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AUDIT OF  
OPERATING EXPENSE, SUPPORT  
COSTS AND FUNCTIONS  
USAID/PHILIPPINES

AUDIT REPORT NO. 2-492-86-03  
April 15, 1986

UNITED STATES GOVERNMENT

# Memorandum

TO : Mr. Frederick W. Schieck  
Director, USAID/Philippines

DATE: April 15, 1986

FROM : Leo L. LaMotte *Leo LaMotte*  
RIG/A/Manila

RIG/EA-86-147

SUBJECT: Audit of USAID/Philippines' Operating Expense Account

This report presents the results of the audit of USAID/Philippines' Operating Expense Account. Our audit objective was to determine whether the USAID was utilizing operating expense funds efficiently and economically.

Improved management of operating expense account activities could result in savings up to \$100,000 annually in energy cost, more efficient use of AID-financed motor pool vehicles, and economies in the maintenance of AID-leased housing. This report recommends that the Mission implement an energy conservation program for residential housing, institute a record keeping system for improving motor pool operations, and implement a system of recording cost so that the cost effectiveness of repair and maintenance of USAID facilities can be evaluated.

Discussions with members of your staff and written comments by your office on the draft report were carefully considered in the preparation of the final report. USAID official comments addressing report content, conclusions and recommendations are attached as Appendix 1 to the report.

Based on USAID actions taken during the course of the audit, Recommendations Numbers 5 and 6 regarding motor pool rental income have been closed. Please advise our office within 30 days of the action taken or planned to clear the remaining report recommendations. Thank you for the cooperation and assistance extended to the audit staff on this assignment.

## EXECUTIVE SUMMARY

The operating expense budget for fiscal year 1985 totaled \$3.94 million. This amount funds such items as salaries, rent, utilities, furnishings, maintenance, and transportation. The support services paid from the operating expense account are managed by the USAID/Philippines Executive Office.

The audit was made to determine whether the USAID was utilizing operating expense funds efficiently, economically and for authorized purposes. The period of audit covered October 1, 1982 through September 30, 1985. During the audit survey phase, we tested transactions in each major operating expense budget area. On the basis of our survey work, we limited our detailed review to: residential energy consumption; motor pool operations; and repair and maintenance of USAID-leased facilities.

AID regulations require the Mission Director to ensure that residential utility costs are held to reasonable levels. However, the USAID does not have a fully effective residential energy conservation program because energy conservation methods have not been identified and occupants are not actively encouraged to conserve. By implementing a more effective program to manage and control electricity costs USAID could save up to \$71,000 the first year and approximately \$100,000 in succeeding years. We recommend that the USAID develop and implement an energy conservation program which includes installation of energy saving devices in residences, setting realistic energy consumption standards, and an information and follow-up program to encourage individual conservation. USAID believes its energy conservation program, which basically consisted of setting energy consumption standards, has been sufficient to control energy costs; however, we believe the standards have been too liberal and there are other actions that can and should be taken to reduce energy cost.

It is AID policy that USAID motor pool fleets be limited to the minimum requirements for official business. The USAID/Philippines did not carefully consider whether replacement vehicles purchased during the last four years were needed. The USAID cannot adequately analyze its transportation needs because information about individual vehicle's trips was not recorded. If the number of motor pool vehicles is excessive, which appears to be the case from some low odometer readings, the USAID could save about \$10,000 one-time cost and more for recurring maintenance costs for each motor pool vehicle that is not replaced. We recommend that the USAID institute a system of improved record-keeping practices and analyze motor pool operations. USAID concurred with this recommendation.

Records are required to be maintained on the repair and maintenance of each owned or leased residential and office property. Records were being maintained but they were based on

estimates rather than actual and they are incomplete and ten months behind in posting. The USAID should have but did not have an adequate system for analyzing the efficiency of the repair and maintenance contractor. Actual cost records are also needed for this purpose. As a result, the system that existed was incomplete, inaccurate and untimely and the USAID did not have the means for determining whether the contractor economically repaired and maintained USAID facilities. We recommend that the USAID fully implement the maintenance record system; evaluate the cost effectiveness of the repair and maintenance services; and, take any appropriate remedial action warranted. USAID concurred with this recommendation.

See Appendix 1 for the complete text of the USAID response to the draft audit report.

*Office of the Inspector General*

AUDIT OF  
OPERATING EXPENSE, SUPPORT  
COSTS AND FUNCTIONS

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AUDIT OF  
OPERATING EXPENSE, SUPPORT  
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PART I - INTRODUCTION

A. Background

In 1976, AID established the Operating Expense Account as a distinct budget category to provide better financial control and facilitate budget disclosure by separating the costs of basic operating functions from those directly associated with programs. Operating expenses are, generally, salaries, benefits, and overhead support costs for direct-hire U.S. and foreign national personnel located in Washington and overseas. Support costs include rent, utilities, furnishings, travel and transportation, equipment and supplies, and motor pool operations. Consultants and contract personnel engaged primarily in management and support functions are also operating expense funded.

The USAID/Philippines Executive Officer manages the operating expense account and the support services: Contracting, General Services, Logistics, Motor Pool, Shipping, Travel, Personnel, and Communications. All support service expenses are paid from the dollar-funded operating expense allotment and those Government of Philippines (GOP) Trust Funds (in local currency) which are available to the USAID as contributions to the AID program. The USAID operating budgets (dollar and Trust Funds) for the last four years were:

USAID Operating Budgets  
1982 to 1984  
(In Millions)

	<u>Dollars</u>	<u>Trust Funds</u>	<u>Total</u>
FY 1982	\$1.47	\$2.75	\$4.23
FY 1983	1.45	2.09	3.54
FY 1984	1.59	1.76	3.35
FY 1985	1.64	2.30	3.94

B. Audit Objectives And Scope

This was primarily an economy and efficiency audit including some financial and compliance audit aspects. The audit was made to determine whether the USAID was utilizing operating expense funds efficiently, economically and for authorized purposes. Because of the potential for cost savings, our review concentrated on the economy and efficiency and implementation of policies and procedures relating to residential energy consumption, the motor pool operations and the maintenance contractor.

The audit was made from December 1984 through September 1985, and covered the financial period of October 1, 1982, through September 30, 1985. The last audit report covering USAID/Philippines Operating Expenses was issued over 6 years ago in March 1978. Since then, we issued a survey report dated February 1981, on Controller Operations, which had no adverse findings. We audited cashier operations in January 1982, and performed a limited survey of travel procedures in June 1982. These audits disclosed minor internal control weaknesses which have since been corrected.

The audit was made in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

A. Findings And Recommendations

1. USAID Needs To Develop And Implement A Fully Effective Residential Energy Conservation Program

AID regulations require the Mission Director to ensure that residential utility costs are held to reasonable levels. However, the USAID does not have a fully effective residential energy conservation program because energy conservation methods have not been identified and occupants of residences are not actively encouraged to conserve. By implementing a more effective program to manage and control electricity costs USAID could save up to \$71,000 the first year and \$100,000 in succeeding years.

Recommendation No. 1

We recommend that USAID/Philippines establish a more effective residential energy conservation program to include:

- a. making surveys of individual residences for identification of energy efficiency requirements (insulation, etc.);
- b. developing and implementing a plan for financing cost-effective energy efficiency requirements identified in the surveys;
- c. immediately lowering the usage allowances to those established prior to May 1985 and reassess the allowances after one year.
- d. developing and implementing an information and follow-up program which will encourage lower use of energy by USAID personnel and dependents.

Discussion

United States concern for the need to control energy costs became apparent more than ten years ago. As a result, the U.S. Congress enacted in 1975 the Energy Policy and Conservation Act. The Act's provisions called for U.S. Government agencies to conserve energy supplies through energy conservation programs.

With respect to USAID residences, AID Handbook 23 Appendix 5A states:

"It is the responsibility of the head of each agency mission to assure that costs of utilities on Government-held residences are held to reasonable levels. He shall take appropriate administrative action to accomplish this, including, where appropriate, the establishment of utility ceilings for some or all of the residential quarters under his control. In order to assure that utilities are held at reasonable levels and as a basis of establishing a ceiling, cost records for each residential quarters should be maintained whenever possible and data should be collected on utilities in comparable private leases. The principal officer shall take the initiative to assure uniformity between the agencies at the post in establishing ceilings or in taking other administrative action."

In compliance with AID Handbook 23, the USAID issued Mission Order No. 551.3.2 setting forth the policy and procedures regarding electric utility charges incurred by occupants of USAID housing. The Mission Order dated March 8, 1978, first established consumption allowances. Later, the Mission Order was revised via Administrative Notice No. 82-74, dated September 8, 1982. This notice set standards on consumption of electricity by KWH. Different consumption allowances were also set for employees occupying houses and those occupying apartments. No data was available to show the basis used in establishing these allowances other than they followed the U.S. Embassy's system.

Allowances for electricity usage have been quite liberal in the past. From September 1982 until May 1985, the USAID and U.S. Embassy used the same electricity allowances to monitor and control residential energy costs. Our analysis of actual electricity usage for that period showed that occupants of most USAID houses averaged 20-50 percent below the allowances.

In May 1985, the USAID increased the electricity allowances via USAID Order No. 551.3. The allowances were increased to alleviate the difficulties the occupants of two USAID houses were having staying within their electricity limitations. The USAID justified the increase by stating that the kilowatt increment from one to two dependents under the previous allowance was insufficient to cover normal electricity usage.

Usage data indicated electricity allowances in effect prior to May 1985 probably were already excessive. However, the May 1985 increase was substantial. Depending on the type of residence (apartment or house) and number of full-time occupants, the allowances were increased up to 43 percent. A comparison of U.S. Embassy electricity allowances and recent USAID increased allowances shows:

U.S. Embassy And USAID Residential  
Electricity Allowances

<u>Residence</u>	As of May 1985			
	<u>Kilo Watt</u>	<u>Hour Allowance</u>	<u>Per Month</u>	
<u>Apartment</u>	<u>U.S. Embassy</u>	<u>USAID</u>	<u>Increase</u>	<u>(%)</u>
Unaccompanied	3,000	3,000	-	
Employee and 1 dependent	3,000	4,300	1,300	(43)
Employee and 2 dependents	-	5,600	-	
<u>House</u>				
Unaccompanied	4,000	4,000	-	
Employee and 1 dependent	4,000	5,300	1,300	(33)
Employee and 2 dependents	4,600	6,600	2,000	(43)
Employee and 3 dependents	5,900	7,900	2,000	(34)
Employee and 4 dependents	7,200	9,200	2,000	(28)
Employee and 5 or more dependents	8,500	9,200	700	( 8)

According to a recent USAID study on residential energy conservation, the fundamental flaw with the allowance system is that it disregards the individual characteristics of residences. The study noted that the amount and type of window surfaces, size of rooms, types of walls and roof systems, even the color of the roof, all make a difference in the energy efficiency of a residence. The study concluded that the current system was inequitably designed, inconsistent with policy and not in the best interest of the U.S. Government.

U.S. Agencies' Approaches In Managing Energy Requirements Differ

The U.S. Government agencies operating in Metropolitan Manila have different approaches to managing and controlling energy cost. The U.S. Embassy's approach has been basically laissez-faire, taking action only when electricity cost of individual residences substantially exceeds the allowance. The U.S. military, on the other hand, has an on-going and active energy conservation program. It actively monitors and encourages reductions in energy consumption.

U.S. Embassy officials stated they did not have an on-going energy conservation program. An Embassy official stated that it is the Embassy's policy that if an individual's electric consumption seems excessive, the Embassy General Services Office (GSO) will examine the house to find reasons why the particular structure may not be energy efficient. The GSO will then discuss usage patterns with the employee. If the employee's demand for electricity is found to be unreasonable, the GSO may impose limits on a case specific basis.

The U.S. Embassy also maintains consumption records for each occupied residence and monthly billings are posted to these cards. However, no monthly reports are made of the energy consumption for further study or comparison to the established consumption standards.

The U.S. Navy has instituted an active and continuing conservation program to control energy costs. It has instituted several practices, policies and procedures to monitor and control these costs for leased housing. The Navy has a Family Housing Energy Conservation Handbook that contains detailed information on this topic. It deals with the housing occupants participation; self-help programs; monitoring energy uses; calculated savings and maintenance and improvement programs. It contains conservation posters, pictures and an average of energy consumption and costs for household appliances. Each month the OICC housing occupants are notified of the utility costs of their residences. These cost statistics are for each item of expense and/or energy consumption element. The Navy's housing official writes a personal letter to each occupant whose energy consumption is higher than the acceptable level. These letters request the occupants to reduce their consumption. Subsequent follow-up letters are also written on this matter to the occupant until the condition is resolved. The Navy publishes a monthly housing notice and distributes it to all housing occupants. These notices contain useful housing energy tips and important notices or other articles of concern to the occupants.

The USAID has been more active than the U.S. Embassy in promoting energy conservation. It informs individuals of their electricity consumption and cost and requires payment from USAID employees for excessive power consumption. However, we believe the allowances have been so liberal that occupants of USAID houses exceed them only in very exceptional cases.

The USAID also provides information to employees living in USAID-leased housing similar to the information provided by the Navy. It informs individuals of their energy consumption and has a Mission Order requiring payment from USAID employees for excessive power consumption. However, the Navy's program is intensified to require conservation. First, the Navy's acceptable level of consumption is lower and second, the Navy housing official continues to request occupants exceeding the ceiling to lower consumption until they comply.

The USAID has agreed to review the Navy's information and follow-up program and adopt those aspects which would strengthen the USAID management and control over residential electricity costs.

#### USAID Study Recommends Measures To Increase Energy Efficiency

A USAID study (dated January 16, 1985) identified several causes for high usage by occupants of leased housing. If the

USAID took corrective measures to eliminate causes of high energy usage, as suggested in the USAID study, significant savings in energy cost could occur.

The study was made at the request of the USAID Deputy Director who wanted to know why occupants of 2 USAID houses were using electricity in excess of their allowances. It was performed by the USAID Energy Development Division Chief and a consultant who had published various texts on energy conservation. The study noted several reasons why USAID houses were not energy efficient and suggested ways how energy efficiency could be improved. For example:

- Houses contained no insulation in the air space under the roof. Therefore, the heat generated in this enclosed location warmed the ceilings and the air in rooms below. To lower the temperature of these rooms to a livable level, occupants had to operate air conditioning systems for longer periods and at higher cooling temperature settings. In this study, the cost of insulating the empty space under the roof for one house was estimated as \$750 if 44 AID houses were insulated. The saving in energy consumption, if the house were insulated, was estimated as 65 KWH per day, or a savings of \$2,372 a year.
- Louvered windows, doors and some air conditioner enclosures contained structural defects that allowed air seepage. This condition also resulted in the need for longer use of air conditioners to reach a lower room temperature level.
- Hot water heaters at the residences were left on the high temperature settings throughout the occupants' sleeping hours, even through no use was being made of the service.
- Installation of an electric exhaust fan in the eaves of a roof system would move air through the space between the ceiling and the roof. This would reduce the heat build-up under the roof and reduce the air-conditioning requirement.

A USAID Energy Division official also stated that additional energy savings could occur with the purchase of more efficient appliances. Appliances that could be purchased based on their energy efficiency are: refrigerators and freezers, clothes washers and dryers, water heaters, kitchen ranges and ovens, and air conditioners.

The USAID decided to defer implementation of the suggestions in the USAID energy study. It felt that the allowance system was adequate to monitor and control the usage of electricity. Furthermore, because of severe budget constraints, the USAID stated it probably would not in the near future be able to finance the investments required to make the residences more energy efficient.

## Energy Surveys Can Identify Energy Efficiency Measures And Help Establish Realistic Allowances

The USAID energy study provided general observations on how USAID residences could be made more energy efficient. However, if the USAID embarked upon a program to reduce electricity costs, it would need to know what specific measures could be taken to reduce energy consumption in individual residences. This could be accomplished, at a relatively low cost, through technical surveys performed by local commercial engineering firms. The results of the surveys could also be used for the establishment of realistic electricity allowances.

We contacted several local commercial engineering firms and a Philippine Government agency which have been engaged in performing energy surveys of commercial buildings as well as residential housing. The surveys performed by these organizations covered the specific measures that are required to make these facilities more energy efficient. One survey report recommended specific measures to reduce the electricity costs of a commercial building. This report prioritized the measures by estimating their one-time cost and annual savings in electricity cost. For example, the report noted that the cost of installing a time clock for the air-conditioning system could be paid back in about 4 months in energy savings. Other recommended measures (installing insulation in the roof, painting the roof with aluminum paint, installation of a reheat recovery unit for hot water needs, etc.) had longer pay-back periods.

The same firm performed energy conservation studies of U.S. military housing in Clark Air Force Base and the Subic Naval Base. The reports produced by this company specifically identified the measures required to make the residences of these U.S. military bases more energy efficient.

All of the organizations contacted felt they had the technical capability to review the USAID residences and suggest ways their electricity cost could be reduced. These entities also believed the results of their surveys could be used to establish electricity allowances by either individual or type of residence.

Energy surveys of USAID residences probably can be done at a relatively low cost. One firm contacted stated such surveys could be done for about \$45 per residence. The same firm noted the cost per house could be reduced if more than one house were surveyed. Another firm stated two engineers, one structural and one electrical, would cost about \$16 per day for their services. The Philippine Government agency contacted stated it would perform such survey at no cost. This Agency was willing to discuss the possibility of performing free surveys of USAID residences with USAID officials.

In summary, the USAID should actively pursue an energy conservation program which can result in significant utility cost savings. The USAID should encourage individual energy conservation practices through use of realistic allowances and by follow-up when allowances are exceeded. The USAID should also identify, through technical surveys, the requirements needed to make the residences energy efficient. A plan should then be developed for financing the most cost-effective requirements. The surveys should also be used for establishing, either for individual residences or housing groups, electricity allowances.

#### Management Comments

During the course of the audit, we conducted numerous discussions with USAID officials responsible for managing the USAID housing program. The draft report and recommendations were closely coordinated and revised based on these discussions.

However, the "official" USAID response (see Appendix 1) stated strong opposition to the recommendation on energy conservation and concluded we had little evidence to show significant savings would occur with a more stringent conservation program than has already been implemented by the Mission. The USAID also noted that it has developed and implemented an effective energy conservation program that goes well beyond the program mandated by the U.S. Embassy for its staff of all other U.S. agencies served by the Embassy Administrative Section. Thus, the only action the USAID officially agreed to take was to re-evaluate the monthly energy limits issued last May in light of actual experience.

#### Inspector General Comments

We agree that the USAID has taken more measures to promote energy conservation than the U.S. Embassy. On the other hand, the U.S. Navy has been quite aggressive in controlling energy consumption. For example, during the period March 1985 through February 1986, the monthly cost of electricity for 45 USAID residences averaged \$432 per residence compared to \$196 for 53 comparable U.S. Navy residences. In any event, we are not advocating that the USAID adopt the U.S. Navy program to control energy cost. Nor do we believe the energy conservation programs of the U.S. Embassy and U.S. Navy are relevant on this matter. AID has its own policies and regulations regarding residential housing for overseas stationed employees and dependents. In this respect, the USAID Director is required to ensure cost of utilities maintenance, etc. for USAID-leased residences are not excessive and kept at reasonable levels.

We believe the USAID has the opportunity to save up to \$100,000 annually by the implementation of an effective energy conservation program. Such a program does not need to negatively

impact on the comfort of individuals who live in USAID residences. These savings could be reprogrammed to finance additional local nationals (whose salaries range from \$4,000 to \$6,000 annually) to assist in monitoring the administration of the Economic Support Fund projects. Therefore, in the interest of economy and possible shifting of resources to more productive purposes, we remain firmly convinced that the USAID should develop and implement an energy conservation program along the lines recommended in the audit report. We will close the recommendation when the USAID has established such a program.

## 2. USAID Should Reevaluate Its Motor Pool Requirements

It is AID policy that USAID motor pool fleets be limited to the minimum requirements for official business. The USAID/Philippines did not carefully consider whether replacement vehicles purchased during the last four years were needed. The USAID cannot adequately analyze its transportation needs because information about individual vehicle trips was not recorded. If the number of motor pool vehicles is excessive, which appears to be the case from some vehicle odometer readings, the USAID could save about \$10,000 one-time cost and more for recurring maintenance costs for each motor pool vehicle that is not replaced.

### Recommendation No. 2

We recommend that USAID/Philippines aggressively implement existing procedures to ensure that current, accurate and complete usage records are maintained for all motor pool vehicles.

### Recommendation No. 3

We recommend that USAID/Philippines determine, on the basis of accurate and accumulated vehicle usage data and other supportable justifications, the number of vehicles required to efficiently meet its transportation needs and take steps to reduce the motor pool fleet, as appropriate.

### Discussion

The USAID/Philippines' motor pool fleet consisted of 39 vehicles: sedans, station wagons, vans, jeeps and pick-ups. They are assigned as follows: USAID Director - 1, motor pool - 26, General Service Office - 6, Logistics Office - 1, field offices - 4, and Air Post Office - 1. As of April 1985, the vehicle inventory had a purchase cost of \$433,297. Cost to maintain the fleet exceeded \$243,453 in fiscal year 1984.

U.S. Government policy, as stated in AID Handbook 23, Chapter 6, Section 6D, sets "1,000 miles a month per vehicle as a goal to achieve maximum vehicle usage". It is also "AID's policy that Mission fleets, from any source (leased or owned), be limited to the minimum requirements for official business".

We found no evidence that the USAID, on a regular or ad hoc basis, has evaluated its motor pool requirements. As a result, the number of motor pool vehicles may be excessive to the needs of the USAID. For instance, vehicle mileage records for fiscal year 1984 showed that only 21 of 39 vehicles of the motor pool fleet had been driven 1,000 miles per month. For example, two 1981 sedans and one 1982 van were driven only an average of

614, 708 and 375 miles per month, respectively. According to U.S. Government standards for efficient usage, these vehicles and the other vehicles driven less than 1000 miles per month were underutilized and the wasted capacity an undesirable expense.

AID Handbook 23, Chapter 6 Section M.2.a., states, "Utilization records will be maintained for all U.S. Government-titled vehicles to provide data for each vehicle to show the number of hours the vehicle was in operation and the miles travelled." USAID has issued several USAID orders on the subject; most recently, USAID Order No. 545.3 dated October 25, 1984. Paragraph X details information needed: the name of the authorized user; the starting time of the trip; the mileage; destination; etc.

While these procedures seem adequate, they are not being followed. The USAID uses Daily Vehicle Trip Tickets to collect the required information. We reviewed the tickets prepared for January 1985, and found many incomplete. For example, data on mileage or duration of trips was missing. We believe that motor pool supervisors were not ensuring that drivers paid sufficient attention to this responsibility. However, the data which was available indicated that vehicles were in use an average of only 2.2 hours per day. This statistic suggests that there are more vehicles on hand than are necessary to meet the USAID transportation requirements.

The USAID believes our use of mileage data to show that the number of motor pool vehicles may be excessive is not realistic. USAID stated combining all vehicles for this purpose is inappropriate because some vehicles in the fleet have specialized functions. The examples noted were a warehouse truck used for transporting furniture and large appliances, and two pickups used by the housing inspectors. Further, the USAID noted that the average for sedans is 917 miles per month per vehicle over the past nine months.

We agree with the USAID that analysis of other information in addition to mileage data is required for evaluation of motor pool requirements. Such an evaluation would take into consideration factors such as the frequency and variety of current vehicle usage; any known program changes which would affect future usage; the age and configuration of the vehicle inventory; and the availability and cost of alternative modes of transportation. However, because motor pool records are incomplete, some of this information is not available. Consequently, the USAID is unable to determine whether its fleet of vehicles is fully utilized or whether it has excess capacity. If the latter is true, the USAID can save significant amounts by not replacing older or unsuitable vehicles which will be retired from the fleet.

In summary, the USAID should evaluate its transportation requirements by analysis of complete and reliable information to determine the quantity and variety of vehicles needed to conduct official business. If this evaluation shows that the number of vehicles is excessive, then the USAID should take action to reduce the motor pool fleet.

Management Comments

USAID has agreed to and has taken some actions to implement the audit report recommendations regarding the motor pool operations.

### 3. USAID Should Develop A System For Measuring The Efficiency Of Repair And Maintenance Work

Records are required to be maintained on the repair and maintenance of each owned or leased residential and office property. Records were being maintained but they were based on estimates rather than actual and they are incomplete and ten months behind in posting. The USAID should have but did not have an adequate system for analyzing the efficiency of the repair and maintenance contractor. As a result, actual cost records are also needed for this purpose. The system that currently existed was incomplete, inaccurate and untimely and the USAID did not have the means for determining whether the contractor has economically repaired and maintained USAID facilities.

#### Recommendation No. 4

We recommend that USAID/Philippines establish a system to account for contract maintenance work to include a requirement that maintenance workers record the actual time and materials used to perform maintenance tasks, when such work is performed, and use this information to analyze maintenance contract requirements.

#### Discussion

Chapter 5 of AID Handbook 23 states that the responsibility for preservation of long-term leased properties is vested in the head of the Mission. It also states that the Mission should provide for maintenance services by contract rather than by direct employment of personnel to the extent possible and practical from the standpoint of economy and security. Section 713.2, Maintenance of Government Owned and Long-Term Leasehold Property, of the same chapter and handbook requires the Mission to examine maintenance services to insure such services are performed efficiently and economically. The Automated Real Property Reporting System described by Handbook 23 requires that maintenance cost be reported annually for individual properties on long- and short-term leases including maintenance cost for the last fiscal year and accumulated maintenance cost through the end of the last fiscal year.

Since 1981, Technical House has been the contractor responsible for maintaining USAID facilities. In 1981, Technical House was awarded the maintenance contract because it was considered the lowest responsible bidder over other firms that responded to the USAID Request For Proposal. On March 30, 1984, USAID/Philippines extended a one-year, fixed-price contract with Technical House for the services of 32 full-time personnel to repair and maintain Mission facilities and exercised the option for a one-year renewal in 1985.

A system has been implemented to perform the work and record the estimated costs for repair and maintenance of USAID facilities. Requests for residential repairs are directed to Technical House through the GSO housing inspector who prepares work orders and requests for materials. A Technical House maintenance supervisor is responsible for completing the work, which is later inspected by the GSO housing inspector. The GSO inspector then completes the work order by estimating the work hours taken for the repair and computing its total cost. This information is recorded in cost records and work orders are filed in folders for the applicable residence.

We found that the work orders filed by GSO personnel were incomplete. For the five months starting June to October 1984, only 28 per cent of the forms were complete. In addition, the computations of each work order costs were delayed, creating a backlog of ten months.

This system is inaccurate, incomplete, and untimely. In our opinion, the time needed for performing the maintenance task should be estimated in advance by the GSO inspector on his or her copy of the work order and not be disclosed to the maintenance contractor. The estimate of repair time is needed to enable GSO to determine the efficiency of the contractor and to determine how many maintenance workers are needed and what skills mix is needed for subsequent years. The workers should also be required to record the actual time spent and materials used for each maintenance work order immediately after the work is performed. This is the only way to obtain accurate data on the cost of maintenance for each building.

In our opinion, the USAID cannot demonstrate from available data maintained by GSO whether in fact the Contractor has economically performed repair and maintenance work. Since the USAID has used the same contractor for several years without the benefit of competition, it seems reasonable to us that the USAID should have in place some kind of system for analyzing the cost-effectiveness of work performed. Actual time and material used is needed for recording accurate and timely maintenance costs by residences and offices.

#### Management Comments

During our discussion with USAID officials, we suggested that repair and maintenance services be competitively procured more frequently. The USAID now plans to contract out repairs and services on a competitive basis in March 1986. Furthermore, the USAID has agreed to establish a system for recording the actual time and cost of materials for repair and maintenance work. Such information is necessary so that USAID does not renew leases for houses that are incurring unreasonable repairs and maintenance and this information can be used for determining the number of maintenance workers and skill mix needed in the contract.

4. Vehicle Rental Income Should Be Returned To The U.S. Treasury

The USAID did not follow proper procedures and erroneously credited \$2,461 to the local currency Trust Fund for revenues received from rental of motor pool vehicles. The funds should have been deposited into the U.S. Treasury Miscellaneous Receipts Account.

Recommendation No. 5

We recommend that USAID/Philippines immediately begin transferring motor pool vehicle rental income to the U.S. Treasury Miscellaneous Receipts Account

Recommendation No. 6

We recommend that USAID/Philippines determine from its records the amount of motor pool vehicle rental income that was erroneously credited to the Mission's operating expenses account and transfer such funds to the U.S. Treasury Miscellaneous Receipts Account.

Discussion

U.S. employees who use USAID vehicles for non-official purposes are charged a rental fee which is computed in local currency. The USAID has been recording these collections as a credit to the obligation for operating expenses and made them available to offset vehicle maintenance operating expenses normally funded with local currency Trust funds. However, the collections, because they are monies received for the use of the United States, should have been deposited into the U.S. Treasury Miscellaneous Receipts Account according to Handbook 23, Appendix 6A, Section 237.2-1 C.

Similar circumstances occurred at USAID/Indonesia, and in September 1984, the AID General Counsel advised that USAID that

"1. Crediting to the Trust Fund rupiah payments by employees for personal use of government-owned vehicles violated Uniform State/AID/USIA Regulations set forth in 6/FAM/237.2-1c. Even if USAID believed such credits to the Trust Fund were justified because operation and maintenance of the vehicles were financed by the Trust Fund, USAID should have sought prior approval from AID/W for such action.

2. Simply financing operation and maintenance costs of government-owned vehicles from the Trust Fund is not enough to prevent fees paid by employees to the

United States from being money "received for the use of the United States" within the meaning of 31 U.S.C.5484 which should be deposited in miscellaneous receipts of the Treasury."

USAID has agreed to stop this practice and is now transferring motor pool rental income in the U.S. Treasury Miscellaneous Receipts Account. The USAID also agreed to compute retroactively the amount to deposit in the Miscellaneous Receipts Account for the period subsequent to September 1984 -- the month of the AID General Counsel opinion. In September 1985, the USAID transferred \$2,461 in vehicle income to this account for the retroactive period. Because of these actions taken by the USAID, Recommendations No. 6 and 7 will be considered closed as of the issuance date of this report.

## B Compliance And Internal Controls

### Compliance

Our audit did not reveal any significant non-compliance with U.S. laws and AID regulations within the USAID Operating Expense Account. Areas in which we tested sample transactions included the Government of the Philippines Trust Fund, the USAID leasing program for office and residential space, Mission Director allowances, the GSO inventory and warehousing operations, travel vouchers, and American Express support services. In these areas, we found some minor deviations from established compliance procedures which were brought to the attention of responsible USAID officials. These deviations were subsequently corrected. Nothing came to our attention which caused us to believe that untested items were not in substantial compliance.

### Internal Controls

We surveyed all significant support service areas which are financed by the USAID Operating Expense Account. Areas in which sampled transactions were tested included the GOP Trust Fund, the USAID leasing program for office and residential space, Mission Director allowances, the General Service Office inventory and warehousing operations, travel vouchers, and American Express support services.

We noted three areas where lack of management attention has created weaknesses in internal controls. The USAID has not followed through on its development of an energy conservation program (see page 2). The GSO has also not exercised adequate management of its motor pool operation to ensure that adequate records of vehicle usage are kept and that replacement vehicles are fully justified prior to their purchase (see page 11). The GSO office has not implemented an adequate system to oversee the contractor hired to repair and maintain USAID-leased offices and housing (see page 14).

Management has initiated or plans to initiate action to correct these internal control weaknesses. Other tests of internal controls made during our audit did not indicate the existence of inadequate controls or a low level of compliance with those controls.

AUDIT OF  
OPERATING EXPENSE, SUPPORT  
COSTS AND FUNCTIONS  
USAID/PHILIPPINES

PART III - APPENDICES

UNITED STATES GOVERNMENT

# Memorandum

APPENDIX 1  
Page 1 of 4

TO : Leo L. LaMotte  
RIG/A, Manila

Date: March 11, 1986

FROM : Frederick W. Schieck   
Mission Director

SUBJECT : Mission Comments on Draft Audit Report on  
Operating Expense, Support Costs and  
Functions, USAID/Philippines

We welcome the opportunity to comment on the subject report which contains four findings and related recommendations. We are generally in agreement with the recommendations related to Findings Numbers 2, 3, and 4. However, we strongly disagree with the content and recommendations, as written, related to Finding Number 1. Our concerns are discussed below.

## Comments On Finding No. 1 and Recommendation No. 1

### Recommendations 1(a) and 1(b).

We do not disagree with the premise upon which Finding Number 1 is based--that AID regulations require the Mission Director to ensure that residential utility costs are held at reasonable levels. In fact, the Mission believes it has developed and implemented an effective energy conservation program that goes well beyond the program mandated by the U.S. Embassy for its staff and the staff of all other USG agencies served by the Embassy Administrative Section.

As required by A.I.D. Handbook 23, Appendix 5A, the Mission has (1) established utility ceilings for all residential quarters; (2) maintained records for each residence; and (3) attempted to get other USG agencies to adopt USAID's stricter criteria. We also provide monthly reminders to all staff members and require that they pay excess electricity costs. Nevertheless, the audit suggests that because Mission standards are adhered to by USAID employees, the ceilings must be too liberal. This conclusion overlooks the fact that standards are intended to guide individual behavior. We believe that the fact that USAID employees stay within the ceilings indicates that the standards are working in this case. Thus, we disagree with the assertion in the report that employees are not encouraged by the Mission to conserve. The standards serve precisely that function.



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We also disagree with the conclusion that USAID does not have a fully effective residential energy program because energy conservation methods have not been identified. The report recommends that the Mission conduct energy surveys and develop a plan for financing cost-effective energy requirements identified in the surveys.

It is simply not practical to consider financing extensive modifications to rental houses used by USAID employees. First, several of the potential savings cited in the report are simply not appropriate in the Philippines. The typical USAID rental house has a metal roof (galvanized iron sheets), high ceilings, plaster-covered exterior walls made of hollow concrete block and louvered windows. These houses are constructed of commonly-available local materials to meet year-round tropical conditions, including high rainfall and high humidity. Walls cannot be insulated. Ceilings can be lowered, but only at great expense. The replacement of louvered windows would also be quite expensive and may actually result in increased use of air-conditioning to compensate for reduced air circulation.

Attics can be insulated, but there are no data available from actual studies of representative housing in Manila that indicate that this investment would be cost effective over the average rental life of USAID houses. Furthermore, we question the conclusion that USAID could save up to \$71,000 in the first year of an energy conservation program and \$100,000 in succeeding years, based principally on savings ostensibly attributable to insulation. While the draft report does not discuss the basis of such savings, in the ad hoc study they were based on the premise that an entire house be cooled to a level of 75 degrees, 24 hours a day, by controlling airconditioning units with thermostats to maintain an even temperature. Many occupants of USAID housing do not cool their entire houses 24 hours a day. Rather, they selectively cool areas on an as-needed basis. Accordingly, the potential savings cited in the draft appear to be overstated. Overall energy costs could very well increase if everyone attempted to maintain an even temperature throughout the entire house 24 hours a day--rather than cooling selected areas periodically.

A second reason that the suggested capital improvements are not practical is the turnover in AID rental properties. Although some AID rentals are retained for long periods, there is constant, and often unpredictable turnover. Owners want to repossess their property; exorbitant rental renewal rates are sometimes requested; houses become excess to our needs; and we constantly strive to rent better residences as they become available within our price range. As a result, there is no assurance that individual pieces of property will remain with USAID for the time necessary to guarantee recovery of energy investment costs. Thus the decision whether to invest scarce resources in permanent improvements becomes a gamble that implies future losses as well as gains.

Finally, the financing for such modifications for 42 of the 55 AID houses would have to be provided by the Government of the Philippines through its national budget. The future of Trust Fund financing of

USAID's program is currently unknown in view of the recent change in administration in the Philippines. An increase in the Mission's dollar Operating Expense budget would have to be requested for the costs related to the 13 houses for Inspector General and ASEAN Regional personnel. It is doubtful that such an increase would be granted in view of the recent OMB-mandated reductions in AID's dollar Operating Expense budget.

We conclude, therefore, that it is premature, if not entirely inappropriate, to require that USAID initiate a program to finance, out of its Operating Expense budget, energy saving improvements in its rental housing. While such investments might be expected to reduce energy costs under optimal conditions, we have been given no evidence to indicate that such a program would produce actual savings to USAID given the significant operative variables: construction and design characteristics of the residences; cost of energy savings improvements; expected annual returns from such improvements and the extent of anticipated capital losses due to turnover of rental properties within USAID's inventory. A basic issue, too, is that it is not clear whether the capital investment would be available given the severe budget difficulties being experienced by the Government of the Philippines and the OMB-mandated reductions in AID's dollar Operating Expense budget.

Recommendation 1(c).

Recommendation 1(c) would require USAID to reduce usage allowances immediately to those in effect prior to May, 1985. USAID recognizes that ceilings should impose realistic limitations on residential energy consumption in order to encourage conservation. In this regard, the current levels may be too high. However, the Mission does not agree that the old usage allowances should be reinstated without reviewing their appropriateness. Therefore, the Mission will review energy consumption in order to determine what revisions, if any, should be made in current levels.

Recommendation 1(d).

We believe Recommendation 1(d) should be dropped because page 10 of the draft report supports the fact that we are already taking the recommended action.

Conclusion.

In summary, the Mission believes the draft recommendation for Finding Number 1 should be extensively revised. As now worded, it would require the Mission to embark on a program which may incur excessive costs, as compared with potential savings, and which may well prove to be unworkable in the end. Moreover there is no evidence that the recommended program will produce better results than the current Mission energy conservation program which conforms to all applicable AID regulations. Implementation of the draft recommendation, as written,

would add to the complexities of managing an orderly system for renting and assigning housing to USAID employees with a consequent adverse impact on work force efficiency. Accordingly, we believe parts a and b to the recommendation should be dropped entirely as they are impractical, unworkable, and unnecessary. We also believe a reasonable substitute for part c would be a recommendation asking us to re-evaluate the monthly energy limits issued last May in light of actual experience. Finally, we believe part d should be dropped because page 10 of the draft report supports the fact that we are already taking the action recommended.

List of RecommendationsPageRecommendation No. 1

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We recommend that USAID/Philippines establish a more effective residential energy conservation program to include:

- a. making surveys of individual residences for identification of energy efficiency requirements (insulation, etc.);
- b. developing and implementing a plan for financing cost-effective energy efficiency requirements identified in the surveys;
- c. immediately lowering the usage allowances to those established prior to May 1985 and reassess the allowances after one year;
- d. developing and implementing an information and follow-up program which will encourage lower use of energy by USAID personnel and dependents.

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Recommendation No. 2

We recommend that USAID/Philippines aggressively implement existing procedures to ensure that current, accurate and complete usage records are maintained for all motor pool vehicles.

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Recommendation No. 3

We recommend that USAID/Philippines determine, on the basis of accurate and accumulated motor vehicle usage data and other supportable justifications, the number of vehicles required to efficiently meet its transportation needs and take steps to reduce the motor pool fleet, as appropriate.

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Recommendation No. 4

We recommend that USAID/Philippines establish a system to account for contract maintenance work to include a requirement that maintenance workers record the actual time and materials used to perform maintenance tasks, when such work is performed, and use this information to analyze maintenance contract requirements.

Recommendation No. 5

We recommend that USAID/Philippines immediately begin transferring motor pool vehicle rental income to the U.S. Treasury Miscellaneous Receipts Account.

Recommendation No. 6

We recommend that USAID/Philippines determine from its records the amount of motor pool vehicle rental income that was erroneously credited to the Mission's operating expenses account and transfer such funds to the U.S. Treasury Miscellaneous Receipts Account.

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