



092664

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

AUG 5 1969

Mr. Charles F. Flinger
Controller
Agency for International Development
Department of State



Dear Mr. Flinger:

As part of our review of AID's accounting system, staff members of our Far East Branch visited the AID Missions in Thailand, Korea, and the Philippines in the fall of 1968 to survey Mission accounting procedures and practices. The results of this survey are summarized in the attachment.

The field work carried out at the three Missions, while limited in scope, involved some testing of the accounting system as it was functioning, and thereby disclosed some of the practical problems encountered in implementing the existing accounting system. Several of the problem areas noted appear to have basic accounting systems implications and are presently being evaluated by our staff in their consideration of the several segments of AID's accounting system now under review.

For ease of presentation, the major accounting systems points disclosed in the survey have been synthesized into three broad areas--accrual accounting, delays in transmitting financial data by AID/Washington to Missions, and control over AID-financed commodities. We would appreciate having your views on our findings in these areas and of any steps taken or planned by AID to overcome the problems noted.

The remaining points disclosed in the survey, generally involving singular instances of noncompliance with existing directives, are listed on page 4 of the attachment. Mission officials agreed, for the most part, with our observations and promised corrective action.

Sincerely yours,

Frank M. Zappacosta
Assistant Director

Attachment

714956

092664

Results of Survey of
AID Mission Accounting
Procedures and Practices

Accrual Accounting

AID Manual Order 710 III D-1 provides that accounts are to be maintained on an accrued expenditure basis. Our survey work disclosed that the accounting records maintained in the three Missions visited were geared to the allotment, obligation, and disbursement process. Accrued expenditure data was being derived only when such data was required for the preparation of quarterly and semi-annual reports to AID/Washington headquarters. We found that the accrual data compiled for these reports was not all-inclusive and in many cases the accruals were clearly inaccurate.

We believe that the deficiencies in accrual accounting noted in our survey resulted in part from the lack of readily available data with which to compile accurate accruals and the tight deadlines for submitting reports to AID/Washington. We also believe that the limited application of accrual accounting indicates that Mission officials do not fully appreciate the potential financial management benefits to be derived from accrual accounting.

Our survey at the Korean Mission illustrates the limited application of accrual accounting in the Missions. We found that for administrative funds, unliquidated obligation balances at the end of the reporting period were being reported as accrued expenditures for certain categories of expense. For program funds, very few categories of cost were being compiled and reported on an accrued expenditure basis.

The Mission Controller stated that it is a very difficult and time-consuming process to identify and report all items which should properly be considered accrued expenditures. He pointed out, for example, that accrual costs for participants, commodities, and contractual services which are paid by AID/Washington would be extremely difficult to determine because Advices of Charge are not received from AID/Washington promptly. The Controller expressed the view that accruals could be estimated in some cases but that such estimates would be of questionable value.

At the Mission to the Philippines the survey showed that the guidelines for accruing expenditures for commodity purchases were not being followed in all cases. AID guidelines provide that receiving reports indicating receipt and acceptance, or bills of lading evidencing shipment, provide the basis for determining accounts payable for purchases of commodities. For some cases we found that accruals were being estimated by prorating the total amount of the Project Implementation Order (PIO/C) over the delivery period indicated, or if a purchase order had been issued,

the entire amount of the purchase order was accrued. In other cases, the unliquidated obligation balances of the PIO/C's were considered as accrued expenditures. These procedures had been adopted because reliable data concerning the shipment and receipt of commodities was not available.

AID Manual Order 732.2 IB 4 encourages, but does not require, that local financial reports be prepared on the accrued expenditure basis. Our review of local reports at the three Missions visited did not disclose any instances where accrued expenditure data was called for.

On the basis of our survey work we believe that the financial data and reports now being produced in the Missions are not fully meeting the needs of Mission management personnel. The Mission Director in Thailand previously came to the same conclusion and requested consultant assistance in improving the Mission's management information system, including its financial management aspects. Adoption of strict accrual accounting in the Missions would not solve all informational problems overnight since it would also be necessary to develop (a) pertinent costs, and (b) a refined reporting system. It would, however, be an essential basic step toward developing a solid, consistent data base which is the fundamental prerequisite to a sound financial management information system.

Delays in transmitting financial data by AID/Washington to Missions

Delays in transmitting financial data between AID/Washington and the Missions resulted in the failure of the accounting records to reflect current financial data and distorted the financial reports. This situation is attributable in part to the sizable distances between the field and Washington and the fact that original accounting data relating to particular projects and programs is developed at both locations. The other contributing factor is the paper-work problem at AID/Washington headquarters.

Our survey disclosed a number of cases of delays in receiving pertinent financial data at the Missions. One example involved expenditures of over \$900,000 in May and June 1968 by AID/Washington against a Korean Mission program allotment. Advices of Charge were not issued to the Mission until July and August. Another instance noted at the Korean Mission concerned a case where training of participants in the United States was completed in January 1968. The Mission's accounting records at June 30, 1968, still showed an unliquidated obligation for this program because notification of disbursements made by AID/Washington had not been received.

The work carried out at the Korean Mission showed that in the case of Participating Agency Service Agreements (PASA), AID/Washington received the billings and made the disbursements. The Mission was then advised of the details of the transactions by Advices of Charge. We noted that there was often a considerable interval between the time the PASA services were performed and the date the Advices of Charge were received in the Mission.

For contractors, we noted that the Korean Mission was not receiving monthly statements of work performed although Manual Order 732.2 provides that Mission controllers should request such statements for use in determining accruals. The contractors were submitting progress reports directly to AID/Washington inasmuch as payments are approved and paid there. The Mission was then advised of the transactions by Advices of Charge. As in the case of billings under PASA agreements, the Advices of Charge for contracts were often received by the Mission considerably after the services were performed.

At the Thailand Mission we noted that the Mission was experiencing a two-to-three month delay between the time AID/Washington made a disbursement against a Mission allotment and the time the Mission received the Advice of Charge transferring accountability for the disbursement.

Delays in receiving basic data at the Missions seriously inhibit the Missions' ability to prepare current, accurate financial reports and therefore constitute a major obstacle to the development of solid financial management data for use in preparing periodic reports for use by Mission management personnel. To effectively manage resources and control costs, it is essential that complete cost data, prepared on a consistent basis, be available very shortly after costs are incurred. Based on the survey work in the Missions, AID's present accounting system is seriously deficient in this respect.

Control Over AID-Financed Commodities

A consistent shortcoming noted at the Missions visited was the lack of control over AID-financed project commodities.

In Korea, project commodities are first received by OSROK, a Korean Government Agency, and then shipped in-country to the various project sites. The survey work disclosed that OSROK has never furnished the Mission with receiving reports for project commodities. The survey further disclosed that although Mission personnel were assigned to each project, they were not required to submit reports to the Mission on the commodities received at the project sites.

Mission officials advised us that they were aware of the weaknesses in control over project commodities and that a procedure was being developed to correct this situation. The new procedure was to include physical inspections of the commodities by project technicians-- opening of crates, testing equipment, etc., and submitting receiving reports to the Mission. The Mission Controller said that the Mission was committed to AID/Washington to resolve the problem by December 31, 1968. He also stated that when the new system is fully tested, the Mission will recommend its use Agency-wide.

At the Thailand Mission, AID officials advised us that they had recently inquired of AID/Washington as to why grant and loan funded project commodities are not subject to the control procedures devised for program assistance commodities. Arrival records for project commodities reflect receipt based upon bill of lading descriptions which in all cases do not precisely identify the shipment by ordering line item. Quite often the bill of lading descriptions refer to "boxes," "cartons," "crates," or other container description without identifying the contents.

The Mission Controller expressed the view that although most shipments can be traced to line items ordered from invoices, packing lists and other documents received with shipments, it would be preferable to have line item receiving reports from the Thailand Government. He stated that priced, line item receiving reports would provide better support for payments and improve the accuracy of accruals for commodities. The Controller also stated that implementation of such a procedure would not be a simple matter.

Based on the results of the survey work it is apparent that adequate controls for project commodities were not in effect at the Missions visited. It is also apparent that the weaknesses noted were due mainly to the absence of sound procedures rather than a failure to comply with existing directives.

Other Matters Noted in the Survey

Korea Mission

1. Collections by the Mission cashier were not being promptly deposited as required by AID Manual Order 751.1.1-VI-D. In the period covered in our test we noted that collections had been held by the cashier for periods up to 26 days.
2. Fiscal year 1969 funds were used for payment of allowances for educational expenses incurred in fiscal year 1968. This situation occurred because obligations for reimbursable educational expenses for the

period January to June 1968 were not recorded until August 1968 when Mission employees submitted claims for reimbursement. Our test check disclosed five such cases totaling \$2,767.

3. A "Goods in Transit" account for AID-owned nonexpendable property was not being maintained as required by AID Manual Order 754.5.
4. A considerable number of errors were made in the leave records of Mission personnel. In an examination of leave records for leave years 1966, 1967, and 1968, the Mission's Audit Branch found that from 14 to 21 percent of the records examined were in need of adjustment. The Mission Controller agreed to consider instituting a temporary procedure whereby control totals for leave would be compiled and reconciled. This procedure would be used until the computerized payroll system at AID/Washington headquarters reaches an acceptable level of reliability.

Philippine Mission

1. The basis of allocating Saigon support costs between the program funds allotment (97 percent) and the administrative funds allotment (3 percent) did not appear to be equitable in view of the Mission's determination that 20 percent of the charges for common use supplies at the Mission were properly allocable to administrative funds. Mission officials stated that the allocation used was an AID/Washington determination and that the Mission did not plan to initiate any change.
2. Employee quarters costs were being allocated to the major allotments based on the percentage of personnel funded by each allotment. In our opinion, a more accurate distribution of costs could be achieved by distributing such costs on a direct basis. Mission officials stated that direct costing had been tried but that problems had been encountered because the Controller's Office was not promptly informed of changes in the occupancy of houses. Therefore, they planned to continue the existing method of allocation.
3. Unliquidated obligations were not being adequately reviewed, resulting in a number of cases where reported unliquidated obligations were invalid.
4. Seven claims totaling over \$500,000 were outstanding against the Philippine Government, in some cases since 1963. Numerous small amounts due from AID personnel had remained outstanding for periods of from four months to several years. Some of the personnel involved were no longer assigned to the Mission.
5. Differences between control account balances and physical inventories of Mission-owned nonexpendable property were not promptly

resolved. We were advised that no recounts were made to reconcile the differences and that reports of survey were prepared only if overages or shortages existed in two consecutive years. We noted that the Mission did not maintain general ledger control accounts for Trust Fund-owned nonexpendable property.

Thailand Mission

1. Our review of counterpart fund accounting at the Mission disclosed the following:
 - (a) An annual budget by object class code for the trust fund, required by the Memorandum of Understanding with the Royal Thailand Government, had not been prepared.
 - (b) A general ledger with control accounts for trust fund cash and property was not being maintained.
 - (c) Delays of up to several months were noted in deobligating funds in the trust fund account.
2. The AID-owned property account balances at the close of fiscal year 1968 were not in agreement with the subsidiary property records.