Office of Inspector General

June 18, 2012

MEMORANDUM

FOR: USAID/Pakistan Acting Mission Director, Karen Freeman

FROM: OIG/Pakistan Director, Joseph Farinella /s/

SUBJECT: Review of USAID/Pakistan's Cost Estimates for Shipping and Storage (Report No. G-391-12-001-S)

This memorandum transmits our final report on the subject review. This is not an audit report. In finalizing the report, we carefully considered USAID/Pakistan's comments on the draft and have included them in Appendix II.

The report contains two recommendations to help USAID/Pakistan improve various aspects of estimating shipping and storage obligations. USAID/Pakistan agreed with the recommendations and with the estimated $480,000 annually and $2.4 million over 5 years that can be put to better use. After reviewing the information provided by the mission in response to the draft report, we determined that final actions have been taken on Recommendations 1 and 2.

We want to thank you and your staff for your cooperation and courtesies extended to us during this review.

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SUMMARY

USAID/Pakistan has about 90 employees. When they begin their assignments, they are each entitled to ship personal effects to Pakistan of up to 2,000 pounds by sea and 1,000 pounds by air. Employees can also ship a vehicle and place personal goods in storage. The standard obligation for shipping and storage is $25,000. Actual expenses are much lower.

The purpose of this review was to develop a more reasonable estimate for obligating funds for the shipping and storage of goods for employees assigned to USAID/Pakistan.

For fiscal years 2008-2010, USAID/Pakistan obligated $2.3 million to fund employee transfers to Pakistan. The review found that actual shipping and storage expenses for those years were about $900,000. Thus, the mission spent only about 40 percent of the amount obligated (page 2). However, obligations and expenses varied widely: some employees used only a few thousand dollars while others used tens of thousands.

Our analysis and discussions with USAID/Pakistan officials led us to conclude that the standard obligation should be reduced from $25,000 to $15,000. This reduction would allow the mission to put an estimated $480,000 yearly and $2.4 million over 5 years to better use. Obligating $15,000 would still provide a cushion if an employee decided to ship additional goods after arrival. Also, a procedure to estimate obligations more accurately would allow the mission to anticipate occasional situations that exceed the standard obligation.

Finally, unliquidated obligations amounted to an estimated $860,000 for fiscal years 2008-2010. These should be reviewed.

Therefore, we recommend that USAID/Pakistan:

1. Establish and implement a procedure to more accurately estimate obligations for shipping and storing goods, and reduce the standard obligation from $25,000 to $15,000, resulting in an estimated $480,000 annually and $2.4 million over 5 years that could be put to better use (page 2).

2. Review unliquidated obligations of an estimated $860,000 for fiscal years 2008-2010, and deobligate funds no longer needed (page 3).

Detailed results appear in the following section. The review's scope and methodology appear in Appendix I. Our evaluation of management comments is on page 4, and management comments appear in Appendix II.

REVIEW RESULTS

Expenses Were Less Than Half of Shipping and Storage Estimates

Chapter 621, "Obligations," of USAID's Automated Directives System (ADS 621.3.7) states that obligations should be made in the exact amount whenever possible and that, when an estimate is necessary, USAID must provide evidence for the basis of the estimate. ADS 621 further states that when more precise information is available regarding estimated obligations, excess amounts should be periodically adjusted.

Employees transferring to Pakistan are eligible to ship personal effects of up to 2,000 pounds by sea and 1,000 pounds by air. They are also entitled to ship one vehicle and to place items in storage. To cover the shipping and storage expenses associated with these transfers, USAID/Pakistan obligates an estimated amount, typically $25,000 though sometimes more, without documenting the basis of the estimate.

We examined 115 shipping and storage obligations from fiscal years 2008-2010 covering the transfers of all U.S. direct hires, third-country nationals, and personal services contractors to post during that period. We found that actual expenses were about 40 percent of obligated amounts and that a standard obligation of $15,000 would capture all expenses in most cases. We also found that the mission did not have a procedure to anticipate when needs might exceed $15,000.

Although individual cases vary, USAID/Pakistan agreed that reducing the standard obligation to $15,000 would be more realistic. It would allow the mission enough flexibility to cover costs for individuals who initially use less than this amount but decide after arriving at post to ship additional items, as employees are authorized to do.

Current mission officials do not know how the mission previously arrived at the $25,000 estimate. Since the review began, USAID/Pakistan has developed employee questionnaires and initiated a study of shipping costs from various locations. In addition, the mission has instituted a new procedure for estimating post assignment freight.

By reducing the standard obligation conservatively to $15,000, the mission could put an estimated $480,000 annually and $2.4 million over 5 years to better use. The mission obligated $1.4 million in excess of expenses for shipping and storage of goods for fiscal years 2008-2010. The mission has since deobligated about $540,000. It still has an estimated $860,000 in unliquidated obligations that should be reviewed for potential deobligation.

Therefore, we recommend the following.

> ***Recommendation 1.*** *We recommend that USAID/Pakistan establish and implement a procedure to more accurately estimate obligations for shipping and storage of goods and reduce the standard obligation from $25,000 to $15,000, resulting in an estimated $480,000 annually and $2.4 million over 5 years that could be put to better use.*

Recommendation 2. *We recommend that USAID/Pakistan review unliquidated obligations of an estimated $860,000 for fiscal years 2008-2010 and deobligate funds no longer needed.*

EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan agreed with two recommendations in the report and with the estimated $480,000 annually and $2.4 million over 5 years that can be put to better use.

After reviewing the information provided by the mission in response to the draft report, we determined that final actions have been taken on Recommendations 1 and 2.

Recommendation 1. *We recommend that USAID/Pakistan establish and implement a procedure to more accurately estimate obligations for shipping and storage of goods and reduce the standard obligation from $25,000 to $15,000, resulting in estimated recurring annual savings of $480,000, and an estimated $2.4 million that could be put to better use over the next 5 years.*

USAID/Pakistan agreed with the recommendation and noted it has instituted a new procedure for estimating post assignment freight. The mission also agreed with the estimated amounts for reprogramming, although it pointed out that these amounts are subject to change and are not actual savings. OIG recognizes that the estimated amounts are funds for reprogramming, not savings. Wording in the text and Recommendation 1 of the final report has been revised accordingly. In view of the mission's response, final action has been taken on Recommendation 1.

Recommendation 2. *We recommend that USAID/Pakistan review unliquidated obligations of an estimated $860,000 for fiscal years 2008-2010 and deobligate funds no longer needed.*

USAID/Pakistan agreed with the recommendation to review unliquidated obligations of an estimated $860,000 for fiscal years 2008-2010. The mission has completed its review, which resulted in a total deobligation of $653,259. Accordingly, final action has been taken on Recommendation 2.

SCOPE AND METHODOLOGY

Scope

USAID's Office of Inspector General in Pakistan conducted fieldwork for this review in accordance with *Government Auditing Standards*, Sections 6.79 through 6.82, by documenting the planning, fieldwork, and reporting phases of the review and creating a TeamMate project specifically for this review. Fieldwork was conducted between March 22 and April 16, 2012, at USAID offices in Islamabad, Pakistan.

We reviewed obligations and disbursements for shipping and storage from 2008 to 2010.

Methodology

The review team interviewed mission officials, reviewed relevant policies (such as ADS 621 and the State Department's Foreign Affairs Manual), and inspected financial records of travel obligations and expenditures provided by USAID/Pakistan.

We analyzed 115 obligations and associated disbursements from fiscal years 2008-2010 covering the transfers of all U.S. direct hires, third-country nationals, and personal services contractors during that period. We determined the annual savings with the assumption that the mission would continue at the current staffing level of about 90 and that the trend of 60 to 65 percent annual turnover would continue. Thus, we assumed about 60 transfers per year, of which 80 percent (or about 48 per year) would need only $15,000 for shipping and storage. This provides an estimated $480,000 annually and $2.4 million over 5 years that could be put to better use.

MANAGEMENT COMMENTS

USAID | PAKISTAN
FROM THE AMERICAN PEOPLE

MEMORANDUM

Date: May 24, 2012

To: Joseph Farinella
Director OIG/Pakistan

From: Rodger Garner /s/
Acting Mission Director USAID/Pakistan

Subject: Management Comments on the Review of USAID/Pakistan's Cost Estimates for Shipping and Storage

Reference: Report No. G-391-12-001-S dated May 03, 2012

In response to the referenced draft review report, please find below Mission management comments on the recommendations included therein.

Recommendation No.1
We recommend that USAID/Pakistan establish and implement a procedure to more accurately estimate obligations for shipping and storage of goods and reduce the standard obligation from $25,000 to $15,000 resulting in estimated recurring annual savings of $480,000, and an estimated $2.4 million that could be put to better use over the next five years.

Management Comments:
Mission concurs with recommendation one and the estimated amounts for reprogramming. The Mission notes that these are estimated funds for reprogramming but not actual savings as noted in the draft report. Mission also believes that the estimated $2.4 million over the next five years is subject to numerous variables; however any amount not required for freight costs will be reprogrammed or used for other mission requirements. Also, the term "savings" is a misnomer since the funds will be utilized for other operating or program expenses. As discussed with OIG in the March 22, 2012 entrance meeting, USAID/Pakistan had previously instituted a new procedure for estimating post assignment freight. A post assignment freight survey was developed, discussed with the Travel Office and instituted. The procedure has since been edited and approved during a meeting of the OFM/Travel Office working group held on April 19, 2012. Since the institution of the new procedure, the post assignment estimates have been fully

supported based on survey results and the cost estimates from the employee's mission GSO/shipping office or from the AID/W Travel and Transportation Division (TTD) office. Five post assignment orders have been finalized under the new procedure. The freight estimates range from $8,000 to $17,350. OFM has also sent the survey to employees for which Travel Authorizations had already been finalized prior to the implementation of the new procedure. Based on the responses received, OFM will take steps to adjust the Travel Authorization freight estimates. Accordingly, Mission reports that final action has been taken and requests closure of this recommendation upon issuance of the final report.

Recommendation No. 2 We recommend that USAID/Pakistan review un-liquidated obligations of an estimated $860,000 for Fiscal Years 2008, 2009, and 2010 and de-obligate funds no longer needed.

Management comments:

Mission management concurs with the recommendation; however freight-related charges are delayed due to various reasons, particularly storage charges. In keeping with the 2007 "Frequently Asked Questions (FAQs) on Monitoring Obligations" guidance, the Mission has implemented a more thoughtful approach for reviewing freight charges to ensure that they are reasonable and there is a likelihood that the funds will be disbursed in the future. As per the 2007 FAQ on Monitoring Obligations, the criteria of "once de-obligated and the charge comes in, we can ask USAID/W for the money and upward adjust the fund cite" is not acceptable. Although in most past cases there have been enough funds (either un-obligated carryovers, new de-obligations, or unobligated expired funds available for upward adjustment) to cover the request, this cannot always be guaranteed." While this relates to unilateral-funded freight costs, bi-lateral program funds, when de-obligated, returns to the sub-commitment level, which can be used for other purposes or further de-sub-committed for other administrative uses. USAID/Pakistan Office of Financial Management has completed the review of un-liquidated obligations for Fiscal Year 2008 through FY 2010. This action has resulted in a total de-obligation of $653,258.80; comprised of $91,941.58 from FY 2008, $240,187.87 from FY 2009, $258,129.35 from FY 2010 and $63,000 from FY 2012 funds. Copies of all journal vouchers and review documentation are available at the OFM office. Accordingly, Mission reports that appropriate actions have been taken and requests closure of this recommendation upon issuance of the final report.