Audit of USAID/Tanzania's Operating Expenses

Report No. 4-621-98-005-F
February 26, 1998

REGIONAL INSPECTOR GENERAL/PRETORIA

memorandum

Regional Inspector General
Pretoria

DATE: February 26, 1998

TO: Director, USAID/Tanzania, Lucretia Taylor

FROM: Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Audit of USAID/Tanzania's Operating Expenses
Report No. 4-621-98-005-F

This memorandum is our final report on the subject audit. We have considered your comments on our draft report and have made changes as appropriate. Your comments are included in their entirety in Appendix II.

This report contains three recommendations. Based on the actions taken by Mission management as described in Appendix II, we believe that satisfactory management decisions have been made to address the recommendations. When final actions are complete, please notify the Office of Management Planning and Innovation, Bureau for Management, in USAID/Washington.

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

Background

The United States Agency for International Development (USAID) receives annual appropriations to cover its operating expenses (OE) which include salaries, benefits and support costs of all U.S. and foreign national personnel employed by the Agency. Support costs primarily consist of travel, transportation, housing, property and equipment, and office expenses.

Besides Congressional appropriations, OE is also funded from other sources such as revolving funds (from the Housing Investment Guarantee and Excess Property activities),

trust funds, and proceeds from sale of commodity imports.

In recent years, operating expenses have come under increasing scrutiny because of Federal and Congressional efforts to reduce government spending. In line with this trend, USAID's operating expense appropriations have declined since fiscal year 1995.

USAID/Tanzania, a Mission of approximately 93 U.S. and foreign national employees, obligated and disbursed $3.1 million and $1.2 million, respectively, for its operating expenses in fiscal year 1997. The expense categories included personnel, travel, housing, office operations, expendable and non-expendable property.

The Mission's Controller and its Executive Officer (EXO) are responsible for financial and administrative management of operating expenses. The Controller's responsibilities primarily comprise of accounting for those expenses and processing them for payment. The EXO's responsibilities include: (1) implementing personnel policies; (2) contracting for local hire; (3) planning and directing the acquisition, management and disposal of expendable and non-expendable property; and (4) managing the motor pool.

Audit Objective

The Office of the Regional Inspector General/Pretoria audited USAID/Tanzania's operating expenses to answer the following question:

Did USAID/Tanzania procure, manage and use property and services funded from its operating expense account efficiently, economically and in accordance with Agency policies and procedures?

Appendix I describes the audit's scope and methodology.

Audit Findings

Did USAID/Tanzania procure, manage and use property and services funded from its operating expense account efficiently, economically and in accordance with Agency policies and procedures?

USAID/Tanzania, for the most part, procured, managed and used property and services funded from its operating expense account with economy, efficiency, and in accordance with applicable USAID administrative and financial management criteria. For example:

- **Travel and shipping** costs were properly authorized and vouchers were well documented, properly approved and certified for payment. Also, expenditures claimed were allowable, reasonable and in accordance with USAID travel regulations.

- **Non-expendable property** was properly safeguarded in a secured warehouse and supported by accurate and reliable inventory records. Our test count of selected items showed that they were satisfactorily accounted for either at the warehouse or otherwise traced to the points of issuance (see page 4 for details).

- **Office and residential leases** for the 12 rented properties were properly executed, repair and renovation service contracts for those properties were awarded according to USAID procurement regulations, and required waivers were obtained from the cognizant office in Washington for leases exceeding the annual rental ceiling of $25,000.

- **Procurement of goods and services** were properly done in accordance with USAID regulations and were supported by purchase orders, memoranda of negotiation, service contracts (wherever required), receiving and inspection reports, vendor invoices and pay vouchers.

In addition, during the period under review, the Mission identified diversion and misuse of assets procured through its operating expense account by two local employees in the warehouse and the procurement office. In both cases, the Mission coordinated with the Regional Security Officer at the American Embassy in Dar Es Salaam and fired the responsible employees. They also notified RIG/Pretoria, including the Special Agent based in Pretoria with whom we have coordinated this audit. The Special Agent visited USAID/Tanzania shortly after completion of our field work in December 1997.

The audit also showed that improvements are needed in areas relating to: (1) physical and accounting controls over the *expendable* property inventory at the warehouse; (2) motor pool vehicle usage; and (3) prompt liquidation of unneeded obligations. These issues are discussed below in detail.

Inventory Controls Over
Expendable Property Need Improvement

The U.S. General Accounting Office, in its publication titled "Standards for Internal Controls in the Federal Government" has established internal control standards for Federal agencies. Among other things, these standards require the agencies to maintain a system of internal control which should reasonably ensure that (1) assets are safeguarded against waste, loss, unauthorized use and misappropriation, and (2) agency employees have personal and professional integrity as well as a level of competence that allows them to accomplish their

assigned duties.

In our opinion, an essential element of internal controls over assets is an efficient and effective inventory management system. In this regard, USAID Handbook 23, Chapter 4 requires the Agency's operating units to: (1) maintain accurate and reliable inventory records, (2) conduct periodic physical inventories to account for the assets (including reporting of loss, damage, or theft), (3) ensure efficient, secure and economic storage of assets, and (4) designate competent personnel to perform the inventory management functions.

The audit found that management controls relating to the *non-expendable property* inventory, valued at approximately $1.6 million as of September 30, 1997 were satisfactory. Tests of 59 such items, costing approximately $248,000, or 15 percent of the total value, showed that the assets were accurately recorded in the inventory records and were physically identified either at the warehouse or otherwise traced to their points of issuance.

However, controls over *expendable* property, valued at approximately $116,000 as of September 30, 1997, needed improvement. We selected 12 supply and maintenance items procured during fiscal year 1997 for approximately $53,000, or 46 percent of the total value. These included paints, bond papers, toners and drums for photocopiers, and engine oil for motor vehicles. The tests revealed that stock records for those items were either not maintained at all or were erroneous. In addition, we were unable to physically account for the quantities received per the receiving reports with those in the warehouse. Also, our review of the requisition documents processed during fiscal year 1997 failed to account for the discrepancies between quantities received and those in stock. Estimated value of the missing items totalled approximately $34,000, or 64 percent of the value of the items tested. This information was passed on to the Mission for further investigation.

Discussions with Mission officials showed that the results of the *expendable property* physical inventory conducted by the store keeper at the 1997 fiscal year-end were rejected by Mission management because their tests of the inventory counts revealed several discrepancies. Those officials therefore concluded that the physical inventory data reported by the store keeper was inaccurate and unreliable.

These irregularities occurred because the employee responsible for storage, safeguarding and accounting for *expendable property* was negligent in carrying out his duties. Our inquiries showed that the Mission had tried to address this problem by counselling this employee on several occasions since April 1996. For example, in a memorandum dated April 9, 1996, the storekeeper was reprimanded by his supervisor for failing to maintain adequate stock records. Another memorandum from the same official in October 1996 again warned the storekeeper about his negligence in: (1) preparing receiving reports, (2) posting stock cards, (3) conducting physical inventories, and (4) responding promptly to requests for replenishment of supply and maintenance items.

Finally, in October 1997, a U.S. short-term personal service contractor, who was hired by the Mission to coordinate and supervise the inventory management function, determined that the storekeeper had falsified the fiscal year 1997 physical inventory records and had failed to satisfactorily account for several supply and maintenance items which were missing from the warehouse. He was fired shortly thereafter. At the time of this audit, another Mission employee had been temporarily assigned the task of reconstructing the *expendable property* records and determining the extent of loss caused by the discrepancies described above.

USAID/Tanzania had recognized this problem in its vulnerability assessment report for fiscal year 1997, in which it had listed lack of adequate internal controls over *expendable property* as a weakness. Also, the Mission had reported the above irregularities to the Regional Security Officer, RIG/Pretoria, and OIG Special Agent based in Pretoria.

Unless the Mission takes prompt and effective action to safeguard and account for its *expendable property* inventory, those assets will continue to be vulnerable to loss and improper use. Therefore, the Mission should: (1) improve internal controls over expendable property, (2) reconstruct its inventory records to accurately reflect the items in store, and (3) determine and report the extent of its inventory losses.

Recommendation No. 1: We recommend that USAID/Tanzania (i) establish an adequate system of record keeping and internal controls to satisfactorily account for expendable property; (ii) conduct a physical inventory to determine the extent of losses; and (iii) take appropriate actions to address the loss of expendable property.

Size of Vehicle
Fleet Should be Reviewed

USAID Handbook 23, Chapter 6 incorporates policies and procedures on management of motor vehicles. The handbook has established 1,000 miles a month per vehicle as the minimum usage for justifying ownership thereof and limits the size of a mission's motor pool to a number based on official business needs and local requirements. Furthermore, the handbook states that only by analysing its vehicle use for one year or longer can a mission accurately determine the appropriate number of vehicles it needs. Thus, each USAID mission with six or more vehicles is required to conduct an annual analysis of its vehicle usage.

During fiscal year 1997, USAID/Tanzania had a fleet of eight vehicles acquired for $126,756 which were used for non-project related business travel, primarily by Mission employees. Typically, the vehicles were used for transportation to and from the airport, hotels, host country organizations, business establishments and field trips.

The Mission conducted a review of its vehicle fleet in March 1997, which included an assessment of vehicle usage based on its mileage records for two months. But no assessment

was done based on a twelve-month usage, as required by USAID policy.

Accordingly, we did a twelve-month analysis for the eight vehicles that were used by the Mission for employee transportation during fiscal year 1997. Only two vehicles met the 1,000 miles- a- month criteria and the remaining six had average monthly usages ranging from 108 to 847 miles. Total distance driven by the eight vehicles during the above period was 48,017 miles, giving an average of 591 miles a month per vehicle - a usage level that is significantly below the 1,000 miles limit established by USAID policy.

Mission officials stated that the size of its motor pool was based on road conditions in Tanzania which cause rapid deterioration in the condition of its vehicles. They therefore believed that the 1,000 mile standard of average monthly usage was not realistic. They also pointed out that five of its current fleet of eight vehicles were planned to be disposed of during fiscal year 1998 because of mechanical problems which had resulted in their being grounded for extended periods of time. The Mission plans to replace these with three other vehicles for a total of six. In their opinion, any further reduction in the size of its motor pool was not warranted.

After completion of these actions, total number of vehicles in service would be reduced by two vehicles - from eight to six. While this reduction could result in greater economy and efficiency in motor pool operations, we nevertheless believe that the Mission needs to periodically review its vehicle usage as required by USAID policy in order to determine its optimum fleet size.

Recommendation No. 2: We recommend that USAID/Tanzania establish procedures to periodically review its vehicle usage and justify the number of vehicles in its fleet.

USAID/Tanzania Should Review Its Unliquidated Obligations And Deobligate Excess Funds

U.S. Code, Title 31 and the U.S. Treasury Manual require each Agency to determine the validity of obligations based on a review of its unliquidated obligations. In addition, the USAID Office of Financial Management issued guidance to USAID missions in December 1993, requiring them to periodically review obligations and deobligate unneeded funds.

USAID/Tanzania's operating expense obligations totalled $3.1 million as of September 30, 1997. During our audit of operating expenses, we reviewed 80 of those obligations totalling approximately $1.7 million. Nine obligations amounting to $65,842 may be excessive and no longer needed for the purposes for which the obligations were originally made. For example:

- An employee, who completed his home leave in January 1997, had unliquidated obligations totalling $21,945.06. Another, whose home leave travel was completed

in June 1997, had unliquidated obligations of $16,850.85.

- An employee, who was evacuated from Tanzania for medical treatment in June 1997, had unliquidated obligation of $8,983.99.

- One procurement obligation totalling $2,990.09 remained outstanding although the goods had been delivered and the invoice paid by June, 1997.

See Appendix III for a complete listing.

According to Mission officials, these obligations have remained outstanding because of insufficient information being available to the Mission at the fiscal year-end. For example, obligations for home leave and medical treatments had not been liquidated because the Mission believed that all invoices had not yet been received.

However, those officials agreed that the activities for which the obligations were incurred had been completed and the Mission needed to follow them up more aggressively. They stated that the obligations would be re-examined during the next quarterly review at December 31, 1997, and any excess funds identified would then be deobligated.

Delays in deobligating excess funds prevent the Mission from closing out completed activities in a timely manner and reprogramming the monies for other purposes. Therefore, the Mission should take appropriate follow-up action in order to identify and deobligate unneeded funds.

Recommendation No. 3: We recommend that USAID/Tanzania review the nine unliquidated obligations totalling $65,842 listed in Appendix III and deobligate excess funds.

Management Comments and Our Evaluation

USAID/Tanzania concurred with all three recommendations and stated that the audit was very helpful and transparent. The Mission stated that it had taken several actions to implement the recommendations which are summarized below.

Recommendation No. 1 required the Mission to establish an adequate system of internal controls relating to expendable property, conduct a physical inventory thereof, and take appropriate actions to address property loss.

USAID/Tanzania had taken several steps to implement the above recommendation which include: (1) improving security measures to control access to the warehouse, (2) updating

stock cards, (3) requiring regular spot checks by the General Services Officer, (4) introducing on-line access to inventory records for selected EXO personnel, (4) completing a physical inventory to determine the extent of loss, and (5) realigning staff to address weaknesses. In addition, the Mission was in the process of selecting a new storekeeper and planned to recoup some of the inventory loss from the former storekeeper who was fired for malfeasance (see page 5).

Recommendation No. 2 required the Mission to establish procedures to periodically review its vehicle usage and justify the number of vehicles in its fleet.

As a result of an assessment of its vehicle usage, USAID/Tanzania plans to reduce the size of its motor pool by auctioning five vehicles from its fleet and replacing them by three others. The Mission will also conduct vehicle usage analyses as recommended above.

Recommendation No. 3 required the Mission to review the nine unliquidated obligations totalling $65,842 (see Appendix III) and deobligate excess funds.

USAID/Tanzania duly conducted a review that resulted in deobligation of all nine obligations listed in Appendix III. In addition, the Mission will conduct quarterly reviews of its unliquidated obligations in the future and deobligate any excess funds.

Based on actions taken and planned, we believe that USAID/Tanzania has satisfactorily addressed the three recommendations made in this report.

SCOPE AND METHODOLOGY

Scope

As part of our fiscal year 1998 plan, we audited USAID/Tanzania's operating expenses in accordance with generally accepted government auditing standards. The audit was done at the request of USAID/Tanzania because: (1) an audit of the Mission's operating expenses was never performed before, and (2) Mission officials were concerned about certain irregularities by its local employees which resulted in the loss and/or misuse of assets procured through the Mission's operating expense account. Because of this extraordinary situation, the audit was coordinated with the IG Office of Investigations.

The fieldwork was done from November 4 through 28, 1997 at the offices of USAID/Tanzania in Dar Es Salaam, Tanzania, and primarily covered the Mission's operating expenses reported during the fiscal year 1997. Obligations and disbursements for those expenses as of September 30, 1997 were approximately $3.1 million and $1.2 million, respectively.

The audit focused on certain major operating expense categories which were: (1) property and equipment (expendable and non-expendable), (2) procurement of goods and services, (3) travel and shipping, and (4) motor pool operations. Amounts tested for the above categories totaled $665,617, or approximately 55 percent of the Mission's operating expense disbursement of $1.2 million in fiscal year 1997.

Methodology

To accomplish our audit objective, we: (1) interviewed cognizant Mission officials, (2) reviewed applicable policies and procedures, and (3) assessed internal controls and the risk exposures relating to the management of operating expenses. In addition, we evaluated USAID/Tanzania's compliance with applicable regulations, policies and procedures stated in USAID Handbook 23, the Federal Acquisition Regulations, the U.S. Code, Title 31, and the U.S. Treasury Manual.

To determine if USAID/Tanzania economically and efficiently managed its operating expenses, we reviewed purchase orders, vendor invoices and receiving reports, as applicable. In addition, we reviewed the Mission's financial and administrative records, inspected inventory in the warehouse, visited major construction sites, and conducted test counts of property and equipment.

To assess the Mission's management of its operating expenses, we selected a judgmental sample which reflected the size of each category of operating expense and the adequacy of internal controls in operation. We also obtained a management representation letter from cognizant Mission officials containing essential assertions relating to our audit objective.

USAID/Tanzania's financial reports are derived from its accounting records generated by the Agency's automated Mission Accounting and Control System (MACS). Because of the overall purpose of the audit and the extent of testing, we did not test accuracy of the MACS data.

U.S. Agency For International Development
memorandum

DATE: January 16, 1998

REPLY TO ATTN OF: Lucretia Taylor, Director, USAID/Tanzania

SUBJECT: Audit of USAID/Tanzania's Operating Expenses
Report No. 4-621-98-xxx-F

TO: Joseph Farinella, Regional Inspector General/Pretoria

USAID/Tanzania would like to thank RIG/Pretoria for all of the help and support received during the audit. The mission found the audit to be a very helpful and transparent process. The following are the management comments regarding subject audit.

Recommendation No. 1:

We recommend that USAID/Tanzania (i) establish an adequate system of record keeping and internal controls to satisfactorily account for expendable property; (ii) conduct a physical inventory to determine the extent of losses; and (iii) take appropriate actions to address the loss of expendable property.

Comments:

USAID/Tanzania accepts this recommendation and the following steps have already been taken to better account for expendable (EXP) property:

Gate Pass signing authority and issuance procedures have been updated and clarified. Guards have sample signatures of who may sign gate passes for comparison.

Upon selection of a new storekeeper (interviews in process), a computerized system for tracking EXP movements will be finalized and placed into full operation. At this point, most stock card records have been entered but movements have yet to be recorded.

A spot check form has been completed with clear instructions for its regular use by the new General Services Officer (interviews in process).

Full, consistent completion of requisitions: The new GSO will be instructed not to sign incomplete forms. The acting GSO is vigilant.

Select personnel within the Executive and Controller's Offices should have on-line, read-only access to inventory records after the move to new office space at 50 Mirambo. This will complement hard copies of the annual and quarterly inventory record to check against requisitions they are asked to sign, allow access to pricing information and to allow for better project planning.

Changes are being made to procedures such that GSO administrative staff complete and file stock cards as a GSO front office function. This will provide an additional check against the stock clerk who enters the bin cards and the storekeeper who enters the computer data.

Physical inventory is now complete. An accounting of the extent of losses on major items has been done by the IG. The remaining work to be done in this area is to complete the location coding and labeling for expendable property which will be finished by the end of March. Some of the costs of the stolen EXP will be recovered from the store clerk who was fired for malfeasance.

Two documents have been created to help the new GSO carry on and fulfill the auditor's informal recommendations regarding the tracking of work requests/requisitions. The first tracking document shows pending actions items for the GSO. The second tracking document is a regular "to do" list for the GSO.

Staffing is being realigned to address weaknesses.

Based on proposed actions, actions completed and actions in process, USAID/Tanzania requests resolution of Recommendation #1.

Recommendation No. 2:

We recommend that USAID/Tanzania establish procedures to periodically review its vehicle usage and justify the number of vehicles in its fleet.

Comments:

USAID/Tanzania accepts this recommendation. As stated in the audit report, the Mission plans to auction 5 vehicles from its current fleet because of mechanical problems rendering these vehicles unsafe and unreliable for Mission use.

Two Hyundai sedans were purchased in 1993 for town trips. At the time of acquisition, these cars were a new model in town and there was really no experience or knowledge of how their performance would be in Tanzania. Years of use have proved these vehicles to be too low for the non-tarmac roads. The tarmac roads that do exist are full of pot holes making them almost worse than the non-tarmac roads. The suspension on these cars is also very weak. Service and parts are very difficult to come by in Dar which adds to long periods of being grounded waiting for repair. These vehicles are not suitable for Tanzania, either in town or up country and need to be disposed of. One vehicle has had major breakdowns involving the alternator, AC and suspension to mention just a few problems. It is as such in very poor condition and we do not use this car. The other vehicle has been in disrepair off and on for months as well. It is used by our expediter for airport runs but has chronic problems. We are planning to sell both Hyundai sedans in order to replace them with one good vehicle suitable for both up country and in town driving.

In an attempt to avoid the problem of using the better equipped project vehicles for OE-funded travel, (which is why the project vehicles have averages far higher than 1,000 miles monthly), the Mission bought two OE Jeep Cherokees in 1995 following the "Buy America" regulations. Their performance since they arrived in Tanzania has been far below expectations. One of them (CD607) arrived here with various manufacturing defects. Within its first month of operation, we discovered a broken flywheel. The replacement was flown in free of charge by the manufacturer but it then developed problems with the ignition system which appears to be related to the fuel injection system. We have also found evidence of defects in the oil pump. The other car, (CD620), was briefly used by the previous Mission Director as his official car before we found operational problems as well. These problems, coupled with non-availability of spare parts and lack of comprehensive Cherokee service/repair facilities, renders the Cherokees inadequate for out of town trips - their original intended purpose. These two jeeps will be replaced with one good up-country vehicle.

The fifth vehicle to be disposed of is a Pajero that is old and in disrepair. It meets the disposal criteria in mileage use.

Note: The audit report is in error where it states that the Mission will replace the 5 disposed vehicles with four. The Mission intends to replace these 5 vehicles with three suitable vehicles reducing our fleet size from eight to six. (This does not include the water truck or two maintenance pickups as they were not included in the auditor's count.) Two of these vehicles have been purchased and one is planned. These new vehicles will be suitable for both up country and in town driving which should improve the monthly mileage requirements. Vehicle usage analyses will be performed as recommended.

Based on proposed action plan, actions taken and actions in process, USAID/Tanzania requests resolution of Recommendation #2.

Recommendation No. 3:

We recommend that USAID/Tanzania review the nine unliquidated obligations totalling $ 65,842 listed in Appendix III and deobligate excess funds.

Comments:

USAID/Tanzania accepts this recommendation. The Mission normally conducts quarterly reviews of obligations and deobligates unneeded funds. The Mission has complied with the auditors' recommendation and has reviewed the nine unliquidated obligations with the result that $65,842 has been deobligated. In the future, quarterly reviews will be done and any excess obligations will be deobligated in a timely manner. Based on action taken, USAID/Tanzania requests resolution and closure.

APPENDIX III

USAID/Tanzania
Unliquidated Obligations
Needing Review

	Obligation Number	Amounts as of 9/30/97
1.	TA-621-70006	$21,945.06
2.	TA-621-70020	16,850.85
3.	TA-621-70037	8,983.99
4.	TA-621-70040	846.79
5.	TA-621-70041	853.59
6.	TA-621-70042	1,707.22
7.	TA-621-70045	10,781.54
8.	PO-621-0000-0-00-7068	2,990.09
9.	PO-621-0000-0-00-7116	882.87
	TOTAL	$65,842.00

Note: The above amounts were obligated for travel, freight charges and purchase orders.