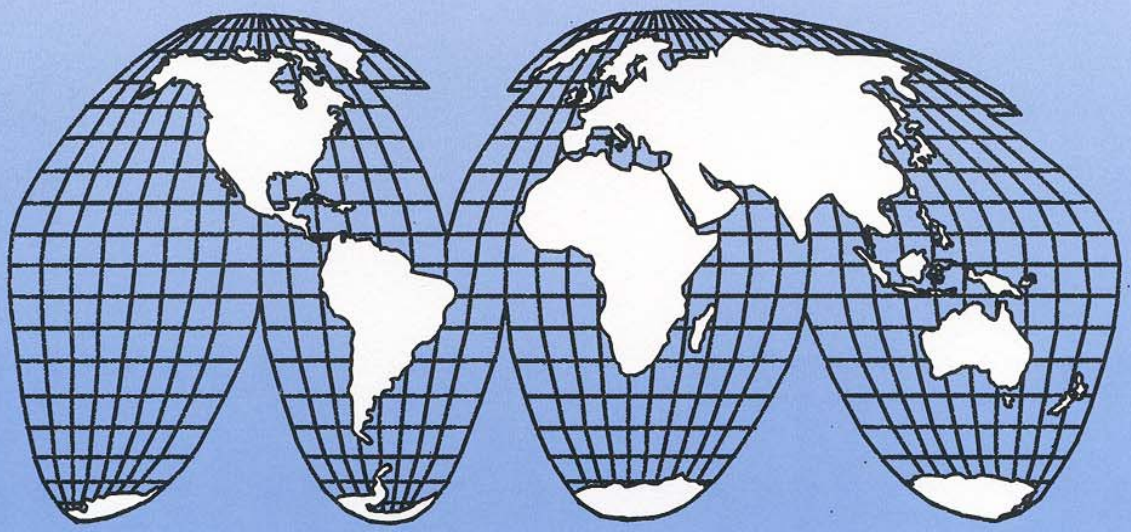
USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID/Regional Services Center/Budapest's Financial Operations and Management Controls

Audit Report No. B-194-02-001-F

March 14, 2002



U.S. Agency for International Development

Budapest, Hungary

U.S. Agency for
INTERNATIONAL
DEVELOPMENT

RIG /Budapest

March 14, 2002

MEMORANDUM

FOR: USAID/Regional Services Center/Budapest Director, Hilda Arellano

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

SUBJECT: Audit of USAID/Regional Services Center/Budapest's Financial Operations and Management Controls (Report No. B-194-02-001-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 Recommendations Nos. 1.1, 1.2, 2, 3.1, and 3.2. Furthermore, we consider Recommendation Nos. 1.1, 2, and 3.1 closed upon issuance of the report.

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

Table of Contents

Summary of Results **3**

Background **3**

Audit Objective **4**

Did USAID's Regional Services Center's Regional Financial Management Office establish and implement adequate internal controls over its accrued expenditures, Standard Form 1221 reconciliations and advances? 4

Audit Findings` **4**

Controls over Accruals Were Adequate 4

The RFMO Should Perform SF-1221 Reconciliations In a Timely Manner 5

The RFMO Should Develop a Training Plan 7

The Completeness and Relevance of RSC Financial Mission Orders Should Be Verified 8

The RFMO Should Strengthen Its Monitoring of Cash Advances 9

Management Comments and Our Evaluation **13**

Appendix I - Scope and Methodology **14**

Appendix II - Management Comments **16**

Appendix III - USAID/RSC Country Programs **29**

Appendix IV - Entries and Open Reconciling Items **30**

Appendix V - RFMO Organizational Chart **31**

Appendix VI - Examples of Tardy Liquidation Vouchers **32**

Summary of Results

In answering the objective of whether USAID's Regional Services Center's Regional Financial Management Office (USAID/RSC/RFMO) established and implemented adequate internal controls over its accrued expenditures, Standard Form 1221 reconciliations, and advances, we found that USAID/RSC/RFMO had adequate controls over its accruals and posted its accrued expenditures properly by entering and reversing them out of the Mission Accounting and Control System (MACS)[1] (see page 4). However, we found that the USAID/RSC/RFMO needs to improve its internal controls over its Standard Form 1221 reconciliations and advances. Specifically, the Mission needs to improve its internal controls over its Standard Form 1221 (SF-1221) reconciliations, which have not been completed in a timely manner (see page 5). Additionally, the Mission should strengthen its controls over cash advances to ensure that such advances are limited to the recipients' immediate disbursing needs and ensure that the advances are liquidated in a timely manner, as required by USAID policy (see page 9).

Background

Under the Government Management Reform Act of 1994 (GMRA), USAID is required to submit audited financial statements to the Office of Management and Budget (OMB) and appropriate Congressional Committees. USAID management's ability to develop and maintain adequate internal controls, accounting systems and procedures to generate reliable financial statements is critical to the success of USAID's annual reporting under GMRA.

As part of the fiscal year 2000 (FY2000) 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 accrued expenses and related accounts payable. Also, the overseas accounting stations were not properly reconciling disbursements and collections with the U.S. Disbursing Offices and the U.S. Treasury and were not properly reporting outstanding advances at year end. As a result, these areas were selected as the primary focus for the fiscal year 2001 GMRA audit.

[1] The mission financial and accounting data is accumulated and reported to USAID/Washington through the MACS. The MACS is an on-line, interactive, fully integrated accounting system within a particular mission.

One of the USAID overseas locations selected for testing in the fiscal year 2001 GMRA audit was the Regional Financial Management Office (RFMO) of USAID's Regional Services Center for Europe and Eurasia (RSC). As listed in Appendix III, the RFMO provides financial services for USAID activities throughout the region. Over the past seven years, the RFMO's portfolio has grown from 8 USAID client missions[2] with transactions valued at more than $11 million in obligations to 21 client missions with transactions valued at more than $402 million in obligations in FY2001.

Audit Objective

This audit was a part of the Office of Inspector General's audit of USAID's fiscal year 2001 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's Regional Services Center's Regional Financial Management Office establish and implement adequate internal controls over its accrued expenditures, Standard Form 1221 reconciliations, and advances?

Appendix I describes the audit scope and methodology.

Audit Findings

Did USAID's Regional Services Center's Regional Financial Management Office establish and implement adequate internal controls over its accrued expenditures, Standard Form 1221 reconciliations, and advances?

USAID's Regional Services Center's Regional Financial Management Office (RFMO) had adequate internal controls over its accruals. However, the office did not have adequate internal controls over its Standard Form 1221 (SF-1221) reconciliations or its cash advances.

Controls over Accruals Were Adequate

We found that the RFMO had adequate internal controls over its recording and reporting of accrued expenditures. For example:

[2] Some of the client missions are single offices and are not responsible for program activities.

- The RFMO sent guidance concerning the development of accruals and related accrual worksheets to its client missions.

- RFMO staff adjusted the accruals for any late disbursements that would impact the amount to be accrued.

- The RFMO Controller reviewed and initialed journal vouchers used to record accruals.

Moreover, in general, the accrual transactions that we reviewed were properly entered into the Mission Accounting and Control System (MACS) and properly reversed for the period audited.

The RFMO Should Perform SF-1221 Reconciliations In a Timely Manner

USAID overseas missions commit and obligate funds that are disbursed by the United States Disbursing Offices (USDOs). The USDOs send a SF-1221 report to the mission listing all of their fund activity for each appropriation for the month. U.S. Government statutes[3] and USAID guidance[4] require that, at the end of each month, 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 disbursement and collection activity for a specific agency location for a specified period of time and is developed by matching USAID disbursements with associated USDO transactions (items without matches are reconciling items). USAID missions report their SF-1221 reconciliation to USAID/Washington via a monthly U-101 report.

We determined that the RFMO has not been able to resolve its backlog of outstanding SF-1221 reconciliations in a timely manner. In fact, as of March 2001, the RFMO did not know the details of the reconciling items—valued at approximately $5.6 million—that

[3] Public Law 31 United States Code 3513 requires the U. S. Treasury Secretary to prepare reports on the financial operations of the U. S. government. In turn, the Treasury Department requires that agencies reconcile their accounts on a regular and recurring basis.

[4] USAID's Financial Management Bulletin Part II, Number 14B and the Mission Accounting and Control System (MACS) Users Guide provide guidance for conducting SF-1221 reconciliations.

needed to be researched and resolved.[5] Appendix IV contains a schedule that represents the total number of transactions processed by USDO Paris and recorded in MACS, including the correcting actions and journal vouchers from April 1999 through January 2001. Because of this backlog of SF-1221 reconciliations, the RFMO portion of USAID's fund balance with Treasury cannot be accurately determined. In addition, these unreconciled items complicate the RFMO's calculation of accrued expenditures and unliquidated obligation balances, because disbursements made by USDOs are a factor in both of these calculations.

According to USAID officials, timely SF-1221 reconciliations had not been performed because of significant staff turnover in the RFMO and its client missions, the numerous evacuations of USAID personnel that have occurred in the region and delays in hiring the staff necessary to handle the RFMO's workload. In addition, USAID officials indicated that RFMO accountants had been required to work on other, higher priority tasks. As a result, those accountants were unable to complete the SF-1221 reconciliations as required.

USAID officials were aware of these problems and had taken previous steps to address both the backlog of SF-1221 reconciliations and the perceived causes of those backlogs. For example, USAID officials:

- Included the backlog of SF-1221 reconciliations as a weakness in the Regional Service Center's (RSC) FY 1999 and 2000 reporting under the Federal Managers' Financial Integrity Act;[6]

- Implemented a computer-based reconciliation system;

- Added a new accounting team of three new accountants;

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[5] The RFMO's backlog of outstanding Standard Form 1221 reconciling items grew from $2.2 million in 1999 to more than $7 million in 2000. The RFMO estimate of outstanding reconciliations is a net value and could, in fact, be much more or much less.

[6] The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires that the head of each executive agency report to the President and the Congress on the adequacy of their agency's internal accounting and administrative controls. Under the FMFIA process, the RSC submits annual reports to USAID's Bureau for Europe and Eurasia.

- Worked with the American Embassy/Budapest to upgrade RFMO positions; and

- Contracted with a local firm for two temporary analysts to work on the backlog of reconciling items as of October 2001.

While we applaud the steps the RSC has taken in addressing the causes of its SF-1221 backlog, we believe that it is essential that the backlog itself be liquidated. Accordingly, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID's Regional Services Center/Budapest:

1.1 Develop an action plan, including milestones, for liquidating its backlog of Standard Form 1221 reconciliations, and

1.2 Liquidate its backlog of Standard Form 1221 reconciliations in accordance with the action plan.

The RFMO Should Develop a Training Plan

U.S. Government internal control standards[7] note that operational success is only possible when the right personnel for the job are employed and are provided with the right training, tools, structure, incentives and responsibilities.

Unfortunately, due to high staff turnover and increased workloads, current RFMO staff has not received sufficient training to assist them in performing their jobs. Without such training, we believe it is more difficult for RFMO staff to perform their work in the most efficient and effective manner.

We understand that RFMO officials plan to address training needs by hiring a U. S. Personal Services Contractor (USPSC) to conduct "one-on-one" on-the-job training with RFMO staff.[8]

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[7]The Standards for Internal Control in the Federal Government were issued by the U.S. General Accounting Office in November 1999. These standards provide the overall framework for establishing and maintaining internal control in the Federal government.

[8] In December 2000, RSC Management hired a USPSC as a Senior Financial Adviser to, among other things, assist in administering the RFMO, maintain

While we acknowledge the benefits of on-the-job training, we believe the RFMO can further equip its staff to perform more efficiently and effectively by using appropriate combinations of on-the-job and formalized training.

> **Recommendation No. 2: We recommend that USAID's Regional Services Center/Budapest develop and implement a training plan to address the Regional Financial Management's Office staff needs.**

The Completeness and Relevance of RSC Financial Mission Orders Should be Verified

Automated Directives System(ADS)—USAID's official guidance, policies and procedures—section 596, requires that USAID managers ensure, among other things, that management controls provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. USAID missions often address this requirement by issuing mission orders, which document the mission's guidelines and procedures related to various USAID functions. Such mission orders are particularly useful when a mission experiences significant staff turnover, because they provide incoming staff with a means for quickly learning the mission's policies and procedures.

During our review, we noted that it had been a number of years since the RSC had issued any financial mission orders. In fact, despite USAID's dynamic environment, most of the RSC's financial mission orders dated back to 1993. Moreover, while a January 2001 RSC mission order index listed six financial management mission orders; no recent mission orders addressing these areas were available for our review.[9] In the absence of current and relevant mission orders, RFMO staff may not know how they are supposed to handle key financial transactions and events.

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accounting and payment systems, and provide guidance on the preparation for our GMRA audit. This Adviser recommended that RFMO officials hire a USPCS trainer.

[9] The mission orders identified in the index were: Vouchers, Payment Policy and Procedures, Advances, Bills for Collection, Funds Control and Cashier Operations.

For example, ADS Section E636.5.3b states that, at a minimum, cash advances to grantees must be reviewed at least quarterly to ensure that those advances are not in excess of the grantees' immediate disbursement needs. However, while the ADS specifies this minimal requirement, each mission must determine whether cash advances should be reviewed on a more frequent basis based on its own unique circumstances and assessment of risk. In the absence of a mission order codifying the RFMO's guidance and procedures for advances, the RFMO staff's monitoring and follow-up on advances may not be commensurate with the risk posed by those advances.

In addition to the above, we also believe that the absence of formal written guidance—such as mission orders—makes it more difficult for recently hired RFMO staff members to master their new responsibilities. Mission orders could facilitate this learning process. Given the significant recent turnover in RFMO personnel as well as the dramatic growth in the RFMO's workload over the past several years, we believe it would be prudent for the RSC to review whether its financial mission orders are complete and whether they reflect current RFMO policy and procedures.

Recommendation No. 3: We recommend that USAID's Regional Services Center/Budapest:

3.1 Review the completeness and relevance of its financial mission orders, and

3.2 Revise current financial mission orders and/or issue new financial mission orders, as necessary.

The RFMO Should Strengthen Its Monitoring of Cash Advances

USAID's guidance requires that Mission Controllers monitor cash advances to grantees on an on-going basis. It also requires that such advances be limited to the grantee's immediate disbursing needs and that they be liquidated in a timely manner. However, the RFMO's monitoring of cash advances did not ensure that all cash advances were limited to grantee's immediate disbursing needs and that advance liquidation vouchers were received in a timely manner. We believe that this occurred because the RFMO was inadequately staffed, which in turn caused RFMO staff to focus on what they considered to be higher

priority tasks. Additionally, we believe that the lack of a mission order detailing the RFMO's specific guidance and procedures concerning advances may also have contributed to this situation. As a result, some grantees maintained excessive advances and/or did not submit vouchers to liquidate their advances in a timely manner.

USAID's ADS Section 636 addresses program funded advances. This ADS section requires that advances to grantees be restricted to immediate disbursing needs, which is defined as the cash required for up to 30 days from the date the grantee receives the advance until it is expended. Accordingly, the guidance also indicates that cash advances should not be made for periods longer than 30 days, unless authorized in writing by USAID's Deputy Chief Financial Officer (D/CFO). Moreover, even with the D/CFO's authorization, the period covered by the advance cannot be longer than 90 days, regardless of the circumstances.[10]

In addition to the above requirements, the ADS requires that funds in excess of immediate cash needs be refunded to the Mission unless the excess funds are to be disbursed within 7 days, or the amount is less than $10,000 and will be disbursed within 30 days. Moreover, USAID's standard grant provision concerning advances requires that, at the end of each quarter, the grantee submits a voucher (marked "Liquidation of Advances") to liquidate the advances of the previous quarter.

We reviewed a sample of 15 project advances to 13 grantees valued at $1.6 million from the RFMO's Advance and Liquidation ledgers. We found that the RFMO had not adequately monitored a number of these advances. Consequently, two of these grantees (approximately 13%) received advances in excess of their immediate cash needs. Additionally, eight (approximately 53 %) of these grantees did not submit vouchers liquidating their advances in a timely manner. These conditions are discussed in more detail below.

Excessive Advances Given to Some Grantees – The RFMO acknowledged that several grantees received cash advances which exceeded the recipient's current disbursement needs (30

[10] Standard grant provisions for non-profit organizations specify that USAID may provide monthly cash advances to grantees. These grantees are permitted to liquidate those advances on a quarterly basis. Most importantly, the provision also limits periodic advances to the "minimum amounts needed to meet current disbursement needs."

days). For example, Mission officials noted that under Grant No. 183-G-00-99-00109, the Foundation for Local Government Reform had received excess advances. This grantee had consistently carried over from month-to-month unliquidated advance balances ranging from approximately $11,000 to $175,000. Based on information provided by the RFMO, it does not appear that the unliquidated advance balance at the end of each month was properly taken into account when approving subsequent advances under this grant agreement.

Another example involves the Center for Economic Development (Grant No. 183-G-00-00-00115). In this case, Mission officials note that the grantee "appears to have received and held an outstanding advance greater than its immediate disbursement needs." According to the RFMO, this outstanding advance balance totaled approximately $58,000 as of December 19, 2001.

Advances Not Liquidated in a Timely Manner – We also noted several instances where grantees did not liquidate advances in a timely manner. Based on our review of documentation provided by RFMO officials, RFMO staff did not take timely action to obtain these tardy liquidation vouchers.

For example, the RFMO advanced $43,668 to the Foundation for Development of Democratic Rights for the quarter covering July-September 2000. The end of the quarterly period was September 30, 2000. Reasonably, we would have expected the RFMO to receive the grantee's liquidating voucher by October 31, 2000 (30 days from the end of the quarter). However, the liquidating voucher was not actually received until March 5, 2001—124 days late. If the requisite monitoring had been done, we would have expected the RFMO to initiate some type of action to request the tardy liquidation voucher in November 2000, after having not received the voucher in October 2000. However, our review of documentation provided by the RFMO revealed no evidence that the office took any action prior to receiving the liquidating voucher on March 5, 2001.

In a second example, the RFMO advanced $124,607 to the Gdansk Institute for Market Economy for the June-July 2000 period. The end of the quarter was the following month, August 2000. Reasonably, the grantee should have submitted the liquidating voucher by the end of September 2000 (30 days from the end of the quarter). However, the liquidating voucher was

not actually received until January 30, 2001—121 days late. If the requisite monitoring had been done, we would have expected the RFMO to initiate some type of action to request the tardy liquidation voucher in October 2000, after having not received the voucher in September 2000. However, our review of documentation provided by the RFMO revealed no evidence that the office took any action prior to receiving the liquidating voucher on January 30, 2001.

In addition to the above mentioned sample of cash advances, we reviewed the RFMO's Advance Aging Report of outstanding advances for project and operating expense advances as of June 26, 2001. We determined that, of the total outstanding advances of $5.1 million, approximately $464,000, or 9.2 per cent of the total, was outstanding for more than 360 days. As previously stated, USAID guidance requires that program advances not be longer than 90 days and that they be liquidated on at least a quarterly basis. We believe this large long-outstanding unliquidated advance balance is a further indication that the RFMO should strengthen its monitoring of cash advances. Accordingly, we are making the following recommendation.

Recommendation No. 4: We recommend that USAID's Regional Services Center/Budapest:

4.1 Review its portfolio of advances, identify unliquidated advances not in compliance with Automated Directives System section 636 requirements and grant/cooperative agreement provisions, and resolve those outstanding advances.

4.2 Issue a mission order formalizing the Regional Services Center's guidance and procedures regarding cash advances.

Management Comments and Our Evaluation

In general, the Regional Services Center (RSC) agreed with the findings, conclusions, and recommendations in our draft report. For some areas, the RSC provided additional information and/or suggestions. In instances where we agreed with the RSC response, we modified our report appropriately. However, we disagreed with the mission regarding cash advances. In its written comments, RSC management contended that the Regional Financial Management Office (RMFO) closely monitors the issuance of advances and their unliquidated balances. However, as previously mentioned in our report, the incidents we noted of excessive advances, the lack of follow up on tardy liquidation vouchers, and the presence of long-outstanding unliquidated advance balances on the RFMO's Advance Aging report lead us to a different conclusion—that the Mission needs to strengthen its monitoring of advances. Some detailed examples illustrating the Mission's lack of timely follow up on advance liquidation vouchers are presented in Appendix VI.

Scope and Methodology

Scope

The Office of the Regional Inspector General/Budapest conducted this audit, in accordance with generally accepted government auditing standards, to determine if the Regional Services Center's (RSC) Regional Financial Management Office (RFMO) had established and implemented adequate internal controls over its SF-1221 reconciliations, advances, and, accrued expenditures. The audit was a part of the Office of Inspector General's audit of USAID's Internal Controls Over the RSC's Accounting and Control System for Fiscal Year 2001, as required by the Government Management Reform Act. Audit coverage focused on the outstanding 1221 reconciliations valued at approximately $5.6 million, outstanding advances valued at $3.6 million, and accrued expenditures valued at $35.7 million, as of March 31, 2001. Audit fieldwork was conducted at the RSC in Budapest, Hungary from June 11 through July 31, 2001 with updates through December 2001. Specifically, we assessed the RFMO's controls regarding the management of human capital, accurate and timely recording of transactions and events, and appropriate documentation of transactions.

Methodology

We developed the audit objective to determine whether the Regional Financial Management Office (RFMO) established and implemented adequate internal controls over 1) its Standard Form 1221 reconciliations, 2) advances, and 3) accrued expenditures.

In answering the audit objective regarding SF-1221 reconciliations, we reviewed the RFMO's monthly cumulative reconciliation balances for appropriations chargeable to the client missions from January – March 2001, as well as documentation regarding total mission disbursements and the disbursing offices' net disbursements for fiscal year 2001. Additionally, we interviewed knowledgeable RFMO staff about historical events transpiring from FY 2000 and FY 2001.

For the advances, we interviewed RFMO accounting personnel to identify the procedures and controls used in approving and liquidating project and operating expense advances. Using a

list of recipients with outstanding advances as of March 31, 2001, we selected a judgmental sample of outstanding advances to determine whether the RFMO was ensuring prompt liquidation of advances and controlling the amounts advanced.

In assessing the accrual process, we reviewed accrual data to verify whether the information had been entered into the mission accounting system correctly. We also reviewed office procedures and documentation to determine if staff adhered to pertinent guidance.

Management Comments

MEMORANDUM

To: Director of Audit Operations/Budapest
Nathan S. Lokos

From: Director of USAID Regional Services Center/Budapest
Hilda Arellano

Date: December 19, 2001

Subject: Audit of USAID/Regional Services Center/Budapest's Financial Operations and Management Controls

Thank you for your memorandum dated November 28, 2001, and the attached draft report on the subject audit. We appreciate the review by your office of our financial operations and management controls. We welcome this opportunity to provide comments on the audit report.

Of the nine separate recommendations contained in the report, I concur with five and disagree with four. Of the five with which I concur, I request that three be closed on issuance, two reflect management decisions, and four be dropped from the final report. Each recommendation is addressed in this memo.

Recommendation No. 1: We recommend that USAID's Regional Services Center/Budapest:

1.1 Develop an action plan, including milestones, for liquidating its backlog of Standard Form 1221 reconciliations, and

1.2 Liquidate its backlog of Standard Form 1221 reconciliations in accordance with the action plan.

RSC/RFMO has recognized its backlog of SF-1221 reconciliations as a material weakness in its FMFIA reports for Fiscal Years 1999, 2000, and 2001. Previous efforts to clear this weakness have failed. For the FMFIA Report of FY 2001, RFMO prepared a more comprehensive and thorough action plan to address this very difficult weakness. It is in process of carrying the plan through to completion. We are very optimistic that this weakness will be cleared on or ahead of the plan's schedule.

Based on this action plan, I request that **Recommendation No. 1.1** be closed upon issuance of the final audit report. A copy of the plan is attached to this memo. For **Recommendation**

No. 1.2, in that RFMO has made significant progress in carrying out its action plan, I request that the report reflect that a management decision has been reached and that this recommendation be closed upon a determination by the Mission's Management Control Review Committee (MCRC).

Not clear in the audit is the fact that our problem with reconciling items is primarily with those transactions that are processed on behalf of our client Missions by the local Embassy B&F Officer or cashier. In dollar value, more than half of the transactions processed by RFMO are paid through the Treasury Department's office in Kansas City. These transactions, as well as check and electronic funds transactions processed through FSC Paris by RFMO, do not present a reconciliation problem.

There are several points contained in the audit report that require clarification. The audit report cites an estimate of 36,000 reconciling items, which is supported by the chart in Appendix IV. As advised in my memo to you dated November 8, 2001, Appendix IV presents the total number of transactions processed by both FSC Paris and recorded in MACS for the FSC Paris DO code (6207), including correcting actions and journal vouchers, for the period April '99 through January '01. In most cases, the columns on the chart are the two sides of the same transaction. The detail making up these two columns of transactions needs to be matched and the resulting unmatched items researched and, if determined to be reconciling items, posted to MACS. Until this matching process is complete, we are not able to determine the number of reconciling items for periods prior to February 2001. However, to date, we are finding that most prior period transactions have been correctly posted to MACS. For the period covered in Appendix IV, FSC Paris processed, for RFMO and its client missions, a total of 28,999 transactions. Yet the audit report claims that there are 36,000 reconciling items. As a practical matter, I suggest that it is not realistic that there could be more reconciling items than actual transactions processed during the same time period.

As noted in the audit report, timely SF-1221 reconciliations were not completed for a combination of reasons. The reasons cited in the report, however, do not include the underlying situation, unique to RFMO, where a high volume of our client Missions' Operating Expense and program funded transactions are processed by the local Embassy cashiers. These transactions, processed outside of MACS, are by definition reconciling items until identified and posted to MACS. Transactions processed at an Embassy in one month are captured on the SF-1221 that is received the following month. As the SF-1221 reports contain a minimum of fiscal data, each transaction requires research and often correcting journal vouchers. When the data is incorrect, or insufficient, the accountant must communicate with the Mission, which often requires requests to the local Embassy for the original documentation. In addition, vouchers that were processed citing incorrect fiscal data, e.g. the appropriation code, require additional steps to correctly post the transaction. In both cases, for incorrect or insufficient data, these delays in completing the SF-1221 reconciliation process can result in one month still 'open' when the next month's report is received. As discussed with the auditors, RFMO is working with its client missions and the Embassies to improve procedures for local processing of these types of transactions.

Recommendation 2: We recommend that USAID's Regional Services Center/ Budapest develop and implement a training plan to address the Regional Financial Management's Office staff needs.

For **Recommendation 2**, I request that the final audit report reflect that a management decision has been made with regard to training of RFMO staff, and closed upon submission and acceptance of the training plan by the Regional Controller. The scope of work in contract 185-S-00-01-00105 requires the contractor to "conduct a detailed assessment of the skills and abilities of the RMFO budget and accounting staff and develop individualized training plans that will ensure the development of the appropriate skills that will allow the staff to competently carry out their duties. Develop training modules for the staff and/or arrange for training. Monitor skill development and provide on-the-job training to ensure skills learned are effectively applied."

Recommendation No. 3: We recommend that USAID's Regional Services Center/ Budapest:

3.1 Review the completeness and relevance of its financial mission orders, and

3.2 Revise current financial mission orders and/or prepare new financial mission orders, as necessary.

For **Recommendations 3.1 and 3.2,** I request that they be closed upon issuance based on the scope of work under contract 185-S-00-01-00105. Included in the scope are duties and responsibilities to "evaluate the administrative and operating procedures both within RFMO and within client missions. Based on the evaluations, make recommendations, as appropriate, for streamlining processes, ensuring compliance with regulatory and policy requirements and maintaining adequate internal control. Assist in the implementation of any recommendations." With support from the contractor, the Regional Controller will develop the mission orders and procedures that are deemed necessary to define operations and procedures not adequately covered in the ADS. Towards this objective, RFMO has currently in the clearance process a draft Mission Order on Prompt Pay, and draft procedures for Bills for Collection and SF-1221 reconciliations.

Recommendation No. 4: We recommend that USAID's Regional Services Center/ Budapest:

4.1 Review the portfolio of advances, identify those advances in excess of the recipients' 30 day cash requirement, and resolve those outstanding balances either by collecting the excess amounts or ensuring that those excess advances are applied against subsequent cash advances,

4.2 Determine whether the recipients of Agency cash advances are keeping the proceeds in interest bearing accounts and are submitting annual interest earned, in excess of $250, to the Agency, as required, and

4.3 In coordination with its client missions, prepare written policies and procedures for project advances to address such items as: identifying the documentation required to request and approve an advance, limiting advances to current disbursement needs (for a 30-day period), the proper maintenance of

electronic and manual advance files, and the regular collection of annual interest in excess of specified amounts, earned by the recipients of Agency cash advances.

In consultation with the RFMO, I respectfully disagree with this section of the audit report. I find that the RFMO does in fact closely monitor the issuance of advances and their outstanding balances. Further, RIG in arriving at its conclusion that grantees have funds in excess of their 30-day cash requirements may have failed to consider that the standard provisions for grants provide for monthly advances and quarterly liquidations.

For each advance recipient, RFMO creates a spreadsheet to track the issuance of advances and the receipt of liquidation vouchers. Outstanding balances are monitored, and if requests exceed liquidations beyond immediate cash disbursement needs, e.g. thirty days, the grant officer is contacted and requested to validate the request.

The RFMO requested that the nineteen advances sampled be identified for their review. For the samples provided, RFMO reviewed and determined that there was a close monitoring of the advance as evidenced by communications between RFMO and the grant officer or grantee. In many cases, there was no apparent problem with the advance. This analysis follows:

1. OSCE/SEE University, Grant 165-041
This grantee is a Public International Organization. ADS 636.5.1 states that advance policy does not apply to Public International Organizations. Even though the policy did not apply, RFMO review found that the grantee was, in fact, not in violation of the advance policy.

2. International Relief and Development, Grant 169-A-00-00-00109
This grant advance is specifically referred to in the audit report on page 9, the first paragraph. The $350,000 advance for November activities was processed by RFMO on November 7, 2000. It is true that a subsequent advance was provided to the grantee for the period December, 2000 to February, 2001, which was processed on February 5, 2001. Not mentioned in the report is the correspondence that transpired between RFMO and the grant officer questioning this second request, and the explanation provided. Also not clarified in the report is that the grantee, per the standard provisions of their agreement, liquidates on a quarterly basis. The two liquidation vouchers submitted subsequent to the issuance of the second advance exceeded the total advances outstanding by $12,000 and justified the grant officer's approval of the second request. It is the RFMO opinion there was no excess advance funded.

3. Foundation for Development of Democratic Rights, Grant 169-G-00-00-00106
This recipient submitted seven months liquidations (July 2000 to January 2,001) which were processed on March 7, 2001 and applied to advances for July to September 2,000, the months of December 2000 and January 2001. While the grantee should have submitted liquidation invoices in a timelier manner, our analysis shows the amount of advance still outstanding after liquidating the seven months was $5,229.00. Included in the file is correspondence

from RFMO to the grant officer which includes a refusal to process additional advances until the outstanding liquidation vouchers are received. Also included is an explanation from the recipient that funds were provided to a sub-grantee, who liquidated $59,531 of their $67,328 advance in December 2000, and that their sub-grantee's next advance request would be reduced by the outstanding balance. It is the opinion of the RFMO that this advance account was properly handled; that based on grant officer assurances and grantee explanations, the program was allowed to continue but a firm enough policy resulted in the outstanding liquidation vouchers being received and processed.

4. Institute for Democracy in Eastern Europe (IDEE), Grant 169-G-00-00-00108

RFMO processed five advances for this grantee. For the month of October, the advance was processed on October, 26, 2000; for November, on December 8, 2000 and for December the advance was processed on December 12, 2000. The liquidating voucher, (for the period August 1 to December 31, 2000) was submitted on March 29 and processed on April 5. The balance outstanding in the advance account was $79,429. However, the January 2001 advance was not processed until February 28 and the liquidation for three months, January to March 31, 2001 processed by RFMO on May 10 left a balance of $45,513. The next advance was processed for the month of May on May 21, 2001. This grantee submits quarterly vouchers in accordance with the grant agreement. Included in the file is correspondence between the USAID Controller (Belgrade) and the grantee, providing more evidence of RFMO monitoring of this advance.

5. Foundation for Local Government Reform, Grant 183-G-00-99-00109

This grantee's advances exceed liquidations. RFMO will contact the grant officer, notifying that some of the advance needs to be refunded by the grantee or justification as to why the advance request exceeds expenditures for the same period. The grantee does have a record of frequent liquidations, and the correspondence in the file indicates that significant amounts have been provided to sub-grantees. RFMO tries to give some consideration for situations were there are sub-grantees as this lengthens the liquidation process.

6. Foundation for Local Government Reform, Grant 183-G-00-00-00101

The grantee requests advances on a monthly basis, and liquidates quarterly. The file contains correspondence between RFMO and the grant officer providing sufficient justification for processing requests. Advances are liquidated with less than a $10,000 difference. The balance of advance outstanding was $3,860 for the eleven month period ending February, 2001.

7. NADACIA Ekpolis, Grant 193-0032-A-00-9100

This grantee has, on RFMO records, consistently more advanced than liquidated for the same period. However, correspondence with the grant officer confirms that Ekpolis is an indigenous grant-making organization. Their main task is to provide sub-grants to Slovakian NGOs. The advances to sub-grantees are not liquidated until the project undertaken by the

sub-grantee is complete. Included in the file are financial reports detailing the status of all sub-advances, indicating a close monitoring of these advances by Ekpolis, the grant officer, and RFMO. Given the circumstances, RFMO maintains that this account is being closely monitored, and while Agency records might indicate excess advances are outstanding, the reality is that many are already expended for program purposes.

8. National Association of Municipalities, Grant 183-G-00-00-00109

The grantee requests advances on a monthly basis, and liquidates on a quarterly basis. Quarterly liquidations are within $10,000 of advances for the same period. There was one exception, for the period 3/1/2001 – 5/31/2001, when the unliquidated balance was $36,000. However, the subsequent liquidation report, for the period 6/1/2001 – 7/31/2001, cleared the $36,000 as well as the amounts that had been advanced for June and July. RFMO review indicates that this advance account has been properly managed and monitored.

9. Common Good Projects, Grant 183-G-00-00-00112

The grantee is authorized monthly advance requests and quarterly liquidations. For each three month period, the grantee submitted a liquidation voucher that cleared the prior three months to less than $1,000 in each instance. The balance for the nine month period between the three monthly advances and quarterly liquidations ranges between $359 and $621. RFMO has determined that this advance account has been properly managed and monitored.

10. Center for Economic Development, Grant 183-G-00-00-00115

The first quarterly liquidation voucher was only $800 less than the sum of the three monthly advances for the same period. An additional monthly advance and liquidation for January ’01 were equal. However, in March 2001 the grantee received $57,780 for which no liquidations have been recorded. The current outstanding advance is $58,351.93. RFMO has recently received a series of liquidating vouchers, however as these are outside the audit end date of September 30, this account appears to have received and held an outstanding advance greater than their immediate disbursement needs. RFMO has, and will continue to monitor this advance account.

11. Foundation for Development of Democratic Rights, Grant 185-0032-A-009012

The grantee has a long history of monthly advance requests and quarterly liquidations where the quarterly liquidation cleared the prior three months. The only exception noted (October 99 to December 1999), where advances exceed liquidations by $104,000, was resolved in subsequent months. Over the three year history of this grant, the grantee received $1,796,868.00 in advances; all except $495.29 was liquidated. The $495.29 was refunded to USAID on October 24, 2001. RFMO did not find a significant problem in its review of this advance account and questions as to why it was so considered by the audit report.

12. Fundatia Tineri Pentru Romania, Grant 186-0002-G-00-9119

The grantee requests advances on a monthly basis, and liquidates on a quarterly basis. For any given three monthly advances, the balances after the quarterly liquidation voucher has been processed range from $267.00 to $17,000. Generally advances are equal to liquidations. RFMO did not find a problem in its review of this advance account and questions as to why it was so considered by the audit report.

13. Society for Contraceptives/Sexuality, Grant 186-0002-G-00-9105

The original advance was in excess of the grantee's actual expenses, and subsequently the advance amount outstanding averaged about a month ahead of liquidations. The ending balance on March 2001 was negative $680.00 because they didn't draw any advances for three months.

14. Gdansk Institute for Market Economy, Grant 181-G-00-98-0321

The two liquidation vouchers exceeded the advances for the same period by $19,940. The advances and liquidations covered the period June 1, 2000 to August 31, 2000. Again, RFMO does not find cause for this advance account to be considered by the auditor to of been a problem.

15. Association of Rhodope Municipalities, Grant 183-G-00-00-00105

The grantee made advance requests monthly and submitted quarterly liquidations per the terms of their grant agreement. Advances from May 2000 through April, 2001, when compared to expenses for the same periods, show that small advance balances were outstanding during the period reviewed. The amounts range from $3,388 to $20,601 (first quarter of grant activity). The last quarterly voucher (July – September 2001) fully liquidated all outstanding advances.

16. Partners for Democratic Change, Grant 167-A-00-00-00104

This is a Kosovo grant therefore the liquidation vouchers are not in our system. However, the MACS advance transaction ledger shows this advance in the amount of $12,725 was processed on March 13, 2001 and $12,475 was liquidated on May 8. The remaining $250 was liquidated on June 2. There is no apparent issue with this advance that RFMO can identify.

17. Diana Arnaudova, Travel advance

This advance was processed by the American Embassy Sofia and liquidated through the American Embassy Sofia. Postings to MACS were made from the SF-1221, thus the actual advance request and liquidation documents are not immediately available for a closer review. The advance is, however, fully liquidated.

18. Marc Ellingstad, Travel advance.

The advance of $90 was processed on January 11, 2001. Travel was for the period Jan 15 and 16. Employee travel voucher liquidating the advance was dated January 19, 2001. It was certified on January 30, 2001. The advance was liquidated within three weeks of issuance. There is no apparent problem with this advance that RFMO can identify.

19. Chance for Stability Foundation, Grant 185-G-00-00-00110

The grantee was slow to submit liquidation vouchers as was noted by the voucher examiner, the certifying officer and the activity manager. There are e-mails in the file that indicate follow-up requests were made by RFMO. All advances were, however, fully liquidated by the end of FY 2001.

The analysis above clearly demonstrates that RFMO does monitor the advances in close coordination with the activity managers in the client missions. Accordingly, for **Recommendation No. 4.1**, I request that this recommendation be dropped from your final report.

With regard to **Recommendation 4.2**, I request that this recommendation be dropped from your final report or revised to reflect actual Agency policy as defined in the ADS and Code of Federal Regulations. The Mission Controller is not responsible for determining whether the recipient advances are being kept in interest bearing accounts and submitting annual interest earned, in excess of $250 to the agency. ADS 636.3 (Responsibilities) .4 (Mission Controller) states "ensures that annual audit/financial review requirements includes review of interest/remittance status." In addition, ADS 635.5 (Depository Interest Remittances) third paragraph states "while not specifically responsible for tracking any interest earned or its associated remittance to Treasury, the Bureau for Management, Office of Procurement (M/OP) or the Mission Controller shall ensure requirements for the recipients annual audit or financial review includes a determination that interest is or is not being earned on the funds USAID advanced and if earned, the funds are being properly remitted on an annual basis."

The recent audits of the Center for Social and Economic Research are a case in point that show that this is an effective control. The audit reports contained recommendations that interest in excess of $250 should be remitted.

It should further be noted that when interest is earned in excess of $250, that it is remitted to the Department of Health and Human Services, and not directly to the Agency[1], as indicated in the audit report.

Recommendation No. 4.3 should be dropped from the final report, as this recommendation is covered under Recommendation No. 3.

[1]See 22 CFR 226.22 Payment

Recommendation No. 5: We recommend that USAID's Regional Services Center/ Budapest prepare written policies and procedures requiring the verification of the reasonableness and validity of a sample of accrued expenditures and the documentation of that review.

I respectfully disagree with this section of the audit report. The RFMO is in compliance with the Agency policies as defined in ADS 631 – Accrued Expenditures. Per ADS 631.2, c, the Mission Controller responsibilities for accrued expenditures are as follows:

- "Provides information and assistance to Cognizant Technical Officers (CTOs) or appropriate Obligating Official for developing accruals and maintains an overall system that produces accruals and accrued expenditures.
- Inputs that data received from CTOs or Obligating Officials into the financial system.
- Establishes a materiality threshold below the standard $25,000 threshold for developing accruals if warranted by local conditions and resources.
- Provides information to the Office of Financial Management (M/FM) to adjust accruals for advance funded obligations."

In addition, per ADS 631.2, e, the responsibilities of the Cognizant Technical Officer (CTO) include:

- "In field missions, develops accruals using worksheets and guidance of the Mission Controller."

As noted in the audit report, it was determined "accrual amounts were properly entered into the Mission Accounting and Control System (MACS) in March 2001 and properly reversed in April 2001." The report does not question the validity of the accrued amounts, and offers no evidence of a problem. As the ADS clearly places responsibility for the validity of accruals on the CTOs, activity managers or others who are knowledgeable of the activities, I request that **Recommendation No. 5** be dropped from the final audit report.

MEMORANDUM

To: Director of Audit Operations/Budapest
Nathan S. Lokos

From: Regional Controller, Regional Services Center/Budapest
E. Cecile Adams

Date: December 21, 2001

Subject: Lokos/Arellano Memorandum of December 19, 2001
Audit of USAID/Regional Services Center/Budapest's Financial Operations and Management Controls

In our haste to deliver the subject Memorandum to you before people left for Christmas holidays out of country, we failed to include the attachment referred to in the discussion of Recommendation No. 1.1 in the Memorandum. In the narrative in the Memorandum we asked that the Recommendation be closed based upon the action plan in the FMFIA Report of FY 2001. The Report on a Material Weakness for Period Ending September 30, 2001 (which contains the action plan) is attached to this Memorandum and we ask that you include it in your review of our December 19, 2001 response to your audit.

Att:a/s

REPORT ON A MATERIAL WEAKNESS

For Period Ending September 30, 2001

Mission/Bureau/Office: RSC/RFMO Budapest

PART 1: Brief description of the material weakness and its impact
There is a long-standing requirement to reconcile an Agency's disbursement data for any given month to that of the Disbursing Office that actually processes the payments. These reconciliations demonstrate that the disbursement data contained in records are accurate and complete. Missions are required to maintain detailed records showing the details of open reconciling items.

RSC/RFMO Budapest historically reconciled its SF-1221 from FSC Paris on the "net difference" basis, not at the detailed level as required by Agency policy. Without a detailed tracking of reconciled and unreconciled transactions, RSC/RFMO cannot be assured that its records are accurate and complete. In particular, for payments processed by local Embassies for client Mission transactions, RSC/RFMO has a high degree of risk that payments processed against USAID accounts are not posted to the official accounting records.

PART 2: Nature of the material weakness

Check all criteria applicable to the material weakness:

A ___ Ability to achieve objectives is significantly impaired
B. ___ Resources are not used consistent with Agency mission
C. X Statutory or regulatory requirements are violated
D. ___ Programs or resources significantly lack safeguards against waste, loss, and mismanagement
E. X Ability to obtain, maintain, report and use reliable and timely information for decision making is impaired
F. ___ Improper ethical conduct or a conflict of interest is permitted

PART 3

A. Source of discovery of material weakness:

1. X Management review
2. ___ OIG audit
3. ___ GAO review
4. ___ Program evaluation
5. ___ Other(specify):_____

B. Year identified

Fiscal Year 1999

PART 4

A. If the weakness has not been corrected, complete all items below; if it has been corrected, indicate the date and answer only item E in PART 4, and skip PART 5 and PART 6.

The weakness has not yet been corrected.

B. Target date for correction:
August 31, 2002

C. Targeted correction date in last year's report:
August 31, 2001

D. Reason for changed date:
The initial understanding of the problem grossly underestimated the required time for correction. Due to the volume of transactions, RSC/RFMO determined that a separate application, "System Reconciliation," based in Microsoft Access, would be required to do a comprehensive, detail based, reconciliation. This system is being used to first identify at the transaction level of detail the reconciling items that have in fact been posted to MACS. Based on the results of this exercise, the unreconciled, open items will be identified and researched to properly post to the accounting system.

E. Completed actions/events:
The TDY assistance, as reported in the FY 2000 FMFIA report, failed to adequately address the problem. A second review, performed by Jim Stanford and completed in February 2001, provided more complete guidance. Based on Mr. Stanford's recommendation, a broader based approach is being used that, while taking longer, will provide a more comprehensive solution.

To date, the following actions have been completed:
1. Programmed the "System Reconciliation" system in M/S Access. This system accepts FSC Paris 1221 data as well as loads from an IQ generated Excel spreadsheet of MACS data. This system will facilitate RFMO reconciliation of the SF-1221.
2. Manually loaded SF-1221 detail into the system for the months starting April '99 through present.
3. Extracted MACS data for the corresponding periods and loaded to the system.
4. Automated the SF-1221 load process for current activity.
5. Prepared a scope of work to obtain outside assistance to perform the reconciliations of the loaded data, as well as to address periods pre-dating April '99.
6. Contracted with a local temporary worker service, Riss & Partners, to provide staff to perform the matching activity in the "System Reconciliation" system.
7. The "System Reconciliation" system completed an automated match of over 20,000 of 58,000 transactions.

8. Riss & Partners have cleared approximately 15,000 of the remaining 38,000 transactions. Completion of this exercise is ahead of schedule.

F. Planned actions/events, with dates:

1. Complete the reconciliation of the data already loaded into the system. Complete by month end March 2002.
2. Based on the results of step 2, above, post to MACS any unmatched reconciling items. Complete by month end April 2002.
3. Retrieve the hard copy FSC Paris reports from the warehouse for periods predating April '99. Complete during April 2002.
4. Reassess situation upon review of available hard copy records retrieved from warehouse for feasibility of continuing the manual load of FSC Paris data to the reconciliation system.
5. Based on above, continue the process of researching and posting any unmatched transactions until exhausted, and request from M/RM a write off of remaining items.

PART 5: Validation to be used

In all cases, there is a comprehensive audit trail of all matched transactions being removed from further action. For unmatched transactions, adequate supporting documentation will be researched and included with journal vouchers prior to posting to MACS. RFMO will maintain the "System Reconciliation" tracking system until such time as the FSC Paris data can be uploaded into MACS, and use the system to monitor if disbursements are being reconciled on a monthly and cumulative basis.

PART 6: Remarks (include in this section whether or not the weakness is correctable within the scope of the mission/bureau/office's authority or resources, with ample explanation if it is not):

RSC/RFMO Budapest will work the reconciliation until all possibility of resolution is exhausted. At that point, a request to authorize a write off of remaining, unreconciled items will be presented to M/FM.

This weakness can be corrected provided adequate resources are provided for outside resources and RFMO remains dedicated to finding a final resolution to the problem.

PART 7: Mission/Bureau/Office Director (printed name): Hilda Arellano

Signature:_____ **Date**

United States Agency for International Development
Regional Services Center for Europe
and Eurasia's Client Missions

Germany*

Belgium

Switzerland

Croatia

Latvia

Lithuania

Macedonia

Kosovo

Bosnia-Herzegovina

Serbia

Montenegro

Poland

Albania

Bulgaria

Romania

Czech Republic

Slovakia

Cyprus

Turkey

Hungary/Regional Services Center

Regional Inspector General/Budapest

*The Regional Financial Management Office (RFMO) is currently obligating and disbursing funds for 20 client missions. In FY2001, RFMO has not made any disbursements or obligations on behalf of the program in Germany.

Entries and Open Reconciling Items

1221 Reconciliation
April '99 - January '01

Country	ALC	# of Months	6/8/01 Reconciling Items	Month	6/8/01 Entries DO	MSSN	Total	Open R I	
Hungary	72-67	22	5,606	Apr-99	1,140	1,331	2,471	1,575	
Romania	72-66	22	5,732	May-99	964	712	1,676	734	
Albania	72-61	22	783	Jun-99	1,055	806	1,861	1,012	
Macedonia	72-45	22	1,418	Jul-99	1,083	679	1,762	1,063	
Croatia	72-43	22	4,126	Aug-99	1,215	1,561	2,776	1,724	
Bosnia-Herzegovina	72-74	22	9,461	Sep-99	1,266	1,063	2,329	1,764	
Serbia	72-65	22	2,292	Oct-99	1,040	751	1,791	1,248	
Kosovo	72-13	9	1,573	Nov-99	1,279	1,220	2,499	1,533	
Bulgaria	72-69	22	3,170	Dec-99	1,427	1,127	2,554	1,479	12,132
Switzerland	72-44	9	18	Jan-00	1,097	1,124	2,221	1,446	
Belgium	72-84	4	12	Feb-00	1,303	1,404	2,707	1,764	
Austria	72-62	1	2	Mar-00	1,534	1,571	3,105	2,074	
Germany	72-20	0	1	Apr-00	1,215	2,134	3,349	2,201	
Czech Republic	72-68	1	10	May-00	1,192	0	1,192	1,172	
Poland	72-64	7	699	Jun-00	1,834	0	1,834	1,757	
Slovakia	72-22	9	433	Jul-00	1,324	1,120	2,444	1,527	
Lithuania	72-60	7	204	Aug-00	1,701	1,568	3,269	2,178	
Latvia	72-59	16	116	Sep-00	1,586	2,105	3,691	2,299	
Estonia	72-58	0	0	Oct-00	1,481	1,849	3,330	2,310	
Slovenia/Turkey		0	0	Nov-00	1,563	1,342	2,905	1,747	
Greece/Cyprus				Dec-00	1,484	1,509	2,993	1,847	22,322
Others			4	Jan-01	1,216	0	1,216	1,206	1,206
Totals	19	239	35,660	Totals	28,999	24,976	53,975	35,660	35,660

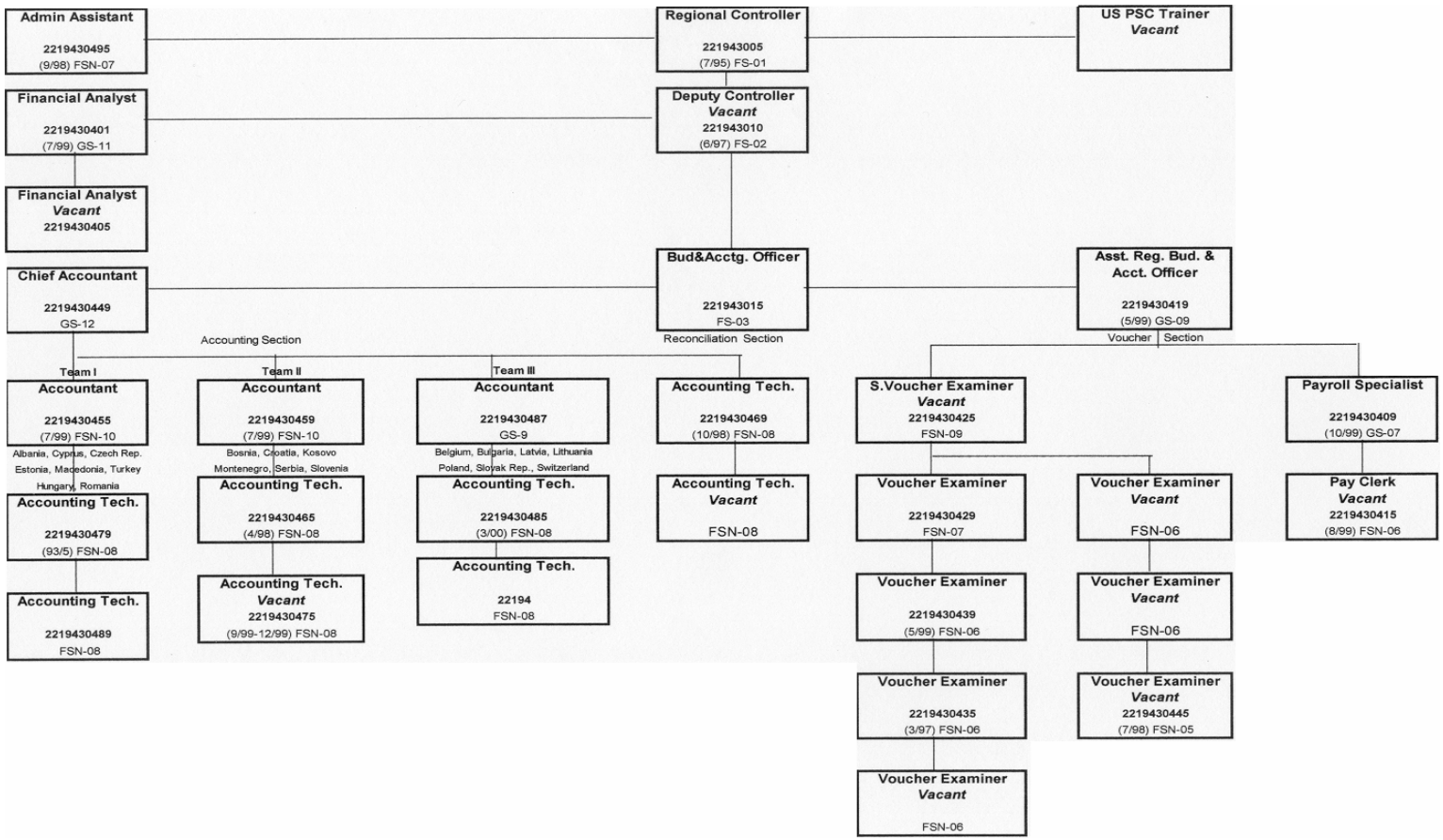
Reconciled: April
May
June 18,315 34%

53,975

ALC = Agency Location Code
Reconciling Items = Transactions To Be Reconciled
DO = Disbursing Office
MSSN = Mission
Open RI = Open Reconciliations

Source: RSC/RFMO
June 8, 2001

RFMO Organizational Chart RFMO Organizational as of March 31, 2001



EXAMPLES OF TARDY ADVANCE LIQUIDATION VOUCHERS

Grant No. 169-A-00-00-00109

In its comments, Regional Services Center's (RSC) management indicated that on November 7, 2000, the Regional Financial Management Office (RFMO) had processed a $350,000 advance voucher for the **International Relief and Development (IRD)** grant covering November 2000 activities. As support for its monitoring of IRD advances, the RFMO also indicated that it only issued a subsequent advance on February 5, 2001—covering December 2000 to February 2001 activities—after questioning the grant officer about the second advance request. However, what the RSC comments do not reflect is that timely action to secure the liquidation of the original advance was not taken, as indicated below:

Amount Advanced:	$350,000
Advance Period:	November 2000
End of Quarterly Period:	January 31, 2001
Liquidating Voucher Due:	By February 28, 2001
Date RFMO Received the Liquidating Voucher:	April 10, 2001
Tardiness of Liquidation Voucher:	40 days

Given that the liquidating voucher would reasonably be expected to be received in the RFMO by February 28, 2001, had RFMO staff been monitoring advance liquidations in a timely manner, we would have expected to see RFMO action in March 2001 to secure the tardy liquidating voucher. However, our review of the documentation provided by the RFMO revealed no evidence of RFMO action prior to the April 10, 2001 receipt of the liquidation voucher.

Grant No. 169-G-00-00-00106

In another example, the RSC acknowledged that although the **Foundation for Development of Democratic Rights (FDDR)** submitted a liquidation voucher covering seven months at once, the grantee should have submitted its liquidation vouchers in a timelier manner. We concur as indicated in the following analysis:

Amount Advanced:	$43,668
Advance Period:	July 2000 – September 2000
End of Quarterly Period:	September 30, 2000

Liquidating Voucher Due:	By October 31, 2000
Date RFMO Received the Liquidating Voucher:	March 5, 2001
Tardiness of Liquidation Voucher:	124 days

Given that the liquidating voucher would reasonably be expected in the RFMO by October 31, 2000, had RFMO staff been monitoring advance liquidations in a timely manner, we would have expected to see RFMO action in November 2000 to secure the tardy liquidating voucher. However, our review of the documentation provided by the RFMO revealed no evidence of RFMO action prior to March 5, 2001 to obtain the tardy voucher.

As mentioned above, the RFMO acknowledged in its comments that the grantee should have submitted liquidation invoices in a timelier manner. However, those comments also state that the RFMO believes this advance account was properly handled, based—it seems to us—on the fact that RFMO staff notified the grant officer that no more advance requests would be processed until outstanding liquidation vouchers were received. However, what the RFMO does not highlight is that this notice was not provided to the grant officer until March 5, 2001, which was 124 days after the liquidation voucher reasonably should have been received. We believe that timely monitoring would have resulted in the RFMO taking action much sooner.

Grant No. 169-G-00-00-00108

The RSC stated that its advance file for the **Institute for Democracy in Eastern Europe (IDEE**) contained evidence of RFMO monitoring. RSC comments also noted that IDEE had submitted a liquidating advance voucher on March 29, 2001 for advances covering the period from August 1 to December 31, 2000. Moreover, the RSC mentions that there was a $79,429 outstanding balance after the liquidating voucher was processed. However, what the RSC does not state is that the liquidating voucher was late, as demonstrated by the following:

Amount Advanced:	$283,544
Advance Period:	October 2000 –December 2000
End of Quarterly Period:	December 31, 2001
Liquidating Voucher Due:	By January 31, 2001
Date RFMO Received the Liquidating Voucher:	March 29, 2001
Tardiness of Liquidation Voucher:	56 days

Given that the liquidating voucher would reasonably be expected in the RFMO by January 31, 2001, had RFMO staff been monitoring advance liquidations in a timely manner, we would have expected to see RFMO action in February 2001 to secure the tardy liquidating voucher. However, our review of the documentation provided by the RFMO revealed no evidence of RFMO action prior to the March 29, 2001 receipt of the liquidation voucher.

Grant No. 186-0002-G-00-9105

The RSC acknowledged that the original advance to the **Society for Contraceptives/Sexuality** was in excess of the grantee's actual expenses; subsequently, the advance amount outstanding averaged about a month ahead of the liquidations. The ending balance on March 2001 was negative $680 because they did not draw any advances for three months. However, this comment fails to address the issue of the RFMO's monitoring to ensure the timely submission of advance liquidations. We believe the timeliness of the grantee's submission of liquidation vouchers should have been more closely monitored, as indicated below:

Amount Advanced:	$51,730
Advance Period:	October 2000 –December 2000
End of Quarterly Period:	December 31, 2001
Liquidating Voucher Due:	By January 31, 2001
Date RFMO Received the Liquidating Voucher:	April 25, 2001
Tardiness of Liquidation Voucher:	83 days

Given that the liquidating voucher would reasonably be expected in the RFMO by January 31, 2001, had RFMO staff been monitoring advance liquidations in a timely manner, we would have expected to see RFMO action in February 2001 to secure the tardy liquidating voucher. However, our review of the documentation provided by the RFMO revealed no evidence of RFMO action prior to the April 25, 2001 receipt of the liquidation voucher.

Grant No. 181-G-00-98-0321

Concerning the **Gdansk Institute for Market Economy,** the RSC stated that it did "not find cause for this advance account to be considered….. a problem," because the two liquidating vouchers exceeded the advances for the same period by $19,940. Once again, we believe that the RSC has not properly considered the issue of monitoring for the timely submission of liquidation vouchers, as highlighted below:

Amount Advanced:	$124,607
Advance Period:	June 2000 - July 2000
End of Quarterly Period:	August 31, 2000
Liquidating Voucher Due:	By September 30, 2000
Date RFMO Received the Liquidating Voucher:	January 30, 2001
Tardiness of Liquidation Voucher:	121 days

Given that the liquidating voucher would reasonably be expected in the RFMO by September 30, 2000, had RFMO staff been monitoring advance liquidations in a timely manner, we would have expected to see RFMO action in October 2000 to secure the tardy liquidating voucher. However, our review of the documentation provided by the RFMO revealed no evidence of RFMO action prior to the January 30, 2001 receipt of the liquidation voucher.