit coverage of accrued expenditures centered on the $50.295 million in accruals recorded by USAID/Russia on March 31, 2000. SF-1221 reconciliations for two months covering three appropriations were also reviewed. The audit was conducted at USAID/Russia from June 27 through July 14, 2000.

Methodology

The audit objective was to determine if USAID/Russia had established and implemented adequate internal controls in the areas of: (1) advances and prepayments, (2) accrued expenditures, and (3) SF-1221 reconciliations.

In answering the audit objective regarding advances and prepayments, we interviewed Mission accounting personnel to identify the procedures and controls used in approving and liquidating project advances. Using a listing of organizations with outstanding advances as of March 31, 2000, we selected a judgmental sample of organizations with large current advances to determine whether the Mission was ensuring prompt liquidation of advances and controlling the amounts advanced to organizations.

To answer the audit objective regarding accrued expenditures, we interviewed Mission personnel to identify the procedures and controls that the Mission has established for preparing monthly accruals, including Mission Order 19-05 dated October 19, 1993. Using discovery sampling, we selected a sample of 30 individual accruals from the Mission's second quarter FY 2000 and tested various internal controls including determining whether (1) adjustments were made to accruals for disbursements made late in the quarter, (2) second party reviews were made to ensure accuracy when entering accruals into the accounting system, and (3) accruals were reversed at the beginning of the third quarter.

In addition, we also selected a judgmental sample of accruals relating to older large commitments and attempted to determine whether the Mission

had adequate documentation or support for accruing these amounts. Using discovery sampling, only one exception exceeds the materiality threshold since the sample is supposed to be representative of the universe.

In answering the audit objective regarding SF-1221 reconciliations, we reviewed USAID/Russia's procedures for performing the reconciliations and specifically reviewed reconciliations for two months covering three different appropriations. OIG/Washington selected three appropriations to be reviewed at all overseas missions as part of the worldwide audit, however, one of these appropriations was not used by USAID/Russia. Accordingly, we selected appropriation 72X1093 as a substitute because it was the most actively used appropriation at USAID/Russia. Key amounts or transactions were traced from the SF-1221's to the corresponding U-101 reports. Materiality thresholds were not established for this part of the objective.

MANAGEMENT COMMENTS

United States Agency for International Development

Local: USAID/Moscow
Address: 19123 Novinsky Bulvar
Moscow 121099, Russia

Telephone: 7 - **095 -** 728 5000

U.S. American Embassy / Moscow
Mailing PSC **77** USAID
Address: APO AE 09721

Fax. 7 - 095 - 960 2141142

November 14, 2000

MEMORANDUM

TO: Director of Audit Operations/Budaepst, Nathan S. Lokos

FROM: USAID/Russia Mission Director, Carol A. Peasley /s/

SUBJECT: Response to Draft Audit Report on Audit of USAID/Russia's Financial Operations and Management Controls

I would like to thank you and your auditors for the assistance provided to USAID/Russia during your review in accordance with the Government Management Reform Act. Our actions in response to the recommendations in your report should strengthen the control mechanisms of the Mission. We appreciate the extra efforts the auditors took to assure that facts presented in the report were accurate. We also recognize that differing conclusions can be reached based on the same set of facts.

The following is our plan of action to address the four recommendations presented.

Recommendation No. 1.: We recommend that USAID/Russia prepare written policies and procedures regarding project advances to address such items as identifying documentation required to request or approve an advance, limiting advances to current disbursement needs, and the maintenance of Controller's Office manual advance files.

OFM accepts the auditors' recommendation that the Mission take actions to strengthen management of project advances. The Office of Financial Management will provide detailed guidance to the staff concerning the following issues. First, there will be language that makes it mandatory that the awardee requesting the advance must deduct funds remaining from prior advances from their current request. Second, it will be emphasized that advances are to be limited to one month's need. Third, the maintenance of clear and concise documentation in the OFM files will be emphasized. The documentation required will at a minimum be (a) the request for advance form, (b) an annotation in the file as to whether it has been determined that a detailed justification by line item will be required for advances to the individual awardee, (c) a spreadsheet showing the detailed history of the organization's advance requests and liquidations, and (d) a completed project officer checklist for each advance request.

We do not, however, believe that we need to update Mission Orders or generate a new series of detailed procedures. We believe that guidance currently exists for required actions in USAID's official on-line ADS system.

Recommendation No. 2. We recommend that USAIDIRussia revise and update its Mission Order No. 19-05 to include: a) second party reviews of accrual data input, b) provision for adjustment of accruals due to late quarter disbursements, and c) a sufficient level of Controller's Office participation in the accrual process that will result in adequately supported accruals.

OFM has instituted the following corrective actions:

For item a). We have assigned the assistant accountant the duty of reviewing the data input into the accounting system for accruals. This should assure that the entries are correct in accordance with the documented determinations.

For item b). We are developing a worksheet and attendant procedure to capture the payments made between the printing of the P09 worksheets and the end of the quarter. These worksheets will be named to adjust the accruals at the end of the quarter so that they reflect late quarter payments to awardees.

For item c). OFM has instituted quarterly meetings with each of the technical divisions to review and determine the adequacy of the accruals. These meetings began at the end of FY 2000 and will continue on a quarterly basis. In addition OFM, in coordination with the Mission technical offices, has assigned the financial analysts to work permanently with the technical offices to build expertise and understanding of documenting the accrual process.

Recommendation No. 3: We recommend that USAID1Russia review the eleven commitments listed in Appendix III of this report and determine the correct status of these commitments.

We have instituted a proactive approach to determining actions necessary for resolving the eleven commitments listed in Appendix III of the draft audit report. To date, the largest of these, Urban Institute, was deobligated after we received AID/Washington assistance in determining how to document this final action.

The remaining ten outstanding commitments are being addressed as follows.

The Citizens Democracy Corps Inc. and the National Association of Home Builders were committed under the NMS. AID/Washington has requested that we do nothing on the outstanding commitments under these awards until AID/W is sure of the proper methodology for showing these commitments in the financial records and for removing the commitments from USAID/Russia records.

For World Vision Relief and Development and International Executive Service Corps, we have been advised to await receipt of the OPACS charges from AID/Washington For the, Department of Justice commitment, DOJ is trying to determine the best mechanism for DOJ to bill USAID and receive payment. The resolution of this outstanding commitment will await DOJ action and is a valid accrual.

The resolution of the Internews commitment is awaiting a close out letter from Internews and final action by the Contracting Officer.

We will continue to systematically follow up on the promised documentation so that we will have sufficient information for elimination of these commitments from our records. As noted, we must await documentation and instructions for final elimination of the so cold commitments. In an attempt to expedite the receipt of the documentation and instructions, in December we are sending the USAIID/Russia Chief Accountant to AID/W to personally consult and work on the outstanding issues for programs where Washington was the paying station.

Recommendation No. 4: We recommend that USAID/Russia retain evidence of supervisory review of SF-1221 reconciliations for each U-101 report.

For this recommendation, on the September reconciliation worksheet the supervisor signed his name after reviewing the reconciliation of the SF 1221 and the U-101 reports. This signature has been maintained in the file for the record. This practice will continue.

We believe that our actions have addressed the requirements presented in recommendations numbered two through four and request that these recommendations be considered closed upon issuance of the report. For recommendation number one, we believe that it is resolved. We will request closure of that recommendation upon our issuance of the memorandum to the OFM staff.

OLD COMMITMENTS REQUIRING REVIEW

Commitment Date	Commitment Document No.	Vendor	Amount
09/26/96	118-0004-A-00-6217	World Vision Relief and Development	$ 157,000
08/31/97	118-0004-A-00-6217	World Vision Relief and Development	$ 70,000
04/30/97	118-A-00-97-00157	Citizens Democracy Corps, Inc.	$ 312,300
04/30/97	118-A-00-97-00157	Citizens Democracy Corps, Inc.	$ 1,800,000
04/30/97	118-A-00-97-00109	International Executive Service Corps	$ 600,000
07/07/97	118-A-00-97-00109	International Executive Service Corps	$ 1,368,000
09/23/96	CCN-0007-A-00-4136	Internews Network	$ 400,000
09/22/97	118-P-00-97-00209	Department of Justice	$ 100,000
07/27/94	118-0008-C-00-4015	Urban Institute*	$ 6,354,673
09/29/97	CCN-0008-A-00-4131	National Association of Home Builders	$ 135,475
09/29/97	CCN-0008-A-00-4131	National Association of Home Builders	$ 364,525
			$11,661,973

* - Original commitment totaled $15 million. No further disbursements posted since 07/18/96.