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**AUDIT OF
A.I.D./BELIZE MANAGEMENT OF
ACQUIRED AND LEASED PROPERTY**

**Audit Report No. 1-505-89-30
September 25, 1989**

U. S. MAILING ADDRESS:
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AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA - HONDURAS

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September 25, 1989

MEMORANDUM

TO: A.I.D./Belize Representative, Mosina H. Jordan

FROM: RIG/A/T, Coinage N. Gothard, Jr. *Coinage N. Gothard*

SUBJECT: Audit of A.I.D./Belize Management of Acquired and Leased Property

This report presents the results of audit of A.I.D./Belize management of acquired and leased property. The draft audit report was submitted to you on July 28, 1989 for comment and your comments are attached to the report. The report contains two recommendations: Recommendation No. 1 and part "a" of recommendation No. 2 are closed upon issuance of the report. Part "b" of recommendation No. 2 is resolved. Please advise me within 30 days of any additional information related to action planned or taken to implement this part of the recommendation. I appreciate the cooperation and courtesy extended to my staff during the audit.

BACKGROUND

As of June 30, 1989, A.I.D./Belize managed a total of 18 active real property leases. These properties consisted of 17 leased residences and 1 owned office/warehouse located on leased land in Belize City. The leased residences and land represented annual costs of \$269,680.

A.I.D./Belize's Executive Officer is responsible for ensuring that its leased and acquired properties comply with Agency guidance.

AUDIT OBJECTIVES AND SCOPE

The Office of the Regional Inspector General for Audit, Tegucigalpa (RIG/A/T) conducted a performance audit of the 36 (18 active and 18 inactive) real properties managed by A.I.D./Belize. Specifically, the audit objective was to determine if these leases were in compliance with A.I.D. guidance regarding the management of real property overseas and advantageous to the United States Government.

To accomplish the objective we interviewed A.I.D./Belize personnel responsible for negotiating and managing the leased and owned real properties, reviewed pertinent records including rental leases and related financial documents, and physically inspected all of the properties.

The audit was performed from June 19 to June 30, 1989 and covered the period January 1, 1983 to June 30, 1989. During this period A.I.D./Belize made \$1.34 million in rental payments all of which were covered by the audit. Our review of internal controls and compliance was limited to the A.I.D./Belize's management of real property and to an income tax related issue which was reported separately. We performed the audit in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

The audit found that the leases were generally in compliance with A.I.D. guidance and advantageous to the United States Government with the following exceptions. In our opinion, the leases covering the A.I.D. Representative's house and the land where the Mission's office and warehouse are erected may not be cost effective. In addition, the audit noted that A.I.D./Belize paid unnecessarily high electricity costs on its real properties.

The report recommends that A.I.D./Belize perform a lease versus purchase analysis for the A.I.D. Representative's residence and for the land where the office and warehouse are located and develop and implement an electric energy conservation program for its real properties.

1. Lease Versus Purchase Analysis Needed To Be Performed for at Least Two Properties

A.I.D. guidance requires missions to prepare an acquisition proposal where rental payments and acquisition costs are compared for a fifteen-year period. Mission officials have not made a lease versus purchase analysis for either the Representative's house or for the land where the office/warehouse is located because they were not sure if the owners were interested in selling. In the long run, purchase of these two properties could result in substantial savings to the U.S. Government.

Discussion - At least 2 of the 18 real properties currently managed by A.I.D./Belize need to be considered for a lease versus purchase analysis. A.I.D. Handbook 23, Appendix 5A, Section 731.b requires missions to prepare acquisition proposals for A.I.D./Washington consideration, that compare acquisition costs to leasing alternatives for a fifteen-year period.

One of the properties, the A.I.D. Representative's house (the most expensive lease), has been leased since January 1983. At the time of the audit the annual rent equivalent was \$23,760. The current lease will expire in December 1989. The other property, the land where the Mission erected semi-permanent pre-fabricated offices and a warehouse, has been leased since September 1984 at an annual rent equivalent of \$9,600. The current lease expires September 1993. The feasibility of acquiring these properties is directly linked to the possibility of A.I.D. moving its offices from Belize City to Belmopan the capital of Belize approximately 50 miles away. However, the A.I.D. Representative did not anticipate that this move would occur, at least in the foreseeable future.

Article 3 of the lease agreement for the land stated that the lease will be renewable under the same terms and conditions, upon expiration for three additional two-year periods, provided notice be given in writing to the lessor at least three months in advance before the lease expires, and if such an extension is agreeable to the lessor (emphasis added). The lease expired in September 1987 and the Mission exercised this clause and extended the lease period to its maximum (6 more years) which is September 1993. Since there is not a provision for additional extensions beyond 1993 (obviously an amendment could take care of this), the possibility exists that the lessor might not agree to additional rent extensions and A.I.D. offices would have to be dismantled, or sold, and the offices relocated.

Mission officials have not made the analysis to determine if it would be cost effective to purchase these two real properties because they were not sure if the owners were interested in selling.

Given the high rental costs on these two properties and the possible long term future operations of the Mission in Belize City, purchase of the properties might be a cost effective option that could result in substantial savings to the U.S. Government.

Recommendation No. 1

We recommend that A.I.D./Belize:

- a. perform a lease versus purchase analysis on these two properties, to determine if it would be cost effective to purchase them; and
- b. if the above analysis is cost effective, prepare and submit an acquisition proposal for A.I.D./Washington consideration.

Management Comments

A.I.D./Belize contacted the subject property owners. Both owners were unable to provide an asking price for the properties under consideration and indicated no interest in a lease purchase agreement. Given this situation and the real possibility that the U.S. Embassy and A.I.D. will be relocated to Belmopan, the Mission felt there would be little, if any, value in pursuing the matter further.

Office of the Inspector General Comments

The actions taken by the A.I.D./Belize were responsive to the recommendation and therefore, the recommendation is closed on issuance of the final audit report.

2. An Electricity Conservation Program May Help Reduce Electricity Costs on Government-Held Residences

Electricity costs on Mission-held residences had more than doubled in a four-year period. Agency regulations require that electricity costs on Government leased residences be held at reasonable levels. High electric costs have occurred primarily because A.I.D./Belize had not implemented an electricity

conservation program to control or reduce these costs. An electric energy conservation program could help reduce the Mission's annual expenditure for electricity.

Discussion - Annual electricity costs in A.I.D./Belize had more than doubled in a four-year period. During the period February 1985 to December 31, 1988, A.I.D./Belize's annual electricity costs increased from \$63,681 to \$131,591 or 107 percent. During the same period the annual average number of leases was 28. Even though electricity is very expensive in Belize, the cost per kilowatt hour has not changed for several years; therefore it is not a factor in the increased costs. However, total annual consumption increased from 298,701 kwh in 1985 to 642,806 kwh in 1988 (115 percent increase) for about the same number of leased houses.

A.I.D. Handbook 23, Appendix 5A, Section 716.1(a) states that it is the responsibility of the head of each Agency Mission to assure that costs of utilities on Government-held residences be held to reasonable levels. The Handbook further states that the agency head shall take appropriate administrative actions to accomplish this, including, the establishment of utility ceilings for some or all of the residential quarters.

The escalating energy costs can be attributed primarily to the Mission not implementing an electricity conservation program. Implementing such a program could help reduce the Mission's annual electricity costs. At the minimum it would be appropriate for the Mission to issue a Mission Order to its employees on steps that need to be taken to effectively conserve electricity.

Recommendation No. 2

We recommend that A.I.D./Belize develop and implement [through Mission Order] an electricity conservation program which incorporates at a minimum the following:

- a. the establishment of an energy usage ceiling for some or all of the residential quarters; and
- b. maintenance of cost records for each government leased residence and collection of data on utilities' costs on comparable private leases.

Management Comments

A.I.D./Belize established guidelines in a Mission Order on energy consumption for each U.S. Government-leased residence, with the exception of the A.I.D. Representative's residence. Also, as stated in the Mission Order, when this ceiling is exceeded by a percentage greater than ten percent the occupant will be required to explain the circumstances of this increase in memorandum to the A.I.D. Representative.

A.I.D./Belize stated that although maintenance and utility costs for Mission Government-leased residences can be captured from existing records, the Mission did not, at present, have a formalized recording system. A.I.D./Belize indicated that it would implement a recording system upon receipt and installation of a computer which is expected to arrive in October 1989. Once computerized, periodic review will be simplified and analysis more detailed.

Office of the Inspector General Comments

A.I.D./Belize actions were consistent with the intent of the recommendation. Part "a" of the recommendation is closed on issuance of the final audit report. Part "b" of recommendation is considered resolved on issuance of this report and can be closed when the RIG/A/T receives evidence that the Mission has formalized a recording system for maintenance and utility costs for all U.S. Government leased property.

Other Pertinent Matters

During the audit it was noted that not all of the leases were reported on the annual U-450-Leased Real Property Report. This report is filled out by the Executive Officer and submitted to A.I.D./Washington. None of the leased houses occupied by institutional contractors or personal services contractors were shown on the report. Mission officials stated that only operating expense funded government leased housing was required to be reported. While we are not completely aware of all uses of the U-450 Report, the decision to report only operating expense funded leases seems to be contrary to A.I.D. Handbook 23 Appendix 5A Section 784.2 which states that "Posts are to submit to A.I.D. Washington a report of all real property lease contracts in effect as of June 30 of each year." We believe that all lease properties should be reported on the U-450 report by funding category, unless otherwise directed by A.I.D./Washington.

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APPENDICES

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO BELIZE
EMBASSY OF THE UNITED STATES OF AMERICA
BELIZE CITY, BELIZE, CENTRAL AMERICA

APPENDIX 1
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August 30, 1989

MEMORANDUM

TO : RIG/A/T, Coinage N. Gothard, Jr. *Paul A. Bisek*
FROM : Acting A.I.D. Representative, Paul A. Bisek
SUBJECT: Audit of A.I.D./Belize Management of Acquired and
Leased Property

USAID/Belize has reviewed the draft Audit Report of July 28, 1989, subject, Audit of AID/Belize Management of Acquired and Leased property.

The Mission appreciates the indepth review performed by the audit team. While we do not totally agree with all conclusions drawn by the audit team, this response will address actions we have taken on recommendations made.

Recommendation No. 1

We have corresponded with property owners of the A.I.D. Representative's residence and the land on which the USAID office building is situated. Both owners were unable to provide an asking price of properties under consideration and indicated no interest in a lease purchase agreement. Add to this consideration, that within an unspecified period, it is anticipated that the U.S. Embassy and all other U.S. Government Agencies will be relocated to Belmopan, the Government seat of Belize. This expectation is enhanced as a result of M/SER/OM FY93 budget submission requesting \$3.3 million for construction and security enhancement of the USAID office building in Belmopan.

In view of the above, the Mission feels that little, if any, purpose would be served to formulate a lease purchase option without benefit of an agreed selling price of the respective property, commitment or agreement by the owner to sell, and the anticipation that the USAID Office will be relocated from Belize City to Belmopan. Consequently, we request that part A and B of this recommendation be closed.

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Mr. Coinage N. Gothard Jr.

Recommendation No. 2

A) The Mission Order attached has been issued to establish guidelines on energy consumption for each U.S. Government-leased residence, with the exception of the A.I.D. Representative's residence. Also, as stated in the Mission Order, when this ceiling is exceeded by a percentage greater than ten percent the occupant will be required to explain the circumstances of this increase in memorandum to the A.I.D. Representative. Therefore, USAID/Belize requests closing of part (a) of this recommendation.

B) Although maintenance and utility costs for Mission Government-leased residences can be captured from existing records, the Mission does not, at present, have a formalized recording system. Effective October 1, 1989, U.S. Government-leased residences in the Mission inventory will have been reduced to eight (as apposed to 18 during the audit), all of which will be for the U.S. direct hire staff. This reduced number will facilitate computerization of maintenance and utility records for all U.S. Government leases. To this end, the Mission has on order a VS 5000 and has obtained a variety of programs from other LAC Missions. Upon receipt and installation of the VS 5000 in late October 1989, appropriate ADP programs will be activated to facilitate computerization of maintenance and utility records for all U.S. Government leases. Once computerized, periodic review will be simplified and analysis more detailed.

In general, with the reduced number of U.S. Government leases, management will be much more effective and reporting will no longer be an issue. Considering the above, we request that Recommendation 2b be closed.

Attachments:

- (1) Mission Order
- (2) Letter to/from Musa
- (3) Letter to/from Sisters of Mercy

APPENDIX 2

REPORT DISTRIBUTION

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