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AUDIT OF USAID/INDIA'S MANAGEMENT OF RESIDENTIAL AND OFFICE REAL PROPERTY

AUDIT REPORT NO. 5-386-90-13

SEPTEMBER 10, 1990

USAID/India's management of residential and office real property was generally in compliance with USAID's policies and procedures; however, we did note areas where some improvements could be implemented. For instance, USAID/India could improve compliance with the established procedures for measuring and reporting the size of leased quarters, monitoring and controlling the use of utilities, encouraging the reuse of furnishings, and reporting the acquisition of capital assets.

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE REGIONAL INSPECTOR GENERAL FOR AUDIT

– Singapore –

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September 10, 1990

MEMORANDUM FOR: Dale B. Pfeiffer, Acting Mission Director USAID/India

FROM: James B. Durnil, RIG/A/Singapore

SUBJECT: Final Audit Report on USAID/India's Management of Residential and Office Real Property (Audit Report No. 5-386-90-13)

The Office of the Regional Inspector General for Audit/Singapore has completed its audit of USAID/India's Management of Residential and Office Real Property. Enclosed is the final report for your review and appropriate action.

We have reviewed your comments on the draft report and summarized them after each finding and also included them in their entirety as Appendix B to the report. Based on your comments, all recommendations except Recommendation No. 4 are resolved and will be closed when appropriate actions are completed. Recommendation No. 4 will be resolved when you have received clarification from A.I.D./Washington and will be closed when appropriate actions are completed.

Please respond to this report within 30 days, indicating any actions planned or taken to implement the recommendations. I appreciate the cooperation and courtesies extended to my staff during the audit.

EXECUTIVE SUMMARY

Real property managed by USAID/India's Executive Office included 21 staff residences for 21 U.S. Direct Hire employees, two office buildings for 171 U.S. and Foreign Service National employees, and one warehouse for storage of office and residential furniture. For fiscal year 1989, rental payments were about $1,072,000, and utility and maintenance payments were about $86,000 and $136,000, respectively. In fiscal year 1988, USAID/India entered into a 10-year agreement with the Family Planning Foundation to lease an office building to provide additional office space for USAID/India personnel. The building required major improvements costing about $2 million. Fiscal year 1989 expenditures for these improvements were $681,000.

Between April 9 and April 26, 1990, we audited USAID/India's management of residential and office real property. The audit was conducted in accordance with generally accepted government auditing standards. We found that USAID/India's management of the real property was generally in compliance with USAID's policies and procedures. However, we did note that more complete compliance could be obtained in the following areas:

- Six of the twenty-one residential houses in USAID/India's inventory exceeded the State Department's square footage standards for size by more than 10 percent, but the required waivers had not been requested.

- USAID/India had adequate controls over the routine maintenance cost; however, additional monitoring was necessary to improve controls over utility costs.

- USAID/India could increase use of standardized fabrics and neutral colors for drapery and upholstery in order to make it easier for new occupants to reuse existing items.

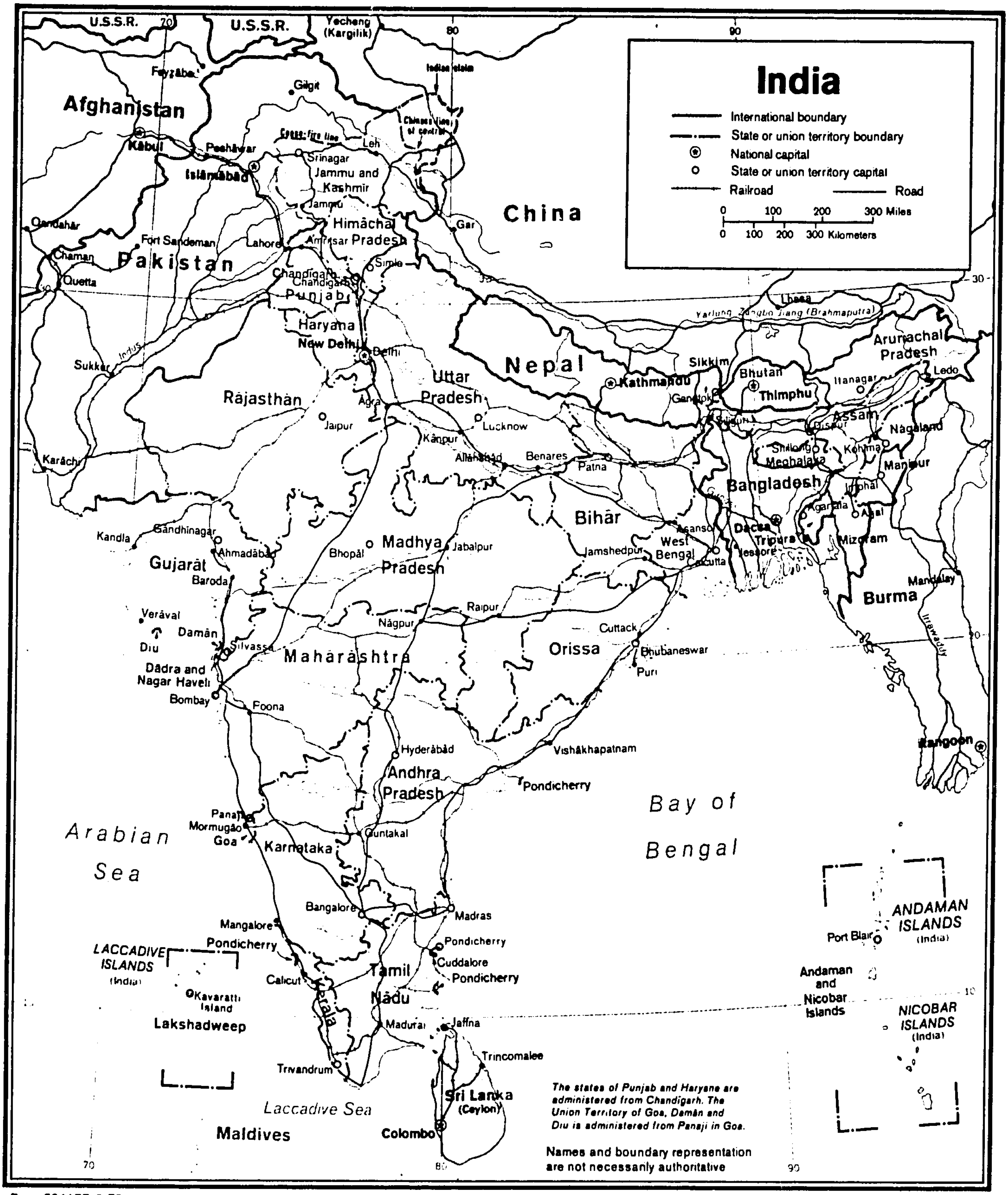
- USAID/India did not properly record and report $552,000 in service charges for installing capital assets in the new office building.

- The Mission's contractor may have violated a New Delhi Municipal Authority regulation by modifying the electrical high tension panel room in the new office building.

The report contains five recommendations. It also presents our assessments of internal controls and USAID/India's compliance with applicable laws and regulations. A draft of this report was provided to Mission officials for comments. Mission officials generally agreed with the report's findings and recommendations and initiated various actions to implement most of the recommendations.

Office of the Inspector General

Office of the Inspector General
September 10, 1990



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INTRODUCTION

Background

Real property managed by USAID/India's Executive Office included 21 staff residences for 21 U.S. Direct Hire employees, two office buildings for 171 U.S. and Foreign Service National employees, and one warehouse for storage of office and residential furniture. For fiscal year 1989, rental payments were about $1,072,000, and utility and maintenance payments were about $86,000 and $136,000, respectively. In fiscal year 1988, USAID/India entered into a 10-year agreement with the Family Planning Foundation to lease an office building to provide additional office space for USAID/India personnel. The building required major improvements costing about $2 million. Fiscal year 1989 expenditures for these improvements were $681,000.

Audit Objectives

The Office of the Regional Inspector General for Audit/Singapore audited USAID/India's management of residential and office real property to answer the following audit objectives:

- Did the size of USAID/India's staff residences conformed to the size standard set by the Department of State for overseas housing?

- Did USAID/India monitor and control utility and maintenance costs of the residential property to prevent waste and misuse of resources?

- Were government-owned furnishings adequately controlled and efficiently used?

- Was there adequate documentation to justify leasing the new office building and investing over $2 million in improvements on it, and were the improvements performed in accordance with applicable laws, regulations, and procedures?

In answering the audit objectives, we tested whether USAID/India followed applicable internal control procedures and complied with certain provisions of laws and regulations. Our tests were sufficient to provide reasonable—but not absolute—assurance of detecting abuse or illegal acts that could affect the audit objectives. Because of limited time and resources, we did not continue testing when we found that, for the items tested, USAID/India followed A.I.D. procedures and complied with legal requirements. Therefore, we limited our conclusions concerning positive findings to the items actually tested.

When we found problem areas, we performed additional work to conclusively determine whether or not USAID/India was following a procedure or complying with a legal requirement; to identify the cause and effect of the problems, if any; and to identify appropriate corrective actions which may be necessary. Appendix A contains a complete discussion on the scope and methodology for this audit.

REPORT OF AUDIT FINDINGS

Did the size of USAID/India's staff residences conform to the size standard set by the Department of State for overseas housing?

Most of USAID/India's staff residences conformed to the size standard. But there were some cases where the standard was exceeded and the required waivers had not been obtained. We found that 6 of the 21 residential units in USAID/India's inventory exceeded the State Department's size standard. This occurred because USAID/India did not correctly apply the procedures for computing finished square footage as set forth in Airgrams A-1093 and A-564. Consequently, six occupants were living in houses which exceeded the standard without justification and without A.I.D./Washington's approval.

Recommendation No. 1: **We recommend that USAID/India:**

1.1 Compute the finished square footage for all existing, proposed, or renewed residential leases based on the definition of finished square footage given in the State Department's Airgrams A-1093 and A-0564, unless specific instructions to the contrary are obtained.

1.2 Request waivers on all new or renewed leases that exceed the standard by more than 10 percent.

Airgram A-1093 defines finished square footage for residential quarters as the finished area within the exterior walls of a dwelling. The finished square footage computation only excludes unfinished basements, garages, unfinished attics, and servants' quarters. According to the requirements, dwellings that exceed the standard by more than 10 percent should be dropped from the inventory, or waivers should be obtained from A.I.D./Washington to retain them.

USAID/India's method for computing the size of residential units was based on net usable square footage. From the gross square footage, the unfinished basements, storage areas, and servants quarters were properly deducted per the instructions of A-1093 and A-0564. However, hallways, entrance ways, foyers, and staircases were improperly deducted. For example, the unit located at 3/18 Shanti Niketan was assigned to a family of two. The Department of State's housing standard allow 1,650 finished square feet of space for two. USAID/India computed the space of this unit as 1,634 net usable square feet. However, the correct computation of the space was

2,061 finished square feet, including the hallways and the foyer. Thus, this unit was 25 percent over standard. USAID/India should have dropped this unit from its inventory or obtained a waiver from A.I.D./Washington to retain it.

USAID/India officials stated that they made these additional deductions because of certain instructions for reporting residential space. For instance, USAID/India stated the deduction were consistent with the method used by the American Embassy/India, as well as the measurement requested by A.I.D./Washington in the standard template for requesting a waiver for leases exceeding the standard. However, neither USAID/India's management nor the American Embassy/India's General Services Officer were able to provide any documentation that altered or superseded the criteria defined in Airgrams A-1093 and A-0564.

As a result of using the incorrect method, USAID/India determined that only 1 of the 21 units currently leased needed a waiver. If the proper measurement method had been used, six additional units would have been over the standard and waivers would have been required.

Mission's Comments

USAID/India officials concurred with the finding, stating that they will review all existing leases based on the definition of finished square footage and request waivers for all those that are required by the criteria as established in A-1093 and A-0564 and provide the relevant justification. The officials also stated that their housing pool was not luxurious and that they were not in excess of the space standard when evaluated against usable area. In addition, they believed existing leases were less expensive than new leases in New Delhi, thus it would not be prudent for them to terminate existing leases and negotiate a new lease solely to meet a space standard.

Office of Inspector General Comments

Based on the comments received from the Mission, the recommendation for this finding is resolved. When USAID/India provides a copy of the results of its review of existing leases and obtains waivers as required, the recommendation will be closed.

Did USAID/India monitor and control maintenance and utility costs of the residential property to prevent waste and misuse of resources?

USAID/India adequately monitored and controlled routine maintenance costs for residential property; however, additional monitoring is necessary to better control utility costs. A.I.D. regulations state that missions are responsible for ensuring that utility costs in residences are held to reasonable levels. Since reasonable levels of consumption had not been established, USAID/India could not determine if cost savings could be made in this area. Accordingly, USAID/India needs to develop a system to adequately monitor residential utility consumption.

<u>Recommendation No. 2</u>: **We recommend that USAID/India:**

2.1 Establish a policy to monitor and improve controls over utility usage.

2.2 Establish a system to track and analyze residential utility cost and consumption.

Handbook 23, Chapter 5, states that missions are responsible for ensuring that maintenance and utility costs in residences are held to reasonable levels and that administrative procedures, including the setting of limits, should be established to enforce the control of these costs.

The Mission participated in the American Embassy/India's Foreign Affairs Administrative Support pool for providing routine maintenance for the residences. All routine maintenance work was handled by submitting a purchase order to the Embassy's Building Maintenance Office. The cost of all the routine maintenance work for all the Embassy housing was accumulated in an expense pool and allocated to A.I.D. and the other participating agencies based on residential square footage occupied. These allocations and reimbursements were handled by A.I.D./Washington.

As for monitoring and analysis of utility costs, USAID/India began gathering data on the electricity bills for each residence in April 1989. USAID/India identified the following problems:

- Electric meters were not read, and utility bills were not submitted on a regular cycle.
- Many of the meters were defective.
- Many of the bills were based on inaccurate estimates instead of regular meter readings.
- One landlord's use of electricity was included on USAID/India's bill.

USAID/India should be commended for identifying the above problems and pursuing them until corrective action was taken by the utility company. However, more work needs to be done to comply with A.I.D.'s procedures for monitoring utility consumption.

USAID/India needs to develop a system to track individual residential unit's utility consumption and costs in order to be in accordance with the Handbook. We would suggest a database management system on a microcomputer for monitoring utility cost. A relational database could be set up to monitor and analyze utility charges by meter and by residence. A database management system of this nature could provide summary and analytical information in a limitless number of reports that would allow management to compare utility costs by residence and by square footage. It would also allow USAID/India to identify monthly fluctuation and annual trends for budgeting.

For fiscal year 1989, the estimated utility expense was $86,000. With an adequate utility monitoring system, the USAID/India would be able to identify possible areas where cost could be reduced.

Mission's Comments

USAID/India officials concurred with the finding, stating that they will issue a Mission Order describing the Mission's policy to monitor and promote the efficient use of utilities in leased housing and set up a computer program to monitor these costs.

Office of Inspector General Comments

Based on the comments received from the Mission, the recommendation for this finding is resolved. When USAID/India provides a copy of the Mission Order, the recommendation will be closed.

Were government-owned furnishings adequately controlled and efficiently used?

Based on our assessment of USAID/India's Mission Orders and control techniques related to government-owned furnishings, we believe that USAID/India adequately controlled the use of government-owned furnishings provided to occupants of residential units. However, USAID/India did not limit the selection of material for drapery and upholstery to standard fabrics and neutral colors that could be suitable to several different occupants. Also, USAID/India did not actively encourage new occupants to use the existing clean and functional furniture cover and drapery. Thus, there is room for improvement in the efficient use of the furnishings.

> **<u>Recommendation No. 3</u>: We recommend that USAID/India revise Mission Order No. 88-21, which establishes the Mission's policy for decorating residences, to comply with the provisions of Handbook 23, Chapter 5.**

Handbook 23, Chapter 5, states that missions should institute a written policy standardizing the quantity and quality of furnishings to be issued. Among the points to be considered in establishing the policy are:

- Use of neutral colors and standard types of fabrics for drapes, curtains, rugs, upholstery, etc. that are suitable for several different occupants.
- Provision for replacement periods and conditions under which furnishings may be replaced with new or refinished/reupholstered items.
- Provisions to ensure that new occupancy is not sufficient justification to procure replacement or personal preference items when clean and functional furnishings are available.

Mission Order No. 88-21 dated June 1, 1988, "Residential Furnishings Decorating Allowance for U.S. Government Leased/Residences" does not comply with the requirements of the A.I.D. Handbook. Instead, each new occupant who is assigned to USAID/India for two or more years is allowed to reupholster furniture and replace drapes. USAID/India does not make the decision to replace existing fabrics based on an evaluation of its condition. Instead, such decisions are at the discretion of the new occupant.

New occupants are also not restricted to selecting standard fabrics and colors but are allowed to select any fabric available within the cost per meter limits. Such selection might not be suitable for future occupants. Furthermore, at the end of a two-year tour, USAID/India allows occupants to spend an additional 25 percent of the initial allowance for redecorating.

In order to reduce cost in this area, USAID/India should establish a selection list of durable fabrics that are sufficiently neutral in texture and color that would be suitable for most occupants. Also, USAID/India should evaluate existing upholstery and drapery to determine whether it could be used by new occupants and encourage the new occupants to retain these furnishings.

Mission's Comments

USAID/India officials believed that the polluted conditions in New Delhi made it impractical to identify any neutral or standard type of fabrics for use in furnishings which would be re-usable. Nevertheless, they will re-write their Mission Order to add wording to ensure that an inspection of the furnishings is made at the conclusion of a family's tour and require the re-use of furnishings when the furnishing is judged to be clean and functional.

Office of Inspector General Comments

Based on the comments received from the Mission, the recommendation for this finding is resolved. When USAID/India provides a copy of the Mission Order, the recommendation will be closed.

Was there adequate documentation to justify leasing the new office building and investing over $2 million in improvements on it, and were the improvements performed in accordance with applicable laws, regulations, and procedures?

USAID/India's management believed that the lease of the new office building and investment of $2 million in improvements was justified because of the need to improve security and operational efficiency of the Mission. However, the Mission's operations were adversely impacted because of the delay in completing the improvements and the cost overrun. Except for inappropriately recording and reporting the installation of capital assets and the possible violation of a New Delhi Municipal Authority regulation, USAID/India had documented the need for the building and complied with applicable laws, regulations and procedures in making the improvements.

USAID/India's Justification for
Leasing the New Office Building and Progress

The need for additional office space for USAID/India personnel was expressed in a planning document prepared by the real estate consulting firm of Kabil Associates. This plan was prepared for the Office of Foreign Buildings Operations in November 1984 to assist that organization in improving facilities at the American embassy in New Delhi. Kabil Associates reported that the operation at USAID/India was severely hampered by the physical facilities in which the Agency was housed. Kabil Associates cited the following deficiencies:

- Existing office space in the West Building was crowded, inefficient, and unattractive.
- Since USAID/India was located with the Consular Affairs section, many Indian government officials and other visitors would not schedule meetings in the West Building because of past experiences with lines of people waiting to enter and degrading security procedures.
- Leased space at the Ashok Hotel, which provided additional USAID/India office space, was operationally difficult and the security provisions there were non-existent.

Kabil Associates recommended that USAID/India consolidate into remodeled space in the West Building and separate the Mission and the Consular Affairs section.

On February 13, 1987, IG/SEC conducted a security survey of the USAID/India annex at the Ashok Hotel. Several recommendations were proposed to upgrade the security at the annex. However, hotel management would not agree to the proposed security enhancements.

A USAID/India Mission Management Assessment dated October - November 1987 cited several problems with office space arrangement. The assessment team indicated that the cost of space at the Ashok Hotel was too high, it was not secure enough, it was unsafe, and it created communications problems because of the separation of USAID/India staff. The assessment team recommended that USAID/India move forward quickly to obtain new office space.

<u>Evaluation of Potential Sites</u>

USAID/India considered several potential sites for additional office space:

- Expansion of the West Building on the embassy compound - This alternative was rejected because Mission management estimated that the cost would be in excess of $7 million and would take too long to complete.

- Ten Tilak Marg Site - USAID/India and the Office of Foreign Building Operations proposed the consolidation and relocation of the entire USAID/India Mission to the U.S. Government-owned compound at 10 Tilak Marg. This was rejected because it would not meet the Department of State's standards for building setback and the cost would be $3 to $4 million.

- Hotel Surya Sofitel - This site was explored and rejected because of the impossibility of implementing security procedures.

- Vaitalik Site - This site was rejected because the security setbacks were minimal and it could only provide 24,000 net square feet of space to USAID/India, which was inadequate for the entire Mission.

- Family Planning Foundation Site - According to USAID/India officials, this site offered enough space to accommodate the entire Mission. The estimated cost to complete the make-ready improvements and move the Mission was about $1.7 million. However, the size and shape of the property did not allow for implementation of the security setback standards.

USAID/India considered the Family Planning Foundation site the best of the alternatives, even though the Inspector General for Security considered that its failure to meet the Department of State's perimeter standards for building setbacks was a "serious and irremediable security deficiency." Nevertheless, USAID/India obtained A.I.D./Washington's approval, funding, and security waivers to lease the Family Planning Foundation Building. On October 27, 1988, an agreement was signed with Family Planning Foundation to make the necessary improvements and lease the building for a period of ten years.

Cost of Improvements

Originally, the estimated cost of preparing the new office building for occupancy was about $1,450,000 for improvements plus another $215,000 for the security enhancements totalling $1,665,000. However, the actual amount required to complete the building will be about $2,010,000. The cost overrun, $134,000 for fiscal year 1989 and about $211,000 for 1990, was attributed to unanticipated expenditures and escalation in contractor costs due to construction delays and change orders made by USAID/India.

USAID/India accommodated the cost overrun by making cuts in several Operational Expense categories like Nonexpendable Procurement, Automatic Data Processing Equipment Procurement, Vehicles, Residential Furnishings, Maintenance, Supplies, Materials, and Travel. These cuts in Operation Expenses have had an adverse impact on other USAID/India operations. For instance, in-country travel was reduced considerably. The budget for this category was $173,000 in 1988 but only $100,000 in 1989 and $80,000 in 1990. Some project officers complained that they did not have the funds for site visits to adequately monitor their projects. For example, the Food for Development office director stated the fund constraints prohibited him from implementing a comprehensive monitoring program. This office Director requested $52,000 for In-Country travel for fiscal year 1989, but only $16,000 was approved.

USAID/India officials stated that there was no spending ceiling given by A.I.D./Washington to make the improvements to the new office building and that the amount allotted by A.I.D. Financial Management for this purpose was not a stated or implied spending ceiling. Furthermore, A.I.D./Washington did not request that the Mission perform the improvements in accordance with Section 636 (c) as the Section applies to leases over 10 years. Thus, USAID/India was not required to administer the improvements in accordance with 6 FAM 707 administrative procedures (these guidelines require spending ceilings and quarterly progress reports on problems encountered and delays in completion).

Progress on Completing Improvements

The progress on completing the improvements at the building was slow. The Mission was scheduled to occupy the building in May 1989. But as of April 1990, USAID/India had not moved in; they were still installing the air-conditioning, the security reinforcements, and the other A.I.D.-contracted improvements. USAID/India officials stated that the causes of delay was the difficulties in dealing with the Indian Government bureaucracies, slippage in contractor's schedules, and coordination problems between contractors.

These types of problems caused USAID/India unnecessary expenditures. For example, USAID/India air-shipped emergency power generators form the United States to India because they anticipated moving into the building in June of 1989.

The air shipment cost an additional $18,000. As it turned out, the generators could have been shipped by surface as the move date was pushed back about a year.

It was also mentioned that getting the money from Washington was a "real nightmare"; so in order to have the funds available, they may have been too optimistic in the original dates of completion. USAID/India moved to the building in May 1990, but lease payments were retroactive to October 1989.

Compliance with Policy and Procedures

Except for the two items listed below, nothing came to our attention that would indicate that USAID/India did not comply with the applicable laws, regulations, and procedures in performing the improvements.

USAID/India Needs to Properly Report on the Service Charges for the Installation of Capital Assets

USAID/India did not properly record and report the service charges for the installation of capital assets in the new office building. This occurred because USAID/India used the incorrect object classification codes related to the capital acquisitions and installation of capital assets. As a result, USAID/India's balance of capital assets reported to A.I.D./Washington were understated by about $552,000.

Recommendation No. 4: **We recommend that USAID/India adjust the capital asset balance to include the service charges for the installation of capital assets in the new office building.**

U.S. Department of State's 6 FAM 759.2 states that the proper object and subobject codes should be used in recording and reporting expenditures for major improvements and alterations so that these expenditures may be capitalized in A.I.D.'s property records. A.I.D. Handbook 18, Appendix D, prescribes object and subobject classification codes to be used in recording and reporting expenditures. It states that when missions record and report the acquisition of fixed equipment which become permanently attached to or become a part of a building or structures, the missions should use the Acquisition of Capital Assets object and subobject codes. This includes charges for services in connection with initial installation of the equipment when performed under contract.

In performing the improvements to the new office building, USAID/India acquired and installed an air-conditioning system, a power plant, an electrical system, and a telephone system. The acquisition cost of this fixed equipment was properly recorded and reported using the Acquisition of Capital Assets object code; however, $552,000 of charges for the installations of this equipment was improperly charged to the Miscellaneous Contractual Services subobject code. Consequently, the capital assets reported by USAID/India to A.I.D./Washington to be included in A.I.D.'s property records was understated by about $552,000.

Mission's Comments

USAID/India officials stated they were not sure if the requirement for capitalization of service charges for installation of fixed equipment applies to leased property as well as owned property. The clarification from A.I.D./Washington would be obtained and necessary corrective action stated taken.

Office of Inspector General Comments

In our opinion, 6 FAM 759.2 and A.I.D. Handbook 18 Appendix D is clear as to the proper recording of service charges for the installation of fixed equipment. When the clarification is received from A.I.D./Washington, we will consider the recommendation resolved; and when the adjustment is made, we will consider it closed.

USAID/India May Have A Possible Violation of Municipal Regulation

USAID/India's contractor may have violated a New Delhi Municipal Authority regulation by modifying the electrical high tension panel room of the new office building. This appeared to have created a fire or safety hazard. The lease agreement stipulated that due care should be taken not to violate the building regulations of the Municipal Authorities.

Recommendation No. 5: We recommend that USAID/India arrange for a fire safety inspection to determine if the modification of the electrical high tension panel room has created a safety hazard.

Although the lease agreement with the Family Planning Foundation has provisions to allow USAID/India or its contractors to make modifications to the facilities, it stipulated that due care should be taken not to violate the regulations of the Delhi Development Authority or the Municipal Authorities. USAID/India's contractor may have violated a Municipal regulation by building a false ceiling in the electrical high tension panel room in order to provide a passage way for the basement ventilation system.

According to a Mission official, high tension panels for the building's commercial electric power source requires an enclosed, fire-proof room 15 feet high, 15 feet wide, and 15 feet long. This standard is required prior to obtaining commercial power and obtaining an occupancy permit. But an air passage for the basement ventilation system was needed and the only passage for it was through the high tension panel room. So they built a false ceiling over the electrical high tension panel and opened a 2 x 5 feet hole in the wall. The USAID/India official stated that this work was done after they had obtained an occupancy permit and the Municipal Authority allowed them to energize the high tension panels. He added that an occupancy permit probably would not have been obtained if the work had been done prior to the Municipal Authority's inspection.

This modification appears to endanger the safety of the personnel working in the basement. If a fire were to start in the high tension room, it seems that it would quickly burn through the ceiling, which functions as an air duct for the basement ventilation system, and quickly spread toxic fumes throughout the basement. A safety inspection needs to be conducted to determine if this modification is safe.

Mission's Comments

USAID/India disagreed with the statement that a Municipal regulation was violated; however, they acknowledged that the modification of the high tension panel room could be a potential fire hazard and have taken some corrective action to minimize the risk. Furthermore, they stated that they will request a fire safety survey by FBO/Fire Safety.

Office of Inspector General Comments

Based on the comments received from the Mission, the recommendation for this finding is resolved. When the fire safety survey is completed, the recommendation will be closed.

REPORT ON INTERNAL CONTROLS

We have audited USAID/India's management of residential and office real property for the period October 1, 1988 through March 31, 1990, and have issued our report thereon dated September 10, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- Assess the applicable internal controls when necessary to satisfy the audit objectives.

- Report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the four audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/India, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (the Integrity Act) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus the related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable—but not absolute—assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changes in conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to each of the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation—and we assessed control risk. In doing this work, we found certain problems that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/India's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.

Audit Objectives One, Two, and Three

Objectives one, two, and three concern the management of residential real property. In planning and performing our audit, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 23, Chapter 5. For the purpose of this report, we have classified policies and procedures into the following categories: the leasing process, assignment of quarters process, maintenance and utility process, issuance of furnishings process, and termination of lease process.

We noted three reportable conditions where USAID/India did not completely follow procedures to:

- Assign occupants to quarters that conformed to the size standard set by the Department of State for overseas housing.

- Monitor and control utility use.

- Encourage reuse of furnishing provided to occupants of leased quarters.

Audit Objective Four

Objective four concerns the acquisition of additional office space for USAID/India's operations. In planning and performing our audit of this acquisition, we considered the applicable internal control policies and procedures cited in A.I.D. Handbook 25, Chapter 5, and U.S. Department of State 6 FAM 700. For the purposes of this report, we have classified policies and procedures into the following categories: justification process, approval process, funding process, acquisition process, and reporting process.

We noted one reportable condition related to the reporting process: the Mission did not follow established procedures when it did not properly record and report the service charges for the acquisition of capital assets installed in the new office building.

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A material 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 project funds being audited may occur and may 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.

REPORT ON COMPLIANCE

We have audited USAID/India's Management of Residential and Office Real Property for the period October 31, 1988, through March 31, 1990, and have issued our report thereon dated September 10, 1990.

We conducted our audit 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. Those standards also require that we:

- Assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives (which includes designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives).
- Report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statues, regulations, contracts, grant and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts, and grants applicable to real property is the overall responsibility of USAID/India's management. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/India's compliance with certain provisions of Federal laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions other than those related to real property.

The results of our tests of compliance indicate that, with respect to the items tested, USAID/India complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/India had not complied, in all significant respects, with those provisions.

SCOPE AND METHODOLOGY

Scope

We audited USAID/India's management of real property in accordance with generally accepted government auditing standards. We conducted the audit from April 9 through April 26, 1990, and covered the system and procedures relating to the management of real property from October 31, 1988 through March 31, 1990. We conducted our field work in the offices of USAID/India and the property sites in New Delhi.

Methodology

Audit Objectives One, Two, and Three

To accomplish the first, second, and third objectives, we (1) reviewed all relevant residential property records, files, reports, and lease documents; (2) interviewed USAID/India officials, the American Embassy General Service Officer, and a real estate agent; (3) inspected 6 of the 21 residential properties in New Delhi where all of USAID's leased properties were located; (4) determined the justification for leasing and determined the occupancy status of each property; (5) compared assignments of housing to the space standards; (6) reconciled lease payments to MACS reports; and (7) assessed whether the inter-agency housing board functions were effectively implemented.

Audit Objective Four

To accomplish the fourth objective, we (1) reviewed all relevant office property records, files, reports, and lease documents; (2) interviewed USAID/India officials (3) inspected all office buildings and the warehouse; (4) reviewed the justification for leasing office space; (5) compared assignments of individual office space to the space standards; (6) reconciled lease and contractor payments to MACs reports; (7) and obtained data on the contractors performing the improvements on the new office building to determine if contractors were performing according to the terms of their contract.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

NEW DELHI, INDIA

August 27, 1990

FAX # : (065) 226-1195 RIG/A/Singapore

RECEIVED
29 AUG 1990

MEMORANDUM

TO : Mr. James B Durnil - RIG/A/Singapore

FROM : Dale B. Pfeiffer - Director(Acting), USAID/India

SUBJECT : Draft Audit of USAID/India's Management of Residential and Office Real Property

Forwarded herewith are our comments on the subject report and the actions we propose to take on the five recommendations it contains.

(1) Size of Houses

Comments: USAID agrees to measure the houses based on the definition of finished square footage as per the recommendation. And it will seek waivers where necessary. However, we wish to note for the record that our existing housing pool is not luxurious by any stretch of the imagination and we are not in excess of space standards when evaluated against usable area. The local housing market offers a type of house not comparable with U.S. specifications. Local architecture tends to reflect Indian tastes in both decor and layout. In the latter area, houses tend to have anomalies such as large internal hallways and stair landings, rooms on the roof, or widely divided or oddly positioned bedroom areas. A strict measurement based on worldwide guidelines would thus make it appear that houses currently under lease or leased in the future to be excessive in size. However, significant parts of the measured area would not exist in a U.S. house and are found to be essentially unuseable space by American occupants in local housing.

It should also be noted that while we make every efforts to adhere to the prescribed space standards while leasing houses, there are other equally pertinent considerations which guide our decisions at the time houses are leased or assigned to individuals. These are: availability of acceptable houses in an extremely tight and expensive housing market; reasonableness of rent; the terms and period of the lease; safety of the location; and adequacy of utility services like water and electricity. Moreover, existing leases are always less expensive than new leases in New Delhi and with the market described above, we do not believe it would be prudent to terminate an existing lease and negotiate a new lease solely to meet the exact space requirements for each family stated in A-1093 and A-0564.

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Based on the Mission's history of negotiations for housing, we believe that we should maximize leases that already have established periods and that this will avoid the tremendous increase in costs of terminating leases that don't comply and incurring additional make ready costs of up to and in excess of $5,000. The Mission believes it is more logical to anticipate needs within the limits established in A-1093 & A-0564 and the limitations listed above when leases are coming up for renewal and to make assignments within the existing houses available. This approach we believe would be much more cost effective and in the best interest of the USG.

In regards to the example of 3/18 Shanti Niketan provided in the report, we would like to point out that this house was leased by the Mission in 1983. It was assigned to an employee with a family of four and occupied by him until he left Post in May 1988. Thus it was not leased for a family of two as stated in the audit report. It was assigned in August 1988 to the current occupant who has a smaller family to avoid expenses in make-ready of a new residence and major investments in security measures. Besides, the rent we are paying for this house is amongst the lowest for our residences and it would not have been prudent to delease it just because the new incumbent's space entitlement was lower.

Proposed Action, Recommendation No. 1: USAID/New Delhi will review all existing leases based on the definition of finished square footage and request waivers for all those that are required by the criteria as established in A-1093 and A-0564 and provide the relevant justification as stated above.

(2) Utility Costs

Comments: Beginning mid '89, USAID initiated a program to monitor utility bills and meters. As a result of that effort the following actions have been taken:

1) all defective meters have been changed;
2) monthly utility bills are sent to the Housing Officer for review and analysis;
3) the Housing Officer is monitoring the utility cost on a spread sheet on a monthly basis by residence and is working with the computer staff to set up a computer program to monitor these costs.

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The Mission is also exploring the possibilities of improving the insulation of the houses and buying energy efficient appliances that would be most desirable in the changing climatic conditions of New Delhi.

In the one case where the landlord used electricity out of the same meter as our occupant, the Housing Officer discovered this and rectified the problem.

Proposed Action, Recommendation No. 2: The Mission will issue a Mission Order stating the policy to monitor and promote the efficient use of utilities in leased housing and continue implementing the procedures mentioned above.

(3) Draperies/Upholstery Materials

Comments: USAID sees little gain in following this recommendation based on local conditions. We believe this guidance was written with the objective of avoiding Missions incurring excessive costs for such soft furnishings. If monetary gains were realizable, we would concur. But the fact is that local conditions make it impractical to identify any neutral or standard type of fabrics for use in soft furnishings in houses which would be re-useable. New Delhi is among the world's most polluted cities and experience has demonstrated conclusively that soft furnishings in our houses are in no condition for re-use by another family after even two years, much less after three or four. The absence of any practical way of cleaning such fabrics makes it impossible to use that option for keeping them looking decent. Therefore, considering the above stated factors, the existing practice of standardization of cost for the material used in upholstery and curtains is the most practical and cost effective. Nevertheless, we will re-write our Mission Order to ensure that an inspection is made at the conclusion of a family's tour to determine whether their soft furnishings are re-useable, but will continue when they are not to give new personnel the option of finding materials to their own taste in the local market, one noted for its variety.

Proposed Action, Recommendation No. 3: Mission Order 3045 on "Residential Furnishings Decorating Allowances for USG Leased Residences" will be amended to add the wording that will require the use of furnishings when the furniture or curtains are judged to be clean and functional. This would also be consistent with Mission Order 3030, "Residential Furnishings and Equipment", which already requires the use of clean and functional furnishings.

(4) Capitalization of Costs

Comments: The Mission in the recent past had not dealt with capitalization of service charges for the installation of capital assets. As such these costs were charged to miscellaneous contractual services subject code. However, we are still not clear if the requirement for capitalization of service charges applies to leased property also. Therefore, we will seek necessary clarification in this regard from AID/W. If such costs have to be capitalized, we will take action to do that.

Proposed Action, Recommendation No.4: The Mission will take necessary corrective action after receiving clarification from AID/W prior to September 30, 1990 (end of FY-1990).

(5) Municipal Regulations and Fire Safety Inspection

Comments: USAID/India or its contractors have not violated the Municipal regulations since the electrical high tension panel installed by the Delhi Electric Supply Undertaking (D.E.S.U.) is located on the ground floor in an enclosed fire proof room 15 feet high, 15 feet wide and 15 feet long.

The high tension panel in question and as referred in the findings is a secondary H.T. Panel installed by the landlord in the basement of the building in the area demarcated by them. USAID has not made changes in this room except to have installed a fire retardant false ceiling and created a plenum on top of that to draw fresh air from outside to provide ventilation to the entire basement. The adjoining room has two floor mounted centrifugal suction fans which from the top opening, pull fresh air.

While it is true that the suction of the fresh air through the plenum in the HT Panel Room could be a potential fire hazard for ventilation in the basement, following corrective measures have already been taken:

(1) To install an automatic cut off switch which would activate in case of rise in temperature by fire and stop the suction of air by the floor mounted centrifugal fans installed in the adjoining rooms.
(2) Only fire resistant/retardant material has been used for the false ceiling.
(3) Fire detection alarm has been installed in the room.

5.

Additionally, the entire building including the utility areas and the H.T. Panel room in the basement were thoroughly inspected by a FBO Fire Safety Team as late as March of 1990 and they did not point this out as a fire hazard or recommend any further safety measures.

Proposed Action, Recommendation No.5: USAID will further consult and request an additional fire safety survey by FBO/Fire Safety since the building is now fully completed and occupied. This survey will include the primary and secondary electrical high tension panel rooms.

cc: ANE/DP/F, AID/Washington
IG/PPO, AID/Washington