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**AUDIT OF USAID/INDONESIA'S
MANAGEMENT OF
PERSONAL PROPERTY**

**AUDIT REPORT NO. 2-497-90-08
August 23, 1990**

Internal controls over personal property owned by USAID/Indonesia can be improved to ensure accountability.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

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MANILA, PHILIPPINES

DATE: August 23, 1990

MEMORANDUM

TO: Lee A. Twentyman
Acting Director, USAID/Indonesia

FROM: 
William C. Montoney
Regional Inspector General

SUBJECT: Audit of USAID/Indonesia's
Management of Personal Property
Audit Report No. 2-497-90-08

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

The draft report was submitted to USAID/Indonesia for comment and the comments are attached to the report. The report contains seven recommendations. Recommendations No. 1.2, 1.3, 1.4 and 6 are closed on issuance of the report. Recommendations No. 2 and 5 are resolved and can be closed when actions in process are completed. Recommendations No. 1.1, 1.5, 3, 4 and 7 are unresolved pending agreement on a responsive plan of action.

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

EXECUTIVE SUMMARY

This audit reviewed the management of two classes of personal property--nonexpendable and expendable. Valued at about \$2.3 million as of September 1989, nonexpendable property owned by USAID/Indonesia (USAID) generally consists of larger distinct items such as computers, desks, refrigerators, and vehicles. During fiscal year 1989, USAID spent about \$352,000 to augment its nonexpendable property inventory. Expendable property includes supplies and spare parts. During fiscal year 1989, USAID spent about \$97,000 for expendable property.

Audit work found that USAID could improve management of personal property to achieve greater compliance with A.I.D. regulations. Internal controls should be strengthened to ensure that

- accountability of nonexpendable property is maintained by properly receiving, recording and issuing property items,
- inventories of nonexpendable property do not exceed USAID needs,
- disposal of nonexpendable property is accomplished in accordance with A.I.D. regulations and only when items are not in good working condition,
- deliveries of nonexpendable property are made in a cost effective manner,
- contracted repairs to USAID's vehicles are made economically, and
- accountability of expendable property is maintained by properly receiving, stocking and issuing property items.

This report recommends changes in internal control procedures to improve management and achieve greater accountability of personal property. After reviewing the draft audit report, USAID management generally agreed with the audit findings and recommendations.

Office of the Inspector General

Office of the Inspector General

August 23, 1990

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INTRODUCTION

Background

Encompassing all property not otherwise classified as land, land improvements or buildings, personal property consists of two classes--nonexpendable and expendable. This audit reviewed USAID/Indonesia's (USAID) management of property in both classes. Including items such as motor vehicles, desks and refrigerators, nonexpendable property

- is complete in itself,
- does not lose its identify or become a component part of another item when used,
- has an anticipated useful life of more than one year, and
- has an original cost or replacement value of \$50 or more.

Expendable property, including office supplies and maintenance materials,

- is consumed when used,
- loses its identify by becoming an integral part of another item of property, or
- is of low value not requiring formal accountability after issuance.

During fiscal year 1989, USAID/Indonesia spent about \$352,000 to augment its nonexpendable property inventory, valued at about \$2.3 million as of

September 1989. The USAID Executive Office, which manages the inventory, is responsible for providing household furniture and appliances to 61 USAID residences and issuing furniture and equipment to USAID offices. Under the direction of the Executive Office, a contractor provides storage for furniture, appliances and equipment and makes deliveries to residences and offices. USAID's 27 vehicles are operated under the supervision of the Executive Office.

During fiscal year 1989, USAID purchased expendable property costing about \$97,000. Most office supplies were procured from the General Services Office of the U.S. Embassy through a Foreign Affairs Administrative Support Agreement. Materials for maintaining USAID buildings were provided by the maintenance contractor while replacement parts for USAID's vehicles were supplied by the vehicle maintenance and repair contractor.

Audit Objectives

The Office of the Regional Inspector General for Audit/Manila conducted a performance audit of USAID/Indonesia's management of personal property to answer the following audit objectives:

1. Are procedures followed by USAID in issuing, receiving and recording nonexpendable property adequate to ensure accountability?
2. Are inventory levels of nonexpendable property suited to USAID's property needs?
3. Do disposal procedures for nonexpendable property ensure that only items that are not in good working condition are disposed of and that disposal are accomplished in accordance with A.I.D. regulations?
4. Does the contract for delivery of nonexpendable property ensure that items are delivered in a cost effective manner?
5. Do controls ensure that maintenance and repairs to USAID's vehicles

are made economically?

6. Are controls over expendable property inventories adequate to ensure accountability?

Scope And Methodology

The audit assessed internal controls over both kinds of personal property--nonexpendable and expendable. For nonexpendable property, weaknesses in controls over receiving, recording, and issuing items were identified by (1) flow-charting the control system and (2) reviewing documentation for a sample of 383 items--42 percent of the 903 items USAID purchased during fiscal years 1988 and 1989. In terms of dollars, the 383 items accounted for 61 percent of the \$763,000 spent by USAID for nonexpendable property during the two-year period.

The accuracy of USAID's computerized system for tracking nonexpendable property was assessed through a second sample of nonexpendable items. Judgmentally selected by the audit team, 141 items in the sample--including air conditioners, clothes washers and dryers and other household appliances--were identified by the computerized tracking system as stored in the warehouse on November 1, 1989. The numbers and types of items selected for the sample were based on the degree of risk of loss or theft resulting from weaknesses in the control system.

Furthermore, controls over disposal of nonexpendable property were evaluated by flow-charting the control system and by reviewing documentation concerning the nearly 1,500 nonexpendable items disposed of during fiscal year 1989. For vehicle maintenance and repairs, the audit reviewed documentation from fiscal years 1988 and 1989 for 4 of USAID's 27 vehicles. Maintenance and repair costs for the vehicles were about \$7,000, which represented 14 percent of the \$49,000 spent for all 27 vehicles during the two-year period. The audit did not review maintenance and repairs to appliances, furniture and office equipment that were performed by the General Services Office of the U.S. Embassy.

Controls over deliveries of nonexpendable property were evaluated by

- reviewing provisions of the delivery contract,**
- analyzing procedures implemented by USAID and the contractor for accomplishing deliveries, and**
- assessing bills submitted by the contractor and payments made by USAID.**

For expendable property, the audit assessed inventory controls over office supplies and building maintenance materials purchased during fiscal year 1989 to identify weaknesses. Expenditures for these items totaled about \$97,000 during the year.

Performed during October and November 1989, the audit was made in accordance with generally accepted government auditing standards.

REPORT OF AUDIT FINDINGS

Are procedures followed by USAID/Indonesia in issuing, receiving and recording nonexpendable property adequate to ensure accountability?

Records identifying the locations of 39 of 141 items tested were inaccurate; five of the 39 items could not be located. Records were inaccurate and items could not be located because controls over issuing, receiving, and recording nonexpendable property do not ensure accountability as required by A.I.D regulations.

Recommendation No. 1: We recommend that USAID/Indonesia strengthen internal controls over the management of nonexpendable property by

- 1.1 designating storage areas and requiring that they be used for storing all nonexpendable property not in use;**
- 1.2 developing and implementing a single form for use in issuing and returning nonexpendable items to storage areas, transferring items between residences and updating the computer when nonexpendable items are relocated;**
- 1.3 specifying locations for receiving newly purchased nonexpendable property, assigning responsibility for receiving such property to specific personnel and requiring that receiving documentation be prepared upon delivery of items;**
- 1.4 assessing the division of responsibilities among Executive Office staff to ensure that tasks are performed efficiently and effectively and**

1.5 establishing a requirement for annual inventories of nonexpendable property.

Recommendation No. 2: We recommend that USAID/Indonesia determine the amounts and locations of nonexpendable property by

2.1 conducting a physical inventory of all USAID nonexpendable property, including items stored in the warehouse and located at USAID offices and residences,

2.2 reconciling the results of the physical inventory to documentation on nonexpendable property purchased and disposed of since fiscal year 1986 to account for all items and

2.3 investigating any items that are unaccounted for.

Although A.I.D. Handbook 23, Appendix 4A, Section 224 requires that A.I.D. missions maintain accountability for nonexpendable property, records maintained by USAID/Indonesia inaccurately identified locations for some nonexpendable items and some of these could not be located. The Handbook requires that records show dates of acquisition, actual cost or estimated value, and property locations. Section 226 of Appendix 4A requires annual physical inventories of nonexpendable property. Further, Section 221.7 requires that the internal control system for nonexpendable property ensure that no individual controls all of the following functions: procurement, receipt, payment, records maintenance, physical inventories and disposal.

USAID's Tracking System Inaccurately Identified Locations Of Some Tested Items

To determine the accuracy of information in the computerized system, which tracks locations of nonexpendable property, we tested a judgmental sample of 141 nonexpendable items. Tested items included air conditioners, clothes washers and dryers, freezers, cooking ranges and refrigerators. According to the tracking system, all 141 items were located in the USAID warehouse as

of November 1989. Audit work compared identification numbers of tested items to the results of a partial warehouse inventory conducted by the audit team on November 11, 1989. Results of the comparison are as follows:

TABLE I

Comparison of Sample Items to Results of
a Partial Warehouse Inventory

<u>Item Description</u>	<u>Sample Size</u>	<u>Sample in Storage</u>	<u>Sample Not in Storage</u>	<u>% Sample Not in Storage</u>
A/C Units	47	22	25	53
Dryers	24	21	3	13
Freezers	15	15	0	0
Ranges	10	8	2	20
Refrigerators	22	19	3	14
Washers	<u>23</u>	<u>17</u>	<u>6</u>	<u>26</u>
Totals	<u>141</u>	<u>102</u>	<u>39</u>	28

As Table I shows, 39 of the 141 tested items were not located in the warehouse. Therefore, the tracking system inaccurately identified locations for 28 percent of the 141 items.

Five Tested Items Could Not Be Located

We asked Executive Office personnel to locate the 39 items. As Table II shows, officials located 34 of the 39 items. However, they could not locate 5 items--4 air conditioners and 1 clothes washer.

Table II

**Results of Mission Attempts to
Locate 39 Sample Items**

<u>Item Description</u>	<u>Sample Not in Storage</u>	<u>Items Not Located by Officials</u>	<u>Transfer to Residences Without Computer Update Documented/Undocumented</u>
A/C Units	25	4	13 + 8 = 21
Dryers	3	0	3 + 0 = 3
Freezers	0	0	0 + 0 = 0
Ranges	2	0	2 + 0 = 2
Refrigerators	3	0	3 + 0 = 3
Washers	<u>6</u>	<u>1</u>	<u>5 + 0 = 5</u>
Totals	<u>39</u>	<u>5</u>	26 + 8 = <u>34</u>

Officials provided documents showing that 26 of the 39 items had been transferred from the warehouse to residences; we made visits to verify the locations for 10 of these items. Although some of the documents provided to us were nearly two years old, the computerized tracking system had not been updated with the new locations. The other 8 items that were located by officials had been transferred to residences without transfer documents. The tracking system had not been updated to include the new locations of these 8 items.

Internal Controls Can Be Improved

Audit work identified internal control weaknesses in the following areas:

- moving items between locations;
- receiving locally-purchased property;
- updating the computerized tracking system; and

- conducting annual inventories of nonexpendable property.

Results of the audit work in each of these areas are discussed below.

The process of moving nonexpendable items from one location to another involves preparing up to five forms requiring the same types of information. The process begins at the Executive Office with a work order directing the delivery contractor to take action. The work order includes descriptions of the items to be moved, the number of items and the property control numbers assigned by the Executive Office. The contractor prepares a delivery form by transferring information from the work order. After the items have been moved, the contractor sends copies of the completed delivery form and the work order to the Executive Office. Information from the delivery form is transferred to one of three forms used by Executive Office personnel to update the computerized tracking system; separate forms are used for items issued from the warehouse, returned to the warehouse or moved between offices or residences.

The use of five forms to move nonexpendable property creates extra work for Executive Office staff and reduces management control over property items. As discussed above, the five forms, which have been in use since 1985 when USAID took over management of nonexpendable property from the General Services Office of the U.S. Embassy, create unnecessary and duplicative work. Two of the three Executive Office personnel who manage nonexpendable property spend most of their time preparing, processing and filing forms. In addition, the five forms reduce management control by creating opportunities for mistakes and intentional modifications each time information is transferred from one form to another. Property items could be omitted, property numbers could be changed and item descriptions could be modified--resulting in inaccurate information in the computerized tracking system and misplaced items. Audit work found that locations identified by USAID's tracking system were inaccurate for 39, or 28 percent, of 141 tested items. Officials could not locate 5 of the 39 items.

Internal controls over receiving locally-purchased nonexpendable property can be improved. Audit work showed that no individual in the Executive Office

has been assigned responsibility for receiving new property and that property is not always delivered to designated receiving areas. A review of invoices for nonexpendable items received at the Executive Office during fiscal years 1988 and 1989 revealed that four different Executive Office personnel signed for the items. In addition, the audit identified five instances, during the same time period, where locally-purchased property was delivered directly to residences--even though Executive Office officials stated that USAID receives new items only at the warehouse or the Executive Office. The five instances include locally-purchased residential furniture costing about \$21,000 delivered directly to residences.

Improvements in the division of responsibilities among Executive Office staff could ensure that the computerized system for tracking nonexpendable property is updated when property is moved from one location to another. As Table I shows, the updates are not always performed. While two Executive Office employees are primarily involved in preparing forms and processing paper work, a third, the accountable property officer, performs most management tasks related to nonexpendable property. He updates the computerized tracking system, determines the need to purchase new or replacement property and selects items from the USAID inventory for disposal. The property officer stated that he does not have time to effectively perform all of these tasks; as a result, some tasks, including updating the computer, are not being accomplished. This statement is supported by audit work which found that some property items had been relocated up to two years prior to the audit, but the computer system had not been updated to show the new locations.

A complete physical inventory of nonexpendable property, including residences and offices, was last done in 1987. Although the Executive Office inventoried the warehouse during the summers of 1988 and 1989, information from the 1989 inventory had not been entered into the tracking system.

Management Comments

Officials question the intent of Recommendation No. 1.1 which recommends that USAID designate storage areas for nonexpendable property and require

that they be used. Officials note that at the time of the audit some residential furniture was temporarily stored at a residence. They indicate that this furniture has been either disposed of or moved to the USAID warehouse.

Officials have developed a single form for controlling the movement of nonexpendable property items. This form will be implemented in August 1990 after the contract for the warehouse currently being used has expired and a new warehouse, under USAID management, has become operational. Officials commented that an immediate change in procedures would be confusing to the contractor who manages the current warehouse.

USAID officials have designated specific Executive Office personnel to be responsible for supervision, storage, receipt, issuance and disposal of nonexpendable property. They have also designated the USAID warehouse as the receiving point for locally-purchased items and the warehouse supervisor as receiving clerk.

Officials note that a complete physical inventory of all nonexpendable property owned by USAID has been completed. Missing items are being surveyed and records are being adjusted.

Office of the Inspector General Comments

Management actions are responsive to Recommendations No. 1.2, 1.3 and 1.4, which are closed.

The intent of Recommendation No. 1.1 is to ensure accountability and security of nonexpendable property when it is not in use. Unlike the USAID warehouse, the residence that was being used to store property was not under constant guard; this, in addition to the accountability problems identified in the audit finding, creates opportunities for property to be stolen or lost. Accordingly, this recommendation is unresolved pending agreement by USAID on an appropriate course of action.

The intent of Recommendation No. 1.5 is to ensure that annual inventories of nonexpendable property are conducted. Therefore, this recommendation

is unresolved until USAID agrees to adopt such a requirement.

USAID actions are responsive to Recommendation No. 2, which is resolved. It can be closed on receipt by this Office of documentation showing the results of USAID's inventory of nonexpendable property and the disposition of items not accounted for.

Are inventory levels of nonexpendable property suited to USAID's property needs?

Contrary to A.I.D. regulations, USAID's inventory of appliances exceeds its needs by an estimated 23 percent. This situation exists because four separate groupings of nonexpendable property with reserve stocks for each are being maintained. As a result, USAID owns an estimated 198 excess appliances, valued at about \$100,000.

Recommendation No. 3: We recommend that USAID/Indonesia adjust the size of its nonexpendable property inventory by

- 3.1 determining the types and amounts of nonexpendable property that are needed,**
- 3.2 identifying items in USAID's nonexpendable property inventory which are in excess of that need and**
- 3.3 disposing of excess items in accordance with property disposal procedures in Section 227 of A.I.D. Handbook 23.**

Although Section 222.1 of Appendix 4A to A.I.D. Handbook 23 requires that acquisition of property be limited to quantities necessary for effective and efficient operations, USAID's \$2.3 million inventory of nonexpendable property includes an estimated \$100,000 in excess appliances. Section 227 of Handbook 23 contains Agency policy and procedures for disposing of personal property.

The audit compared the size of USAID's inventory of appliances to estimated needs for these items. Authorizations per residence (as contained in USAID/Indonesia Mission Order 2300.4, dated May 5, 1986, and titled A.I.D. Housing/Residential Furnishing Policy) were used to estimate the total number of appliances needed for USAID residences. Estimates of the number of appliances, mainly air conditioners, needed for USAID offices were provided by Executive Office personnel. These estimates were

compared to the total number of appliances in USAID's inventory of nonexpendable property as of November 1989 to determine the number of items in excess of need.

TABLE III

Estimate of Appliances in Excess of Need
in USAID'S Property Inventory

<u>Types of Items</u>	<u>Items on Hand</u>	<u>Items Needed 1/</u>	<u>Excess to Need</u>	<u>% Excess to Need</u>
A/C units	617	527	90	17
Dryers	88	64	24	37
Freezers	30	0	30	100
Ranges	80	64	16	25
Refrigerators	143	128	15	11
Washers	<u>87</u>	<u>64</u>	<u>23</u>	<u>35</u>
Totals	<u>1,045</u>	<u>847</u>	<u>198</u>	23

1/ Figures include a 5 percent reserve for emergency replacements.

As shown in Table III, USAID's property inventory included six types of appliances totaling 1,045 items--including 30 freezers which had been in storage for nearly three years because there was no demand for them. As shown in the Table, USAID needed only 847 of the 1,045 items. Therefore, the property inventory for these appliances exceeded estimated need by 198 items, or 23 percent. The value of the excess items was about \$100,000. USAID's inventory was in excess of need because officials were maintaining reserve stocks for four property groupings. Officials used color-coded decals to identify items as:

- household furniture and appliances purchased with funds from projects;

- household furniture and appliances purchased with trust funds;
- household furniture and appliances purchased with operating funds;
or
- office furniture and equipment purchased with operating funds.

Officials said that they did not exchange items among groupings. For example, appliances purchased with trust funds were replaced only with other trust-funded appliances. Air conditioners designated for office use were replaced only with air conditioners having the same designation. Therefore, officials were maintaining reserve stocks of appliances, furniture and office equipment for each of the four groupings--resulting in a larger inventory than needed.

USAID invested about \$100,000 in an estimated 198 appliances in excess of its needs. Since USAID's \$2.3 million inventory of nonexpendable property includes furniture and office equipment, funds may have been invested in excess stocks of these items as well.

Management Comments

USAID officials are now disposing of nonexpendable property in accordance with the requirements of A.I.D. Handbook 23. Two sales of inoperative and outdated appliances have been held since October 1989. Unneeded equipment and furniture is being transferred to other U.S. Government agencies or to the Government of Indonesia. Until it assesses conditions of furniture and appliances stored at the warehouse, USAID will limit its procurement of nonexpendable property to computer equipment and to emergency purchases of furniture.

Office of the Inspector General Comments

The intent of Recommendation No. 3 is for USAID to determine the amounts and types of nonexpendable property it needs for efficient and effective operation and to reduce its inventory to those amounts. Although

USAID has transferred some unneeded equipment and furniture to other U.S. Government agencies and the Government of Indonesia, it has not systematically determined the numbers of items it needs by types of nonexpendable property. Management comments indicate that USAID has been reducing its inventory by disposing of items based primarily on age and condition, with little consideration of the need for the items. As a result, USAID may be retaining unneeded property. Therefore, Recommendation No. 3 is unresolved pending USAID agreement on a responsive plan of action.

Do disposal procedures for nonexpendable property ensure that only items that are not in good working condition are disposed of and that disposal are accomplished in accordance with A.I.D. regulations?

For items tested, procedures followed by USAID in disposing of nonexpendable property do not ensure that only items that are not in good working condition are disposed of. In addition, procedures do not conform to A.I.D. regulations. The audit found that during fiscal year 1989, USAID

- may have disposed of nonexpendable property that was in usable condition without documenting the reasons for disposal,
- did not document the condition of items disposed of and
- did not follow Agency priorities in selecting disposal methods.

These situations occurred because, contrary to Agency regulations,

- a system for tracking the condition of nonexpendable property to determine when disposal is warranted has not been established,
- criteria for selecting appropriate disposal methods has not been developed and
- procedures for documenting disposal actions have not been implemented.

During fiscal year 1989, USAID disposed of 1,444 items without documenting their condition or following Agency disposal priorities. Items which may have been in good working condition were 4 air conditioners, 4 clothes dryers and a freezer, with a total replacement cost of about \$7,500.

Recommendation No. 4: We recommend that USAID/Indonesia establish a system for disposing of nonexpendable property which ensures that items are disposed of only when they are no longer in

good working condition and that disposal actions are documented; such a system should include

- criteria for identifying nonexpendable property items which are candidates for disposal, such as life expectancy under local conditions, frequency and cost of repairs, and periodic physical inspections,**
- a means for tracking changes in conditions of nonexpendable property items,**
- guidelines for choosing appropriate disposal methods and**
- procedures for documenting the condition of items at the time of disposal, the reasons for selecting items and the methods of disposal used.**

According to disposal procedures contained in A.I.D. Handbook 23 Appendix 4A, Section 222.6, A.I.D. missions should retain nonexpendable property which continues to be in good working condition. They should also develop minimum replacement standards based on life expectancy as affected by local conditions such as use, climate, and availability of maintenance and repairs. Section 227.3 prioritizes methods for disposing of nonexpendable property as follows:

- redistribution to other USAID missions, with receiving missions paying transportation costs;**
- transfer to other U.S. Government agencies overseas with reimbursement based on fair market value;**
- sale or exchange of the items with proceeds used to purchase similar property;**
- grant-in-aid to the host government or contribution to projects;**

- donation to nonprofit organizations if the items have little or no commercial value or when handling costs would exceed sale proceeds and
- abandonment, only after all other methods have been exhausted.

USAID may have disposed of nonexpendable property that was in good working condition. Audit work identified a list of nonexpendable items disposed of in October 1988. The auditors compared this list to an inventory of items that were stored in the warehouse during the summer of 1988; the inventory specified the physical condition of the stored items. The comparison identified 9 appliances--4 air conditioners, 4 clothes dryers and 1 freezer--that were disposed of in October 1988 but were in good condition when they were stored in the warehouse the prior summer. We could not determine the actual condition of the 9 items at the time of disposal or the reasons the items were selected for disposal because USAID did not document this information.

Agency Disposal Priorities Were Not Followed

During fiscal year 1989, USAID disposed of 1,444 nonexpendable items, including appliances, furniture, and office equipment, without following disposal priorities or documenting the condition of items at the time of disposal. All items were sold at public auction, even though A.I.D. Handbook 23 lists this disposal method as third priority. The accountable property officer, responsible for disposing of nonexpendable property, stated that he had not considered the first and second priority methods, namely, transferring the items to other A.I.D. missions or transferring them to other U.S. Government facilities. Also, the condition of the items at the time of disposal was not documented. As a result, USAID has no assurance that the 1,444 items were candidates for disposal.

Disposal Criteria Should Be Established

USAID has not established criteria for determining when nonexpendable items have exceeded their useful life and for selecting and documenting appropriate disposal methods. USAID also has not determined the average life expectancy for furniture, appliances and office equipment based on local use patterns and climatic conditions. USAID does not keep maintenance histories needed to determine the point at which excessive cost makes continued maintenance no longer economical. Further, USAID has not established guidelines for selecting appropriate disposal methods or implemented procedures for documenting disposal actions.

Management Comments

USAID officials believe that the audit finding is based on speculation resulting from a lack of documentation concerning the condition of property items at the time of disposal. They note that USAID will follow guidance in A.I.D. Handbook 23 concerning disposal of nonexpendable property until sufficient data has been collected to develop a disposal plan. Officials suggested that we reword the audit recommendation to show that there are criteria other than usability for identifying nonexpendable items as candidates for disposal. These criteria include age, condition and maintenance costs.

Office of the Inspector General Comments

The audit finding demonstrates that USAID's internal controls over disposal of nonexpendable property should be strengthened. Lack of documentation concerning the condition of items at the time of disposal is a significant internal control weakness; another is the lack of documentation concerning the disposal method used and how that method was selected. These weaknesses create opportunities for theft or, at a minimum, disposal of property that is in good working condition. Therefore, Recommendation No. 4 is unresolved pending agreement on a responsive plan of action to the reworded recommendation.

Does the contract for delivery of nonexpendable property ensure that items are delivered in a cost effective manner?

USAID paid for 132 deliveries of nonexpendable property in addition to the number specified in the delivery contract without assurance that additional work was performed. Contrary to Agency regulations, the delivery contract for nonexpendable property does not

- define work to be accomplished,
- specify the size and cost of deliveries,
- accurately estimate the delivery workload or
- require the contractor to document deliveries.

As a result, USAID paid the contractor \$19,317 in addition to costs specified in the contract for delivery of nonexpendable property without assurance that the contractor performed additional work.

Recommendation No. 5: We recommend that USAID/Indonesia

5.1 assess payments made to the contractor for delivery of nonexpendable property during the life of contract no. A.I.D. 497-0000-C-00-7176-00 to ensure that payments were reasonable and were made only for work that was actually accomplished and

5.2 recover payments found to be excessive or inappropriate.

A.I.D. Handbook 14, Chapter 7, Appendix 2b requires that contracts completely and accurately describe intended results. Further, scopes of work should explicitly state what the contractor is to achieve so that performance can be assessed. The USAID contract for delivery of nonexpendable property does not meet these requirements.

On September 30, 1987, USAID signed a contract with a local moving company for rental of warehouse space and for delivery of nonexpendable property. The contract terminates on August 31, 1990, and will not be renewed. Under contract provisions, the contractor agreed to provide about 5,000 square feet of warehouse storage space and to make an average of two deliveries of nonexpendable property per week (104 deliveries per year) at an annual cost of \$92,000.

The contractor billed USAID and was paid for 132 deliveries more than provided for in the delivery contract. USAID does not maintain records on the number or size of deliveries completed by the contractor; therefore, USAID paid for the deliveries without assurance that the work was done. Performed between September 1987 and December 1988, the 132 deliveries--consisting of 76 larger deliveries and 56 smaller deliveries--ranged from moving one item to moving several rooms of furniture and appliances. For example, one of the deliveries moved a cooking range from a residence to the warehouse. Another moved 96 items, including two refrigerators, five air conditioners and four beds, from the warehouse to a residence.

Seventy-six of the 132 deliveries were determined by the contractor to be too large to be covered under the delivery contract. Since the contract does not specify the size of deliveries covered, the contractor applied his own criteria. He bill USAID for 76 deliveries exceeding 389 cubic feet, equivalent to about 12 household refrigerators, because these deliveries required extra manpower and more than one delivery truck. Thirty-three of the 76 deliveries ranged in size from 389 to 1,060 cubic feet; the contractor billed USAID \$100 for each of these. Forty-three of the 76 deliveries exceeded 1,060 cubic feet; these were billed at \$300 each.

Fifty-six of the 132 deliveries were less than 389 cubic feet each, the contractor's size limit for deliveries covered by the contract. USAID paid the contractor about \$55 each for the 56 deliveries. Since neither the contractor nor USAID maintains records on the number of smaller deliveries completed, neither knew the actual number of deliveries that had been made or whether the contractor had fulfilled his contractual obligation. The contractor's billings were based on estimates because the contract does not define what

constitutes a delivery or specify the cost per delivery. Furthermore, the contract requirement for 104 moves per year significantly understates USAID's delivery requirements, if the contractor's estimates of the number of smaller deliveries performed are accurate.

USAID paid the contractor \$19,317 beyond contract costs for 132 deliveries of nonexpendable property without assurance that additional work was accomplished. This figure includes \$16,200 for 76 deliveries that were too large to be included under the delivery contract and \$3,117 for an estimated 56 smaller deliveries in excess of the 104 provided for in the contract.

Management Comments

USAID is reviewing invoices submitted by the delivery contractor. This review should be completed by August 31, 1990. USAID indicated that there is no need to amend the delivery contract, as recommended in the draft report, because the contract will be completed on August 31, 1990.

Office of the Inspector General Comments

USAID actions are responsive to Recommendation No. 5 which is resolved. The recommendation can be closed when actions in process have been completed.

The draft audit report recommended that USAID amend the delivery contract for nonexpendable property. This recommendation was omitted from the final report based on assurances by a USAID official that the contract will not be extended or renewed. Future deliveries of nonexpendable property will reportedly be accomplished through separate work orders for each delivery.

Do controls ensure that maintenance and repairs to USAID's vehicles are made economically?

Internal controls do not ensure that maintenance and repairs to USAID vehicles are accomplished economically because, contrary to A.I.D. regulations, parts removed from vehicles are not consistently returned to USAID for inspection. As a result, repair contractors may be charging for work that has not been performed and USAID is losing the revenue that would be generated from the sale of used parts.

Recommendation No. 6: We recommend that USAID/Indonesia

- 6.1 adopt procedures ensuring that vehicle maintenance and repair contractors return parts removed from USAID's vehicles during maintenance and repairs,**
- 6.2 establish procedures for inspecting the parts to ensure that needed repair work was accomplished and**
- 6.3 implement procedures for selling parts removed from vehicles.**

A.I.D. Handbook 23, Appendix 4A, Section 224.5-4 requires that parts removed from vehicles be returned to USAID for inspection and sale. Contrary to this requirement, parts removed from USAID vehicles are not consistently returned.

Audit work assessed internal controls and reviewed documentation concerning maintenance and repairs made, during fiscal years 1988 and 1989, to 4 of USAID's 27 vehicles. Accomplished under a contract negotiated and managed by the U.S. Embassy, routine preventive maintenance was performed according to the contract's maintenance schedule and at costs within limits set by the contract. Repairs and non-routine maintenance to the four vehicles were appropriate and were accomplished at reasonable cost.

Improvements, however, are needed in controls over vehicle maintenance

and repairs. Although we found no actual occurrences, contractors could bill USAID for maintenance and repairs that have not been accomplished because USAID does not require the return of parts removed from vehicles for inspection by USAID personnel. According to a motor pool official, USAID does not require the return of these parts because it lacks adequate storage space. The parts are thrown away or kept by the contractor or vehicle driver. As a result, the parts are not available for inspection by USAID officials to ensure that repair work has been accomplished. This also affords contractors the opportunity to charge for work that has not been performed. In addition, USAID loses any revenue which could be derived from the sale of the used parts.

Management Comments

USAID now requires vehicle maintenance and repair contractors to return parts, for inspection and sale, that are removed from USAID vehicles. An Executive Office employee inspects the returned parts and spot-checks repair work. The returned parts are tagged to identify the applicable work order and the vehicle from which they were removed and are sold during property sales. Although prices received from the sale of returned parts are less than the cost of storage, officials believe that requiring the return of used parts reduces the possibility that contractors will remove usable parts and sell them for personal gain.

Office of the Inspector General Comments

USAID actions are responsive to Recommendation No. 6, which is closed.

Are controls over expendable property inventories adequate to ensure accountability?

USAID can not be sure that expendable property is purchased at least cost and is used only for official purposes because, contrary to Agency regulations, internal controls are not adequate to ensure accountability. As a result, USAID may be spending more than necessary for expendable property, and some items may be used for other than official purposes.

Recommendation No. 7: We recommend that USAID/Indonesia establish controls over expendable property to ensure accountability; such controls should provide for

- recording quantities and costs of office supplies obtained from the U.S. Embassy's General Services Office under the Foreign Affairs Administrative Support Agreement;**
- documenting the receipt, issuance, and stock replenishment of building maintenance materials and computer supplies and**
- securing computer supplies against theft.**

USAID management can not be sure that expendable property is procured at least cost and that items are used only for official purposes. According to A.I.D. Handbook 23, Appendix 4A, Section 224.5-1, A.I.D. missions should develop and maintain control of expendable property inventories to ensure that

- stocks are maintained at minimum levels necessary to meet needs and**
- items are issued only for official use.**

USAID Can Not Determine The Economic Benefit of Obtaining Office Supplies Through The Foreign Affairs Administrative Support Agreement

USAID can not be sure that office supplies--such as typing paper, note pads and writing pens--are procured through the most cost efficient method. While some offices monitor their own usage, USAID does not oversee its total costs and consumption of office supplies. USAID offices obtain supplies directly from the General Services Office (GSO) of the U.S. Embassy under a Foreign Affairs Administrative Support Agreement (FAAS). Each office prepares requisitions and sends them to the GSO, which delivers the supplies directly to the offices.

Costs of office supplies used by the USAID are included in annual payments made by AID/Washington to the U.S. Department of State. These payments cover costs of all services provided to USAID by the U.S. Embassy under the FAAS, including security, medical care and travel arrangements. After payments are made, AID/Washington notifies USAID of the total amount. Costs of office supplies are not separated and quantities used are not identified.

Annually, the GSO provides USAID a list of estimated charges under the FAAS for the prior year. The list includes estimated charges for all services and materials provided, including office supplies. However, it does not estimate quantities of office supplies used. Therefore, USAID lacks data on actual costs and consumption needed to assess the economic benefit of procuring office supplies through the FAAS.

An official of the USAID Controller's Office conducted an analysis of USAID costs under the FAAS which showed that purchasing expendable property from local vendors could be less expensive than obtaining the items from the GSO. The analysis also showed that savings realized on other services provided under the FAAS offset the higher costs of the expendable property. This analysis, however, was informal and undocumented and was not based on actual cost and consumption data.

Expendable Property Could Be Used For Other Than Official Purposes

Although we did not identify instances of lost or stolen property, USAID can not be sure that building maintenance materials and computer supplies are used only for official purposes. Building maintenance materials for USAID offices (such as cement, paint and plumbing fixtures) are purchased by the building maintenance contractor on a reimbursement basis. Records of purchase and use of such materials, kept by the maintenance contractor, are not routinely reviewed and verified by USAID. At the time of the audit, the contractor's records had not been updated for two months.

Computer supplies (including disks, print wheels and printer ribbons) are purchased by Executive Office personnel from local vendors and stocked by the Executive Office for distribution to USAID offices. The Executive Office does not maintain records on the issuance and stock replenishment of these items. In addition, computer supplies were not adequately stored to prevent theft or loss. These items were stored in an unlocked cabinet in the Executive Office. As a result, USAID can not be sure that the items are used only for official purposes.

USAID does not have data on the actual quantities of office supplies used, and internal controls over other types of expendable property do not ensure accountability. As a result, expenditures for office supplies obtained from the GSO, estimated at about \$82,400 in fiscal year 1989, may be higher than necessary. In addition, locally purchased expendable property, costing about \$14,600 during fiscal year 1989, may be unnecessarily subject to loss or theft.

Management Comments

USAID now requires that all orders for expendable property be submitted through its Executive Office before going to the General Services Office of the U.S. Embassy. In addition, USAID will open a small storeroom for office supplies from which items will be issued to USAID offices. The Executive Office now stores computer supplies in a locked container.

Office of the Inspector General Comments

USAID actions will improve controls over office and computer supplies; however, its actions do not include building maintenance materials. Therefore, Recommendation No. 7 will remain unresolved pending agreement by USAID to strengthen controls over this category of expendable property.

REPORT ON INTERNAL CONTROLS

We audited USAID/Indonesia's management of personal property in accordance with generally accepted government auditing standards, which require that we

- assess the applicable internal controls when necessary to satisfy the audit objectives and
- report on the controls assessed, the scope of the audit work and any significant weaknesses found during the audit.

In planning and performing the audit to answer the six audit objectives, we considered the structure of internal controls implemented by USAID/Indonesia over two types of personal property--nonexpendable and expendable. We assessed the level of risk that the controls would not detect or prevent, on a timely basis, material noncompliance with applicable laws and regulations. We found the risk to be high because of the following significant deficiencies in the design and operation of internal controls related to the audit objectives.

Audit Objective One

The audit objective was to determine whether procedures followed by USAID/Indonesia in issuing, receiving, and recording nonexpendable property were adequate to ensure accountability, as required by Appendix 4A to A.I.D. Handbook 23. Audit work identified the following weaknesses in internal controls related to the objective:

- No one individual in the Executive Office had been assigned

responsibility for updating the computerized system for tracking nonexpendable property. As a result, the system was not always updated when new items were received, issued or moved between locations.

- Moving nonexpendable property from one location to another involved preparing five forms which required the same types of information; thus creating opportunities for mistakes, omissions and modifications.
- Annual physical inventories of nonexpendable property--necessary to ensure accountability--were not being conducted.
- Management tasks within the Executive Office had not been effectively divided among employees. As a result, some tasks, including updating the computerized tracking system, were not being accomplished.

Audit Objective Two

The audit objective was to determine whether the size of USAID/Indonesia's inventory of nonexpendable property was limited to its needs, as required by Appendix 4A to A.I.D. Handbook 23. Audit work determined that the inventory exceeded needs because USAID maintained four separate groupings of nonexpendable property with reserve stocks for each.

Audit Objective Three

The audit objective was to determine whether procedures followed by USAID/Indonesia in disposing of nonexpendable property met requirements of Appendix 4A to A.I.D. Handbook 23. Audit work found that procedures did not meet Agency requirements because USAID had not

- established criteria for identifying nonexpendable property items which

are candidates for disposal,

- implemented guidelines for choosing appropriate disposal methods and
- adopted procedures for documenting the conditions of items at the time of disposal, the reasons for disposal and the methods of disposal.

Audit Objective Four

The audit objective was to determine whether the contract for delivery of nonexpendable property ensured that items were delivered in a cost effective manner. Audit work found that USAID/Indonesia paid for deliveries of nonexpendable property without assurance that the work was done because the delivery contract did not completely and accurately describe intended results, as required by Chapter 7 of A.I.D. Handbook 14.

Audit Objective Five

The audit objective was to determine whether internal controls ensure economical repair and maintenance of USAID's vehicles. Audit work found that USAID/Indonesia lacked verification that work was performed because parts removed from vehicles were not consistently returned for inspection, as required by Appendix 4A to A.I.D. Handbook 23.

Audit Objective Six

The audit objective was to determine whether internal controls over inventories of expendable property were adequate to ensure accountability, as required by Appendix 4A to A.I.D. Handbook 23. Audit work found that USAID/Indonesia did not

- monitor its total cost and consumption of office supplies,

- routinely verify records kept by the maintenance contractor on the purchase and use of building maintenance supplies,
- maintain records on the purchase and use of computer supplies, and
- securely store computer supplies to prevent loss and theft.

A weakness is a reportable condition in which the design or operation of the specified internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above are material weaknesses.

REPORT ON COMPLIANCE

We audited USAID/Indonesia's management of personal property in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. The standards also require that we

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives,
- design the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives, and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that were found during the audit.

As part of fairly, objectively and reliably answering the audit objectives, we performed tests of USAID/Indonesia's compliance with laws, regulations and contracts applicable to the management of personal property. The results of our tests indicate that, with respect to the items tested, nothing came to our attention which caused us to believe that USAID/Indonesia, and its contractors, had not complied, in all significant respects, with applicable laws, regulations and contracts.

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CHRG: AID
DIST: AIDA

AIDAC FOR WILLIAM C. MONTONEY, REGIONAL INSPECTOR
GENERAL, RIG/A/M

E.O. 12356: N/A

SUBJECT: DRAFT AUDIT REPORT ON USAID/INDONESIA
- MANAGEMENT OF PERSONAL PROPERTY
- (RIG/A/M-90-242 DATED MAY 15, 1990)

THE MISSION AGREES IN GENERAL WITH THE AUDIT FINDINGS, HOWEVER, WE ARE CONCERNED THAT NEITHER THE EXECUTIVE SUMMARY NOR THE AUDIT REPORT INDICATE THAT THE AUDIT WAS DONE AT THE REQUEST OF THE MISSION. IN ADDITION MOST FINDINGS HAD BEEN IDENTIFIED BY THE MISSION AND CORRECTIVE ACTIVITIES INITIATED BY THE MISSION. IN NO INSTANCE DOES THE AUDIT REPORT INDICATE THAT THE MISSION HAD REALIZED IT HAD A PROBLEM AND INITIATED CORRECTIVE ACTION INCLUDING REQUESTING AN AUDIT TO/DETERMINE THE EXTENT OF SOME OF OUR CONCERNS. WE BELIEVE THE REPORT NEEDS TO BE CHANGED IN MANY PLACES TO CLEARLY USE THE PAST TENSE IN DESCRIBING THE WEAKNESSES AS WELL AS INDICATING THAT THE CURRENT MISSION MANAGEMENT TEAM INITIATED CORRECTIVE ACTIONS WITHOUT WAITING FOR AN AUDIT.

OUR SPECIFIC COMMENTS ON EACH RECOMMENDATION FOLLOW:

RECOMMENDATION NO. 1:

WE RECOMMEND THAT USAID/INDONESIA STRENGTHEN INTERNAL CONTROLS OVER THE MANAGEMENT OF NONEXPENDABLE PROPERTY BY
1.1 DESIGNATING STORAGE AREAS AND REQUIRING THAT THEY BE USED FOR STORING ALL NONEXPENDABLE PROPERTY NOT IN USE;

1.2 DEVELOPING AND IMPLEMENTING A SINGLE FORM FOR USE IN ISSUING AND RETURNING NONEXPENDABLE ITEMS TO STORAGE AREAS, TRANSFERRING ITEMS BETWEEN RESIDENCES AND UPDATING THE COMPUTER WHEN NONEXPENDABLE ITEMS ARE RELOCATED;

1.3 SPECIFYING LOCATIONS FOR RECEIVING NEWLY PURCHASED NONEXPENDABLE PROPERTY, ASSIGNING RESPONSIBILITY FOR RECEIVING SUCH PROPERTY TO SPECIFIC PERSONNEL AND REQUIRING THAT RECEIVING DOCUMENTATION BE PREPARED UPON DELIVERY OF ITEMS;

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1.4 ASSESSING THE DIVISION OF RESPONSIBILITIES AMONG EXECUTIVE OFFICE STAFF TO ENSURE THAT TASKS ARE PERFORMED EFFICIENTLY AND EFFECTIVELY; AND

1.5 ESTABLISHING A REQUIREMENT FOR ANNUAL INVENTORIES OF NONEXPENDABLE PROPERTY.

MISSION RESPONSE TO RECOMMENDATION NO. 1

1.1 USAID DOES NOT FULLY UNDERSTAND THE INTENT OF THIS RECOMMENDATION. AT THE TIME OF THE AUDIT USAID DID HAVE SOME RESIDENTIAL FURNISHINGS IN TEMPORARY STORAGE AT A RESIDENCE. THIS FURNITURE HAS EITHER BEEN DISPOSED OF OR RETURNED TO STOCK IN THE WAREHOUSE. THE REASON THE FURNITURE WAS STORED IN THE HOUSE WAS THERE WAS NO ROOM IN WAREHOUSE.

1.2 USAID IS ESTABLISHING ITS OWN WAREHOUSE AND WHEN THAT IS ACCOMPLISHED - SOMETIME IN AUGUST, A SINGLE FORM THAT HAS BEEN DEVELOPED WILL BE USED. IT WOULD BE CONFUSING TO THE PRESENT CONTRACTOR TO IMPLEMENT CHANGES AT THIS TIME.

1.3 USAID, BECAUSE OF LITTLE OR NO SPACE AT THE LEASED WAREHOUSE DID RECEIVE PROPERTY, SUCH AS LOCALLY PURCHASED AIR CONDITIONERS, AT RESIDENCES. THIS SHORT CUT CAUSED SOME PROBLEMS AS ACCURATE RECORDS WERE NOT PREPARED. THE PRESENT (AND FUTURE WAREHOUSES) ARE NOW THE RECEIVING POINT AND THE DESIGNATED USAID WAREHOUSE SUPERVISOR, THE RECEIVING CLERK. RECEIVING REPORTS ARE NOW PREPARED IN A TIMELY MANNER AND SENT TO THE STOCK RECORDS PERSONNEL FOR POSTING AS WELL AS TO O/FIN.

1.4 THE PROPERTY MANAGEMENT BRANCH NOW HAS DESIGNATED INDIVIDUALS FOR SUPERVISION, STORAGE, RECEIVING, ISSUING AND DISPOSAL.

1.5 A COMPLETE PHYSICAL INVENTORY HAS BEEN COMPLETED AND IS NOW IN THE RECONCILIATION PHASE. THE INVENTORY WAS CONDUCTED BY A TEAM OF SPOUSES IN ORDER TO ESTABLISH A GOOD BASELINE.

USAID REQUESTS THAT RECOMMENDATION NO. 1 BE RESOLVED AND CLOSED.

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RECOMMENDATION NO. 2:

WE RECOMMEND THAT USAID/INDONESIA DETERMINE THE AMOUNTS AND LOCATIONS OF NONEXPENDABLE PROPERTY BY

- 2.1 CONDUCTING A PHYSICAL INVENTORY OF ALL USAID NONEXPENDABLE PROPERTY, INCLUDING ITEMS STORED IN THE WAREHOUSE AND LOCATED AT USAID OFFICES AND RESIDENCES;
- 2.2 RECONCILING THE RESULTS OF THE PHYSICAL INVENTORY TO DOCUMENTATION ON NONEXPENDABLE PROPERTY PURCHASED AND DISPOSED OF SINCE FISCAL YEAR 1986 TO IDENTIFY MISSING ITEMS; AND
- 2.3 INVESTIGATING ANY MISSING ITEMS.

MISSION RESPONSE TO RECOMMENDATION NO. 2

- 2.1 AS STATED IN 1.5 ABOVE, A PHYSICAL INVENTORY HAS BEEN COMPLETED.
- 2.2 THE PROCESS OF RECONCILIATION IS TAKING PLACE AND THE DIFFERENCES WILL BE SURVEYED.
- 2.3 TO THE EXTENT POSSIBLE, ALL MISSING ITEMS WILL BE IDENTIFIED AND THEN RECORDS ADJUSTED WHERE NECESSARY. THIS PROCESS SHOULD BE COMPLETED BY THE END OF JULY, 1990.

USAID REQUESTS THAT RECOMMENDATION NO. 2 BE RESOLVED AND CLOSED.

RECOMMENDATION NO. 3:

WE RECOMMEND THAT USAID/INDONESIA ADJUST THE SIZE OF ITS NONEXPENDABLE PROPERTY INVENTORY

- 3.1 BY DETERMINING USAID'S NONEXPENDABLE PROPERTY NEEDS.
- 3.2 IDENTIFYING ITEMS IN EXCESS OF NEEDS FROM USAID'S NONEXPENDABLE PROPERTY INVENTORY, AND
- 3.3 DISPOSING OF EXCESS ITEMS IN ACCORDANCE WITH PROPERTY DISPOSAL PROCEDURES IN A.I.D. HANDBOOK 23.

MISSION RESPONSE TO RECOMMENDATION 3:

3.1 USAID HAS DISPOSED OF A GREAT NUMBER OF INOPERATIVE APPLIANCES AS WELL AS ITEMS WHICH MET THE SUGGESTED AGE LIMITS. USAID HAS AND IS IN THE PROCESS OF TRANSFERRING UNNEEDED EQUIPMENT TO OTHER AGENCIES AS WELL AS PROJECT FUNDED FURNISHINGS TO THE GOI. ONCE THE NEW USAID OPERATED WAREHOUSE IS IN PLACE IT WILL BE EASIER TO ASCERTAIN THE CONDITION OF APPLIANCES AND FURNISHINGS. FURTHER DISPOSAL WILL BE MADE. ALSO, AT THE PRESENT TIME USAID HAS PUT A FREEZE ON THE PURCHASING OF ADDITIONAL NXP EXCEPT FOR COMPUTER EQUIPMENT OR, ON AN EXCEPTIONAL

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BASIS, OFFICE OR RESIDENTIAL FURNISHINGS.

3.2 USAID HAS DISPOSED OF OVER \$206,000 (ACQUISITION VALUE) NXP IN TWO SALES SINCE OCTOBER, 1989 AND WILL CONTINUE TO DO SO ON A PERIODIC BASIS. THE RETURNS FROM THE SALES WERE APPROXIMATELY \$ 45,000.

3.3 USAID HAS BEGUN DISPOSING OF NXP IN ACCORDANCE WITH HB 23. USAID REQUESTS THAT RECOMMENDATION NO. 3 BE RESOLVED AND CLOSED.

RECOMMENDATION NO. 4:

WE RECOMMEND THAT USAID/INDONESIA ESTABLISH A SYSTEM FOR DISPOSING OF NONEXPENDABLE PROPERTY WHICH ENSURES THAT ITEMS ARE DISPOSED OF ONLY WHEN THEY ARE NO LONGER USABLE AND THAT DISPOSAL ACTIONS ARE DOCUMENTED; SUCH A SYSTEM SHOULD INCLUDE

- CRITERIA FOR IDENTIFYING NONEXPENDABLE PROPERTY ITEMS WHICH ARE CANDIDATES FOR DISPOSAL, SUCH AS LIFE EXPECTANCY UNDER LOCAL CONDITIONS, FREQUENCY AND COST OF REPAIRS, AND PERIODIC PHYSICAL INSPECTIONS;
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- A MEANS FOR TRACKING CHANGES IN CONDITIONS OF NONEXPENDABLE PROPERTY ITEMS;

- GUIDELINES FOR CHOOSING APPROPRIATE DISPOSAL METHODS; AND

- PROCEDURES FOR DOCUMENTING THE CONDITIONS OF ITEMS AT TIME OF DISPOSAL AND THE METHOD OF DISPOSAL SELECTED.

MISSION RESPONSE TO RECOMMENDATION NO. 4:

- THE STATEMENT RECOMMENDING THAT WE ESTABLISH A SYSTEM OF DISPOSING OF NXP "WHICH ENSURES THAT ITEMS ARE DISPOSED OF ONLY WHEN THEY ARE NO LONGER USABLE" SHOULD BE REPHRASED. NXP CAN BE REPLACED WHEN IT IS STILL "USABLE" BUT HAS MET OTHER CRITERIA SUCH AS AGE, GENERAL OVERALL CONDITION, COST OF MAINTENANCE ETC. AFTER A PERIOD OF TIME APPLIANCES SHOULD BE REPLACED EVEN IF THEY ARE WORKING. USAID MISSIONS USUALLY CANNOT PURCHASE U.S. APPLIANCES LOCALLY AND HAVE TO IMPORT THEM. THE LAG TIME CAN BE SIX MONTHS OR MORE. ALSO IT IS NOT ECONOMICAL TO PURCHASE ONE UNIT AT A TIME. MORE ATTENTION WILL BE MADE TO ESTABLISH REORDER POINTS BASED UPON THE ABOVE FACTORS. THE EXCESS OF FREEZERS WAS A RESULT OF A CHANGE OF POLICY. AT ONE TIME EACH RESIDENCE WAS ISSUED ONE REFRIGERATOR AND ONE FREEZER. LATER, AN OPTION WAS OFFERED TO EXCHANGE THE FREEZER FOR AN ADDITIONAL REFRIGERATOR. IT PROVED TO BE A VERY POPULAR OPTION RESULTING IN EXCESS FREEZERS. SOME OF THE FREEZERS THAT DETERIORATED IN STORAGE (CRACKED INTERIOR CABINETS) HAVE BEEN DISPOSED OF BY SALE. THE AUDIT FINDING THAT USAID

MAY HAVE DISPOSED OF NONEXPENDABLE PROPERTY THAT WAS IN USABLE CONDITION" IS SPECULATIVE AND IS DRIVEN BY THE NON-DOCUMENTATION OF CONDITION OF THE PROPERTY AT THE TIME OF SALE. A SPECULATION IS NOT A FINDING. THE MISSION WILL FOLLOW HB GUIDELINES ON DISPOSAL UNTIL IT HAS ENOUGH DATA TO COME UP WITH A REASONABLE DISPOSAL PLAN.

USAID REQUESTS THAT RECOMMENDATION NO. 4 BE RESOLVED AND CLOSED.

RECOMMENDATION NO. 5:

WE RECOMMEND THAT USAID/INDONESIA

5.1 ASSESS PAYMENTS MADE TO THE CONTRACTOR FOR DELIVERY OF NONEXPENDABLE PROPERTY DURING THE LIFE OF CONTRACT NUMBER A.I.D. 497-0000-C-00-7176-00 TO ENSURE THAT PAYMENTS WERE REASONABLE AND WERE MADE ONLY FOR WORK THAT WAS ACTUALLY ACCOMPLISHED, AND

5.2 RECOVER PAYMENTS FOUND TO BE EXCESSIVE OR INAPPROPRIATE.

MISSION RESPONSE TO RECOMMENDATION NO. 5:

5.1 THE REVIEW OF LANE INVOICES HAS BEEN DONE. THIS

CONTRACT WILL BE FINISHED BY THE END OF AUGUST.

5.2 THIS REVIEW HAS BEEN COMPLETED AND ADJUSTMENTS HAVE BEEN MADE. SEVERAL ARE STILL UNDER DISCUSSION BETWEEN THE CONTRACTING OFFICER AND THE CONTRACTOR.

USAID REQUESTS THAT RECOMMENDATION NO. 5 BE RESOLVED AND CLOSED.

RECOMMENDATION NO. 6:

WE RECOMMEND THAT USAID/INDONESIA REVIEW AND AMEND, AS NECESSARY, PROVISIONS OF THE CONTRACT FOR DELIVERY OF NONEXPENDABLE PROPERTY TO ENSURE THAT CONTRACT PROVISIONS

- DEFINE WHAT CONSTITUTES A DELIVERY UNDER THE CONTRACT,

- SPECIFY THE SIZE AND COST OF DELIVERIES COVERED

- ALLOW FOR A NUMBER OF DELIVERIES ADEQUATE TO MEET USAID'S DELIVERIES REQUIREMENTS, AND

- REQUIRE THE CONTRACTOR TO DOCUMENT THE SIZE AND NUMBER OF DELIVERIES MADE.

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MISSION RESPONSE TO RECOMMENDATION NO. 6:

- AS THE CONTRACT WILL BE COMPLETED IN AUGUST AND DELIVERIES BY THE CONTRACTOR HAVE BEEN REDUCED BY HIRING OTHER LESS EXPENSIVE TRUCKS, AN AMENDMENT TO THE CONTRACT WOULD NOT SERVE ANY PURPOSE AT THIS POINT. HOWEVER GREATER CARE WILL BE TAKEN SHOULD FUTURE CONTRACTS PROVIDE SUCH SERVICE, E.G. SOME FORM OF WORK ORDER WILL BE REQUIRED PROVIDING MORE SPECIFICS.

USAID REQUESTS THAT RECOMMENDATION NO. 6 BE RESOLVED AND CLOSED.

RECOMMENDATION NO. 7:

WE RECOMMEND THAT USAID/INDONESIA

7.1 ADOPT PROCEDURES ENSURING THAT VEHICLE MAINTENANCE AND REPAIR CONTRACTORS RETURN PARTS REMOVED FROM USAID'S VEHICLES DURING MAINTENANCE AND REPAIRS,

7.2 ESTABLISH PROCEDURES FOR INSPECTING THE PARTS TO ENSURE THAT NEEDED REPAIR WORK WAS ACCOMPLISHED AND,

7.3 IMPLEMENT PROCEDURES FOR SELLING PARTS REMOVED FROM VEHICLES.

MISSION RESPONSE TO RECOMMENDATION NO. 7:

7.1 ALL PARTS ARE NOW RETURNED AND TAGGED BY WORK ORDER AND VEHICLE. THESE PARTS ARE PERIODICALLY INSPECTED BY ONE OF THE US PERSONNEL IN THE EXECUTIVE OFFICE. A NUMBER OF USED/DEFECTIVE PARTS WERE SOLD AT THE LAST SALE. THE PRICE RECEIVED WAS LESS THAN THE EFFORT EXPENDED STORING THEM UNTIL TIME OF SALE, BUT THE PRINCIPLE IS GOOD IN

THAT IT REMOVES THE TEMPTATION OF REPLACING GOOD PARTS WITH NEW PARTS FOR FUTURE PERSONAL DISPOSITION.

7.2 USAID DOES NOT HAVE A MECHANIC AND THE RESPONSIBILITY FOR ENSURING THAT WORK HAS BEEN PERFORMED HAS EITHER BEEN WITH THE ASSIGNED DRIVER OR THE DISPATCHER. ONE OF THE US EMPLOYEES IN THE EXECUTIVE OFFICE NOW CHECKS THE RETURNED PARTS AND SPOT CHECKS REPAIRED VEHICLES FOR VISUAL SIGNS OF REPAIR, E.G. FRESH PAINT ON NEW PARTS ETC. WE BELIEVE THE SPOT CHECKS ARE EQUAL TO WHAT ONE WOULD DO WITH THEIR PERSONAL VEHICLE. A MOTOR POOL SUPERVISOR WILL SOON BE HIRED, ADDING ANOTHER LAYER OF CHECKING REPAIRS.

7.3 PARTS ARE NOW SOLD IN REGULAR PROPERTY SALES. UNFORTUNATELY USED PARTS ARE NOT HIGHLY DESIRED HERE AS IN SOME COUNTRIES WHERE THE RESALE/REBUILDING OF PARTS IS A MAJOR INDUSTRY. HOWEVER WE AGREE WITH THE POLICY AND WILL CONTINUE TO DO IT.

USAID REQUESTS THAT RECOMMENDATION NO. 7 BE RESOLVED AND CLOSED.

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RECOMMENDATION NO. 8:

WE RECOMMEND THAT USAID/INDONESIA ESTABLISH CONTROLS OVER EXPENDABLE PROPERTY TO ENSURE ACCOUNTABILITY; SUCH CONTROLS SHOULD PROVIDE FOR

- RECORDING QUANTITIES AND COST OF OFFICE SUPPLIES OBTAINED FROM THE U.S. EMBASSY'S GENERAL SERVICES OFFICE UNDER THE FOREIGN AFFAIRS ADMINISTRATIVE SUPPORT AGREEMENT,
- DOCUMENTING RECEIPT, ISSUANCE, AND STOCK REPLENISHMENT OF BUILDING MAINTENANCE MATERIALS AND COMPUTER SUPPLIES, AND
- SECURING COMPUTER SUPPLIES AGAINST THEFT.

MISSION RESPONSE TO RECOMMENDATION 8:

- THE EXECUTIVE OFFICE IS NOW REVIEWING ALL OFFICE ORDERS FOR EXPENDABLE SUPPLIES BEFORE SENDING TO THE JAO/GSO. IN ADDITION, THE EXECUTIVE OFFICE INTENDS TO OPEN A SMALL OFFICE SUPPLY STOREROOM FOR THE USAID OFFICES. USAID OFFICES WILL THEN DRAW SUPPLIES FROM THIS STORE ROOM. COMPUTER SUPPLIES ARE NOW HANDLED BY THE
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EXECUTIVE OFFICE. DISKETTES, PRINTER RIBBONS, ETC. ARE KEPT IN A LOCKED STORAGE CONTAINER. ALL THE PRECAUTIONS IN THE WORLD WILL NOT PREVENT THE DELIBERATE THEFT OF OFFICE SUPPLIES OTHER THAN BY DRACONIAN MEASURES. WITH THE INCREASE IN COMPUTERS, USE OF SUPPLIES WILL INCREASE. IT IS VERY DIFFICULT TO ESTABLISH USAGE PATTERNS IN SUCH CIRCUMSTANCES.

USAID REQUESTS THAT RECOMMENDATION NO. 8 BE RESOLVED AND CLOSED.

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RECOMMENDATIONS

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Recommendation No. 1: We recommend that USAID/Indonesia strengthen internal controls over the management of nonexpendable property by

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- 1.1 designating storage areas and requiring that they be used for storing all nonexpendable property not in use;
- 1.2 developing and implementing a single form for use in issuing and returning nonexpendable items to storage areas, transferring items between residences and updating the computer when nonexpendable items are relocated;
- 1.3 specifying locations for receiving newly purchased nonexpendable property, assigning responsibility for receiving such property to specific personnel and requiring that receiving documentation be prepared upon delivery of items;
- 1.4 assessing the division of responsibilities among Executive Office staff to ensure that tasks are performed efficiently and effectively and
- 1.5 establishing a requirement for annual

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inventories of nonexpendable property.

Recommendation No. 2: We recommend that USAID/Indonesia determine the amounts and locations of nonexpendable property by

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- 2.1 conducting a physical inventory of all USAID nonexpendable property, including items stored in the warehouse and located at USAID offices and residences,
- 2.2 reconciling the results of the physical inventory to documentation on nonexpendable property purchased and disposed of since fiscal year 1986 to account for all items and
- 2.3 investigating any items that are unaccounted for.

Recommendation No. 3: We recommend that USAID/Indonesia adjust the size of its nonexpendable property inventory by

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- 3.1 determining the types and amounts of nonexpendable property that are needed,
- 3.2 identifying items in USAID's nonexpendable property inventory which are in excess of that need and
- 3.3 disposing of excess items in accordance with property disposal procedures in Section 227 of A.I.D. Handbook 23.

Recommendation No. 4: We recommend that USAID/Indonesia establish a system for disposing of nonexpendable property which ensures that items are disposed of only when they are no longer in good working condition and that disposal actions are documented; such a system should include

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- criteria for identifying nonexpendable property items which are candidates for disposal, such as life expectancy under local conditions, frequency and cost of repairs, and periodic physical inspections,
- guidelines for choosing appropriate disposal methods and
- procedures for documenting the condition of items at the time of disposal, the reasons for selecting items and the methods of disposal used.

Recommendation No. 5: We recommend that USAID/Indonesia

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- 5.1 assess payments made to the contractor for delivery of nonexpendable property during the life of contract no. A.I.D. 497-0000-C-00-7176-00 to ensure that payments were reasonable and were made only for work that was actually accomplished and
- 5.2 recover payments found to be excessive or inappropriate.

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Recommendation No. 6: We recommend that
USAID/Indonesia

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- 6.1 adopt procedures ensuring that vehicle maintenance and repair contractors return parts removed from USAID's vehicles during maintenance and repairs,
- 6.2 establish procedures for inspecting the parts to ensure that needed repair work was accomplished and
- 6.3 implement procedures for selling parts removed from vehicles.

Recommendation No. 7: We recommend that
USAID/Indonesia establish controls over expendable property to ensure accountability; such controls should provide for

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- recording quantities and costs of office supplies obtained from the U.S. Embassy's General Services Office under the Foreign Affairs Administrative Support Agreement;
- documenting the receipt, issuance, and stock replenishment of building maintenance materials and computer supplies and
- securing computer supplies against theft.

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