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AUDIT OF
USAID/PHILIPPINES MANAGEMENT OF
REAL PROPERTY

Audit Report No. 2-492-89-12
June 8, 1989

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

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INTERNATIONAL POSTAL ADDRESS
c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: June 8, 1989

MEMORANDUM

TO: Malcolm Butler
Director, USAID/Philippines

FROM: for Dennis Smith William C. Montoney
Regional Inspector General, RIG/A/M

SUBJECT: Audit of USAID/Philippines Management of Real Property
Audit Report No. 2-492-89-12

The Office of the Regional Inspector General for Audit/Manila has completed its Audit of USAID/Philippines Management of Real Property. Five copies of the audit report are provided for your action.

The draft report was submitted for your comment and your comments are attached to the report. The report contains four recommendations. Recommendation Nos. 2 and 4 are resolved and can be closed once the actions in process are completed. Recommendation Nos. 1 and 3 are unresolved. Please advise me within 30 days on the status of plans to address the unresolved recommendations and of actions in process to close the resolved recommendations.

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

EXECUTIVE SUMMARY

Real property managed by USAID/Philippines, as of November 1988, included 63 leased residences, leased offices in Manila and Angeles City and a leased warehouse in Manila. Lease payments during fiscal year 1988 were about $660,000. Maintenance and repairs to Mission housing were provided by a private Philippine company under contract. Maintenance and repair costs during fiscal year 1988 were about $51,000. During fiscal years 1987 and 1988, 17 Mission-leased residences were prepared for occupancy at a total cost of about $34,000. Electricity for Mission residences, offices and the warehouse was supplied by the Philippine utility company. Electricity costs were about $189,000 during fiscal year 1988.

This was primarily a financial and compliance audit. The main audit objective was to determine whether USAID/Philippines was managing real property in compliance with Agency regulations. Audit work showed that: (1) fifty-one percent of Mission residences significantly exceeded space limitations set by the U.S. Department of State for overseas housing; (2) the maintenance contract for Mission housing was not suited to Mission needs; (3) expenditures to prepare eight Mission residences for occupancy exceeded the Agency dollar limitation; and (4) the Mission had not fully implemented a prior audit recommendation concerning the Mission's electricity conservation program.

Fifty-one percent of Mission residences significantly exceeded Agency space limitations without required written justifications and AID/Washington approvals. This occurred because the Mission had not obtained approval for circumstances which would justify retaining oversized housing in the Mission housing inventory. As a result, USAID/Philippines was vulnerable to criticism for providing oversized housing. USAID/Philippines should determine which of the oversized houses it wishes to retain and justify and obtain approvals for retention of those houses in its inventory. The USAID agreed to prepare justifications and obtain AID/Washington approvals for existing and future leases on oversized residences.

Contract personnel, hired on a full-time basis as required by Agency regulations, were not engaged in maintenance work an estimated 81 percent of the time for which the contractor was paid. This occurred because the USAID did not have a policy of negotiating maintenance contract requirements based on a Mission assessment of the work to be performed by the contractor. As a result, an estimated 81 percent of $68,395 in fees, paid to the contractor for 17 maintenance employees over two years, were for periods in which the employees were not performing maintenance work. USAID/Philippines should base maintenance contract negotiations on Mission assessments of the work to be performed by contractors. The USAID is surveying its housing maintenance requirements and will modify the existing maintenance contract to reflect the survey results.

Costs of preparing eight Mission residences for occupancy exceeded the Agency dollar limitation for individual properties. This occurred because Mission officials viewed the dollar limitation as a general guideline rather than as a ceiling. As a result, USAID/Philippines spent $8,558 beyond the Agency limitation to prepare eight Mission residences for occupancy. The Mission should justify and obtain AID/Washington approval for a higher dollar limitation or adopt procedures to ensure compliance with the Agency's $1,500 limitation. The USAID is preparing a justification for a higher dollar limitation for AID/Washington approval.

Residential electricity conservation equipment purchased in response to a prior audit recommendation had not been installed in Mission residences. The equipment had not been installed because a survey to identify residences which could benefit from the equipment had not been conducted. As a result, USAID/Philippines spent $11,116 for electricity saving equipment which had not been used. USAID/Philippines should install the equipment in residences which could benefit from it and transfer unused equipment to other Missions which could benefit from its use. The USAID has begun installing some equipment, which is suited to weather conditions in Manila, and plans to dispose of the unsuitable equipment according to A.I.D. property disposal procedures.

Office of the Inspector General

AUDIT OF USAID/PHILIPPINES MANAGEMENT OF REAL PROPERTY

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AUDIT OF USAID/PHILIPPINES MANAGEMENT OF
REAL PROPERTY

PART 1 - INTRODUCTION

B. Background

Real property managed by USAID/Philippines, as of November 1988, included 63 leased residences for Mission staff and contractor personnel, offices in Manila and Angeles City and a warehouse in Manila. During fiscal year 1988, rental payments for leased residences were about $444,000. Rental payments for the offices and warehouse were about $216,000.

Maintenance and repairs to leased residences were provided by a private Philippine company under contract to the Mission. The contract also included janitorial services for Mission offices. During fiscal year 1988, contract costs were about $51,000. A contract with a second Philippine company provided for management of the Mission warehouse where furniture, equipment and appliances were stored. During fiscal year 1988, expenditures for this contract were about $32,000.

Electricity for Mission houses and offices was provided by the Philippine utility company, and bills were paid to the company by the Mission. Electricity costs for Mission residences during fiscal year 1988 were about $189,000.

B. Audit Objectives and Scope

This was primarily a financial and compliance audit. The main objective of the audit was to determine whether USAID/Philippines was managing real property in compliance with Agency regulations. Specifically, the audit: (1) compared the sizes of Mission residences to standards set by the Department of State for overseas housing; (2) assessed the terms and conditions of the maintenance and repair contract for Mission housing; (3) analyzed expenditures for preparing Mission residences for occupancy; and (4) reviewed Mission efforts to implement prior audit recommendations related to real property management.

The audit assessed nearly $934,000 spent by the Mission to manage real property. This included: $659,826 in rental payments for leased residences, offices and a warehouse during fiscal year 1988; $51,000 for maintenance and repairs to leased housing and janitorial services for Mission offices during fiscal year 1988; $36,190 for preparation of

17 residences for occupancy during fiscal years 1987 and 1988; and $189,000 in electricity payments during fiscal year 1988.

Audit work included reviews of: (1) leases and lease-negotiation packages for rental properties; (2) financial records related to lease payments and preparation of housing for occupancy; (3) electricity payments for Mission residences; and (4) Mission implementation of real-property related audit recommendations included in a prior audit report, titled Audit of Operating Expenses, Support Costs and Functions - USAID/Philippines, dated April 15, 1986. Internal control examinations included controls over the size of Mission housing, provision of maintenance and repairs to Mission residences, expenditures for preparation of Mission housing for occupancy, and electricity consumption by Mission housing residents.

Audit work was performed during October and November 1988. The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF USAID/PHILIPPINES MANAGEMENT OF REAL PROPERTY

PART II - RESULTS OF AUDIT

The audit of USAID/Philippines management of real property demonstrated that improvements were needed. Audit work showed that: (1) fifty-one percent of Mission residences significantly exceeded space limitations set by the U.S. Department of State for overseas housing; (2) the maintenance contract for Mission housing was not suited to Mission needs; (3) expenditures to prepare eight Mission residences for occupancy exceeded the Agency dollar limitation; and (4) the Mission had nct fully implemented a prior audit recommendation concerning the Mission's electricity conservation program.

To better comply with government regulations and reduce the cost of housing and utilities, USAID/Philippines should justify and obtain Washington approvals for oversized Mission housing, assess work requirements for maintenance contracts, obtain appropriate waivers of the dollar limitation on housing preparation costs, and install suitable electricity saving equipment in Mission residences.

A. Findings and Recommendations

1. Half of Occupied Residences Significantly Exceeded Space Limitations Without Written Justifications and AID/Washington Approvals

Fifty-one percent of Mission residences significantly exceeded Agency space limitations without required written justifications and AID/Washington approvals. This occurred because the Mission had not obtained approval for circumstances which would justify retaining oversized housing in the Mission housing inventory. As a result, USAID/Philippines was vulnerable to criticism for providing oversized housing.

Recommendation No. 1

We recommend that USAID/Philippines review its housing inventory to identify residences which exceed space limitations set by the Department of State by more than 10 percent and

a. determine which of those residences it wishes to retain and which should be released once it is economically feasible to do so within the terms of the lease,

b. prepare justifications and obtain AID/Washington approvals for those it wishes to retain,

c. prepare an action plan for releasing those residences it does not wish to retain, and

d. revise USAID/Philippines Mission Order Number 551.3, titled Mission Leased Housing and dated May 24, 1985, to require written justifications and AID/Washington approvals for retaining in the Mission housing inventory residences which exceed space limitations set by U.S. Department of State Airgram A-1093, dated May 30, 1979.

Discussion

Fifty-one percent of USAID/Philippines' 59 occupied residences exceeded space limitations by more that 10 percent. Written justifications for retaining these residences in the Mission housing inventory had not been prepared nor had required AID/Washington approvals been obtained.

U.S Department of State Airgram A-1093, dated May 30, 1979, set limitations on the maximum number of finished square feet allowed in government-leased residences overseas. A.I.D. Handbook Circular 23-5, dated December 15, 1980, Section 721.2(a) extended these limitations to A.I.D. overseas housing. The limitations were intended to establish consistency and uniformity in housing size among U.S. Government employees stationed overseas. The limitations were based on housing size in the Washington, D.C. area with allowances for availability of cultural and recreational activities in the overseas locations.

The Department of State Airgram also required that Missions take action to relinquish housing which exceeded the space limitations by more than 10 percent of the maximum authorized square footage. In cases where Agencies believed that oversized housing should be retained in Mission housing inventories, because of circumstances favorable to the U.S. government, the Airgram required that the circumstances be documented in written justifications and that Washington approvals be obtained. The A.I.D. Bureau for Management, Directorate for Program and Management Services has authority to grant waivers for A.I.D. residences.

Half of the Mission residences exceeded the space standards by more than 10 percent. The audit compared the sizes of the 59 Mission residences occupied as of November 1988 to the space limitations for overseas housing (See Exhibit 1). This comparison revealed that 30 of the 59 residences, 51 percent, exceeded the maximum space limitations by 10 percent or more. Justifications had not been prepared and AID/Washington approvals had not been obtained for retaining these 30 oversized residences in the Mission housing inventory. The Mission had prepared a justification and obtained approval for an unoccupied house which was new to the housing inventory and was undergoing repairs at the time of the audit. It was not included in this analysis.

Thirty Mission residences, representing 51 percent of the 59 occupied residences, exceeded the space limitations by more than 10 percent without required written justifications and AID/Washington approvals. For example, Department of State Airgram 1093 set a limitation of 1,580 square feet for three-bedroom residences located in Manila. These residences could exceed the limitation by no more than 10 percent, or 158 square feet. The Mission housing inventory included a leased three-bedroom house with 4,303 square feet. This house exceeded the 1,580 square foot space limitation by 2,723 square feet, or 172 percent. However, a written justification for retaining this house in the Mission housing inventory had not been prepared nor had approval for retaining the house been obtained. The State Department Airgram set a limitation of 2,100 square feet for four-bedroom residences located in Manila. These residences could exceed the limitation by no more than 10 percent, or 210 square feet. The Mission housing inventory included a leased four-bedroom house with 2,646 square feet. This house exceeded the 2,100 square foot limitation by 546 square feet, or 26 percent. However, a written justification for retaining this house in the Mission housing inventory had not been prepared nor had approval for retaining the house been obtained.

Written justifications had not been prepared for 30 oversized residences because the Mission did not have an internal requirement to justify the retention of oversized houses in the Mission inventory or to obtain AID/Washington approval. The Mission had justified one oversized residence based on the representational responsibilities of the occupants. However, USAID/Philippines Mission Order 551.3, titled Mission Leased Housing and dated May 24, 1985, did not specify this or other circumstances which justify retaining oversized residences. Such circumstances might include: security considerations; low rental costs; favorable locations; or limited housing availability. In addition, the Mission Order did not specify procedures for preparing justifications or for obtaining AID/Washington approvals for oversized Mission residences.

USAID/Philippines was vulnerable to criticism for providing oversized housing. On October 5, 1988, a representative of the U.S. General Accounting Office testified before a Congressional Committee on the results of a six-month review of U.S. Department of State overseas housing. The testimony was highly critical of the State Department's application of the overseas space limitations. According to the testimony, 66 percent of the Department's housing in Buenos Aires, Argentina and 45 percent in Rio de Janeiro, Brazil exceed the limitations. The testimony concluded that overseas posts either ignored or misinterpreted the space limitations. USAID/Philippines was open to similar Congressional criticism. Half of the Mission housing exceeded space standards by more than 10 percent. Justifications for maintaining these residences in the Mission housing inventory had not been prepared and required AID/Washington approvals had not been obtained.

Management Comments

The USAID plans to prepare justifications and obtain AID/Washington approvals for existing leases on oversized residences it wishes to retain. The Mission also plans to obtain approvals for future leases on oversized residences. The USAID believes that security considerations justify its policy of consolidating Mission housing in one residential village.

Office of the Inspector General Comments

The USAID planned actions are partially responsive to the recommendation. To ensure that written justifications are prepared and AID/Washington approvals are obtained for future leases on oversized residences, Mission Order 551.3, titled Mission Leased Housing and dated May 24, 1985, should be revised to require such justifications and approvals.

2. The Maintenance Contract for Mission Housing Was Unsuited to Mission Needs

Contract personnel, hired on a full-time basis as required by Agency regulations, were not engaged in maintenance work an estimated 81 percent of the time for which the contractor was paid. This occurred because the USAID did not have a policy of negotiating maintenance contract requirements based on a Mission assessment of the work to be performed by the contractor. As a result, an estimated 81 percent of $68,395 in fees, paid to the contractor for 17 maintenance employees over two years, were for periods in which the employees were not performing maintenance work.

Recommendation No. 2

We recommend that USAID/Philippines

a. adopt a policy of negotiating service contract requirements based on a Mission assessment of the work to be performed by the contractor and

b. establish procedures for determining its housing maintenance requirements by assessing historical data on file at the General Services Office concerning the numbers of employees, skills and skill-levels that were needed to accomplish past maintenance tasks.

Discussion

Eighty-one percent of $68,395 in fees for 17 workers under a maintenance contract for Mission housing was for periods when workers were not actively engaged in maintenance work.

A.I.D. Handbook 23, Appendix 5A, Section 713.2(c) requires Missions to contract on a fixed-fee basis for maintenance and repairs to Mission housing. USAID/Philippines signed a fixed-fee maintenance contract on December 29, 1987, with a private Philippine corporation. The contractor was required to provide a total of 32 full-time personnel. According to the contract, 17 of these workers provided routine housing maintenance, such as electrical, plumbing and carpentry repairs. Four other personnel operated an appliance and equipment repair and carpentry shop. The remaining 11 workers performed janitorial services for offices at USAID/Philippines. Under provisions of the contract, the contractor was paid a fixed-fee for each employee which included the employee's salary and the contractor's overhead and profit. Fees were based on a 48-hour week whether or not the employees were engaged in contract related duties.

Eighty-one percent of the paid time for 17 full-time maintenance workers under the housing maintenance contract was spent in activities other than maintenance work. The audit team reviewed 90 work orders for routine maintenance performed at Mission residences during September 1988. Actual hours worked, as recorded by the maintenance workers, were obtained from 48 of the work orders. Actual hours worked were not recorded on the other 42 work orders. Estimates of the time required to accomplish the jobs, described on the 42 work orders, were provided by the General Services Office (GSO) inspector who reviews the quality of the contractor's work. This analysis revealed that the 17 workers were engaged in contract related maintenance for only 630 hours during September 1988. These 630 hours represented 19 percent of the 3,268 hours for which the 17 workers were paid.

Mission and contractor officials said that workers awaiting maintenance assignments stand-by in vacant Mission houses. Therefore, 81 percent of the 17 workers' time was spent waiting for assignments. For example, the senior electrician had 200 paid hours, totaling $177, during September 1988. However, work orders showed that he performed maintenance work for only 15 hours during the month. The senior painter had 192 paid hours, totaling $170, in September 1988; however, work orders accounted for only 17 hours of his time. The junior plumber had 184 paid hours, totaling $156; however, he was engaged in maintenance work for only 15 hours during the month.

Seventeen workers spent 81 percent of their paid time in activities other than maintenance work because USAID/Philippines did not have a policy of negotiating maintenance contract requirements based on the work to be performed by the contractor. Such a policy was not established by USAID/Philippines Mission Order 1401.1, titled Acquiring Services Under Direct Contracts and dated April 30, 1987, nor was this policy established by USAID/Philippines Mission Order 551.3, titled Mission Leased Housing and dated May 24, 1985.

During negotiation of the Mission's housing maintenance contract, the primary concern of Mission personnel was the retention of 32 workers who were employed by the prior contractor. The Mission had not performed an assessment of its housing maintenance work requirements. Therefore, the Mission did not know whether all 32 workers were needed or whether the skills and skill-levels they represented were required. An assessment of maintenance work requirements could have been performed using work orders on file at the GSO for a period prior to the negotiation of the maintenance contract. These work orders described the kinds of maintenance work that had been performed, the skills and skill-levels required, and the time needed to accomplish the tasks.

During September 1988, fees paid to the maintenance contractor for 17 maintenance employees totaled $2,850 for 3,268 hours. However, only 630, or 19 percent, of the paid hours were spent performing maintenance work on Mission houses. Therefore, the contractor was paid for 2,638 hours when the 17 employees were engaged in other than maintenance activities. These 2,638 hours represented $2,316, or 81 percent of total fees paid to the contractor during September 1988. Applying this percentage over the twenty-four month period of the contract, the contractor would be paid $55,400 for periods when employees were not performing maintenance work.

Management Comments

The USAID shares the concern raised in the audit finding, but believes the problem is overstated. The Mission, however, is surveying its housing maintenance requirements and plans to modify the existing maintenance contract to reflect results of the survey.

Office of the Inspector General Comments

The USAID actions are responsive to Recommendation No. 2; therefore, the recommendation will be considered resolved on issuance of the report. The recommendation can be closed after the survey of housing maintenance requirements has been completed and the existing maintenance contract has been modified.

3. Costs of Preparing Eight Mission Residences for Occupancy Exceeded the Agency Dollar Limitation

Costs of preparing eight Mission residences for occupancy exceeded the Agency dollar limitation for individual properties. This occurred because Mission officials viewed the limitation as a general guideline rather than as a ceiling. As a result, USAID/Philippines spent $8,558 beyond the Agency dollar limitation to prepare eight Mission residences for occupancy.

Recommendation No. 3

We recommend that USAID/Philippines adopt a policy and related procedures for complying with the Agency $1,500 limitation on costs of preparing housing for occupancy and for obtaining individual waivers as necessary, or prepare a justification and obtain AID/Washington approval for a higher dollar limitation.

Discussion

USAID/Philippines spent $8,558 beyond the Agency dollar limitation to prepare eight leased residences for occupancy. This was contrary to the provisions of A.I.D. Handbook 23, Appendix 5A, Section 721.3(e) which limits expenditures for preparing newly-leased residences to $1,500.

Costs of preparing eight houses for occupancy during a two-year period exceeded the Agency dollar limitation. The audit team reviewed preparation costs for Mission-leased residences readied for occupancy during fiscal years 1987 and 1988. This review found that, during the two-year period, 17 newly-leased residences were prepared for occupancy. Preparation costs for nine of these residences exceeded the Agency dollar limitation. The Mission had obtained a waiver for one of the nine residences; however, waivers had not been obtained for the other eight. For example, preparation costs for one of the eight residences were $4,915 above the $1,500 Agency limitation. Preparations, which totaled $6,415, included: installation of a water tank and pump; construction of a covered porch; installation of security bars; construction of a bamboo fence extension; and general painting, plumbing and masonry work. Preparation costs for another of the eight residences exceeded the Agency limitation by $513. Preparation costs totaled $2,013 and included painting, plumbing repairs and cleaning. Preparation costs for a third residence exceeded the Agency limitation by $495. Preparation costs totaled

$1,995 and included installation of a water tank and a new gas line, relocation of a water pump, painting and carpentry work.

Preparation costs for eight leased residences exceeded the Agency limitation because Mission officials viewed the $1,500 limitation as a general guideline rather than an expenditure ceiling. Officials said that the $1,500 limitation was outdated and that it was too low considering the costs of construction and cleaning materials in Manila. However, the Mission had not systematically assessed housing preparation costs as justification for a waiver of the $1,500 limitation and establishment of a higher expenditure ceiling.

Costs of preparing eight leased residences for occupancy over a two-year period exceeded the Agency dollar limitation of $1,500 per residence. The total dollar limitation for the eight residences was $12,000. Total preparation costs for the eight residences was $20,558. Therefore, USAID/Philippines spent $8,558 beyond the total Agency dollar limitation to prepare the eight residences for occupancy.

Management Comments

The USAID plans to prepare a justification for a higher dollar limitation for AID/Washington approval.

Office of the Inspector General Comments

The USAID plan is responsive to the recommendation. Therefore, Recommendation No. 3 can be resolved once the justification for a higher dollar limitation is prepared and forwarded to AID/Washington and closed when approval is received.

4. A Prior Audit Recommendation Concerning the Mission's Electricity Conservation Program Had Not Been Fully Implemented

Residential electricity conservation equipment purchased in response to a prior audit recommendation had not been installed in Mission residences. The equipment had not been installed because a survey to identify residences which could benefit from the equipment had not been conducted. As a result, USAID/Philippines spent $11,116 for electricity saving equipment which had not been used.

Recommendation No. 4

We recommend that USAID/Philippines

a. survey Mission residences to identify those residences where electricity costs could be reduced by installing attic exhaust fans and timers for hot water heaters,

b. install attic exhaust fans or timers for hot water heaters, which are already in the Mission equipment inventory, in those residences which could benefit from them, and

c. identify other Missions which could benefit from attic exhaust fans and timers for hot water heaters which are not needed by USAID/Philippines, and transfer the unneeded fans and timers to the other Missions or dispose of them in accordance with A.I.D. procedures.

Discussion

USAID/Philippines spent $11,116 for electricity saving equipment which had not been installed in Mission residences. The equipment was purchased in response to an audit recommendation contained in a prior audit report issued by the Regional Inspector General for Audit, Manila. This report, titled Audit of Operating Expense, Support Costs and Functions - USAID/Philippines, No. 2-492-86-03, dated April 15, 1986, recommended improvements in the Mission's electricity conservation program. In response to the audit recommendation, USAID/Philippines purchased 74 attic exhaust fans and 65 timers for hot water heaters for installation at Mission residences. The Mission estimated that this equipment would reduce electricity consumption by 10 to 20 percent.

The exhaust fans and timers were delivered to the Mission warehouse in December 1986 and January 1987. However, as of January 1989, only two of the timers had been installed at Mission residences. All 74 of the attic exhaust fans and 63 of the 65 timers were stored at the warehouse. The equipment had not been installed because USAID/Philippines had not surveyed Mission residences to determine which residences would benefit from the equipment. In late January 1989, Mission officials announced plans to install timers in selected Mission residences on a trial basis to measure reductions in electricity consumption and user acceptance. Officials said that additional installations could be made depending upon the results of the trials.

USAID/Philippines purchased 74 attic exhaust fans and 63 timers for hot water heaters which had not been installed in Mission residences at the time of the audit. The attic fans cost $126 each for a total of $9,289. The timers cost $29 each for a total of $1,827. Therefore, USAID/Philippines spent $11,116 on electricity saving equipment which had not been used.

Management Comments

The USAID is installing timers on hot water heaters in Mission residences to reduce electricity consumption. The USAID does not plan to install attic exhaust fans because tests have shown that the fans leak during typhoon rains. The USAID will dispose of fans already in the Mission property inventory in accordance with A.I.D. property disposal procedures.

Office of the Inspector General Comments

The actions taken by the Mission are responsive to Recommendation No. 4; therefore, the recommendation will be considered resolved on issuance of the report. The recommendation can be closed once the actions in process have been completed.

B. Compliance and Internal Controls

Compliance

As discussed in the report, there were three instances of non-compliance. First, AID/Washington approvals were not obtained for residences which significantly exceeded limitations on living space, as specified in U.S. Department of State Airgram A-1093, dated May 30, 1979. Second, expenditures for preparing eight Mission residences for occupancy exceeded the Agency dollar limitation as specified in A.I.D. Handbook 23, Appendix 5A, Section 721.3(e). Third, a recommendation from a 1986 audit report issued by the Regional Inspector General for Audit, Manila, titled Audit of Operating Expense, Support Costs and Functions - USAID/Philippines, to improve the Mission's electricity conservation program had not been implemented. In response to the recommendation, the Mission purchased and agreed to install electricity saving equipment in Mission residences. At the time of the audit most of the equipment, which had been in storage for almost two years, had not been installed. Nothing came to the auditors' attention that caused them to believe untested items were not in compliance with applicable laws and regulations.

Internal Controls

Audit findings address the following internal control weaknesses: (1) Mission residences exceeded space limitations without required AID/Washington approvals; (2) expenditures to prepare Mission residences for occupancy exceeded the Agency dollar limitation; and (3) a recommendation from a prior audit report had not been fully implemented.

Internal control weaknesses were noted in the system for providing maintenance and repairs to Mission-leased housing. Control over a petty cash fund of $500 needed improvement. The fund was used to purchase materials and supplies for maintaining and repairing Mission housing. The cash fund was replenished on a monthly basis through vouchers submitted to the USAID/Philippines Controller's Office. Audit work demonstrated that there was no separation of duties between purchasing materials with fund cash and replenishing the cash fund. For example, the GSO employee who managed the fund and approved work orders also approved purchases from the fund. In addition, the employee who made purchases also prepared vouchers for replenishing the fund.

Controls over preparation of work orders for housing maintenance and repairs needed improvement. Audit work showed that some work orders were incomplete and some were missing. The audit team reviewed 90 work orders prepared during September 1988. Forty-two, or 47 percent, of the 90 work orders contained only descriptions of the work to be accomplished. They did not identify the employees, the skills or skill-levels of those performing the work, or the time required to complete the jobs. Two other work orders could not be located.

There were weaknesses in processing work orders for payment. The bases for payment were different for repairs and maintenance performed during the contractor's regular working hours and for work outside its regular working hours. For work during regular hours, the contractor was paid on a fixed-fee basis of 17 maintenance employees working 48 hours per week. For work performed outside regular hours, the contractor was paid an hourly overtime rate for each employee which was equal to one and one-half times the hourly fixed rate. However, work order forms for both periods were the same and one numbering system was used. Also, GSO personnel routinely approved vouchers for payment to the contractor without reconciling the vouchers to the work orders.

There was no division of responsibilities in the negotiation of leases for Mission residences. Lease negotiations were conducted by one GSO employee who located available residences, contacted owners, and negotiated the contract periods and rental rates.

AUDIT OF USAID/PHILIPPINES MANAGEMENT OF
REAL PROPERTY

PART III - EXHIBITS AND APPENDICES

Comparison of Authorized to Actual
Finished Square Footage by Residence as of November 1988
USAID/Philippines

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess 1/ Square Footage	Excess Space as % of Authorized
Begonia 1	3	2,265	1,580	685	43
Begonia 2	3	2,358	1,580	778	49
Begonia 3	3	2,385	1,580	805	51
Begonia 4	4	1,939	2,100	(161)	(8)
Encarnacion	3	2,690	1,580	1,110	70
Homonhon 1	3	1,985	1,580	405	26
Homonhon 2	3	2,611	1,580	1,031	65
Homonhon 3	4	1,894	2,100	(206)	(10)
Homonhon 4	4	1,984	2,100	(116)	(6)
Lapu Lapu	3	2,088	1,580	508	32
Limasawa 1	3	2,125	1,580	545	34
Limasawa 2	4	2,111	2,630	(519)	(20)
Limasawa 3	4	2,262	2,100	162	8
Limasawa 4 2/	3	2,700	1,580	1,120	71

1/ Parentheses Indicate Negative Amounts
2/ Vacant

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess 1/ Square Footage	Excess Space as % of Authorized
Magdalena 1	5	2,886	2,360	526	22
Magdalena 2	5	3,095	2,360	735	31
Magallanes 1	3	2,391	1,580	811	51
Magallanes 2	3	2,233	1,580	653	41
Magallanes 3	3	4,102	1,580	2,522	160
Magallanes 4	4	3,952	2,100	1,852	88
Magallanes 5	3	4,303	1,580	2,723	172
Magallanes 6	4	2,365	2,100	265	13
Magallanes 7	3	2,870	1,580	1,290	82
Margarita 1 3/	3	3,646	2,100	1,546	74
Margarita 2	3	1,930	1,580	350	22
Margarita 3	3	3,403	1,580	1,823	115
San Carlos	4	2,646	2,100	546	26
San Geronimo 1	5	2,821	2,360	461	20

1/ Parentheses Indicate Negative Amounts
3/ Representational Housing

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess 1/ Square Footage	Excess Space as % of Authorized
San Geronimo 2	4	2,229	2,100	129	6
San Geronimo 3	5	2,545	2,360	185	8
San Geronimo 4	4	2,142	2,100	42	2
San Gregorio 2/	4	2,210	2,100	110	5
San Martin 1	3	2,343	1,580	763	48
San Martin 2	4	2,155	2,100	55	3
San Martin 3	4	2,155	2,100	55	3
San Martin 4	4	2,155	2,100	55	3
San Martin 5	3	1,815	1,580	235	15
San Martin 6	5	2,250	2,360	(110)	(5)
San Martin 7	3	3,605	1,580	2,025	128
San Pablo	3	1,939	1,580	359	23
Santa Rosa 1	4	2,164	2,100	64	3
Santa Rosa 2	3	2,033	1,580	453	29
Santa Rosa 3	4	2,204	2,100	104	5

1/ Parentheses Indicate Negative Amounts
2/ Vacant

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess 1/ Square Footage	Excess Space as % of Authorized
Santa Rosa 4	5	2,503	2,360	143	6
Trinidad 1	3	2,220	1,580	640	41
Trinidad 2	3	1,719	1,580	139	9
Trinidad 3	3	1,905	1,580	325	21
Santa Ana	3	3,410	1,580	1,830	116
Tamarind 2/ 3/ 4/	3	3,919	2,100	1,819	87
Lopez Court 1	3	1,910	1,580	330	21
Lopez Court 2	3	1,910	1,580	330	21
Excelsior 1	2	1,035	1,320	(285)	(22)
Excelsior 2	2	1,090	1,320	(230)	(17)
Townhouse 1	3	1,278	1,580	(302)	(19)
Townhouse 2	3	1,348	1,580	(232)	(15)
Townhouse 3	3	1,278	1,580	(302)	(19)
Townhouse 4	3	1,348	1,580	(232)	(15)

1/ Parentheses Indicate Negative Amounts
2/ Vacant
3/ Representational Housing
4/ Waiver of Space Limitation on File

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess 1/ Square Footage	Excess Space as % of Authorized
Townhouse 5	3	1,348	1,580	(232)	(15)
Townhouse 6	3	1,278	1,580	(302)	(19)
Windermere 1	2	1,110	1,320	(210)	(16)
Windermere 2	2	1,110	1,320	(210)	(16)
Rosaria	2	1,402	1,320	82	6
New Village Angeles City	4	2,041	2,400	(359)	(15)

1/ Parentheses Indicate Negative Amounts

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA GEN. REG. NO. 27

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. William C. Montoney DATE: May 31, 1989
Regional Inspector General, RIG/A/Manila

FROM : Malcolm Butler
Director, USAID/Philippines MB

SUBJECT : Mission Response
Draft Audit Report on USAID/Philippines Management of Real Property

REF : Montoney/Butler Memorandum, RIG/EA-89-161 dated April 6, 1989

We agree in substance with recommendations 1, 3, and 4. We believe additional study is required before a decision can be reached regarding Recommendation No. 2. Specific comments follow:

Recommendation No. 1

We recommend that USAID/Philippines review its housing inventory to identify residences which exceed space limitations set by the Department of State by more than 10 percent and:

a. determine which of those residences it wishes to retain and which should be released once it is economically feasible to do so within the terms of the lease;

b. prepare justifications and obtain Washington approval for those it wishes to retain;

c. prepare an action plan for releasing those residences it does not wish to retain; and

d. revise USAID/Philippines Mission Order 551.3, titled Mission Leased Housing and dated May 24, 1985, to require written justifications and Washington approvals for retaining in the Mission housing inventory residences which exceed space limitations set by U.S. Department of State Airgram A-1093, dated May 30, 1979.

USAID/PHILIPPINES RESPONSE:

We agree with Recommendation No. 1 and are taking steps to ensure AID/W approval for future leases and are planning to obtain their approval for our present leases that we plan to retain. In this regard, we held informal discussions with Mr. Tim Bertotti, the Director of M/SER/MS, during his visit here in April and have jointly determined a plan of action. We will follow that up by the end of July 1989 with a detailed justification for M/SER/MS review and approval. In general, we believe security considerations amply justify USAID/Philippines' long standing policy of consolidating residential rental housing in Magallanes Village for the following reasons:

a. it is the least expensive of the more secure villages in Metro Manila;

b. its residences are much closer to the A-1093 space standards than the frequently larger houses in the other secure villages;

c. ninety five percent of these homes have no usable yards which makes the availability of living space within the home more critical;

d. the April 21 assassination of Col. Rowe was the most recent example of the very serious security problems which exist in Manila. High unemployment, acute poverty and lack of opportunities create a climate in which violent crime is frequent and a source of constant concern. For these reasons, USAID started years ago to consolidate the vast majority of its rental housing in Magallanes Village (the least costly and most secure of the three villages where the Embassy and USAID lease housing). Having most USAID personnel in one village has proved extremely helpful during crises in obtaining services of key players as well as in enabling USAID families to readily help each other; and

e. implementation of the $89 million Department of State Residential Security Program has necessitated greater standardization of USAID's housing as the estimated cost per house is $8,000 to $10,000 and we can not afford to spend that much on small units which will only serve a small percentage of our population. For this reason, we look for houses with three bedrooms and two baths as the minimum size for new leases. We have no control over the family size of employees being assigned to this post. Therefore, at any given point in time some employees may be assigned quarters in excess of that justified by their family size.

We believe these actions will justify closing this recommendation.

Recommendation No. 2

We recommend that USAID/Philippines:

a. adopt a policy of negotiating service contract requirements based on a Mission assessment of the work to be performed by the contractor; and

b. establish procedures for determining its housing maintenance requirements by assessing historical data on file at the General Services Office concerning the number of employees, skills and skill-levels that were needed to accomplish past maintenance tasks.

USAID/PHILIPPINES RESPONSE:

We share the concern identified in the Audit but believe it is significantly overstated. An informal review of work requirements was undertaken by a former GSO prior to negotiation of the present contract. However, we agree with the Audit that a formal in-depth review is necessary and we are preparing a scope of work (to be completed by August 30, 1989) for the services of a recognized firm to survey our housing maintenance requirements. We intend to modify the existing maintenance contract to reflect the results of the survey. We think these actions should satisfy the recommendation and enable you to close it (estimated completion date: December 31, 1989).

Recommendation No. 3

We recommend that USAID/Philippines adopt a policy and related procedures for complying with the Agency $1,500 limitation on costs of preparing housing for occupancy and for obtaining individual waivers as necessary, or prepare a justification and obtain Washington approvals for a higher dollar limitation.

USAID/PHILIPPINES RESPONSE:

USAID agrees with this recommendation. In informal discussions with M/SER/MS, it is clear that the $1,500 limitation is over 10 years old and is no longer applicable. USAID plans to prepare a justification to M/SER/MS for a higher dollar limitation (to be submitted by July 31, 1989).

We believe this action should close this recommendation.

Recommendation No. 4

We recommend that USAID/Philippines:

a. survey Mission residences to identify those residences where electricity costs could be reduced by installing attic exhaust fans and timers for hot water heaters;

b. install attic exhaust fans or timers for hot water heaters, which are already in the Mission equipment inventory, in those residences which could benefit from them; and

c. identify other Missions which could benefit from attic exhaust fans and timers for hot water heaters which are not needed by USAID/Philippines and transfer the unneeded fans and timers to them.

USAID/PHILIPPINES RESPONSE:

USAID agrees with this recommendation. In our opinion, electricity consumption can be reduced in all mission residences by installing timers on hot water heaters and we have already started installation. None will be available for disposal or issue to other USAIDs.

We will not be installing attic exhaust fans. In the summer of 1987, USAID/GSO ran tests to see if these fans would work. The tests showed that it was not possible to prevent the fans from leaking during typhoon rains. Since leakage renders them unusable, USAID will dispose of them in accordance with Handbook 23 procedures.

We believe these two actions should close this recommendation.

List of Recommendations

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Recommendation No. 1 — 4

We recommend that USAID/Philippines review its housing inventory to identify residences which exceed space limitations set by the Department of State by more than 10 percent and

a. determine which of those residences it wishes to retain and which should be released once it is economically feasible to do so within the terms of the lease,

b. prepare justifications and obtain AID/Washington approvals for those it wishes to retain,

c. prepare an action plan for releasing those residences it does not wish to retain, and

d. revise USAID/Philippines Mission Order Number 551.3, titled Mission Leased Housing and dated May 24, 1985, to require written justifications and AID/Washington approvals for retaining in the Mission housing inventory residences which exceed space limitations set by U.S. Department of State Airgram A-1093, dated May 30, 1979.

Recommendation No. 2 — 8

We recommend that USAID/Philippines

a. adopt a policy of negotiating service contract requirements based on a Mission assessment of the work to be performed by the contractor and

b. establish procedures for determining its housing maintenance requirements by assessing historical data on file at the General Services Office concerning the numbers of employees, skills and skill-levels that were needed to accomplish past maintenance tasks.

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Recommendation No. 3 11

We recommend that USAID/Philippines adopt a policy and related procedures for complying with the Agency $1,500 limitation on costs of preparing housing for occupancy and for obtaining individual waivers as necessary, or prepare a justification and obtain AID/Washington approval for a higher dollar limitation.

Recommendation No. 4 13

We recommend that USAID/Philippines

a. survey Mission residences to identify those residences where electricity costs could be reduced by installing attic exhaust fans and timers for hot water heaters,

b. install attic exhaust fans or timers for hot water heaters, which are already in the Mission equipment inventory, in those residences which could benefit from them, and

c. identify other Missions which could benefit from attic exhaust fans and timers for hot water heaters which are not needed by USAID/Philippines, and transfer the unneeded fans and timers to the other Missions or dispose of them in accordance with A.I.D. procedures.

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