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AUDIT OF
A.I.D. LEASED AND OWNED PROPERTY
IN THE IVORY COAST

Audit Report No. 7-624-89-13

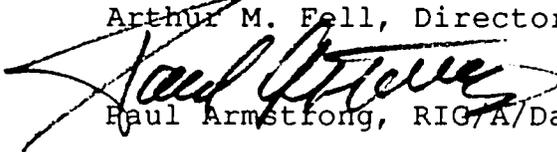
September 29, 1989

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR WEST AFRICA

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September 29, 1989

MEMORANDUM FOR Arthur M. Fell, Director, REDSO/WCA

FROM: Paul Armstrong, RIG/A/Dakar
SUBJECT: Audit of A.I.D. Leased and Owned
Property in the Ivory Coast
(Audit Report No. 7-624-89-13)

The Office of the Regional Inspector General for Audit/Dakar has completed its audit of A.I.D. Leased and Owned Property in the Ivory Coast. Five copies of the audit report are enclosed for your action.

The draft report was submitted to you for comment and your comments are included as Appendix 1. The report contains three recommendations; all are considered resolved. Three of the recommendations can be closed after REDSO/WCA completes its planned actions to implement the recommendations. The fourth recommendation will be considered as closed upon issuance of the report.

Please let me know within 30 days of further action taken to close the recommendations. I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

The Regional Inspector General for Audit/Dakar audited A.I.D. leased and owned real properties in Abidjan, Ivory Coast. A.I.D. owns most of its office space in Abidjan while employees are housed in leased housing at an annual rent of about \$745,000. The Joint Administrative Office (JAO) of the American Embassy manages the properties for A.I.D.

A.I.D. in cooperation with the JAO could establish several procedures to reduce costs and improve accountability. We saw no documented evidence that Managers had used market data as a negotiating tool in determining rents paid. In several cases, we saw no documentation that tangible benefits were received in return for granting concessions (such as advance rental payments) to property owners. We determined that some A.I.D. employees were occupying properties for which lease renewals had not been executed. Also, despite a constant stream of unsolicited proposals received by the Embassy for residential and office space, finders fees were paid and without the required written agreements.

Finally, electricity bills for A.I.D. employee housing totaling about \$415,000 were not closely monitored. Monthly bills for electricity varied from \$436 to \$1,513 per household. Savings could be achieved by taking steps to identify and control extraordinary electricity use.

The audit recommends recovering \$52,669 for payment of host country taxes, \$8,329 for overpayments of rent, and amounts due A.I.D. from sales of non-expendable property.

AUDIT OF
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AUDIT OF
A.I.D. LEASED AND OWNED PROPERTY IN THE IVORY COAST

PART I - INTRODUCTION

A. Background

In Abidjan, Ivory Coast, A.I.D. provides office space and housing for about 40 A.I.D. employees at the Regional Economic Development Services Office/West and Central Africa (REDSO) and at the Regional Housing and Urban Development Office.

The employees were housed in leased and government owned apartments and houses in several suburban areas of Abidjan. Rents totaled about \$745,000 in 1988, ranging from \$14,000 to \$25,000 and averaging \$19,000 per employee. Utilities for A.I.D. employee housing totaled about \$415,000 in 1988.

The REDSO office space was purchased by A.I.D. in 1985 at a cost of about \$2 million. The Regional Housing and Urban Development Office leases its office space at an annual cost of \$30,000. A.I.D. spent about \$143,000 in 1988 for office utilities.

The American Embassy managed A.I.D. leased and owned properties in Abidjan as part of its Joint Administrative Office operations. A.I.D. is a member of the post housing board and as such gives input to decisions on leasing housing, assignment of housing to individual employees, and is also consulted on other real property matters. However, the JAO is primarily responsible for management activities such as lease negotiation, real property maintenance and non-expendable property inventory management.

B. Audit Objectives and Scope

The Regional Inspector General for Audit, Dakar, made an economy and efficiency audit of REDSO's oversight of management for leased and owned real property in the Ivory Coast. The objectives of the audit were to assess the adequacy of internal controls over leased and owned properties and identify areas for cost savings.

The audit was conducted during January and March 1989 at REDSO and Embassy JAO offices in Abidjan. The auditors evaluated procedures used to acquire, maintain and dispose

of A.I.D. leased and owned properties. Discussions were held with REDSO and JAO officials and their files and documents were examined. To assess management controls over the leasing process, the audit examined in detail the ten most recent leases assigned to A.I.D. between September 1987 and February 1989.

The audit scope included \$2.5 million in rents and utilities paid between 1986 and 1988. To assess controls over lease payments, the audit selected for detailed examination 13 leases terminated between 1986 and 1988, and eight leases transferred from REDSO to other U. S. Government agencies between 1985 and 1989. Terminated and transferred leases were selected for further audit since preliminary audit tests found them vulnerable to error.

To assess controls over payment of taxes, the audit examined 25 local procurement vouchers totaling \$286,742 during the two year period ending 1988. Additionally, the audit assessed controls over deposit of proceeds received from selling non-expendable properties owned by A.I.D.

The auditors visited residences scheduled to be assigned by the post housing board to U. S. Government personnel, residences occupied by A.I.D. employees and the REDSO office building. Examination of internal controls and compliance was limited to the findings presented in this report. The audit was made in conformance with generally accepted government auditing standards.

AUDIT OF
A.I.D. LEASED AND OWNED PROPERTY IN THE IVORY COAST

PART II - RESULTS OF AUDIT

The audit found that A.I.D.'s controls over leased and owned properties needed strengthening by establishing procedures to help minimize costs and improve accountability. Also, the audit recommends recovery of \$61,040 in taxes and overpayments.

A. Findings and Recommendations

1. The Cost of Leased Housing Can Be Reduced By Applying Accepted Business Practices

Certain useful management practices had not been adopted by the JAO for management of A.I.D. real property. We saw no documented evidence that Managers obtained and used market data. In several cases, we saw no documentation that when negotiating leases tangible benefits were received in return for granting concessions, such as advance rental payments, to property owners. Also, some A.I.D. employees occupied properties for which lease renewal documents had not been executed. Finally, payment of finders fees were not based, as required, on written agreements. A.I.D. needs to work with JAO managers to establish procedures to cover these practices in order to reduce A.I.D.'s vulnerability.

Recommendation No. 1

We recommend that the Director, Regional Economic Development Services Office/West and Central Africa, work with the JAO to establish procedures for:

- a. documenting the use of market data as a negotiating tool;
- b. documenting the tangible benefits received in return for granting concessions to property owners;
- c. ensuring that leases and lease renewals are signed before occupying leased premises; and
- d. writing agreements justifying finders fees paid to real estate agents.

Discussion

Several leasing procedures could be adopted to improve JAO controls and minimize A.I.D. costs. Some of the procedures are required by A.I.D. Handbooks and others are accepted business practices.

No information on market rents - Although A.I.D. Handbook 23 does not require obtaining information on market rents, or market supply and demand, such data is an accepted and effective tool for minimizing costs in real estate negotiations. For example, USAID/Chad reported in March 1989 that it successfully reduced rents on A.I.D. leased

property by an average of two thousand dollars annually per residence. The Mission attributed its success largely to knowledge obtained from a survey it conducted on rent, market supply and demand.

The JAO, however, had not documented its use of information on market rents when negotiating leases. A former JAO official reportedly exchanged rental information with other diplomatic missions in Abidjan but the information was not recorded.

Although information was not available to the auditors on comparative market rents, some U.S. Government officials interviewed during the audit said there is a world-wide perception that American Missions pay above market rents. The officials believed the perception was valid for leased housing in Abidjan but had not documented the basis for their opinions.

For example, in January 1989, a REDSO official was told by an administrative officer of another embassy in Abidjan that rentals paid by Americans were on the average 30 percent higher or about \$330 more per month than the going rate for other foreign missions in Abidjan. According to the memorandum recording the discussion, this made it difficult to negotiate leases because landlords knew they could get more money from Americans. The source of the administrative officer's information was not provided to REDSO.

We recognize that evidence obtained during the audit is not sufficient to conclude that A.I.D. was paying excessive rents compared to prevailing market levels. However, the information, in our opinion, supports the wisdom of obtaining market information if only to prove or disprove perceptions about housing leased by the American Mission.

JAO officials acknowledged the usefulness of market knowledge information and said they did have a body of market data among Housing Board members and JAO managers. They do acknowledge a lack of documentation that market data was used. The JAO has agreed it would improve the documentation of its use, including incorporating as part of the written agreement governing the payment of finders fees to real estate agencies a requirement that the agencies provide market survey data.

Benefits not demonstrated from advance rents - From a cash management point of view, advance payments of rent create an interest cost to the U.S. Government. For this reason,

A.I.D. Handbook 23 requires that advances beyond six months be based on a demonstrated material and tangible benefit accruing to A.I.D. such as a discount equivalent to the prevailing interest rate.

Additionally, rent advances compound problems when owners fail to respect lease obligations or to repay amounts of unearned rent for prematurely terminated leases. Also, A.I.D. cannot take advantage of favorable exchange rates when local currencies are devalued or depreciated during the term of an advance rent.

The majority of advance rental payments for A.I.D. housing was for three months. As of February 1989, 13 of the 40 residential leases for A.I.D. employees contained provisions for advance rent of twelve months, 1 lease had a six month advance and 26 had advance payments of three months rent.

If advance rents on all the A.I.D. leases was limited to three months, the audit calculated that the U. S. Government could save approximately \$12,000 annually in U. S. Treasury borrowing costs.

The audit examined 7 out of 13 of the 12 month advance lease payments. In five of the seven cases, the files did not contain any evidence that material and tangible benefits were received in exchange for the advance rent. If the Embassy believes it received material and tangible benefits from the payment of advance rents, this should be documented in the files. In the other two cases, the owners agreed to make certain modifications to the premises requested by the embassy. Following are three examples where no apparent benefits were received.

Lease 88-202/205: A lease was signed in April 1988 on a fourplex apartment building under construction. REDSO occupied two of the four apartments three months later when construction was completed. In the meantime, JAO officials decided to speed up construction by (a) advancing a year's rent so the owner would have enough money to complete certain construction activities, and (b) performing other construction activities with A.I.D. and State funds to be deducted from the following year's rent.

There were no indications that the JAO negotiated rental or other concessions in return for assistance granted by the U.S. Government to help finish remodeling the house.

Lease 84-159: In January 1989, REDSO agreed to advance an additional \$10,500 on an existing lease, four months longer than stated in the lease. The additional advance was based on the owner's request for \$27,000 (the equivalent of 18 months rent) claiming that the bank holding his mortgage was in liquidation and he would lose the property if the \$29,000 debt he owed to the bank was not paid quickly.

The owner's story was not verified nor was an explanation put forth on how the \$10,500 would solve the problem of paying a \$29,000 debt. JAO officials said the advance was approved to maintain good relations. In contrast, REDSO planned to terminate the lease at expiration because the owner was too demanding. As of March 1989, the additional advance had not yet been disbursed.

Lease 87-190: In December 1988, an owner, residing in Washington D.C., requested changes in the terms of his lease from quarterly to annual advances. According to the owner, this would save him bank transfer charges and delays. REDSO agreed to a 6 month advance payment beginning April 1989 and promised to consider a yearly advance payment beginning in FY 90. Based on the audit recommendation, REDSO planned to reconsider its decision to grant the owners request.

Insufficient safeguards on advance rent - In several cases, A.I.D. advanced significant amounts of money to help owners finance the completion of construction or remodeling. JAO officials acknowledged that the advances were not always accompanied by adequate safeguards. For example:

Lease 88-208: In August 1988, A.I.D. paid a years rent in advance for a house that was not ready for occupancy until December 1988, four months later. The advance rent was provided so the owner would complete remodeling of the house. The owner, however, used only half of the money for remodeling so A.I.D. had to provide an additional \$14,000 to complete the house. The Embassy planed to deduct the \$14,000 from subsequent rent payments.

Benefits from rent increases not demonstrated - Rent increases were granted without apparent benefit to the U.S. Government. For example, the JAO approved a \$167 monthly rent increase (\$2,000 per year) on February 1, 1989 when rewriting lease 89-209 after the property changed hands. JAO files did not document who suggested the increase, if,

when and with whom it was discussed, nor why it was granted. JAO officials told the auditors that the new owner requested the increase to cover his own living expenses. According to the JAO, the request was approved because the JAO did not want to lose its investment in security walls and other improvements in the property.

JAO officials said they have discouraged owners from requesting rental increases but pointed out that the JAO is in a poor negotiating position when renewing leases. Owners know the JAO will lose their investment if the lease is not renewed.

Unsigned leases - A.I.D. occupied two residences for which the owners had not signed renewal leases. Without a current lease, A.I.D. is vulnerable to financial loss and other potential problems. Should the owner ask A.I.D. to vacate the property, A.I.D.'s legal basis to continue occupancy would be doubtful. A.I.D. may also be unconsciously assisting property owners to avoid or delay payment of taxes since, according to JAO officials, owners avoid back taxes by not signing leases. The Ivorian government demands proof that property taxes are paid prior to registering leases. For example:

Lease 83-153: Despite repeated attempts by the Embassy to obtain the owner's signature, biannual renewals of a 1983 lease remained unsigned. Without a lease, A.I.D.'s legal basis for occupying this house was in doubt. Over the last two and a half years, REDSO paid \$60,000 in rent for this house. Based on the audit recommendation, the Embassy again asked the owner to sign the lease. By the end of March 1989, the lease had still not been signed.

Lease 87-200: This lease expired on March 1, 1988 but the renewal was not signed by the owner. The Embassy said they sent the renewal for signature but it was not returned. A.I.D. paid \$22,000 rent during the last year on this lease.

Undated lease signatures - Embassy leases should provide space indicating dates of signature. The effective date of the lease is shown but not when the lease was signed. Consequently, leases could be signed any time before or after the effective date but no record for management review would exist. Record of signature dates is important to ensure that managers properly determine the availability of funds prior to lease signature. An example follows:

Lease 88-208: The lease narrative stated that the signatures were obtained on the effective date of the lease, August 24, 1988. This indicated a problem since REDSO did not record its determination that funds were available until August 30th, six days later. Fortunately, other documents were found during the audit showing that the owner did not sign the lease until some time after August 30th, and that the availability of funds had in fact been determined prior to execution of the lease.

REDSO officials acknowledged the seriousness of the problem and the need for dating signatures. Additionally, JAO officials agreed not to sign leases unless REDSO's stamp certifying availability of funds was affixed to the lease.

No written agreements for finders fees - Handbook 23 requires that agreements to pay real estate agents be written and that fees not exceed customary amounts. In 1988, REDSO paid about \$5,000 in finders fees to real estate agents for locating housing for A.I.D. employees.

While the fees were customary in Abidjan, they were not based on written agreements. In addition, the auditors believed that agents may lower or forgo fees in exchange for continued arrangements with preferred clients. The American Embassy has a reputation for maintaining properties better than most clients. Embassy JAO officials agreed to obtain written agreements and acknowledged the potential for negotiating lower fees.

The auditors have concluded that substantial benefits could result if A.I.D. and the JAO work together to develop standard operating procedures for the management of real property. Such procedures would be especially useful since JAO officers in charge of real property management change every two or three years.

REDSO and JAO officials acknowledged the need for standard operating procedures. The JAO provided comments (See Appendix 1) pointing out successes in stabilizing rental costs and in negotiating property improvements at no cost to the U.S. Government.

Management Comments

REDSO/WCA and the JAO concur with the validity of the audit recommendations and have already taken steps to comply. They acknowledged the lack of documentation of the use of

market data and agreed to improve in this respect. The JAO considered that some benefits received were received in exchange for granting advance rents, citing an option to renew Lease 88-202/205 for eight years at the same rent, as an example. The case of Lease 84-159, the REDSO/WCA believes, should be removed from the report since the advance was never made, and in the case of Lease 89-209, JAO solicited and received a statement from the landlord subsequent to the audit that he would have terminated the lease had he not obtained an increase.

In the case of finders fees, the collaborative response of the REDSO and JAO states that the JAO "has implemented procedures to obtain written agreements with real estate agents which describe finder's fees, and require the submission of market survey data."

Office of the Inspector General Comments

We are pleased with the REDSO and JAO agreement to better document consideration of rental market data and benefits obtained from advance rents and rent increases and to ensure leases are current. We, therefore, consider recommendation parts 1a, 1b and 1c to be closed upon issuance of this report. We have not deleted mention of specific lease situations, as recommended, since we feel they provide the reader useful background information on the potential for rental problems.

We feel, however, that the joint response of REDSO and the JAO on the finder's fee issue to be non-responsive. The requirement for written agreements in the case of finder's fees has the objective of regulating or limiting the practice. The mission response makes clear that there is currently a "rentors" market in Abidjan, referring to the "constant stream of unsolicited proposals for residential and office space" received by the Embassy. This constant stream, together with the comments of another diplomat that the U.S. community paid 30% more than the going rate for rents, makes us question why a finder's fee is required at all! The purpose of a written statement should be to justify why one was needed, whereas the JAO-proposed procedures refer only to "written agreements with real estate agents which describe finders' fees." (Underlining supplied) We would prefer to see an agreement which explained the necessity for such a fee, not merely described it.

2. Stronger Controls Are Needed Over Payments and Receipts

An examination of vouchers found that A.I.D. (a) paid \$52,669 host country taxes on local purchases in contradiction to the bilateral agreement, (b) did not collect certain amounts due from Embassy sales of non-expendable property, and (c) overpaid \$8,329 of real property expenses. Additional procedures were needed to ensure exemption from host government taxes, properly account for and collect proceeds from sales of non-expendable property, and minimize payment errors.

Recommendation No. 2

We recommend that the Director, Regional Economic Development Services Office/West and Central Africa:

- a. obtain refunds totaling \$52,669 representing payment of host government taxes from 1987 to 1989, and review expenditures from the three prior years to determine additional amounts due to A.I.D.;
- b. analyze non-expendable property sales during the last five years and collect amounts due to A.I.D.;
- c. recover overpayments and excessive transfers of funds to other U.S. Government agencies totaling \$8,329; and
- d. establish procedures to obtain exemption from host government taxes, properly account for and collect proceeds from sales of non-expendable property, and minimize payment errors.

Discussion

The audit examined vouchers for a two-year period to determine if they were justified and accurate. The following discrepancies were observed.

Taxes paid - According to the bilateral agreement between A.I.D. and the host government signed on May 17, 1961, A.I.D. is exempted from any taxes on ownership or use of property, and the import, export, and purchase of any supplies in the Ivory Coast.

Out of 25 local procurement vouchers examined, REDSO paid taxes totaling about \$20,636 on 12 vouchers. The 25 vouchers, processed during the two year period ending 1988, covered purchases totaling \$286,742 for air conditioners, generator repairs, supplies, copy machines, and furniture.

In one case examined, REDSO had requested and received exemption from taxes of \$4,700 on the purchase of a copy machine. It was unclear why REDSO had not routinely requested and received an exemption from taxes.

REDSO officials agreed that they should have been exempted from the taxes but they had not given it attention due to higher priority concerns. In response to the audit, REDSO reviewed all value added taxes paid by A.I.D. in the Ivory Coast since October 1, 1987. The review found 156 payments of taxes totaling the local currency equivalent of \$52,669. On April 24, 1989, REDSO asked the Embassy to process a claim for the entire amount.

Embassy officials were trying to solve the problem of how to exercise the exemption. The Embassy was consolidating taxes paid by all U. S. Government agencies during the last quarter of calendar year 1988 and planned to request a refund from the host government and to encourage more timely rebate of taxes in the future.

Proceeds from non-expendable property sales were not collected - Neither the JAO nor REDSO maintained sufficient records on sales of non-expendable property. For example, files did not contain lists of property sold including the proceeds and sales expenses. In addition, the responsibility for maintaining records at the JAO and at A.I.D. was not clearly established.

From the limited records available, the auditors pieced together the following information on non-expendable sales. It demonstrates the incompleteness of records and raises numerous questions.

Non-Expendable Property Sales

<u>Date of Sale</u>	<u>Sales Proceeds (CFA)</u>	<u>Transferred to A.I.D. (CFA)</u>	<u>Discrepancy (300 CFA = \$1)</u>	
			<u>(CFA)</u>	<u>(\$)</u>
Oct 1984 <u>a/</u>	525,085	263 848	(261,237)	(871)
May 1986 <u>b/</u>	350,000	284,428	(65,527)	(218)
Jun 1986 <u>c/</u>	2,000,030	1,304,030	(696,000)	(2,320)
Oct 1987 <u>d/</u>	No record	1,301,000	1,301,000	4,337
Feb 1988 <u>e/</u>	4,944,494	19,920,000	14,984,506	49,948
Nov 1988 <u>f/</u>	5,552,572	None	(5,552,572)	(1,851)

- a/ Per GSO memos to RB & FO dated January 12, & 25, 1985
- b/ Per GSO memo to RB & FO dated May 22, 1985
- c/ Per GSO memo to RB & FO dated August 7, 1986
- d/ Per Receipt No. A1104965 dated February 24, 1988 (from GSO)
- e/ Per allocation of GSO February 1988 sales proceeds with no cover memo
- f/ Per GSO memo to RB & FO dated March 2, 1989.

REDSO and JAO need to work together to reconcile the records and accounts and to develop procedures for proper accounting of non-expendable property sales.

Amounts advanced for repairs not deducted - In three cases (Leases 156, 171 and 176), REDSO should have deducted a total of \$1,727 (\$734, \$541, and \$452) for repairs paid by REDSO that were the landlords' responsibility. In one case, the amount was overlooked when preparing the rental payment voucher; the amounts were actually deducted in the other two cases but A.I.D. cancelled its checks when the Embassy made the payments in full. REDSO said they would recover the costs.

Amount due to A.I.D. on early lease termination not recovered - REDSO did not recover \$2,790 from a landlord when a lease was terminated two months early. The rent had been paid one year in advance but the lease was terminated after ten months. A REDSO official said a telephone call had been made to ask for the money back but without success. In response to our recommendation, REDSO and the Embassy collected the amount from the owner (Lease 81-145).

Overpayment of rent - Due to an early lease termination, REDSO paid the owner \$480 more than necessary. The voucher examiner overlooked a note in the files advising of the early termination. REDSO officials said they will recover the \$480 (Lease 78-119).

Errors in accounting for interagency transfers - When leases are transferred between U. S. Government agencies, advance rents paid to owners also need to be transferred between the agencies. The audit found that the adjustments were sometimes late and that the following errors were made.

Lease 85-171: After transferring a lease to the Embassy in December 1986, REDSO took nine months to collect \$3,221 in advance rent. The Controller notified the Embassy in April, but due to other priorities, a bill

was not sent until September when REDSO needed additional funds to meet fiscal year expenses.

Lease 86-179: REDSO overpaid the Embassy \$6,164 for a house it transferred to the Embassy on January 1, 1986. The Embassy charged REDSO \$7,268, the equivalent of six months rent, even though REDSO had occupied and leased the house for only one month. REDSO officials said the error will not be repeated since information on interagency transfers are now provided to the controllers office.

Lease 88-205: REDSO posted a transfer of \$4,507 to the wrong lease. REDSO officials said they would correct the error.

Lease 85-176: In July 1987, REDSO sent the Embassy a \$13,228 check for advance rent. The check was returned to REDSO for cancellation since the lease was transferred to the Embassy on August 1st.

REDSO officials acknowledged the errors and agreed with the need to strengthen procedures. The officials agreed that the files should show when REDSO employees vacate housing, when the receiving agency occupies the residence, and how REDSO calculates amounts due. The officials also agreed that the duties of voucher preparation and examination should be separated but this could delay payments.

The auditors also discussed with REDSO officials the possibility of creating a computer program to schedule accurate and prompt lease payments. REDSO officials said they had discussed the idea and agreed it was a good idea but had not yet implemented it due to higher priorities.

Management Comments

The REDSO has, since the completion of the audit field work, submitted a list of all value-added taxes paid in FY 1988 and the JAO has submitted a request for reimbursement to the Ivory Coast Government.

The REDSO requested additional information on the source records of non-expendable property sales and more information on the overpayments and excessive transfers to other agencies.

Office of the Inspector General Comments

We have identified the sources of the sales on the table

accompanying Finding No. 2 and have included another table (Appendix I) breaking down the overpayments and excessive transfers, which should assist the REDSO in carrying out recommendations 2b and 2c. All parts of this recommendation are resolved.

3. Need To Monitor Electricity Costs

Electricity bills for A.I.D. employee housing totaling about \$415,000 per year were not closely monitored. Information being summarized by A.I.D. during the audit indicated that savings could be achieved through identification of instances of extraordinary electricity usage if monitoring procedures were established.

Recommendation No. 3

We recommend that the Director, Regional Economic Development Services Office/West and Central Africa, establish procedures to monitor electricity consumption for identification of extraordinary usage.

Discussion

Missions are required by Handbook 23 to keep utility records on individual quarters to help monitor the reasonableness of costs and, where appropriate, to establish utility ceilings on individual quarters. From the records, Missions can identify abuse or energy inefficiencies.

REDSO maintained utility cost records on individual quarters but had not regularly summarized and reviewed the information. During the audit, REDSO summarized electricity costs by residence for 1987 and 1988. The monthly costs averaged \$882 per household, ranging from \$436 to \$1,513.

The underlined items contained in the table below, in the auditors' opinion, represent examples of extraordinary cost. The most extraordinary case was a single employee living in a 1,653 square foot house with monthly electricity bills averaging \$1,456. This cost was high compared to \$652, \$745 and \$837, the monthly cost for similarly sized houses occupied by two and three person households.

Comparison of Monthly Electricity Cost
and Size of Residence
for A.I.D. Employees
(18 months ending December 1988)

<u>Lease Number</u>	<u>Square Feet</u>	<u>Cost For 18 Months</u>		<u>Family Size</u>
		<u>Total</u> (\$)	<u>Per Month</u> (\$)	
160	1,417	11,863	659	a/
163	1,425	12,260	681	3
119	1,487	7,846	436	2
170	1,500	12,865	715	2
189	1,521	11,304	628	2
187	1,554	19,161	1,064	5
114	1,607	11,734	652	3
116	1,653	26,210	1,456	1
141	1,717	13,417	745	4
195	1,763	15,076	837	2
118	1,774	18,513	1,028	4
162	1,784	19,675	1,093	2
183	1,823	16,255	903	3
191	1,874	11,145	778	4
167	1,950	20,326	1,129	6
188	2,179	9,577	532	a/
190	2,201	14,063	781	5
168	2,340	18,655	1,036	4
157	2,500	19,291	1,071	4
169	2,600	11,476	637	4
185	2,694	18,730	1,040	5
153	3,065	27,237	1,513	3
Average monthly cost per residence			<u>\$882</u>	

a/ Used as temporary housing.

REDSO officials acknowledged that abuses had occurred including instances where employees left air conditioners running during the day, even in unoccupied rooms and when no family member was in the house. Some employees reportedly left air conditioners operating 24 hours a day while on trips away from Abidjan.

REDSO officials considered monitoring electricity usage on an individual employee basis but had not followed through on the idea. REDSO sent several notices asking employees to help reduce energy consumption. To reduce costs, REDSO also approved the installation of ceiling fans and window screens in residences in the hopes that employees would use less air conditioning.

In response to a Department of State audit report, the Embassy was preparing a program to reduce energy costs. Part of the Embassy's plan was to develop a computer program for analyzing electricity costs. Embassy officials said A.I.D.'s support and participation in developing the program would be welcomed.

Management Comments

The REDSO concurred with our recommendation, and agreed to establish a procedure whereby every two months individuals would be notified as to their consumption. They maintained that rather than use electrical consumption per capita as a method of highlighting extraordinary usage that a formula deducting for outside security lighting and using consumption per square foot for space would be a more equitable means of calculating usage.

Office of the Inspector General Comments

We have no problem with the formula used, although we recognize it will result in more favorable ratios for the occupants of larger houses than using a per capita straight-line calculation. However, we are not certain that notifying individuals of their consumption will be sufficient incentive to change consumption patterns. We suggest that a notification which informed the high-use households of their relative ranking (3rd highest out of 40, e.g.) would constitute a more effective encouragement to institute corrective measures.

B. Compliance and Internal Control

The audit did not identify any instances of non-compliance with laws and regulations. However, the payment of host government taxes was in violation of provisions of the bilateral agreement between A.I.D. and the Ivory Coast.

Several opportunities to strengthen internal controls over the management of real property were identified and reported in findings No. 1 and 2.

The review of compliance and internal controls was limited to the issues discussed in this report.

AUDIT OF
A.I.D. LEASED AND OWNED PROPERTY IN THE IVORY COAST

PART III - EXHIBITS AND APPENDICES

Overpayment and Excessive Transfer of Funds
To Other U.S. Government Agencies

<u>Lease No.</u>	<u>Amount due</u> <u>A.I.D. \$</u>	<u>Reference</u>
LE 84-156	\$374	Repair costs not collected from the receiving agencies
LE 85-171	541	" "
LE 85-176	452	" "
LE 78-119	438	Voucher No. 624-080960 dated 2/8/88
LE 86-179	6,164	Voucher No. 624860799 dated December 24, 1985, 624863149 dated July 7, 1986 (Transfer of funds to state)
Total	<u>\$8,329</u>	

memorandum

DATE: September 18, 1989
REPLY TO
ATTN OF: *Arthur Fell*
Arthur Fell, Director, REDSO/WCA
SUBJECT: Response to Draft Report on the Audit of A.I.D. Leased and Owned Property in the Ivory Coast (Audit Report No. 7-624-89-XX)
TO: Paul E. Armstrong, Regional Inspector General for Audit RIG/A/Dakar

Attached is subject response. It is a collaborative effort on the part of a REDSO/WCA and U.S. Embassy Joint Administrative Office (JAO).

The first section, entitled "Suggested Revisions of Audit Report", contains editorial changes which REDSO believes will either more accurately state or clarify the findings and recommendations. The suggested revisions are underlined. REDSO also suggests the audit report be revised to replace the word "Embassy" with the acronym "JAO" in all cases but the first sentence of page 2. Interspersed among the suggested revisions are comments which explain why REDSO is suggesting certain revisions; those comments are in CAPITAL letters.

The second section contains REDSO's and JAO's combined response to the audit report recommendations. REDSO/WCA and JAO concur with the validity of the audit recommendations presented and have already taken steps to comply with recommendation number one. Most of the actions required under recommendation number two have also been implemented. Recommendation number three requires a continuing process and implementation has already begun along the lines indicated.

Attachment:a/s

SUGGESTED REVISIONS OF AUDIT REPORT

page 1: paras 1 & 2.

EXECUTIVE SUMMARY

The Regional Inspector General for Audit/Dakar audited A.I.D. leased and owned real properties in Abidjan, Ivory Coast. A.I.D. owns most of its office space in Abidjan while employees are housed in leased housing at an annual rent of about \$745,000. The Joint Administrative Office (JAO) of the American Embassy manages the properties for A.I.D.

A.I.D. in cooperation with the JAO could establish procedures to more closely control costs and improve accountability. Managers had documented neither the use of market data as a negotiating tool nor that tangible benefits were received in return for granting concessions such as advance rental payments to property owners. Also, some A.I.D. employees occupied properties for which lease renewals had not been completed and finders fees were paid without written agreements. Written procedures would be especially useful since JAO officers assigned to manage A.I.D. properties generally rotate posts every two or three years.

page 1: para 2.

The employees were housed in leased and government owned apartments and houses in several suburban areas of Abidjan. Rents totaled about \$745,000 in 1988, ranging from \$14,000 to \$25,000 and averaging \$19,000 per employee. Utilities for A.I.D. employee housing totaled about \$415,000 in 1988.

page 2: paras 1, 2 & 3.

The American Embassy managed A.I.D. leased and owned property in Abidjan as part of its JAO operations. A.I.D. is a member of the post housing board and as such gives input to decisions on leasing housing, assignment of housing to individual employees, and is also consulted on other real property matters. However, the JAO is primarily responsible for management activities such as lease negotiation, real property maintenance and non-expendable property inventory management.

The Regional Inspector General for Audit, Dakar, made an economy and efficiency audit of REDSO's oversight of management for leased and owned real property in the Ivory Coast. The objectives of the audit were to assess the adequacy of internal controls over leased and owned properties and identify areas for cost savings.

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The audit was conducted during January and March 1989 at REDSO and JAO offices in Abidjan. The auditors evaluated procedures used to acquire, maintain and dispose of A.I.D. leased and owned properties. Discussions were held with REDSO and JAO officials and their files and documents were examined. To assess management controls over the leasing process, the audit examined in detail the ten most recent leases assigned to A.I.D. between September 1987 and February 1989.

page 5: paras 1 & 2.

Certain useful management practices had not been adopted by the JAO for management of Mission real property. Managers documented neither the use of market data when negotiating leases nor that tangible benefits were received in exchange for granting concessions such as advance rental payments to property owners. Also, some A.I.D. employees occupied properties for which lease renewal documents had not been completed and payment of finders fees were not based on written agreements. A.I.D. needed to work with JAO managers to establish procedures to cover these practices in order to reduce A.I.D.'s vulnerability.

We recommend that the Director, REDSO/West and Central Africa, work with the JAO to establish procedures for:

- a. documenting the use of market data as a negotiating tool;
- b. documenting the tangible benefits received in return for granting concessions to property owners;

COMMENT: REDSO BELIEVES THAT THE ABOVE PAGE 5 CHANGES REFLECT MORE ACCURATELY THE AUDITOR'S FINDINGS FOR THE FOLLOWING REASONS:

1. THE STATEMENT THAT THE JAO DID NOT USE MARKET DATA TO MAKE LEASING DECISIONS IS INCORRECT. SUCH A BODY OF KNOWLEDGE DOES EXIST AND WAS APPLIED, AMONG THE HOUSING BOARD MEMBERS AS WELL AS THE JAO MANAGERS; LEASING DECISIONS WERE NOT MADE IN A VACUUM. THE JAO DOES ACKNOWLEDGE THAT IT DID NOT DOCUMENT ITS USE OF SUCH DATA.
- 2, SIMILARLY, THE STATEMENT THAT PROPERTIES WERE OCCUPIED PRIOR TO EXECUTING LEASES IS MISLEADING. THE ORIGINALLY EXECUTED LEASES STILL EXISTED AND, UNDER BOTH U.S. AND IVORIAN LAW, REMAINED VALID UNTIL TERMINATED OR AMENDED BY ONE OR BOTH PARTIES. THE JAO DOES ACKNOWLEDGE THAT THE LEASES IN QUESTION WERE IN THE PROCESS OF BEING RENEWED OR TRANSFERRED BETWEEN AGENCIES AND THAT SOME A.I.D. EMPLOYEES OCCUPIED RESIDENCES BEFORE THOSE RENEWALS/TRANSFERS WERE COMPLETED. NEVERTHELESS, A VALID LEASE DID EXIST BEFORE OCCUPANCY.

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pages 6 & 7.

- c. ensuring that lease renewal documents are signed in a timely manner; and
- d. writing agreements justifying finders fees paid to real estate agents.

Discussion

Several leasing procedures could be adopted to improve JAO controls and more closely control A.I.D. costs. Some of the procedures are required by A.I.D. Handbooks and others are accepted business practices.

No documentation of cost comparison on market rents - Although A.I.D. Handbook 23 does not require obtaining information on market rents or market supply and demand, such data is an accepted and effective tool for minimizing costs in real estate negotiations. For example, USAID/Chad reported in March 1989 that it successfully reduced rents on A.I.D. leased property by an average of two thousand dollars annually per residence. The Mission attributed its success largely to knowledge obtained from a survey it conducted on rent, market supply and demand.

The JAO had not documented its use of information on market rents when negotiating leases. A former JAO official reportedly exchanged rental information with other diplomatic missions in Abidjan but the information was not recorded.

Although information was not available to the auditors on comparative market rents, some U.S. Government officials interviewed during the audit said there is a worldwide perception that American missions pay above market rents. The officials believed the perception was valid for leased housing in Abidjan but had not documented the basis for their opinions. If the JAO had documented its use of market rent information, that perception could have easily been dismissed.

For example, in January 1989, a REDSO official was told by an administrative officer of another embassy in Abidjan that rentals paid by Americans were on the average 30 per cent higher or about \$220 more per month than the going rate for other foreign missions in Abidjan. According to the memorandum recording the discussion, this made it difficult to negotiate leases because landlords knew they could get more money from Americans. The source of the administrative officer's information was not provided to REDSO. Again, had the JAO documented its use of market rent data, such speculation and second-guessing could have been refuted.

JAO officials acknowledged the usefulness of market information and said they would improve the documentation of its use, including incorporating as part of the written agreement governing the payment of finders fees to real estate agencies a requirement that the agencies provide market survey data.

COMMENT: AS STATED BEFORE, THE JAO OBJECTS TO THE IMPLICATION THAT IT DID NOT USE MARKET INFORMATION IN MAKING LEASE DECISIONS. AT THE SAME TIME, THE JAO DOES ACKNOWLEDGE THAT DOCUMENTATION OF ITS USE WAS NOT ADEQUATELY MAINTAINED.

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page 8: para 4.

If advance rents on all the A.I.D. leases were limited to three months, the audit calculated that the U.S. Government could save approximately \$12,000 annually in U.S. Treasury borrowing costs. JAO officials stated that (a) of the new lease contracts signed since 1987, only one provides for other than quarterly rental payments, (b) leases which provide for annual or semi-annual advance payments are all renewals or interagency transfers of leases originally signed before 1987 and (c) it is JAO policy to negotiate lease payments for an advance period of no more than three months.

page 9: paras 2 & 3.

Lease 88-202/205: A lease was signed in April 1988 on a fourplex apartment building under construction. REDSO occupied two of the four apartments three months later when construction was completed. In the meantime, JAO officials decided to speed up construction by (a) advancing a year's rent so the owner would have enough money to complete certain construction activities, and (b) performing other construction activities with A.I.D. and State funds to be deducted from the following year's rent.

There were no indications that the JAO negotiated rental or other concessions in return for assistance granted by the U.S. Government to help finish remodeling the house.

COMMENT: THE JAO CONSIDERS THE OPTION TO RENEW LEASE 88-202/205 AT THE SAME RENT FOR EIGHT YEARS A SIGNIFICANT CONCESSION IN EXCHANGE FOR THE INITIAL ADVANCE GIVEN.

page 10.

COMMENT: REDSO BELIEVES THAT THE DISCUSSION OF LEASE 84-159 DIMINISHES THE IMPACT OF THE REPORT BECAUSE THE ADVANCE REQUESTED BY THE LANDLORD WAS NEVER MADE. THE AUDITORS MIGHT CONSIDER REMOVING IT FROM THE REPORT.

page 11.

Benefits from rent increases not demonstrated - Rent increases were granted without apparent benefit to the U.S. Government. For example, the JAO approved a \$167 monthly rent increase (\$2,000 per year) on February 1, 1989 when rewriting lease 89-209 after the property changed hands. JAO files did not document who suggested the increase, if, when and with whom it was discussed, nor why it was granted. JAO officials told the auditors that the new owner requested the increase to cover his own living expenses. According to the JAO, the request was approved because the JAO did not want to lose its investment in security walls and other improvements in the property.

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COMMENT: SUBSEQUENT TO THE AUDIT, JAO SOLICITED AND RECEIVED A LETTER FROM THE LANDLORD OF LEASE 89-209 CONFIRMING HIS DISCUSSION WITH JAO OFFICIALS IN WHICH HE STATED HIS INTENTION TO TERMINATE THE LEASE IF HE COULD NOT OBTAIN A RENTAL INCREASE. COPY OF LETTER IS ATTACHED (ATTACHMENT 4).

page 12: para 2.

Unsigned lease renewals - Lease renewal documents had not been signed by landlords for two residences which were occupied by A.I.D. employees. Although an expired contract remains valid in such cases until it is terminated or amended, without a current lease A.I.D. is vulnerable to financial loss and other potential problems. A.I.D.'s legal basis to continue occupancy would be doubtful should the owner ask A.I.D. to vacate the property. A.I.D. may also be unconsciously assisting property owners to delay or avoid paying taxes, since according to JAO officials, the Ivorian Government demands proof that landowners have paid all required property taxes before the Ivorian Government will officially register the lease as required by the Embassy and State Department regulations. For example:

page 14.

COMMENT: ACCORDING TO UPDATED 6 FAM 730 (PAGE 110 OF ATTACHMENT 3), THE DEFINITION OF LONG-TERM LEASE HAS BEEN CHANGED FROM FIVE YEARS OR LONGER TO TEN YEARS OR LONGER. THE AUDITORS MIGHT CONSIDER DELETING PARA 3.

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RESPONSE TO AUDIT RECOMMENDATIONS

The audit report contains three recommendations. REDSO/WCA concurs with the recommendations and has taken the necessary action to close recommendations numbers one and three. Most of the actions required under recommendation number two have also been implemented.

Recommendation number one requires REDSO/WCA to work with the JAO to establish new procedures to document the use of market data to negotiate rents, reduce to writing the tangible benefits derived from making concessions to landlords and to implement new procedures to insure that landlords execute lease renewal documents before continuing lease payments are made.

In regard to this recommendation, REDSO/WCA has meet with the JAO and discussed the auditor's findings and recommendations and the JAO director has formulated and implemented new procedures. Attachment 1 to this memorandum establishes the revised procedures and documents the written instructions.

RECOMMENDATION 1 A. The JAO has implemented procedures to document the use of market information in making leasing decisions .

RECOMMENDATION 1 B. It is currently JAO policy to include quarterly advances only in all new leases and lease renewals. For the exceptions to that policy, the JAO has implemented procedures to document tangible benefits received in return for granting concessions to property owners.

RECOMMENDATION 1 C. The JAO has agreed to take all possible steps to ensure that lease renewals are signed prior to occupancy of residences.

RECOMMENDATION 1 D. The JAO has implemented procedures to obtain written agreements with real estate agents which describe finders' fees and require the submission of market survey data.

Recommendation number two requires REDSO/WCA to secure from the Government of Cote D' Ivoire (GOCI) full tax exoneration provided in the bilateral agreement and to bill and collect from the GOCI all value added taxes paid in FY 87, FY 88 and FY 89. Recommendation number two also requires REDSO/WCA to analyze NXP property sales and collect the correct amount of proceeds due from the Embassy B&F Officer. This recommendation also requires that REDSO/WCA bill certain lessors for erroneous over payments.

RECOMMENDATION 2 A. Following the completion of audit field work REDSO/WCA reviewed and submitted to JAO director a complete listing of all value added taxes paid in FY 88. The JAO has submitted REDSO's request for reimbursement to the GOCI and we are now awaiting reimbursement. Attached for your reference is a copy of REDSO's claim for reimbursement and a memorandum of discussion of a meeting held on July 25, 1989 with the Ministry of Foreign Affairs to try and streamline the reimbursement process and to resolve the GOCI tax issues. A review of REDSO/WCA' FY 87 and FY 89 disbursements will be made when REDSO/WCA has successfully resolved the pending FY 88 claim.

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JAO officials have been involved in an ongoing dialogue with the Ivorian Ministry of Foreign Affairs and Ministry of Economy and Finance regarding the Ivorian Government's requirement that all diplomatic missions pay value-added taxes and request reimbursement after the fact. The JAO has obtained partial reimbursement of value-added taxes previously paid and submitted another request for reimbursement in May 1989. JAO officials and a representative from A.I.D.'s Regional Legal Office met with Ivorian officials on July 25 and requested that the GOCI clarify and expedite reimbursement procedures (see Attachment 2).

Under current practice, the U.S. Embassy does not pay taxes on 1) goods imported into the Cote d'Ivoire specifically for the Embassy's use or 2) goods which are held by the importer in a bonded warehouse and sold to a diplomatic mission before they are released into the local economy, at which point the vendor is assessed customs and value-added taxes on the goods. These charges are incorporated into the price of the goods and stated on the invoice. The Embassy has disputed the payment of these charges. In cases 1 and 2, the Embassy obtains a free-entry permit (a "franchise") from the Ministry of Foreign Affairs which exempts it from paying tax on the purchase. Free-entry permits require an average of three weeks to obtain. They therefore cannot be secured either when merchandise is needed on an urgent basis or for goods and services sold only on the open economy.

The GOCI requires payment of value-added taxes on goods and services purchased on the open economy because it claims that the "tax" is paid to the government by the vendor and is incorporated into the price before the merchandise is sold to the purchaser. The GOCI's position is that therefore the tax is not a sales tax, and diplomatic missions are not exempt. JAO officials do not agree with the GOCI's position.

Page 17 of the report, refers to "taxes on the ownership or use of property" under "Taxes paid." Some rental payments show a 6% charge for services called "Taxes d'Assainissement." This payment is actually a charge for city services such as garbage pick-up, and is not a tax. In most cases, these charges are incorporated as part of the rental fee. The JAO believes that such charges are legitimate and should be paid by the U.S. Government.

RECOMMENDATION 2 B. REDSO, in conjunction with GSO and RBFO, is in the process of analyzing GSO records of NXP sales during the last five years and will collect any unpaid amounts due to A.I.D. In the meantime, REDSO requests that the auditors identify the source records of NXP sales described on page 19 of the audit report.

RECOMMENDATION 2 C. REDSO requests more detailed information on the \$8,371 indicated in the audit report. Perhaps the auditors could review workpapers and transmit details such as lease nos., transfer dates, amounts, etc., which would identify steps REDSO must take to recover overpayments.

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RECOMMENDATION 2 D. Exemption from taxes. REDSO has transmitted a diplomatic note to the Ivorian Government requesting exemption from paying Ivorian taxes and JAO officials have met with Ivorian officials to discuss the issue. Please refer to memcon of July 25 meeting (Attachment 2). The JAO will continue to follow up on this issue.

Sale of NXP. REDSO has requested GSO in writing to formally advise the Controller's Office prior to the sale of A.I.D. NXP so that the Controller's Office may follow up to determine whether sales proceeds have been properly deposited.

Payment errors. REDSO and JAO have established procedures by which the GSO Housing Office informs the Controller's Office promptly in writing when and why lease payments should be adjusted.

Recommendation number three requires REDSO/WCA to implement new procedures to control electricity consumption. REDSO concurs with this recommendation. Electrical consumption is an important area where discipline and money can be used to reduce costs. In FY 89 we estimate that 8 % of our total operating expense budget will be used to cover residential utilities.

In the past REDSO funded the installation of window screening and ceiling fans to reduce requirements for air conditioning. Aside from resuming that practice, we will require the weather-proofing of all doors, windows and other openings; have reflective film, awnings, and/or heavier drapes installed on all windows and glass doors with long sun exposure periods; have un-insulated dark roofs painted with a reflective water-proof paint; request the JAO to include energy efficiency as a substantive criteria in the selection of new residences, the renewal of leases and the specification of drapery material to be installed; provide all employees with energy conservation guidance and sensitize all employees to the very high cost of electrical energy in Abidjan. This latter step will include the distribution of a bi-monthly report to each employee on electricity consumption in his/her residence during the past twelve months. However, REDSO wishes to underscore that when determining whether electrical consumption in any particular residence is reasonable, a calculation based strictly on per capita consumption could be misleading. For example, given the significant increase in crime in Abidjan, the Embassy has undertaken a major residential security upgrade program. As a result of wall construction and accompanying security light installation, electrical consumption has increased, most notably in those residences with larger yards and/or in more vulnerable areas where more outside lighting is required. This has occurred regardless of the size of houses or numbers of occupants. The data exists to support this observation. As indicated above, REDSO is implementing new procedures and a conscience raising campaign to control electricity consumption. However, in determining the reasonableness of consumption levels by individuals, REDSO is of the opinion that a more accurate determination of consumption and attitudes would result from first calculating the electrical consumption as a result of required outside security lighting and subtracting that from total consumption. The difference would then be divided by the square footage of the house rather than by the

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number of occupants to determine if a reasonable effort is being made to reduce electrical costs. Since there exists a certain minimal fixed cost to operate any house, regardless of the number of occupants, REDSO is of the opinion that this approach establishes equitable standards and would reflect more accurately the real situation than simply straight lining and calculating consumption on a per capita basis per household. Individuals will be the only ones responsible for those elements of electrical consumption for which they have direct control. REDSO wishes to avoid conflicts arising from official security measures established at present and requirements to reduce utility costs.

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TO: HARVEY F. RAMSEUR, S/GSO

FROM: ELAINE B. SCHUNTER, JAO *eh*

THRU: PHILIP J. BUECHLER, ADM *PJB*

DATE: SEPTEMBER 5, 1989

SUBJECT: ACTION MEMORANDUM FOR COMPLIANCE WITH AID AUDIT REPORT NO. 7-624-89-XX

IN ORDER TO COMPLY WITH AID DRAFT AUDIT REPORT NO. 7-624-89-XX, POST MANAGEMENT WISHES TO ENSURE THE DOCUMENTATION OF THE ACTIONS TAKEN BY THE GSO HOUSING/LEASING OFFICE TO MAXIMIZE COMPETITION IN THE LEASING OF REAL PROPERTY.

USE OF MARKET SURVEY DATA

EACH LEASE FILE WILL INDICATE WHICH OF THE FOLLOWING SOURCES OF SURVEY DATA WERE USED TO DETERMINE APPROPRIATE RENT LEVELS AND NEGOTIATE LEASE CONTRACTS: 1) PUBLIC LISTINGS IN NEWSPAPERS AND MAGAZINES; 2) UNSOLICITED PROPOSALS RECEIVED FROM OWNERS, DEVELOPERS, AND BROKERS; 3) CONTACTS WITH CURRENT LANDLORDS AND REAL ESTATE MANAGEMENT AGENCIES; 4) CONTACTS OF EMBASSY EMPLOYEES PROPOSING THEIR PROPERTIES FOR RENT; 5) PROFESSIONAL APPRAISALS OF THE MARKET OBTAINED WHEN THE EMBASSY CONSIDERS PROPERTIES FOR PURCHASE; 6) RESULTS OF MARKET SURVEYS SUCH AS THE PROFESSIONAL STUDY IN MARCH 1989 OF THE COST OF DOWNTOWN OFFICE SPACE.

INSPECTION AND SELECTION CRITERIA: IDENTIFYING PROPERTIES FOR LEASE

ALL PROPERTIES CONSIDERED FOR LEASE ARE INSPECTED BY THE LEASING OFFICE, THE REGIONAL SECURITY OFFICER, THE BUILDING AND MAINTENANCE STAFF, AND THE JOINT MISSION HOUSING BOARD AND EVALUATED ACCORDING TO POST'S ESTABLISHED SELECTION CRITERIA. LEASE FILES WILL INCLUDE THE CHECKSHEET EVALUATING EACH PROPERTY'S RESPONSIVENESS TO THESE CRITERIA: 1) AGE AND QUALITY OF THE CONSTRUCTION AND DESIGN; 2) NUMBER OF BEDROOMS, THEIR SIZE, AND COMPLIANCE WITH AIRGRAM 1093 STANDARDS; 3) LOCATION AND ACCESS TO SCHOOLS OR SERVICES; 4) SECURITY STANDARDS, INCLUDING WHAT UPGRADES THE LANDLORD IS PREPARED TO COMPLETE AND THE NUMBER OF OTHER EMBASSY EMPLOYEES IN THE AREA; 5) SERVICES SUCH AS TELEPHONES AND CITY GAS; 6) THE PROPOSED RENT AND OTHER COSTS REQUIRED TO BRING THE PROPERTY INTO CONFORMITY WITH POST'S REQUIREMENTS; 7) AND ANY EXISTING INFORMATION ON THE PROSPECTIVE LANDLORD OR MANAGEMENT AGENCY AND THEIR RESPONSIBILITY AND RESPONSIVENESS TO MAINTENANCE NEEDS AND OTHER REQUIREMENTS. THE PROFILES OF PROPERTIES NOT SELECTED FOR LEASE WILL BE KEPT FOR FUTURE REFERENCE TO PROVIDE COMPARISON DATA WITH OTHER SIMILAR PROPERTIES.

DOCUMENTING LEASE FILES

TO PROVIDE FURTHER SPECIFIC INFORMATION TO DOCUMENT LEASE NEGOTIATION AND CONTRACT FILES, REAL ESTATE AGENCIES WILL BE REQUIRED TO PROVIDE COMPARATIVE DATA ON PROPERTIES PROPOSED FOR LEASE. THIS INFORMATION WILL INCLUDE DOCUMENTATION JUSTIFYING THE PROPOSED RENT, SUCH AS PREVIOUS LEASES ON THE SAME PROPERTY, CURRENT LEASES FOR SIMILAR PROPERTIES IN THE AREA, EXPERT APPRAISALS OF THE PROPERTY'S RENTAL VALUE, AND THE COST OF THE IMPROVEMENTS REQUIRED BY THE EMBASSY BEFORE THE PREMISES ARE ACCEPTED FOR RENT.

SUCCEEDING LEASES

AS CURRENT LEASE CONTRACTS EXPIRE, POST WILL REASSESS THEIR COST AND VALUE VS. THE TOTAL PROJECTED COST OF PREPARING PROSPECTIVE REPLACEMENT PROPERTIES TO DETERMINE WHETHER EXISTING LEASES SHOULD BE EXTENDED, RENEGOTIATED, OR TERMINATED.

BV

Attachment 1B

DOCUMENTATION FOR REPLY TO RECOMMENDATION NO. 1

ACTION PLAN FOR COMPLIANCE WITH AIRGRAM A-105 OF APRIL 13, 1989
ON ADVERTISING AND COMPETITION IN LEASEHOLD ACQUISITIONS OF REAL PROPERTY
UNDER THE COMPETITION IN CONTRACTING ACT (CICA)

BACKGROUND

Text from State 200122

"CICA mandates, among other requirements, the maximizing of competition to the extent practicable in the leasing of real property, both office and residential. The directive requires that all posts conduct market surveys, establish selection criteria, award all leases through established competitive procedures, and maintain written documentation in the lease files of the survey findings and selection decision."

MARKET SURVEY DATA

Post already uses a variety of market survey data to determine appropriate rent levels and negotiate lease contracts. These data are obtained from the following sources:

- 1) Public listings in newspapers and magazines
- 2) Unsolicited proposals received from owners, developers, and brokers
- 3) Contacts with current landlords and real estate management agencies
- 4) Contacts of embassy employees proposing their properties for rent
- 5) Periodic professional appraisals of the local real estate market which the embassy obtains when considering properties for purchase.

To provide further specific information to document lease negotiation and contract files, post will require real estate brokers and management agencies to provide comparative data on properties proposed for lease. This information will include lease cost information and documentation justifying the proposed rent, such as previous leases on the same property, current leases for similar properties in the area, expert appraisals of the property's rental value, and the cost of the improvements required by the embassy before the premises are accepted for rent.

SELECTION CRITERIA: IDENTIFYING PROPERTIES FOR LEASE

All properties proposed for lease are first inspected by the Housing Office, then by the Regional Security officer, Building and Maintenance staff, and finally by the Joint Mission Housing Board to determine their appropriateness before entering final lease negotiations. Post has established selection criteria against which the Housing Office maintains files of all potential properties inspected each season. These factors include age and quality of the construction and design; number of bedrooms, their size, and compliance with Airgram 1093 standards; location and access to schools or services; security standards, including what upgrades the landlord is prepared to complete and the number of other embassy employees in the area; services such as telephones and city gas; and any existing information on the prospective landlord or management agency and their responsiveness to maintenance needs and other requirements.

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Post identifies prospective properties through a variety of methods:

- 1) Unsolicited proposals received from owners, developers, and brokers
- 2) Information from Americans and other embassy contacts that they or their colleagues are departing and the embassy might wish to take their lease
- 3) Contacts of embassy employees proposing their properties for rent
- 4) "Scouting" by the Housing Office and other embassy staff of construction sites or properties where "for rent" signs are posted
- 5) Contacts with current landlords and real estate management agencies
- 6) Public listings in newspapers and magazines
- 7) Advertising or circulars initiated by the Housing Office

Post has placed newspaper advertisements and other public postings only rarely in the past because of their cost and the fact that the embassy receives a constant stream of unsolicited proposals for residential and office space. To comply with the act, the embassy will advertise twice yearly in the national daily newspaper, Fraternite Matin, in March and June during the summer turnover season in the rental market; tenants must give three months' notice before terminating a lease. The embassy will also post public notices detailing the embassy's requirements in shopping centers where offers for sale, rent, and services are posted.

The embassy also maintains regular contact with the fifteen major real estate brokers and management agencies in Abidjan. The Housing Office issues periodic circulars describing projected housing requirements and is frequently contacted by smaller firms and agents new to the market. As landlords, management agencies are generally faster and more responsive in resolving maintenance problems and making improvements than private individuals because of their more extensive credit resources and relationships with contractors. This advantage is assuming increasing importance as the economic crisis in Cote d'Ivoire becomes deeper and more prolonged and individual landlords fall into financial hardship. Some of post's landlords are in fact so strapped that their rents are paid directly to their creditors. Other than the initial commission or finder's fee paid by the embassy, management fees are paid by the landlord. Real estate brokers' also provide access to high quality, exclusive properties whose owners do not wish to advertise their availability or identity or be involved in the administration of the lease. Post is informing real estate agents and management firms by letter [attached] that as part of the services for which they are paid, agencies will be required to provide documentation justifying the rent proposed for new lease contracts and renewal of existing lease contracts.

DOCUMENTING EXISTING LEASE FILES

As current lease contracts expire, post will reassess their cost and value vs. the total projected cost of preparing prospective replacement properties to determine whether existing leases should be extended, renegotiated, or terminated.

REVIEW

Post will periodically review these practices to determine what changes or additional activities may be necessary and to incorporate further guidance from the Department.

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Attachment 2

DOCUMENTATION FOR REPLY TO RECOMMENDATION NO. 2

M E M O R A N D U M
American Embassy Abidjan

TO: Elaine B. Schunter, JAO

FROM: Andrea S. Mathews, GSO/Housing & Procurement

DATE: July 27, 1989

SUBJECT: Memcon of Meeting with MFA Office Protocol Regarding TVA

On July 25, Margaret Alexander, legal officer at REDSO, and I met with officials from the Ministry of Foreign Affairs' Office of Protocol. The MFA had requested the meeting in response to the embassy's diplomatic note no. 218 in which AID requested a statement of exoneration from the Value-Added Tax.

Margaret and I discussed before the meeting that REDSO Director Arthur Fell and we of the JAO have agreed on the strategy that AID and the embassy are working to obtain the maximum exoneration and/or reimbursement possible from Ivorian taxes, but that we do not wish to enter into a reciprocity battle over taxes because we believe that the US mission in Cote d'Ivoire has more to lose than does the Ivorian embassy in Washington.

The meeting was attended by the following MFA officials:

Mr. Sagou Arsene, Sous-Directeur de Protocole D

Mr. Guezehon, Service de Franchises, Protocole D, phone 22-38-12

We were joined for part of the meeting by Mr. Siabé, Responsable de la Service Protocole, who heads the office as a whole. I gave your regrets that you could not attend because you were ill.

EXPLANATION OF PURPOSE OF THE MEETING

Margaret and I began by explaining that the US mission's suppliers have requested that we provide an official exoneration from the GOCI stating that the US mission is exempt from paying the Value-Added Tax (TVA). We noted that this would be easier and less time-consuming for the Service Protocole as well as for the embassy. I distributed copies of the "attestation d'exoneration" that the Japanese embassy has given to its suppliers [Mr. Guezéhon had requested that I bring a copy of any relevant documents]. Margaret and I noted that the Japanese attestation refers on line three to a letter from the MFA which supposedly exempts the Japanese mission from taxes, and that the US mission wishes to obtain a similar letter. Mr. Siabé stated that the attestation itself has no legal value in Cote d'Ivoire since it is simply a statement by the Japanese [which is, of course, self-evident]. He refused to respond to the question of whether the letter had indeed exempted the Japanese from the tax.

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MAKING TAX-FREE PURCHASES

Mr. Sagou stated that there are currently only two means possible for diplomatic missions to purchase tax-free in Cote d'Ivoire:

1) A local company may import goods into Cote d'Ivoire through Ivorian Customs tax free in the name of the embassy. The tax exemption mechanism in this case is the demande de franchise, the importation permit which authorizes the entry of the merchandise into the country free of customs duties and TVA because it is specifically destined for the use of a diplomatic mission.

2) The embassy may purchase goods from a bonded warehouse, before they have been released into the Ivorian economy. The vendor must be able to provide a copy of the shipping documents which prove that the merchandise is still being held in the bonded warehouse at the point the sale was made (this document is known as a D-11). Once the goods have been removed from the bonded warehouse, they have been "Ivoirisés": the customs and TVA are assessed and added to the price and cannot be subsequently deducted. [As recently as 1988, vendors would sell the embassy goods at the tax-free price although the merchandise had already been removed from the bonded warehouse; in the past year, the GOCI has become more stringent in requiring that the vendor provide a copy of the D-11 to justify having sold the goods tax-free.] Mr. Sagou stated that the GOCI allows vendors to hold imported merchandise in the bonded warehouse for up to one or two years.

OBTAINING REIMBURSEMENTS

Mssrs. Siabé and Sagou stated that they have met with officials from the Ministry of Economy and Finance, and that their understanding is that reimbursement of TVA will be authorized for construction-related expenses only. I noted that in my conversations with the Ministry, I had been told they would consider all building-related expenses, including items or services such as painting. [The director of the TVA office, Kessé Feh, himself had told me that all expenses related to "l'immobilier" could be considered.] Mr. Siabé stated that it is the Direction Générale des Impôts that determines which expenses will be reimbursed.

Margaret returned to the question of why the embassy could not be given a certificate of exemption from taxes "up front", like the USG gives to diplomats in the US, rather than having to request reimbursement after making the purchase. Mr. Sagou responded that that the GOCI cannot issue advance exonerations because the GOCI "lacks the administrative structure to assure the payment of the taxes by suppliers"; that is, that the GOCI does not believe it could successfully monitor the use of exemptions and would therefore lose large quantities of tax revenues because of fraud.

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THE ISSUE OF RECIPROCITY

We also discussed the question of reciprocity and the privileges enjoyed by the Ivorian mission to the USG. Mr. Sagou stated that the US Embassy and selected other missions on Cote d'Ivoire do receive preferential treatment in recognition of the privileges accorded the Ivorian missions in our countries. He claims that not all diplomatic missions to the GOCI are allowed to purchase goods from bonded warehouses, and that the GOCI has accorded us this privilege on the basis of reciprocity.

CLARIFYING REIMBURSEMENT PROCEDURES/FOLLOW-UP

We discussed reimbursement mechanisms in other countries and asked if the MFA could provide written guidelines on the reimbursement process in Cote d'Ivoire. They acknowledged that no written instructions exist, and said that they have been meeting with the Direction Generale des Impots and are "working on" a protocol guide which will address the subject. We noted that the Embassy's last reimbursement request took two years to be processed and asked whether the Embassy should contact someone in the Tax Ministry directly for further information. Mr. Siabé stated that all of our contacts should go through the Service Protocole, which will forward them to the Direction Generale des Impots. I showed them copies of the two reimbursement requests the Embassy and REDSO submitted in May and asked how we could follow up. Mr. Sagou asked for copies and said he would investigate the status of our request. [Raphael Bomba-Ire delivered the copies the following day.]

Mr. Siabé suggested that the Embassy prepare a note to the MFA detailing all its questions on the subject of exonerations and reimbursements. Margaret proposed that we meet again to determine what further information or follow-up would be required. I said I would like to consult you to determine how you would like to proceed. If and when we meet again, the MFA is willing to request that a representative from the Tax Ministry attend to provide further information on exactly what categories of purchases are exempt.

The meeting lasted one hour.

For final distribution:

cc: Arthur Fell, Director, REDSO
Douglas Arnold, Comptroller, WAAC
Philip Buechler, Admin
Harvey Ramseur, S/GSO

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