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UNITED STATES GENERAL ACCOUNTING OFFICE
INTERNATIONAL DIVISION
FAR EAST BRANCH
1833 KALAKAUA AVENUE
HONOLULU, HAWAII 96815

OCT 20 1969

Dear Mr. Johnson:

Our office has made a review of the disbursements of fiscal year 1968 funds appropriated for administrative program and training purposes of the Peace Corps, Micronesia. Our review was directed primarily to examining into the propriety of the disbursements and included such tests of reported transactions as we deemed appropriate under the circumstances. We also examined into administrative policies and practices concerning Volunteer leave and transportation.

On the basis of our examination we believe that there was adequate support for the disbursement of funds. We found however, that (1) there was no system which ensured that obligations were reported in the allotment ledger as commitments, when incurred. Accordingly the true financial position of the Peace Corps, with regard to fund requirements was never established and the possibility of over-expending the allotment existed, (2) reports of status of funds to Peace Corps, Washington, included prevalidated amounts which were not valid obligations, as defined by Section 1311 of the Supplemental Appropriation Act of 1955, (31 U.S.C. 200), (3) unliquidated obligations were not periodically reviewed to ensure that only valid obligations were reported to Peace Corps, Washington, (4) some Volunteers received Government Transportation Requests or cash in lieu thereof, for cost of return home transportation in amounts in excess of the cost of direct routing, and (5) the Volunteer vacation leave policy was not being adhered to in that cash payments were made for leave not taken.

The attachment to this letter summarizes results of our review.

We recognize that the disbursing functions, record keeping and the accumulation of report data, during the period reviewed, were performed by the Trust Territories pursuant to a memorandum of agreement. However, it is our understanding that, subsequent to our review, the Peace Corps has assumed these functions. Accordingly, we are bringing these matters to your attention for your consideration and appropriate action.

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We wish to acknowledge the courtesy and cooperation given to our representatives during the review. If you or your representatives wish to discuss our findings or require additional information, please feel free to contact us.

A copy of this report is being sent to the Director, Peace Corps, Washington, D. C.

Sincerely yours,

C. Roman
Director

Mr. Laurence A. Johnson
Director, Peace Corps, Micronesia
Saipan, Mariana Islands 96950

cc:
Director, Peace Corps
Washington, D. C.

REPORT ON REVIEW OF FISCAL YEAR 1968 FUNDS PEACE CORPS, MICRONESIA

INTRODUCTION

We have completed our review of the disbursement of fiscal year 1968 funds appropriated for administrative, program, and training purposes of Peace Corps, Micronesia. Our review was directed primarily to examining into the propriety of the disbursements and included such tests of reported transactions as we deemed appropriate under the circumstances. We also examined into administrative policies and practices concerning Volunteer leave and transportation.

On the basis of our examination, we believe that there was adequate support for the disbursement of funds. However, the accuracy of financial reporting to Peace Corps, Washington, was questionable. Consequently, any reports to the Bureau of the Budget, the Department of State, and the Treasury Department utilizing this information would have been equally suspect. We also noted that certain practices relative to travel and transportation appeared to be inconsistent with Peace Corps policy and resulted in increased costs to the Government.

NEED TO IMPROVE PROCEDURES FOR ESTABLISHING OBLIGATIONS

There was no system which ensured that obligations were recorded in the allotment ledger as commitments when incurred.

Thus, the true financial position of Peace Corps, Micronesia, with regard to fund requirements was never established and the possibility of over-expending the allotment existed.

Section 1311 of the Supplemental Appropriation Act, 1955, (31 U.S.C. 200), as amended, defines valid obligations and establishes requirements for reporting and certifying and restriction of expenditures. Section 1311(a) of that act specifically provides that:

> "No amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence."

In each quarter of the fiscal year, Peace Corps district offices were authorized specific amounts of money for local procurement of supplies and part-time employment payments. Petty cash funds disbursements were generally limited to $100, while other purchases could not exceed $300. All purchases over $300 were made at the headquarters level by purchase order and did not affect the district amount.

We found that Peace Corps employees obtained goods and services without authorization in the form of a purchase order or other obligation document. These actions, which were binding on the Government to pay, were made without first obligating funds for that purpose. For example, purchase order PC-81-173 was issued on May 21, 1968, for $344.57 for an electric refrigerator which was purchased on September 22, 1967. However, funds were not certified as being available until May 25, 1968 and

payment was not actually made until June 12, 1968, which was about 8 months after the purchase.

Even in cases where funds were obligated in anticipation of an expense such as travel authorizations and blanket purchase orders, the obligated amount was not always sufficient for liquidation of all obligations incurred. Thus, expenditures were made directly against the unobligated balance of the allotment.

An example of the failure to record obligations as they occurred was demonstrated by the fact that in the period July 1, 1968, to February 28, 1969, a total of $17,969 was recorded as new obligations against fiscal year 1968 funds. Several of these transactions were quite old, some representing purchases dating back to early 1968 and one going back to April 1967. During the period July 1, 1968, to February 28, 1969, about $22,410 was expended for which obligations had not previously been established.

Section 1311(d) of the above-cited act states that:

> "No appropriation or fund which is limited for obligation purposes to a definite period of time shall be available for expenditure after the expiration of such period except for liquidation of amounts obligated in accord with subsection (a) of this section***"

CONCLUSION AND RECOMMENDATION

According to the act, obligations affecting fiscal year 1968 transactions should have been established against the allotment before the close of the fiscal year, and only obligations so established could be liquidated by that year's funds.

We recommend, therefore, that obligations be timely established as required by Section 1311 so as to preclude violations of statutory requirements. That is, transactions concerning specific fiscal year requirements must be obligated and supported by adequate documentation before the expiration of the period of availability for that appropriation. We recommend therefore that procurement practices of Peace Corps, Micronesia, be reviewed with the objective of eliminating, where ever possible, purchasing without prior obligation of funds in order that allotments can be controlled more effectively.

NEED TO RECOGNIZE ACTUAL LEGAL STATUS OF PREVALIDATED OBLIGATIONS IN YEAR-END REPORTING

We were advised that lump-sum amounts, expected to be expended each quarter by each district, were prevalidated and established as obligations at the beginning of the quarter.

In this regard we noted that reports of status of funds to Peace Corps, Washington, included prevalidated amounts which were not valid obligations, as defined by Section 1311. The practice of establishing obligations which are not supported by acceptable documentary evidence incorrectly presented the agency's position with respect to the magnitude of obligations and funds required.

The estimated amounts which were to be expended at the local level in support of the six district offices were established as obligations or "prevalidated" on the allotment

ledgers. Similarly, blanket authorizations for district travel were prevalidated as were individual travel authorizations for headquarters staff personnel. We were advised that the purpose of prevalidation was to limit the amounts expended for these purposes to approved budgetary levels. Thus, as purchases were made in the districts and travel was performed, the prevalidated amounts were reduced. At the end of each month, the Status Report of Current Year Funds was prepared for the Peace Corps, Washington. In preparing the reports, the practice was to report as obligations the amount of the prevalidations not yet expended.

CONCLUSION AND RECOMMENDATION

In our opinion, obligations established in anticipation of an expected expense, as in the case of district expenditures, did not meet the requirements of Section 1311(a) since there was no legal commitment on the part of the Government to incur the expense.

Furthermore, since numerous fiscal year 1968 prevalidations were unliquidated at February 28, 1969, we believe proper attention was not given to deobligating the excess prevalidated amounts. As a result, reports of obligations were overstated.

Accordingly, we recommend that appropriate procedures be established so that the records and reports will accurately reflect the financial status of the Peace Corps, Micronesia.

If it is considered necessary to maintain a degree of control over district expenditures, we suggest adoption of alternative procedures which would achieve the desired objective but would not violate the statutory requirement relative to the obligation of funds.

NEED TO PERIODICALLY REVIEW VALIDITY OF OUTSTANDING UNLIQUIDATED OBLIGATIONS

We noted that unliquidated obligations were not periodically reviewed to ensure that only valid obligations were reported to Peace Corps, Washington. Many items listed as unliquidated obligations as of June 30, 1968, and February 28, 1969, were not, in our opinion, valid obligations.

Section 17 of Title 7 of the GAO Manual for Guidance of Federal Agencies sets forth agency responsibilities with regard to obligating procedures and practices. Section 17.5 provides that any statement of obligation of funds furnished by any agency of the Government to the Congress or any committee thereof shall include only valid obligations as defined in subsection (a) of Section 1311 of the Supplemental Appropriation Act of 1955. Section 17 points out further that documents representing unpaid obligations should be reconciled periodically to the control accounts and such reconciliations retained for audit purposes.

The Status Report of Current Year Funds for Fiscal Year 1968, submitted to Peace Corps, Washington, showed total unliquidated obligations of $525,731 as of June 30, 1968. This amount was

reduced to about $190,903 as of February 28, 1969, which consisted of the following obligations:

OUTSTANDING FISCAL YEAR 1968 OBLIGATIONS
AS OF
FEBRUARY 28, 1969

Document No.	Purpose	Unliquidated amount
PC-TA-81-229	Transportation costs, terminating Volunteers	$ 64,888
PC-68-6	Transportation costs, incoming Volunteers	33,244
PC-68-2	Procurement of supplies	22,564
Numerous	Miscellaneous	70,207
Total		$190,903

All of the above obligations were established prior to the end of the fiscal year on June 30, 1968.

Neither Trust Territory nor Peace Corps, Micronesia, employees could provide us with any reasonable estimate of whether additional invoices could be expected from vendors in connection with document numbers PC-TA-81-299 and PC-68-6, although approximately 8 months had elapsed since the end of the fiscal year and substantially all charges should have been received. Peace Corps files showed that many of the purchase orders had been sent to the Trust Territory for payment and were considered closed transactions. Nevertheless, these items were still carried as unliquidated obligations.

Although our review showed that items listed as unliquidated obligations at year-end may not have been valid obligations as of

that time, we were unable to fully develop the magnitude of invalid obligations because many of the records concerning the reported amounts were disposed of as the obligations were liquidated. We were advised that many of the obligations were only estimates of expected expenses and, therefore, were without documentary evidence or support. We also were advised that unliquidated obligations were not periodically reviewed to ensure that only valid obligations were reported to Peace Corps, Washington, on the monthly Status Report of Current Year Funds.

CONCLUSION AND RECOMMENDATION

Based on our review of fiscal year 1968 unliquidated obligation amounts at June 30, 1968, and February 28, 1969, it is our view that the reported obligations did not meet the criteria of Section 1311. We believe that review of unliquidated obligations on a continuing basis will improve the accuracy and validity of the financial reporting and provide a more meaningful method of fund control.

We recommend, therefore, that the Peace Corps, Micronesia, establish appropriate procedures for review of obligations to ensure that only valid obligations are recorded and reported. We further recommend that unliquidated obligations be reviewed periodically to determine that only valid obligations are outstanding.

NEED TO ADHERE TO TRAVEL POLICY
CONCERNING TERMINATING VOLUNTEERS

Our review revealed that some Volunteers from the Marshall Islands, Ponape, and Truk districts received Government Transportation Requests (GTRs), or cash in lieu of GTRs, for return home transportation in amounts in excess of the cost to the Government of direct routing. In addition, we noted that discounts offered by airlines for family travel were not always taken when available.

Peace Corps Manual Circular No. 6 states that returning Volunteers are entitled to tourist class air travel (including tourist jet) by the most direct route from the host country to the airport nearest their home or "permanent" address in the United States. Volunteers returning to the United States by an indirect route may elect to receive either an amount equal to the cost to the Government of direct return transportation or a Government Transportation Request (GTR), paying in both cases any additional travel costs with their own funds as they purchase transportation.

Volunteers from the districts of the Marshall Islands, Ponape, and Truk that terminated their service were given the choice of returning to the United States via either Hawaii or Guam. Since traveling via Guam is not the most direct route from these districts to the United States, the effect of such an election was to increase the cost to the Government.

We did not develop fully the total additional cost to the Government resulting from this practice. However, out of about 145 terminating Volunteers from affected districts, we identified at least 22 Volunteers from the Marshalls, 40 from Ponape, and 48 from Truk who went to Guam from their districts. The air fare from their district centers to Guam for these 110 Volunteers was about $11,518.

In addition to the costs associated with choosing Guam as a point of departure for terminating Volunteers, we noted that the air fare from Guam to the mainland United States, without considering the cost from the districts to Guam, is more than the cost of direct routing from the Marshalls and Ponape. For example, air fare from Ponape to San Francisco, California, on a direct route is $293 compared to $317, Guam to San Francisco. Air fare from the Marshalls to San Francisco is $242 versus $317 from Guam while the air fare from Truk to San Francisco is the same as the fare from Guam. When the air fare from the districts to Guam is added, the disparity is even greater.

Another aspect of the transportation of Volunteers concerned the financial advantages of the family plan discounts offered by the airline serving the Trust Territory. On flights to Honolulu the airline offers a 25 percent discount to wives traveling with their husbands. In addition, similar discounts are available for air travel in the continental United States. In our review, we

noted that only 2 couples obtained tickets on the family plan although at least 33 married couples terminated their tours in 1968.

Your predecessor, Mr. Roger Flather, concurred with our position with respect to the savings available through the use of family discount plans; however, concerning the use of Guam as the point of departure from Micronesia, he advised us that, in his opinion, the advantage of being able to meet with Volunteers before their departure from Micronesia warranted the additional costs. He also advised us that the Peace Corps Manual does not define the departure point in the host country, and as interpreted by him, allows the Country Director to designate the departure point. Thus, Country Directors can permit exit from a country via an airport which is not necessarily the most direct route home.

CONCLUSION AND RECOMMENDATION

In our opinion, the pertinent provisions of the Peace Corps Manual were intended to restrict the obligation of the United States Government to the cost of transportation by the most direct route from the country assigned, to the airport nearest the Volunteer's home. The practice of routing Volunteers from district centers in the Marshalls, Ponape, and Truk, via Guam, we believe, is contrary to this intent in that it is not the most direct route to the home of record and, therefore, unnecessarily increases the cost to the Government for such travel.

In those instances where the practice does not appear to be consistent with published Peace Corps policy, such as using Guam as a point of departure from Micronesia, we recommend that you obtain from Peace Corps, Washington, authorization for continuance of the practice. With respect to family discount plans offered by the airlines, we suggest that such plans be used whenever practicable.

NEED TO MAINTAIN SHIPMENTS OF VOLUNTEERS' BAGGAGE WITHIN AUTHORIZED LIMIT

Our review disclosed that shipments by air freight of returning Volunteers' baggage exceeded the authorized allowance of 100 pounds and resulted in increased costs to the Government.

Peace Corps Manual, Section 213.8, dated September 15, 1967, states that Peace Corps Volunteers enrolled after June 1, 1966, are authorized a return baggage allowance of 100 pounds of air freight. Volunteers desiring to ship more than the authorized amount must make their own shipping arrangements for the excess weight and such shipments are subject to brokerage fees, customs duties, and other charges. Shipment of excess weight through official channels is not authorized.

Our review disclosed four cases where Government bills of lading were issued for air freight for returning Volunteers' baggage in amounts in excess of the authorized 100 pounds. In the four instances the excess weights amounted to 31, 44, 81 and 85 pounds. The excess weight of 85 pounds resulted in additional costs of about $89 to the Government.

CONCLUSION AND RECOMMENDATION

We believe that the cases identified indicated a need ior Peace Corps, Micronesia to adhere more closely to the provisions of Peace Corps Manual, Section 213.8. Accordingly, we recommend that appropriate measures be taken to ensure compliance with the policy.

NEED TO IMPROVE VOLUNTEER VACATION LEAVE ALLOWANCE AND TRAVEL SUBSIDY PRACTICES

Our review indicated that the Volunteer vacation leave policy was not being adhered to in that cash payments were made for leave not taken. We also found that the leave records and supporting documentation maintained at the Marianas District were inadequate with regard to the amount of vacation leave taken by each Volunteer and the amount of leave allowance and travel subsidy paid.

The Peace Corps policy on vacation leave entitles Volunteers who entered training prior to January 1, 1969, to be automatically credited at the beginning of their tour with two days' leave for each full calendar month of scheduled overseas service. Volunteers who entered training after January 1, 1969, are entitled to 42 days leave plus 2 calendar days for each month of service beyond the 24th month. Volunteers received a $7.50 per day leave allowance up to June 30, 1968, after which the allowance granted was changed to $9.00 per day.

A local policy permitted Volunteers to travel within Micronesia while on vacation with the costs of transportation being borne by the Peace Corps. At one time the subsidy ranged from $223 for Volunteers from the Truk District to $439 for Volunteers from the Palau District. In February 1969 the subsidies were changed because of new airline rates and now range from $248-288 per Volunteer.

The purpose of vacation leave and the travel subsidy is to provide an opportunity for travel within the country or region of assignment to help Volunteers gain a thorough understanding of the area in which they serve, and also to provide Volunteers with periods of time away from the job for rest and relaxation.

We reviewed the Volunteer leave allowance and travel subsidy records maintained by the Marianas District in order to ascertain the extent of compliance with applicable Peace Corps policies on leave and to evaluate the controls exercised over the granting and recording of leave and travel. The records showed numerous instances where the number of days for which leave allowance was paid exceeded the actual number of days taken. We were advised that Volunteers often request, but do not take leave, the purpose being to collect the allowance which could not be obtained without submitting a request for leave. We noted that some approved leave requests were annotated with the remark--cash only, no leave taken.

Discussion with the Director, Marianas District, revealed that he was aware that Volunteers were collecting the leave allowance without actually going on leave but he stated that since his predecessor had followed the practice he was continuing to approve leave requests on this basis. He told us that Volunteers sometimes needed additional money for personal reasons and this was one way they could supplement their living allowance. We were advised that no refunds were obtained from Volunteers even though Peace Corps policy requires that advance payment for days of leave paid but not taken within 45 days of the advance must be returned promptly or else recovered from the Volunteer prior to his termination.

Leave records did not include all necessary leave and travel information and were maintained in a manner that made examination difficult.

CONCLUSION AND RECOMMENDATION

Based on our review of the records at the Marianas District, there is a need for improvement in Volunteer leave allowance practices. Specifically, we recommend adherence to Peace Corps leave policies which precludes paying Volunteers for leave not taken. We also recommend that steps be taken to ensure that suitable leave records, which would provide for an accurate account of each Volunteer's leave history and utilization of his travel subsidy, be established.

Since these deficiencies may be applicable to the other five districts, we recommend that a review be made of the manner in which Volunteer leave practices are being handled in those other districts with a view towards taking appropriate corrective action if warranted.

OTHER MATTERS

Need for updated Memorandum of Agreement between the Peace Corps and the Trust Territory

The Memorandum of Agreement between the Peace Corps and the Trust Territory Government does not accurately reflect the working relationships between the parties. Aside from the written Memorandum of Agreement, oral agreements govern the payment of salaries for Trust Territory employees providing services to the Peace Corps and a surcharge on items purchased for the Peace Corps account. There is a need, therefore, to express the oral agreements in writing and to update the Memorandum of Agreement to document the bilateral concurrence of the parties to the actual existing relationships.

The basic guidelines for the working relationship between the Trust Territory Government and the Peace Corps are included in a Memorandum of Agreement between the parties which confirmed Peace Corps involvement in Micronesia. A separate letter agreement dated July 22, 1966, covers the adquisition and leasing of facilities required by the Peace Corps. Administrative directives

issued in December 1966 and December 1967 amplify the above agreements and promulgate the Trust Territory's general policies and procedures covering on-the-job relationships and further define the nature and extent of support to the Peace Corps.

The directives require the Peace Corps to pay for the cost of "Peace Corps Operations" while the Trust Territory pays for support of the Volunteers in established, expanded, or new programs of the Trust Territory Government. "Peace Corps Operations" signifies support of the Volunteer as a person--his housing, living allowance, and general well-being.

Because the Memorandum of Agreement is very general, at least two more explicit agreements, both verbal, were entered into by the Peace Corps and the Trust Territory for compensation of services rendered by the Trust Territory.

Under one agreement the Peace Corps pays the salaries of four Trust Territory Budget and Finance personnel in exchange for accounting services. The Peace Corps also pays the salaries of two Trust Territory Property and Supply employees for procurement services rendered by that department. Under the other verbal agreement, the Peace Corps pays a 15 percent surcharge on all items procured by the Trust Territory for the account of the Peace Corps.

We were advised, however, that the Peace Corps made overtures in July 1968 to establish a new agreement to define the nature and extent of support services for fiscal year 1969. To the date of our review, the Trust Territory had resisted efforts to

consummate a new agreement apparently on the basis that it was unable to effectively furnish future administrative support to the Peace Corps with the limited staffing available. As previously stated, it is our understanding that the Peace Corps is currently in the process of establishing its own financial management group and will assume responsibility for performing the accounting and reporting functions, including the preparation and certification of its own vouchers for payment with the Trust Territory providing only a disbursing function.

Conclusion and recommendation

With the change in progress in working relationships, we believe that a suitable Memorandum of Agreement should be established as soon as possible between the Peace Corps and the Trust Territory Government, and that any significant oral agreements subsequently entered into should be reduced to writing.

Accordingly, we recommend that if a new agreement with the Trust Territory has not been negotiated that one be entered into as soon as practicable.

Need for system of internal distribution of Peace Corps directives

Our review of Peace Corps manuals maintained by administrative staff members and Trust Territory Budget and Finance personnel indicated that they were incomplete and did not contain current information on overall Peace Corps policy and administrative direction.

Among the materials missing were items dealing with day-to-day operations of the Peace Corps such as (a) overseas procurement procedures, (b) overseas leave for Volunteers, (c) Volunteer allowances, computation, and payment procedures, and (d) policy and procedural information regarding conditions of Volunteer service.

We examined four of the six manuals available on Saipan and found that the number of missing transmittals ranged from a low of four to a high of 94. However, among the four manuals, only one transmittal was missing from all manuals. It was evident from our review that the transmittals were received by the headquarters office but distribution to holders of the manuals was poor and uncoordinated.

Conclusion and Recommendation

In our opinion, the situation resulted directly from the absence of a system of internal distribution that ensured all transmittals were directed to manual holders. The presence of outdated and incomplete manuals maintained by personnel responsible for fiscal transactions seriously impairs the capability of personnel to carry out their responsibility for reviewing, approving, recording, and reporting transactions.

We recommend that the Peace Corps, Micronesia, develop an appropriate distribution system to correct the problems noted. Recognizing that transmittals are often received out of numerical

sequence, thereby reducing the effectiveness of having them numbered, we believe that it may be appropriate for the Peace Corps to periodically send out a listing to manual holders of all currently effective materials.