

**AUDIT OF USAID/BANGLADESH'S
MANAGEMENT OF OPERATING EXPENSES**

**Audit Report No. 5-388-93-08
March 19, 1993**



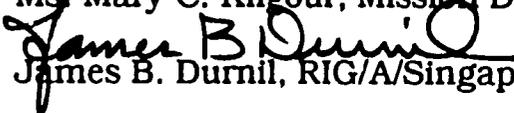


U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 19, 1993

MEMORANDUM

TO: Ms. Mary C. Kilgour, Mission Director, USAID/Bangladesh

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

SUBJECT: Audit of USAID/Bangladesh's Management of Operating Expenses
(Audit Report No. 388-93-08)

Enclosed are five copies of the subject report. Our audit work and written representations made by USAID/Bangladesh confirmed that controls over operating expenses were adequate in many areas. USAID successfully followed A.I.D. policies and procedures governing real property, personal property, imprest funds, communication services, allowances, travel, and personnel management.

Some USAID/Bangladesh controls could, however, be strengthened. These controls include reducing advance payments for leases, monitoring electricity consumption, and controlling the inventory levels of vehicles and air conditioners. In addition, USAID should not use A.I.D. operating funds to pay for personnel who should be paid with Department of State funds. Finally, employees should submit travel vouchers on time.

We were unable to audit \$604,000 charged to USAID/Bangladesh in fiscal year 1992 under a Foreign Affairs Administrative Support Agreement because the actual cost data was unavailable. Both USAID officials and the auditors believe these costs were quite expensive. We plan to request the Department of State Inspector General to assist by auditing the reasonableness of these charges.

We made seven recommendations to improve controls over operating expenses. Your comments to these recommendations and the draft report were fully considered in finalizing this report. Based on these comments, four recommendations and part of a fifth recommendation are resolved. The remaining recommendations are unresolved. Your comments are summarized after each finding and are presented in their entirety as Appendix II.

Please provide us information 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.

Attachments: a/s

EXECUTIVE SUMMARY

Background

Operating expenses represent the costs of administering a USAID Mission overseas. Included in this expense category are personnel costs (except for U.S. direct-hire salaries), housing, supplies, allowances, and travel. USAID/Bangladesh's obligations for these costs during fiscal years 1991 and 1992 totaled \$4.2 million and \$4 million, respectively (page 1).

Audit Objectives

The Office of the Regional Inspector General for Audit/Singapore audited USAID/Bangladesh's management of operating expenses to determine if USAID followed A.I.D. procedures in: (1) leasing and maintaining real property and monitoring utility costs; (2) managing personal property, motor vehicles, imprest funds, and communication services; and (3) administering allowances, travel, and personnel. However, we were unable to verify the reasonableness of Foreign Affairs Administration Support charges because the charges were made by and under the control of the Department of State. Audit responsibility rests with the Department of State Inspector General. The audit was made from August 30, 1992 to October 15, 1992 in accordance with generally accepted government auditing standards (page 2 and Appendix I).

Summary of Audit

USAID/Bangladesh properly followed A.I.D. policy and procedures in: leasing and maintaining real property; managing personal property, imprest funds, and communication services; and administering allowances, travel, and personnel. However, advance payments for housing rents were too large, and electricity costs were sometimes excessive. In addition, USAID had too many vehicles and air conditioners

in inventory. Finally, A.I.D. operating funds were used to pay personnel who should have been paid with Department of State funds, and travel vouchers were not submitted on time. We were unable to audit \$604,000 charged to USAID/Bangladesh in fiscal year 1992 under a Foreign Affairs Administrative Support Agreement because the actual cost data was unavailable. We plan to request the Department of State Inspector General to assist by auditing the reasonableness of these charges (pages 4, 12, 21, and 26).

Audit Findings

Management of Real Property Could Be Improved

USAID/Bangladesh properly followed A.I.D. procedures for leasing and maintaining real property; however, advance rental payments were for longer periods than allowed, and USAID did not monitor utility costs. The larger advance payments cost the U.S. Government about \$9,000 per year in additional interest. USAID could save approximately \$47,000 per year by encouraging electricity conservation (page 4).

Inventories Should Be Better Controlled

USAID/Bangladesh properly followed A.I.D. procedures governing personal property, motor vehicles, imprest funds, and communication services. USAID, however, needs to better control the inventory levels of vehicles and air conditioners. About \$131,000 could be saved by reducing the inventory of vehicles and air conditioners (page 12).

Personnel Levels Should Be Reduced and Travel Vouchers Should Be Submitted On Time

USAID/Bangladesh properly followed A.I.D. policies and procedures for allowances, travel, and personnel management except that A.I.D. funds were used to pay some employees who should have either been paid by the U.S. Embassy or terminated, and employees were not submitting travel vouchers on time. Approximately \$58,000 per year could be saved by eliminating unneeded personnel from the A.I.D. payroll (page 21).

The Reasonableness of Foreign Affairs Administrative Support Costs Could Not Be Determined

We were unable to determine if costs charged to USAID/Bangladesh under a Foreign Affairs Administrative Support Agreement were reasonable

because the actual cost data was unavailable. Both USAID officials and the auditors believe these costs were quite expensive. We plan to request the Department of State Inspector General to audit the reasonableness of \$604,000 charged for support services in fiscal year 1992 (page 26).

Summary of Recommendations

This report contains seven recommendations to correct problem areas identified by our audit, including recommendations to:

- Control electricity costs (page 8);
 - Reduce the number of vehicles in the motor pool (page 13);
 - Reduce the number of air conditioners in stock (page 17); and
 - Remove 19 employees from USAID's payroll (page 22).
-

Management Comments and Our Evaluation

USAID/Bangladesh appreciated confirmation that controls over operating expenses were adequate in most areas. Concern, however, was voiced that several of the findings addressed issues which were beyond the purview of USAID to act on within its own authority and with its own resources. These issues relate to the fact that USAID is part of a Joint Administrative Operation, administered by the U.S. Embassy.

USAID/Bangladesh's comments were fully considered in finalizing this report and, where appropriate, we have revised the report. USAID comments are evaluated at the end of each finding and are presented in their entirety as Appendix II. Based on these comments, four recommendations and part of a fifth recommendation are resolved. The remaining recommendations are unresolved.

Office of the Inspector General
Office of the Inspector General
March 19, 1993

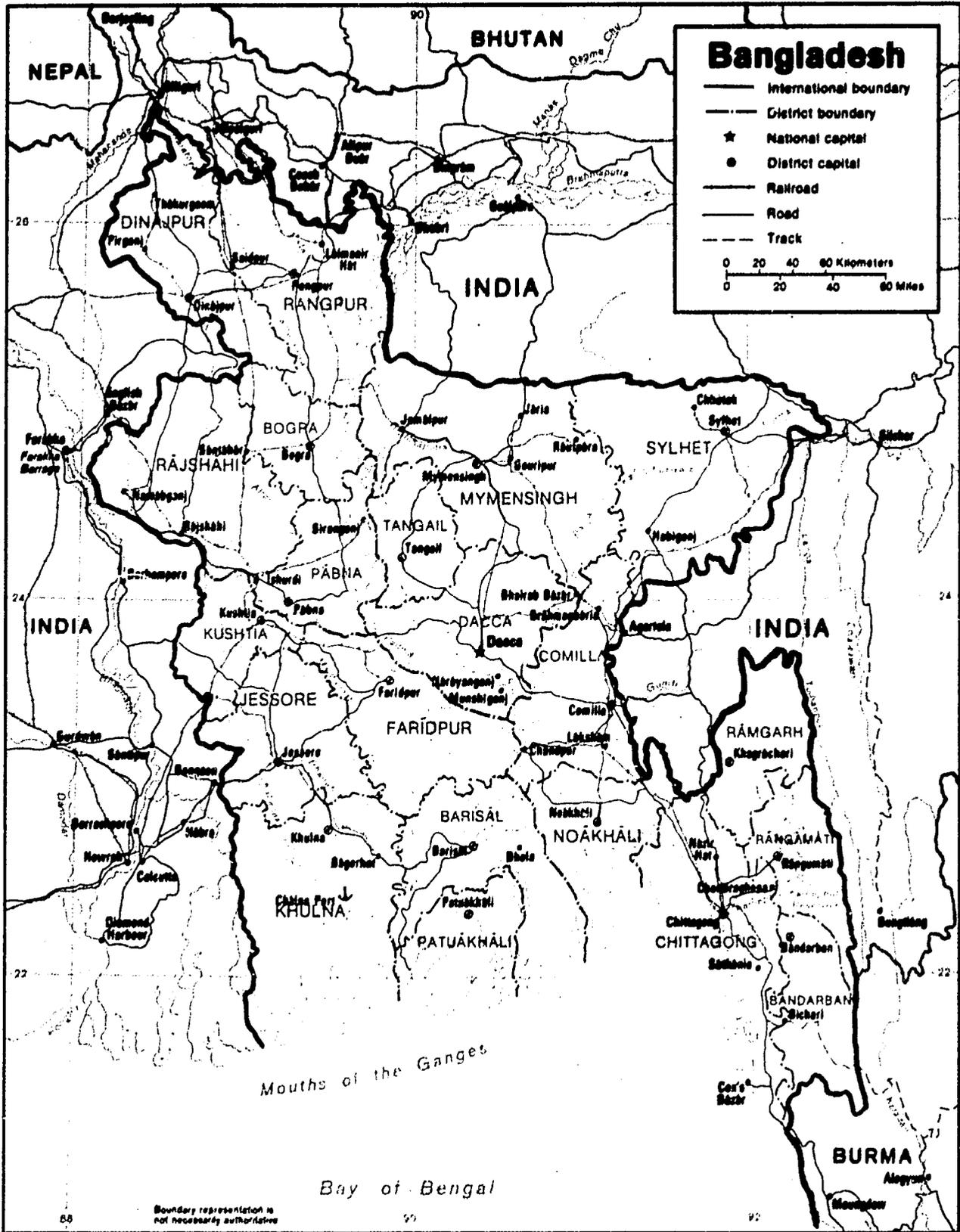


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EXHIBITS

Exhibit

Estimated Electricity Cost Savings

I

Appendix

Scope and Methodology

I

USAID/Bangladesh Comments

II

Report Distribution

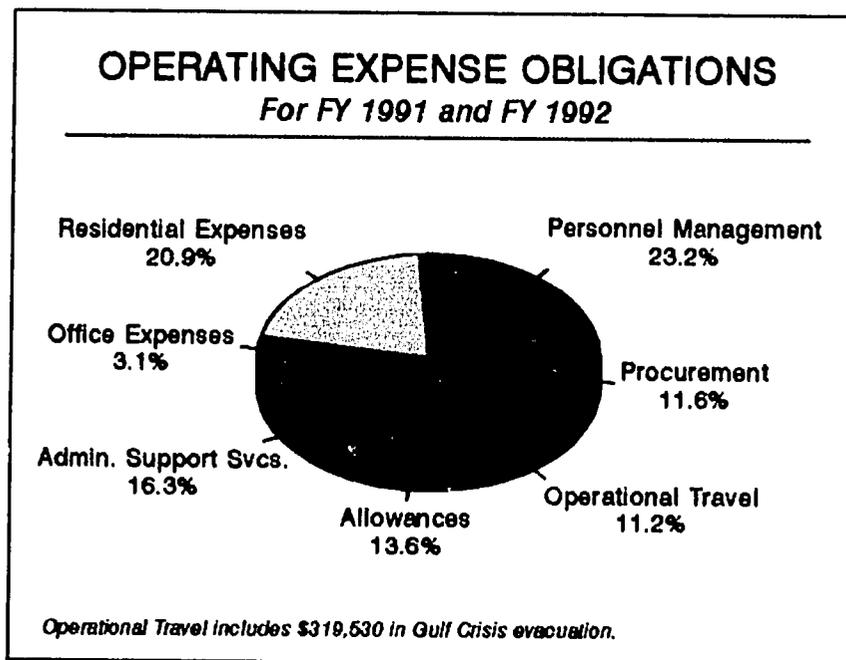
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INTRODUCTION

Background

Operating expenses represent the costs of administering a USAID Mission overseas, including costs of personnel (except for U.S. direct-hire salaries), housing, supplies, allowances, and travel. USAID/Bangladesh's obligations for these costs during fiscal years 1991 and 1992 were as follows:

	FISCAL YEAR	
	1991	1992
Personnel Management	\$1,053,163	\$836,044
Residential Expenses	882,507	817,684
Office Expenses	132,909	119,883
Procurement	331,817	611,463
Allowances	482,229	626,346
Operational Travel	562,698	352,748
Administrative Support Services	<u>726,012</u>	<u>603,743</u>
Total	<u>\$4,171,336</u>	<u>\$3,967,911</u>



USAID/Bangladesh, the Department of State (U.S. Embassy) and other U.S. Government agencies in Bangladesh operate under a Joint Administrative Office (JAO) concept whereby the U.S. Embassy takes the lead in administering common administrative functions for all Agencies (to the extent that each Agency elects to participate in the JAO operation) in accordance with the uniform regulations contained in the Foreign Affairs Manual and any Agency-specific requirements. As a matter of policy, A.I.D. has adopted these uniform regulations and incorporated them into the A.I.D. Handbooks along with A.I.D.-specific requirements.

By participating extensively in this JAO operation, the great bulk of USAID/Bangladesh's administrative work is carried out by the U.S. Embassy's sizeable JAO and General Services Office which are directly accountable to the U.S. Embassy's Administrative Counselor. The U.S. Embassy's Administrative Counselor is directly accountable to the Deputy Chief of Mission and onward to the U.S. Ambassador. To the extent that A.I.D. funds are involved, the U.S. Embassy is also accountable to USAID/Bangladesh which is ultimately responsible for the management of these funds in accordance with applicable laws, regulations, policies and procedures.

Audit Objectives

The Office of the Regional Inspector General for Audit/Singapore audited USAID/Bangladesh's management of operating expenses to answer the following audit objectives:

- **Did USAID/Bangladesh follow A.I.D. policies and procedures for leasing real property, maintaining real property, and monitoring utility costs?**
- **Did USAID/Bangladesh follow A.I.D. policies and procedures governing personal property, motor vehicles, imprest funds, and communication services?**
- **Did USAID/Bangladesh follow A.I.D. policies and procedures for allowances, travel, and personnel management?**
- **Are the costs charged to USAID/Bangladesh under the Foreign Affairs Administrative Support Agreement reasonable?**

In answering these audit objectives, we tested whether USAID/Bangladesh followed applicable internal controls and complied with certain legal requirements. We designed tests to provide reasonable assurance that the answers to the above audit objectives are valid. We also included steps to detect abuse or illegal acts which could affect the audit objectives. However, we were unable to verify the reasonableness of Foreign Affairs Administration Support charges because the expenditures were made by and under the control of the Department of State. Audit responsibility rests with the Department of State Inspector General. USAID/Bangladesh management provided written representations which we considered essential to confirming our conclusions on the audit objectives and to assessing internal controls and compliance. These representations are included as part of USAID's comments in Appendix II.

For problem areas, we performed additional work to:

- Identify the cause and effect of the problem; and
- Make recommendations to correct the problem and the cause.

Appendix I contains a full discussion of the audit scope and methodology.

REPORT OF AUDIT FINDINGS

Did USAID/Bangladesh Follow A.I.D. Policies and Procedures for Leasing Real Property, Maintaining Real Property, and Monitoring Utility Costs?

USAID/Bangladesh properly followed A.I.D. policies and procedures for leasing and maintaining real property; however, advance rental payments were for longer periods than permissible, and USAID did not monitor utility costs.

In leasing real property, USAID/Bangladesh followed A.I.D. policies and procedures. None of USAID's 36 leases exceeded the \$25,000 cap on annual rents as required by A.I.D. Handbook 23, Appendix 5A, Section 731.3-1. For the five leases tested, established rents were not increased prior to the expiration of the leases as prohibited by A.I.D. Handbook 23, Appendix 5A, Section 734.4. Furthermore, USAID did not exceed space allowances for any of the three leases executed since the revision of agency space allowances in 1991 as required by A.I.D. Handbook 23, Appendix 5A, Section 731.3-2.

USAID/Bangladesh also followed A.I.D. policies and procedures for maintaining real property. USAID did not assume maintenance costs that were the responsibility of the lessor or the occupant for any of the 36 residential properties which is prohibited by A.I.D. Handbook 23, Appendix 5A, Section 725.3-2. Make-ready costs did not exceed the \$5,000 limit for these properties as prohibited by A.I.D. Handbook 23, Appendix 5A, Section 731.3-9, and there were no capital improvements which are prohibited by A.I.D. Handbook 23, Appendix 5A, Section 723.1-2. Moreover, USAID did not maintain any vacant or otherwise excess real property which is prohibited by A.I.D. Handbook 23, Appendix 5A, Section 722.3.

As discussed below, however, USAID/Bangladesh needs to better control advance payments for rents and to monitor electricity costs.

Advance Payments for Leases Should Be Limited to Shorter Periods

None of USAID/Bangladesh's 36 residential leases limited advance rental payments to the required 3 months or less period. Excessive payments of up to 18 months were made because USAID did not review the lease terms, negotiated by the U.S. Embassy, for consistency with A.I.D. policy. If advances were limited to three months, the U.S. Government could save approximately \$9,000 annually in interest costs.

Recommendation No. 1: We recommend that USAID/Bangladesh coordinate with the U.S. Embassy and establish procedures to:

- 1.1 Limit advance payments for rent to not more than three months, unless a clear and documented benefit is provided to the U.S. Government for an advance payment of a longer period; and**
- 1.2 Obtain A.I.D./Washington approval for any advances which extend past the end of the next fiscal year.**

A.I.D Handbook 23, Appendix 5A, Section 731.3-4 requires USAIDs to limit advance payments of rent. According to the Handbook:

"Whenever possible, lease payments should be made on a monthly or quarterly basis. Advance payments of rent for greater periods should be avoided for the following reasons:

- (1) Lessors have little or no incentive to honor their obligations under the lease;*
- (2) In the event of force majeure (i.e., an act of God, war, etc.), where the premises are left untenable through partial or total destruction, it is difficult or impossible to obtain immediate and satisfactory restitution of the premises or a rebate of the unearned portion of the rent; or*
- (3) In the event of currency devaluation (in terms of the U.S. dollar), the U.S. Government is precluded from taking advantage of the more favorable exchange rate."*

When advance payments for longer periods are the only means by which a lease may be obtained, the Handbook provides that:

"Posts should carefully consider all requests for advance payments of rents and ensure that the lease contains adequate protection of the U.S.G. interests. Advance payments of rent constitute interest-free loans and lessors should be induced to grant percentage discounts equivalent to or greater than the prevailing interest rate within the country, or other valuable consideration.

...payments may be made up to 18 months in advance or to the end of the next fiscal year, whichever is the shorter period, without prior AID/W approval."

USAID/Bangladesh did not follow the above requirements for any of its 36 leases. Four leases provided for an initial advance of 18 months with a provision for 6 month payments thereafter. These four advance payments also extended beyond the end of the next fiscal year, but USAID did not obtain the required A.I.D./Washington approval. Five leases provided for advance payments of 12 months. The remaining 27 leases provided for advance payments of 6 months. According to the U.S. Embassy's Real Property Supervisor, it is unlikely that monthly payment terms could be negotiated, however, quarterly payment terms could be negotiated.

These excessive advances were made because USAID/Bangladesh did not review the U.S. Embassy-negotiated lease terms for consistency with A.I.D. policy. USAID officials believed that, by limiting advances to 3 months as required, A.I.D. employees would be put at a disadvantage with the U.S. Embassy which has been giving 6 or 12 month advances. USAID officials were concerned that, if the U.S. Embassy were to give better terms, A.I.D. employees would end up with poorer housing.

We agree with USAID/Bangladesh's concerns about equitable treatment of employees working for the various U.S. Government Agencies in Bangladesh. Because of the need for equity, all agencies—including the U.S. Embassy—are required to follow uniform housing regulations. Thus, if quarterly advance payments are possible for A.I.D., the U.S. Embassy should also negotiate these terms for its leases. Accordingly, USAID should coordinate with the U.S. Embassy to establish common advance payment terms which comply with the uniform housing regulations. Also, we plan to report this issue to the Inspector General at the Department of State for consideration in planning future audit work.

USAID/Bangladesh also believed that advance payments for longer periods provided certain advantages, but these advantages were not documented. The USAID Executive Officer said that the long advance periods were

helpful, citing an example of a house lost to another donor because the landlord desired an even longer advance payment period than that provided by A.I.D. The lease files, however, did not contain evidence of any advantage provided to the U.S. Government from negotiating the favorable payment terms for the landlords.

By negotiating payment terms more in A.I.D.'s favor, funds could be saved and A.I.D.'s risks reduced. If 3-month advance payments were given instead of the usual 6- to 18-month payments, the U.S. Government would save about \$9,000 annually in interest costs. Also, A.I.D. would enjoy the protection offered by shorter advance payments.

Management Comments and Our Evaluation

USAID/Bangladesh officials agreed with the intent of Recommendation No. 1.1 and intend to work with the U.S. Embassy to ensure that uniform regulations pertaining to advance payments for, and documentation of, leases are applied to all agencies. The officials, however, stressed that conforming to the regulations is incumbent on the agency responsible for providing the leasing service. Also, the leases are negotiated by the U.S. Embassy and, under the pooled housing concept, the Agency of the person assigned to a house by a Post Housing Committee must accept the lease terms. Finally, with respect to Real Property Officer's statement on the possibility of quarterly advance payment terms, USAID officials said that this person's supervisor did not share that view and understood that the housing obtained would be substandard.

USAID/Bangladesh officials agreed with Recommendation No. 1.2 and said that the U.S. Embassy has now been notified that A.I.D. will not fund any advance payments which extend beyond 18 months or the end of the next fiscal year without having obtained prior A.I.D./Washington approval.

Recommendation No. 1.1 is unresolved and cannot be resolved until USAID/Bangladesh provides a specific plan of action for implementing the recommendation. The specific corrective action is not clear. While we agree that the U.S. Embassy is responsible for conforming to regulations, USAID/Bangladesh has ultimate responsibility for the management of A.I.D. funds and, accordingly, has final approval authority for funding these leases. A Post Housing Committee helps to ensure equitable treatment of personnel, but we do not believe that the regulations give such a committee final authority to decide whether regulations governing the funding of leases are followed or are waived. As for whether quarterly payment terms are possible, we acknowledge the divergent opinions of the

responsible officers. However, our point is that a determination should be made and documented in the lease files.

Recommendation No. 1.2 is resolved and will be closed upon receipt of a copy of the notification sent to the U.S. Embassy, as well as a copy of the first A.I.D.-lease executed after this notification.

Electricity Costs Have Been Excessive

Contrary to A.I.D. policy, USAID/Bangladesh has not established controls to hold utility costs at reasonable levels. As many as 30 percent of USAID's employees have been using too much electricity. USAID officials were unaware of these excesses because they did not establish a program to review electricity costs and to take action against those employees who use too much. Approximately \$47,000 per year could be saved by encouraging and enforcing electricity conservation.

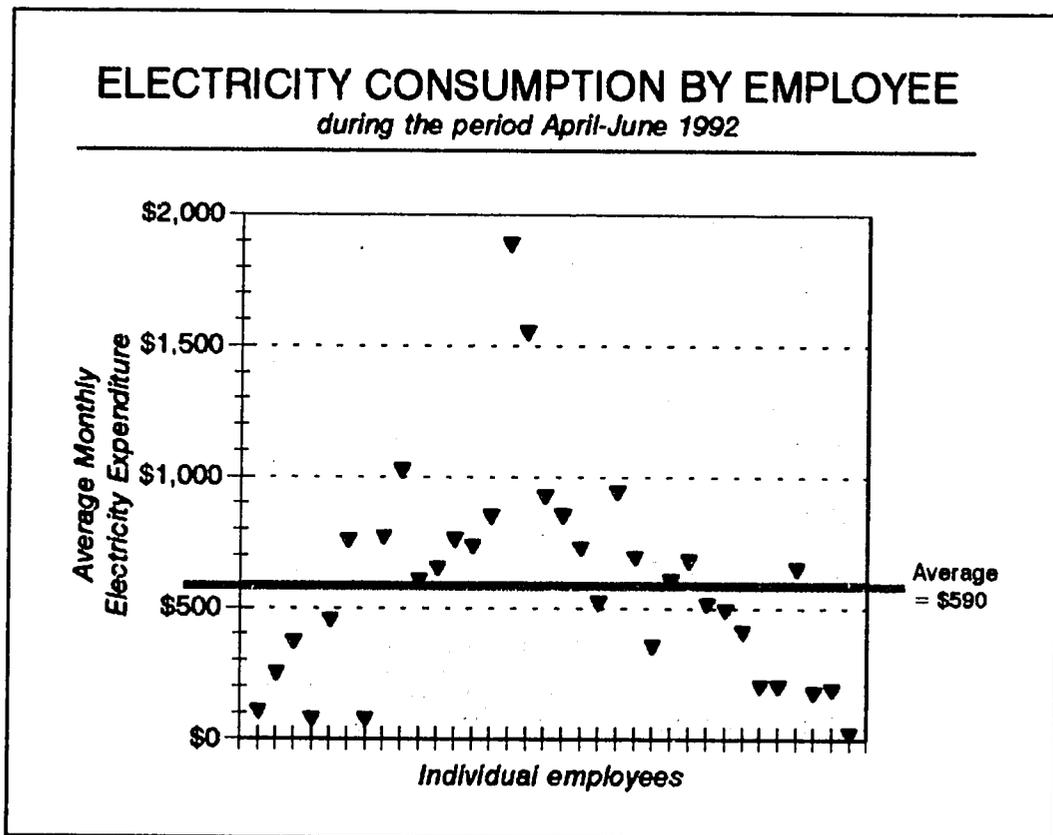
Recommendation No. 2: We recommend that USAID/Bangladesh coordinate with the U.S. Embassy to establish a program for controlling residential electricity costs which would include procedures to:

- 2.1 Encourage electricity conservation;**
- 2.2 Establish an acceptable level of electricity usage based on the size and number of occupants in each residence and on the utility costs in comparable private leases;**
- 2.3 Monitor electricity usage at each residence;**
- 2.4 Notify employees who exceed the established acceptable levels; and**
- 2.5 If consumption is not reduced, require employees who repeatedly exceed the acceptable levels to pay for the excessive electricity costs or take other administrative action to ensure that electricity is conserved.**

A.I.D. Handbook 23, Appendix 5A, Section 726.1-1 holds the USAID Mission Director responsible for ensuring that employees do not incur unreasonable utility costs at the expense of the U.S. Government. According to the Handbook (uniform State/A.I.D./USIA regulation):

"It is the responsibility of the head of each agency mission to assure that costs of utilities on Government-held residences are held to reasonable levels. The head of each agency mission shall take appropriate administrative action to accomplish this, including, where appropriate, the establishment of utility ceilings for some or all of the residential quarters under agency mission head's control. In order to assure that utilities are held at reasonable levels and as a basis of establishing a ceiling, costs records for each residential quarters should be maintained whenever possible and data should be collected on utilities in comparable private leases...The principal officer shall take the initiative to assure uniformity between the agencies at the post in establishing ceilings or in taking other administrative action."

Despite these requirements, about 30 percent of USAID/Bangladesh's employees have been using too much electricity—exceeding the yearly average of \$495 per month by at least 20 percent. As the following graph shows, rates for some employees are as high as \$1,800 per month during the hot season (April through September), and some employee's monthly costs were three times the USAID average.



The excessive electricity consumption was not related to the number of people residing in a house. On the average, single people used more electricity than houses occupied by two or three people. For example, one single employee, who lived in a four-bedroom house, had an average electricity bill during the hot season of \$1,885 per month. This employee normally kept all seven window-mounted air conditioners turned on, even when at work. This employee had never been told what the electricity costs were and was surprised to learn they were so high.

Employees were not notified of excessive electricity consumption because USAID/Bangladesh did not establish a program to review electricity costs and to take appropriate action. USAID did not determine an acceptable level of usage, did not tell its employees how much electricity they were using, and did not establish a program to conserve electricity. For example, although the U.S. Embassy was obtaining information on the cost of electricity at each employee's residence, this information was not requested when administratively reviewing and approving electric bills for payment. Thus, USAID's Administrative Approving Officer for these bills did not know that some employees were using too much electricity and incurring unreasonable costs for the U.S. Government.

According to USAID/Bangladesh officials, an electricity conservation program had been established about three years ago. Under this program, employees used to be informed how much their monthly electric bills cost, resulting in a genuine effort on the part of the employees to reduce consumption and lower costs. The officials, however, did not know why the program was discontinued.

About \$47,000 per year (Exhibit I) could be saved if, by encouraging and enforcing electricity conservation, excess consumption of electricity is reduced to the USAID average of \$498 per month. If consumption is reduced to \$548 per month (110 per cent of average) A.I.D. could save almost \$40,000 per year, and even at \$598 per month (120 per cent of average) the savings would still be almost \$33,000 per year.

Accordingly, USAID/Bangladesh should establish a program to control residential electricity costs by establishing an acceptable level of electricity usage, monitoring this usage, notifying employees who exceed the established acceptable levels and, if necessary, taking such administrative action as requiring who repeatedly exceed the acceptable levels to pay for the excessive electricity costs.

Management Comments and Our Evaluation

USAID/Bangladesh official generally agreed with Recommendation No. 2 and said that they would diligently attempt to implement it in concert with the Joint Administrative Office of the U.S. Embassy. USAID, however, was concerned with several aspects relating to the finding. First, USAID believed that, because it operates under a Joint Administrative Office, the electricity conservation program would not be successful unless it was implemented for all agencies at post. Second, much time will be required to analyze the many factors affecting the energy efficiency of the U.S. Government leased residences and the U.S. Government equipment, such as the type of equipment or whether it is in need of repair. USAID expected that the analysis would result in the establishment of an acceptable wide variance. Third, USAID believed that the tables in this report only identified two residences with excessive consumption for only one quarter. Finally, USAID was concerned about potential legal and employee relations problems.

Recommendation No. 2 is unresolved because there is no definitive plan of action to implement the recommendation. We believe that USAID/Bangladesh needs to coordinate with the Joint Administrative Office to implement an energy conservation program, and that USAID should, among other things, ensure that A.I.D. employees and the U.S. Embassy work together to ensure that A.I.D.-owned equipment is maintained in proper operating condition. Although the U.S. Embassy is responsible for ensuring uniformity between agencies in establishing ceilings or taking other administrative action, USAID remains responsible for ensuring that A.I.D. funds are not wasted through unreasonable residential electricity costs. As noted in the report, **30 percent** of USAID's employees exceeded the USAID average by at least 20 percent over the **four** quarters tested. Finally, the audit did examine USAID officials' concerns about legal and employee relations problems, and we were unable to find evidence of any prior problems. Rather, we obtained copies of relevant USAID operating procedures established at other USAIDs—specifically USAID/Egypt, USAID/Manila and USAID/Pakistan—showing that other USAIDs have been able to establish programs for controlling residential electricity costs.

Did USAID/Bangladesh Follow A.I.D. Policies and Procedures Governing Personal Property, Motor Vehicles, Imprest Funds, and Communication Services?

USAID/Bangladesh properly followed A.I.D. policies and procedures governing personal property, motor vehicles, imprest funds, and communication services. USAID, however, needs to better control the inventory levels of motor vehicles and air conditioners.

USAID/Bangladesh has ensured that all individuals signing contracts, delivery orders, and purchase orders for procuring personal property, vehicles, and other goods have been issued warrants appointing them by name and stipulating the limits of their authority in accordance with the A.I.D. Acquisition Regulation 701.6. For the 10 transactions sampled from a total of 358 transactions, each was supported by a required written request which justified the procurement. Also, before each purchase order was signed, USAID reserved funds as required by Handbook 19, Chapter 2-9 and U.S. Code 31-655-Antideficiency Act.

With respect to personal property, most management responsibilities were assigned to the U.S. Embassy under the Foreign Affairs Administrative Support Agreement. USAID/Bangladesh reconciled the U.S. Embassy's fiscal year 1991 inventory report with its ledger records as required by Handbook 23, Chapter 4-A24. Furthermore, USAID submitted the nonexpendable property report for fiscal year 1991 to A.I.D./Washington as required by Handbook 19, Chapter 15 and Handbook 23, Chapter 4.

The U.S. Embassy was also assigned most management responsibility for motor vehicles. For the three vehicles purchased in the last two years, USAID/Bangladesh ensured that the vehicles conformed to the type and size standards prescribed by A.I.D. Handbook 23, Chapter 6. USAID also submitted the report on motor vehicle data and records for fiscal year 1991 as required by Chapter 6.

USAID/Bangladesh followed A.I.D. policies and procedures governing imprest funds. No single transaction in fiscal years 1991 and 1992 exceeded \$300 for regular transactions or \$1,500 for emergency transactions as required by A.I.D. Handbook 19, Chapter 13E2a. Also, the cashier was issued a letter of Designation of Cashier as required by Handbook 19, Chapter 13D(3)b which provides specific authority to perform accommodation exchange duties. Furthermore, an approved heavy duty storage container was used to hold imprest fund cash as

required by Handbook 19, Chapter 13E(1)a. Finally, we verified the cash on hand through a surprise cash count.

With respect to communication services, USAID/Bangladesh followed A.I.D. policies and procedures. During fiscal years 1991 and 1992, USAID did not pay for any continuing service charges for any of the 36 U.S. Government-held houses which is prohibited by Handbook 23, Appendix 5A, 726.2-2. Also, USAID controlled personal calls and periodically reviewed the controls over long distance calls as required by Handbook 21, Part 1, 8H1,2, and 3.

As discussed below, however, USAID/Bangladesh needs to better control the inventory levels of motor vehicles and air conditioners.

Number of Vehicles Has Exceeded Needs

USAID/Bangladesh has acquired more vehicles than authorized by A.I.D. policies and procedures. This occurred because USAID did not analyze its use of vehicles to determine the appropriate number. By reducing the inventory of vehicles, about \$66,000 could be saved.

Recommendation No. 3: We recommend that USAID/Bangladesh establish procedures to:

3.1 Analyze at least annually the usage of all vehicles; and

3.2 Limit the procurement of new vehicles to the number required for official business.

USAID/Bangladesh has acquired a fleet of 37 vehicles comprising 3 buses, 3 trucks, and 31 passenger vehicles. Seventeen of these 37 vehicles are part of the U.S. Embassy motor pool (which comprises a total of 43 vehicles) for the shared use by all Agencies. Of these 17 vehicles, 3 are 22-seat buses which have been used primarily to transport the various Agencies' employees between work and home. For the remaining 20 vehicles, which are not part of the U.S. Embassy motor pool, 10 have been reserved for USAID's exclusive use, and 10 have been taken out of service and have been awaiting disposal and replacement.

The photos on the following page show some of these vehicles which have been taken out of service and have been awaiting disposal and replacement.



*USAID/Bangladesh Vehicles Awaiting Disposal
(3 of the 6 vehicles pictured are USAID vehicles)*



*Surplus Vehicles Which Should Not Be Replaced
(1 of the 3 vehicles pictured are USAID vehicles)*

Handbook 23, Chapter 6E, requires USAIDs to limit the size of their vehicle fleets to the number required for official business. According to the Handbook:

"USAID mission vehicles, from any source, leased or owned, should be limited to the number required for official business. The size and composition of fleets depend on availability of local public transportation, security conditions, and USAID Mission administrative and program support requirements...."

U.S. Government policy sets 1,000 miles a month per vehicle as minimum vehicle usage goal....

No formula can accurately show the number and type of OE funded vehicles needed at each USAID mission. Only careful and unbiased analysis of complete usage factors for a year or more can show true usage needs. USAID missions with more than six vehicles should annually, or more often, conduct a dispatch analysis to determine if the post has the proper number and distribution of vehicles and drivers. AID form 540-3, AID Dispatch Analysis for Motor Pools..., is suitable for making a dispatch analysis...

Contrary to these requirements, the number of USAID/Bangladesh vehicles on hand have exceeded the number required for official business. For fiscal year 1992, for example, U.S. Embassy records showed that A.I.D. incurred 575,090 kilometers, or 357,421 miles of vehicle use. Thus, according to the minimum usage goal of 1,000 miles/month/vehicle cited above, USAID should have not more than 30 vehicles, rather than the present 37, in its fleet. This 30 vehicle maximum could be even lower depending upon a more exact analysis of usage factors, e.g. excluding the use of USAID's 22-seat buses to transport employees of all Agencies to and from work.

USAID/Bangladesh had not performed an independent usage analysis to determine the number of vehicles required for official A.I.D. business, so USAID was not sure how many vehicles it needed. USAID relied on U.S. Embassy recommendations and on the availability of A.I.D. funds in making decisions on vehicle procurement, a method which resulted in a surplus of A.I.D. vehicles.

To ensure that the size and type of A.I.D. vehicles do not exceed the needs for official business, USAID/Bangladesh should establish procedures to analyze at least annually the usage of all vehicles and to limit the

procurement of new vehicles to the number required for official business. Of USAID's 37 vehicles, 10 were inoperable and were awaiting disposal and replacement. USAID, through the U.S. Embassy, has petitioned the Government of Bangladesh for permission to dispose of these vehicles, a process which has taken from 18 to 36 months. Upon receipt of this permission and the performance of a usage analysis, USAID should not replace at least 7 of the 10 vehicles. By not replacing seven vehicles which are due for disposal and replacement, A.I.D. could save approximately \$66,000, based on the latest purchase price of \$9,500 per vehicle.

Management Comments and Our Evaluation

USAID/Bangladesh concurred with Recommendation Nos. 3.1 and 3.2. With respect to Recommendation No. 3.1, USAID officials plan to work with the U.S. Embassy to perform the annual usage analysis required by A.I.D. procedures for controlling the size and composition of the vehicle fleet. With respect to Recommendation No. 3.2, USAID officials said that: (1) they had no intentions of replacing the 10 vehicles that were awaiting disposal; (2) by excluding these vehicles, the size of the vehicle fleet was below the maximum established by the audit; and (3) in the past, USAID had to procure replacements prior to disposal for several vehicles taken out of service because USAID cannot wait, for instance, seven years to receive permission from the Government of Bangladesh to dispose of a vehicle. Therefore, USAID requested that the recommendation be closed.

Recommendation No. 3.1 is resolved and will be closed based on receipt of evidence that the first annual usage analysis has been made.

Recommendation No. 3.2 is resolved and will be closed upon receipt of a procurement plan, based on the first annual usage analysis, which shows how USAID intends to maintain a vehicle fleet of the proper size and composition. As previously mentioned, USAID based procurement action on the recommendations of the U.S. Embassy and on the availability of funds. The process to obtain disposal permission from the Government of Bangladesh took 18 to 36 months. The seven year period referred to by USAID is the exception. Also, USAID officials were concerned that the U.S. Embassy would expect USAID to replace the three buses used to transport employees to and from work, a replacement decision which A.I.D./Washington has told us rests solely with USAID. Our calculations on the proper size and composition of the vehicle fleet are only rough, and we believe the detailed usage analysis will provide the information needed to determine the proper size and composition of the vehicle fleet.

Too Many Air Conditioners Were Bought

Contrary to A.I.D. policies and procedures, USAID has in stock and on order air conditioners which amount to approximately four and one half years usage. This occurred because USAID/Bangladesh did not establish a proper system to plan for the replacement of air conditioners. The excess stock of air conditioners cost A.I.D. approximately \$65,000.

Recommendation No. 4: We recommend that USAID/Bangladesh:

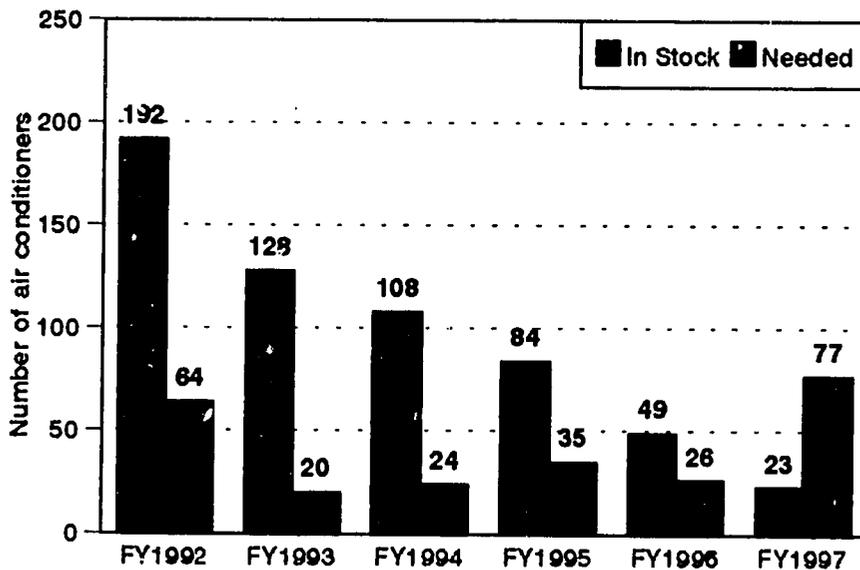
- 4.1 Establish a reliable system to plan for the replacement of air conditioners; and**
- 4.2 Transfer the inventory excess of 84 air conditioners to any Agencies in need.**

A.I.D. Handbook 23, Chapter 4A-6 stipulates that USAIDs' immediate and long-range planning shall include the requirements for new or replacement property. The Handbook also requires USAIDs to establish an efficient replacement program. According to the Handbook:

"Replacement standards, which predict the life span of nonexpendable property items, shall be the basis for an orderly, balanced cycle of property replacement. Items which have reached their estimated average life span shall be inspected to see if replacement is actually necessary...When planning replacement requirements, it is also necessary to consider whether discontinued programs or reduced staffing will make replacement unnecessary."

USAID/Bangladesh did not establish an efficient system to replace air conditioners. USAID currently has in stock 120 air conditioners costing approximately \$119,000, and has placed orders for an additional 72 units which cost \$45,000. Using a U.S. Embassy-developed estimate of six years as the average life span of the air conditioners, USAID has procured enough to meet its needs for the next 4 1/2 years. Had the inventory been held to a more reasonable level—two years' needs, USAID should have only 108 units in stock and none on order. The following graph illustrates this over supply.

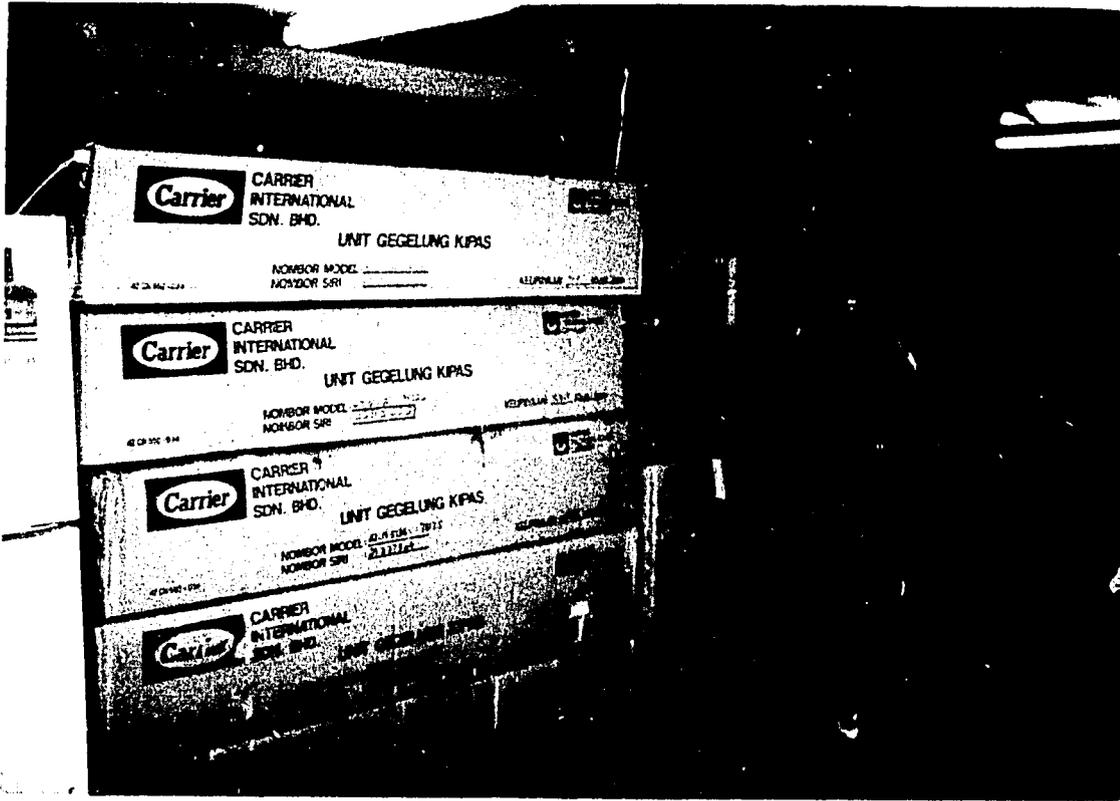
COMPARISON OF AIR CONDITIONER STOCK AND ANNUAL NEEDS



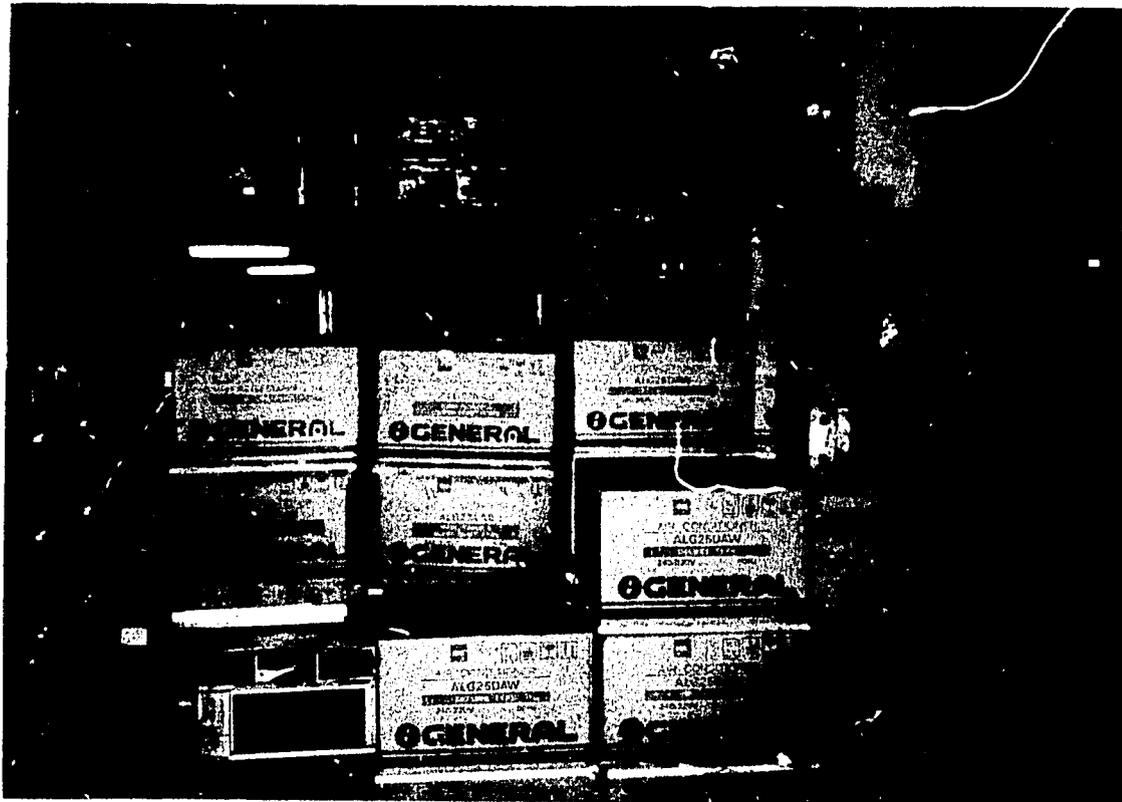
FY 1992 includes 72 air conditioners on order. If no additional air conditioners are bought, the current stock will last until FY1997.

USAID/Bangladesh did not have procedures to plan for the proper replacement of air conditioners and, therefore, was unaware that its inventory level was exceedingly high. According to USAID officials, they replace air conditioners based on the availability of funds and on the recommendations made by the U.S Embassy, which has established a program to replace air conditioners every eight years. However, USAID did not verify the information provided by the U.S. Embassy. Had this information been verified, USAID would have found that the information did not reconcile with the U.S. Embassy's records which showed that additional procurement was unwarranted.

Due to the lack of procedures to plan for proper replacement, USAID/Bangladesh has accumulated an excessively large stock of air conditioners. The approximately \$65,000 tied up in these excess air conditioners could have been used for more pressing needs. The photos on the following page show some of these excess air conditioners.



Part of USAID/Bangladesh's Stock of Air Conditioners



Additional Stocks of Air Conditioners

To ensure that USAID/Bangladesh maintains proper inventory levels of air conditioners, USAID should establish a reliable system for planning the replacement of air conditioners. While USAID may choose to rely upon information provided by the U.S. Embassy, at a minimum, USAID should verify the information provided. Also, USAID should approach the other Agencies at post to determine whether any of them are in need of air conditioners. If so, USAID should transfer the inventory excess of 84 air conditioners to these agencies.

Management Comments and Our Evaluation

Since the draft report said that the post replacement cycle for air conditioners was eight years, rather than six, USAID/Bangladesh considered the finding invalid and requested that the recommendation be withdrawn. USAID also pointed out that the uniform regulations give an average life span of three years for air conditioners.

Recommendation No. 4 is unresolved. We have corrected the statement about the post replacement cycle. However, our analysis was based on the actual schedules for replacement contained in the U.S. Embassy records. These schedules show a six-year replacement cycle. As for the average life span cited in the uniform regulations, these regulations are also very clear that replacement should be based upon need for replacement and that there should be post replacement standards. Accordingly, we believe the post replacement standard of six years is more appropriate than the three years cited.

Did USAID/Bangladesh Follow A.I.D. Policies and Procedures for Allowances, Travel, and Personnel Management?

USAID/Bangladesh properly followed A.I.D. policies and procedures for allowances, travel, and personnel management except that A.I.D. operating funds have paid for some salaries which should have been paid by the U.S. Embassy, and employees have submitted travel vouchers late.

USAID/Bangladesh followed A.I.D. policies and procedures for allowances. Allowances for the last two years were paid only to qualified recipients as required by A.I.D. Handbook 23, Chapter 9A-1. Payments for official residence and representation allowances were properly classified as required by A.I.D. Handbook 26, Chapter 13A, Sections 342.2 and 350.

For the 20 travel vouchers tested from a universe of 667, travel requests were approved by authorized officials, and travelers were authorized for the type of travel taken as required by Handbook 22, Appendix 9A, Section 129. Unused tickets were turned in immediately after travel, and receipts were submitted for expenditures over \$25 as required by Handbook 22, Appendix 9A, Section 116.

For personnel management, hiring ceilings were adhered to, and personal service contracts were not used to circumvent ceilings. For the one pay period tested, time and attendance records were maintained and signed by supervisors. Overtime and leave were properly authorized as required by Handbook 31, Sections 935 and 940.

USAID/Bangladesh, however, paid personnel costs which should have been paid by the U.S. Embassy. Also USAID did not ensure that travel vouchers were submitted on time.

A.I.D. Operating Funds Were Used To Pay for U.S. Embassy Positions

Contrary to A.I.D. policy, A.I.D. funds have been used to pay for positions which are the responsibility of the U.S. Embassy. USAID/Bangladesh merged some of its administrative functions into the services provided by the U.S. Embassy but did not drop the resultant excess positions from A.I.D.'s payroll. As a result, about \$58,000 in annual economy of scale savings expected from combining services have not been realized.

Recommendation No. 5: We recommend that USAID/Bangladesh eliminate 3 janitors, 2 dispatchers, and at least 14 drivers from the A.I.D. payroll.

A.I.D. has participated in the Foreign Affairs Administration Support (FAAS) system to achieve the economies of scale which can be realized through the administrative and logistic support offered by a U.S. Embassy. To this end, A.I.D. Handbook 19, Chapter 11E provides that:

"The Administrative Support concept is based on the premise that it would be uneconomical and impractical for each U.S. Government agency to provide its own administrative and logistic support services in every situation. For example, overseas, the Department of State, as the principal foreign affairs agency, is the logical agency to furnish those services which other agencies are not prepared to provide for themselves."

"The Department of State should provide administrative support to other government agencies where (a) there is a potential for saving the Federal Government through more efficient management of Federal Government resources, and (b) there is real advantage to both State and the other agency in having State assume the additional responsibilities and the cost to any agency is not increased."

When the U.S. Embassy provides administrative and logistic support through a Joint Administrative Office, the employees are generally paid by the Department of State and A.I.D. is not to supplement the funding of any agency's share in support of the Joint Administrative Office. Handbook 19, Appendix 11 A, Sections 130 and 281(4) provides that:

"Personnel performing shared administrative services shall preferably be employed on the payroll of the Department of State."

"Resources made available to the Department and AID (and other agencies as the case may be) will be used to support Joint Administrative Offices, and neither State nor AID will be required to supplement each other's share of positions, funds and material required to support the joint operation."

Furthermore, the Department of State is solely responsible for funding the maintenance of a U.S. Embassy compound, even when A.I.D. occupies the compound. A.I.D. Handbook 23, Appendix 5A, Section 724.1 says that:

"The Office of Foreign Buildings Operations (FBO) issues allotments each year which include annual allowances for M&R costs...These maintenance and repair allowances cover all owned or long-term leased properties in the custody of the Department of State, regardless of what agency occupies the building...The salaries of regular post employees may not be paid from the FBO allotment unless specifically authorized by the Department. Such regular salaries are charged to BOE funds under the Salaries and Expenses allotment"

To achieve economies of scale, in fiscal year 1991, USAID/Bangladesh merged the A.I.D. motor pool into the motor pool operated by the U.S. Embassy. The operation and maintenance of the A.I.D. vehicles, which had previously been the responsibility of USAID, was taken over by the U.S. Embassy motor pool, except for 10 vehicles retained for the USAID Director and for A.I.D. field work. Thus, in accordance with the shared administrative and logistic support concept mentioned previously, the U.S. Embassy also became responsible for paying the dispatchers and drivers provided through the U.S. Embassy motor pool.

USAID/Bangladesh, rather than the U.S. Embassy, has been paying for many of these dispatchers and drivers. Since October 1990, when the motor pools were combined, 24 drivers and 2 dispatchers have remained on A.I.D.'s payroll. Only a maximum of 10 drivers may be required to drive the 10 A.I.D. vehicles which were not placed in the U.S. Embassy motor pool. The remaining 14 drivers and 2 dispatchers, if still needed, should have been transferred to the U.S. Embassy's payroll when USAID contributed the remaining vehicles to the U.S. Embassy motor pool. However, according to the U.S. Embassy, the 16 employees were no longer needed after combining the two motor pools. Nevertheless, these employees have continued to work from the U.S. Embassy motor pool.

In addition to drivers and dispatchers, USAID/Bangladesh has been paying for three janitors who should have been paid by the U.S. Embassy. The U.S. Embassy should have taken over these janitorial positions when USAID moved into the new U.S. Embassy compound in October 1988 and merged A.I.D.'s janitorial service with the U.S. Embassy janitorial service.

USAID/Bangladesh has made a continued effort to get the U.S. Embassy to absorb the janitorial positions. Originally, there were 7 janitorial positions, but 2 were eventually merged into the FAAS system and 2 were eliminated through attrition. The remaining 3 janitors, however, have been paid by A.I.D. even though they are providing maintenance services for a Department of State building.

The 19 extra employees have been costing A.I.D. approximately \$58,000 annually and should have been either terminated from the U.S. Government payroll or transferred to other Agencies in need. Since the motor pool and janitorial services were merged, U.S. Government agencies in Bangladesh have hired 6 janitors and 6 drivers. The 3 excess A.I.D. janitors and 6 of the 12 excess A.I.D. drivers could have been absorbed through these hirings.

To save \$58,000 per year, USAID/Bangladesh needs to eliminate the 3 janitors, 2 dispatchers, and at least 14 drivers from the A.I.D. payroll.

Management Comments and Our Evaluation

USAID/Bangladesh generally concurred with the recommendation but requested that it be reworded because USAID believed that a full-scale review of the Joint Administrative Office motor pool was warranted. USAID said that the post had an approved program for "other authorized uses" and that, since sedans operate for more than an eight-hour shift, more than one chauffeur is needed per vehicle.

Recommendation No. 5 is unresolved. USAID/Bangladesh has confused the Joint Administrative Office motor pool with the separate pool of A.I.D. vehicles. This finding pertains to the personnel needs of operating the separate motor pool of the USAID Director's sedan and the nine Land Cruisers reserved for USAID field trips. USAID only needs one driver per Land Cruiser when making field trips. Also, no dispatchers are needed for these field trips. The remaining USAID vehicles, including the sedans, are part of the Joint Administrative Office motor pool, and the approved program for "other authorized uses" is administered out of this pool.

We did not determine whether the U.S. Embassy has, in fact, too many drivers and chauffeurs in the Joint Administrative Office motor pool. We do know, however, that the drivers and chauffeurs that have not been needed for the USAID Director's sedan and the nine Land Cruisers have been working out of this motor pool at A.I.D.'s expense. If the U.S. Embassy believes that these drivers and chauffeurs, which are excess to USAID's needs, are still needed for the Joint Administrative Office motor pool, the U.S. Embassy should pay for the positions and not A.I.D. USAID should not pay employees who should be paid by the U. S. Embassy.

Travel Vouchers Have Been Submitted Late

Contrary to A.I.D. procedures, USAID/Bangladesh employees took up to 72 days to submit travel vouchers. Delays in the submission of these vouchers occurred because USAID had no program to encourage timely submission of travel vouchers. As a result, USAID cannot know how much travel money is available, hindering efficient fund management.

Recommendation No. 6: We recommend that USAID/Bangladesh establish procedures to ensure more timely submission of travel vouchers.

OMB Circular 88-17 requires that travelers submit travel vouchers within five working days after the completion of short-term travel.

USAID/Bangladesh employees have been submitting travel vouchers excessively late. From a universe of 667 travel vouchers, we reviewed 20 travel vouchers which were of high dollar value and were related to international travel. Of the 20, only 4 had been submitted within five days. In the remaining 16 cases, the employees took from 8 to 72 days to submit the vouchers; the average was 30 days.

USAID/Bangladesh officials agreed that it did not hold employees to the five-day limit. The officials said that vouchers were usually submitted between 15 and 30 days after completion of travel, and that if the employee took too long to submit the voucher (longer than 30 days), the Controller's Office might send a reminder.

Until the vouchers are processed, the Controller's Office cannot be sure how much travel money is available, thus hampering efficient fund management. Of the 20 employees tested, 9 had received travel advances amounting to \$13,500; of these, 7 did not submit their vouchers on time and consequently did not liquidate their travel advances promptly. USAID/Bangladesh should establish procedures to ensure a more timely submission of travel vouchers.

Management Comments and Our Evaluation

USAID/Bangladesh concurred with the recommendation and intends to revise its formal operating procedures to ensure that travellers submit vouchers in accordance with A.I.D. policy.

Recommendation No. 6 is resolved and will be closed based on receipt of the new procedures.

Are the Costs Charged to USAID/Bangladesh Under the Foreign Affairs Administrative Support Agreement Reasonable?

We were unable to determine if the costs charged to USAID/Bangladesh under the Foreign Affairs Administrative Support (FAAS) Agreement are reasonable because the actual cost figures necessary to make this determination were unavailable. These FAAS charges to USAID are quite high compared to other FAAS agreements around the world.

FAAS is a complex system for (1) providing administrative support services to all U.S. Government agencies overseas, (2) determining the costs of these services, and (3) allocating these costs among all agencies receiving the services. In Bangladesh, FAAS provides common administrative services to eight U.S. Government agencies. Funds for these services are provided through separate allotments and administered by the U.S. Embassy.

USAID officials believed that the costs allocated through the FAAS Agreement might be high in relation to the actual value of the services received. In comparing these costs to the costs allocated to other USAIDs in the region, we noted that USAID/Bangladesh was charged the highest amount, as the following 1992 fiscal year allocations illustrate:

<u>COUNTRY</u>	<u>ALLOCATION</u>
Bangladesh	\$603,743
Indonesia	314,406
India	235,852
Sri Lanka	218,807
Pakistan	129,619
Philippines	52,389
Thailand	41,168
Nepal	11,326

We were unable to determine, however, if these high costs were reasonable because the actual cost figures for USAID/Bangladesh's share of FAAS services were unavailable. Each agency is allocated a share of the FAAS costs based on services received; however, the allocation is not based on actual costs for that year but rather on a complex "worksheet" formula using historic costs and indexing to determine the agency's

share. The worksheet costs are then subject to negotiation at both the USAID and Washington levels, a process which can further distort the worksheet costs relative to actual costs. In addition, A.I.D./Washington has discretion about how it allocates A.I.D.'s total share of FAAS to the individual USAID Missions. Consequently, we were unable to reconcile the \$603,743 charged for fiscal year 1992 to USAID/Bangladesh's share of the actual FAAS costs incurred in that year. To break down the actual expenses by agency would have been a task requiring a prohibitive amount of work.

Although we could not determine if the costs charged under the FAAS Agreement were reasonable, we noted that, while the FAAS costs for USAID/Bangladesh were very high compared to that for other USAIDs, the services received under the FAAS program were correspondingly extensive. USAID has used FAAS for pooled vehicle operations, maintenance of non-pooled vehicles, administrative supply, procurement, shipping and customs, office and residential building operations, communication, and health services. Such an extensive use of FAAS for these services would increase the allocated costs.

Nevertheless, we do believe that the \$603,743 (\$4,100 per employee, including all direct-hire, foreign national and contract employees) is quite expensive and should be examined. We plan to formally request assistance for the Department of State Office of the Inspector General in determining the reasonableness of the FAAS charges.

REPORT ON INTERNAL CONTROLS

Scope of Our Internal Control Assessment

We made our audit in accordance with generally accepted government auditing standards which require us to:

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

Our assessment of internal controls, which included obtaining a representation letter from USAID's management confirming in writing information which we considered essential to our assessment, was limited to controls applicable to the audit objectives and not to provide assurance on the overall internal control structure of A.I.D. or USAID/Bangladesh.

For the purposes of our report, we have classified the significant internal control policies and procedures applicable to each audit objective by categories. For each category, we gained an understanding of the design of relevant policies and procedures and determined whether the policies and procedures had been placed in operation—and we assessed control risk. We have reported these categories as well as any significant weaknesses under the applicable section heading for each audit objective.

General Background on Internal Controls

Under the Federal Managers' Financial Integrity Act and the Office of Management and Budget implementing policies, A.I.D.'s management is responsible for establishing and maintaining adequate internal controls. The General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by Agencies in establishing and maintaining internal controls.

The objectives of internal controls for United States Government foreign assistance 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 are 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 changes in conditions may require additional procedures, or the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions for Audit Objective One

The first audit objective was to determine whether USAID/Bangladesh followed A.I.D. policies and procedures for leasing real property, maintaining real property, and monitoring utility costs. In planning and making our audit to answer this objective, we considered the applicable internal control policies and procedures in A.I.D. Handbook 23. For the purpose of our report, we have classified the relevant policies and procedures under the following categories:

- Real property leases;
- Real property maintenance; and
- Monitoring utilities.

Our tests showed that the controls were consistently applied, except that advance payments for housing rents were for longer periods than allowed by A.I.D. policy, and electricity costs were not monitored.

Conclusions for Audit Objective Two

The second audit objective was to determine whether USAID/Bangladesh followed A.I.D. policies and procedures governing personal property, motor vehicles, imprest funds, and communication services. In planning and making our audit to answer this objective, we considered the applicable internal control policies and procedures in A.I.D. Handbooks 19, 21, and 23. For the purpose of our report, we have classified the relevant policies and procedures into the following categories:

- Procurement;

- Personal property;
- Motor vehicles;
- Communications; and
- Imprest Funds.

Our tests showed that the controls were consistently applied except for inventory levels of air conditioners and automobiles, which were not properly controlled.

Conclusions for Audit Objective Three

The third audit objective was to determine whether USAID/Bangladesh followed A.I.D. policies and procedures for allowances, travel, and personnel management. In planning and making our audit to answer this objective, we considered the applicable internal control policies and procedures in A.I.D. Handbooks 19, 22, 23, 26, and 31. For the purpose of our report, we have classified the relevant policies and procedures into the following categories:

- Allowances;
- Travel; and
- Personnel management.

Our tests showed that the controls were consistently applied except that USAID/Bangladesh was paying salaries and benefits for janitors, dispatchers, and drivers who should have been paid by the U.S. Embassy, and travel vouchers were not submitted on time.

Conclusions for Audit Objective Four

The fourth audit objective was to determine whether the costs charged to USAID/Bangladesh under the Foreign Affairs Administrative Support Agreement (FAAS) were reasonable. In planning and making our audit to answer this objective, we considered the applicable internal control policies and procedures in A.I.D. Handbook 19. For the purpose of our report, we have classified the relevant policies and procedures under the following categories:

- FAAS actual costs;
- FAAS worksheet costs; and
- USAID/Bangladesh's FAAS allocation.

Our tests showed that the controls were consistently applied; however, we were unable to determine if the costs charged to USAID/Bangladesh under the FAAS Agreement were reasonable because the actual cost figures necessary to make this determination were unavailable. The expenditures were made by and under the control of the Department of State. Audit responsibility rests with the Department of State Inspector General.

Reporting Under Federal Managers' Financial Integrity Act

Except for controls over A.I.D.-funded non-expendable property, USAID/Bangladesh has not reported any of the internal control weaknesses identified in this report in its internal control assessments. Therefore, to improve reporting under the Federal Managers' Financial Integrity Act, we are recommending the following:

Recommendation No. 7: We recommend that USAID/Bangladesh determine whether the internal control weaknesses identified in this report should be included in the next internal control assessment to ensure compliance with the Federal Manager's Financial Integrity Act.

Management Comments and Our Evaluation

USAID/Bangladesh concurred with the recommendation and plans to so address the internal control weaknesses in the next internal control assessment.

Recommendation No. 7 is resolved and will be closed based on receipt of evidence that the assessment addressed the internal control weaknesses.

REPORT ON COMPLIANCE

Scope of Our Compliance Assessment

We made our audit in accordance with generally accepted government auditing standards, which require us to assess compliance with laws and regulations when necessary to satisfy the audit objectives. We tested USAID/Bangladesh's compliance with A.I.D. Acquisition Regulation 701.6, Federal Acquisition Regulation 13.404(a), and U.S. Code 31-655-Antideficiency Act as these laws and regulations could affect our audit objectives. As part of our assessment, we obtained a representation letter from USAID management, confirming information which we consider essential to our compliance assessment. However, the audit objectives were not to opine on overall compliance with laws and regulations.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, and binding policies and procedures governing entity conduct. Not following internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition of noncompliance, and is included in our report on internal controls. Abuse is distinguished from noncompliance in that abusive conditions may not directly violate laws or regulations. Abusive activities may be within the letter of laws and regulations but violate their spirit or the more general standards of impartial and ethical behavior.

Compliance with A.I.D. Acquisition Regulation 701.6, Federal Acquisition Regulation 13.404(a), and U.S. Code 31-655-Antideficiency Act applicable to USAID/Bangladesh's operating expenses is the overall responsibility of USAID management.

Conclusions on Compliance

The results of our tests of compliance indicate USAID/Bangladesh complied in all significant respects with A.I.D. Acquisition Regulation 701.6, Federal Acquisition Regulation 13.404(a), and U.S. Code 31-655-Antideficiency Act.

**MISSION RESIDENTIAL ELECTRICITY COSTS
JULY – SEPTEMBER 1991**

HOUSE NAME	QUARTERLY COST Tk	MONTHLY COST US\$	AMOUNT ABOVE MONTHLY AVG US\$*
HOSNA VILLA	164,955	1,447	766
LAKEVIEW	163,199	1,432	751
HALIMA VILLA	144,102	1,264	583
FARNAZ HOUSE	133,402	1,170	489
AMC HOUSE	125,265	1,099	418
NUR MAHAL	123,342	1,082	401
MANZUR HOUSE	119,512	1,048	367
SHIREEN HOUSE	114,130	1,001	320
ARAZ	110,182	967	286
NAZMA VILLA	92,710	813	132
FATEMA VILLA	86,185	756	75
SULTANA VILLA	82,611	725	44
REHANA #2	77,145	677	BELOW AVERAGE
SHAMA	74,215	651	BELOW AVERAGE
SADRUDDIN HOUSE	70,908	622	BELOW AVERAGE
QAZI HOUSE	66,555	584	BELOW AVERAGE
AGGIELAND	61,335	538	BELOW AVERAGE
RAZIA HOUSE	57,307	503	BELOW AVERAGE
ROWSHAN MOHAL	55,972	491	BELOW AVERAGE
ASYA HOUSE	51,790	454	BELOW AVERAGE
SALEHA HOUSE	50,736	445	BELOW AVERAGE
RAHMAN VILLA	46,183	405	BELOW AVERAGE
LUTFA HOUSE	46,171	405	BELOW AVERAGE
IKAMAL HOUSE	46,070	404	BELOW AVERAGE
EMILY HOUSE	45,735	401	BELOW AVERAGE
SALINA HOUSE	42,582	374	BELOW AVERAGE
SUFIA VILLA	39,493	346	BELOW AVERAGE
JAHAN HOUSE	37,482	329	BELOW AVERAGE
FIROZA HOUSE	36,805	323	BELOW AVERAGE
BANY VILLA	23,397	205	BELOW AVERAGE
PALASH HOUSE	17,629	155	BELOW AVERAGE
TOTAL	2,407,097	21,115	4,631
TOTAL SAVINGS FOR QUARTER			x3 mos = 13,893

*MONTHLY AVERAGE = US \$681

**MISSION RESIDENTIAL ELECTRICITY COSTS
OCTOBER-DECEMBER 1991**

HOUSE NAME	QUARTERLY COST Tk	MONTHLY COST US\$	AMOUNT ABOVE MONTHLY AVG US\$*
NAZMA VILLA	112,287	985	528
SADRUDDIN HOUSE	109,871	964	507
AMC HOUSE	105,264	923	466
ROWSHAN MOHAL	96,398	846	389
SHIREEN HOUSE	96,033	842	385
EMILY HOUSE	87,659	769	312
REHANA #2	81,444	714	257
AGGIELAND	80,494	706	249
LAKEVIEW	78,009	684	227
SHAMA	72,482	636	179
IKAMAL HOUSE	64,083	562	105
MARY MANZIL	52,418	460	BELOW AVERAGE
HALIMA VILLA	49,757	436	BELOW AVERAGE
JHARNA HOUSE	47,718	419	BELOW AVERAGE
HOSNA VILLA	47,547	417	BELOW AVERAGE
ASYA HOUSE	45,111	396	BELOW AVERAGE
NUR MAHAL	44,729	392	BELOW AVERAGE
AROVE	43,559	382	BELOW AVERAGE
FARNAZ HOUSE	42,743	375	BELOW AVERAGE
LUTFA HOUSE	39,551	347	BELOW AVERAGE
MANZUR HOUSE	38,258	336	BELOW AVERAGE
RAZIA HOUSE	36,600	321	BELOW AVERAGE
RAHMAN VILLA	34,469	302	BELOW AVERAGE
AHMED HOUSE	32,520	285	BELOW AVERAGE
FATEMA VILLA	31,958	280	BELOW AVERAGE
NASIMI VILLA	29,380	258	BELOW AVERAGE
SUFIA VILLA	27,953	245	BELOW AVERAGE
QAZI HOUSE	23,514	206	BELOW AVERAGE
SALEHA HOUSE	23,490	203	BELOW AVERAGE
FIROZA HOUSE	23,010	202	BELOW AVERAGE
SULTANA VILLA	22,578	198	BELOW AVERAGE
SALINA HOUSE	19,740	173	BELOW AVERAGE
PARADISE	16,402	144	BELOW AVERAGE
SANGSAPTAK	14,800	130	BELOW AVERAGE
TOTAL	1,771,821	15,542	3,605
TOTAL SAVINGS FOR QUARTER			x3 mos = 10,815

*MONTHLY AVERAGE = US \$457

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**MISSION RESIDENTIAL ELECTRICITY COSTS
JANUARY – MARCH 1992**

HOUSE NAME	QUARTERLY COST Tk	MONTHLY COST US\$	AMOUNT ABOVE MONTHLY AVG \$US*
NAZMA VILLA	99,462	872	618
SADRUDDIN HOUSE	83,847	736	482
QAZI HOUSE	68,028	597	343
EMILY HOUSE	66,941	587	333
NUR MAHAL	46,920	412	158
REHANA #2	44,176	388	134
AROVE	43,559	382	128
AHMED HOUSE	37,020	325	71
SHIREEN HOUSE	33,371	293	39
FARNAZ HOUSE	33,077	290	36
SHAMA	29,691	260	6
JHARNA HOUSE	25,072	220	BELOW AVERAGE
LAKEVIEW	24,306	213	BELOW AVERAGE
SALINA HOUSE	24,240	213	BELOW AVERAGE
FATEMA VILLA	23,174	203	BELOW AVERAGE
ROWSHAN MOHAL	18,336	161	BELOW AVERAGE
IKAMAL HOUSE	16,541	145	BELOW AVERAGE
SANGSAPTAK	14,800	130	BELOW AVERAGE
RAHMAN VILLA	13,971	123	BELOW AVERAGE
SULTANA VILLA	13,592	119	BELOW AVERAGE
LUTFA HOUSE	13,401	118	BELOW AVERAGE
SUFIA VILLA	11,546	101	BELOW AVERAGE
HOSNA VILLA	10,859	95	BELOW AVERAGE
NASIMI VILLA	9,485	83	BELOW AVERAGE
PARADISE	8,617	76	BELOW AVERAGE
MARY MANZIL	7,970	70	BELOW AVERAGE
HALIMA VILLA	6,737	59	BELOW AVERAGE
MANZUR HOUSE	4,795	42	BELOW AVERAGE
ASYA HOUSE	4,118	36	BELOW AVERAGE
TOTAL	837,644	7,348	2,347
TOTAL SAVING FOR QUARTER			x3 mos = 7041

*MONTHLY AVERAGE = US \$253

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**MISSION RESIDENTIAL ELECTRICITY COSTS
APRIL-JUNE 1992**

HOUSE NAME	QUARTERLY COST Tk	MONTHLY COST US\$	AMOUNT ABOVE MONTHLY AVG US\$*
NAZMA VILLA	215,085	1,887	1,297
FATEMA VILLA	176,813	1,551	961
JHARNA HOUSE	116,838	1,025	435
LAKEVIEW	107,421	942	352
NASIMI VILLA	105,443	925	335
NUR MAHAL	97,118	852	262
SHIREEN HOUSE	97,037	851	261
FARNAZ HOUSE	87,878	771	181
SHAMA	86,657	760	170
SHAILALODGE #21	86,468	758	168
PARADISE	84,077	738	148
REHANA #2	83,091	729	139
EMILY HOUSE	79,208	695	105
HOSNA VILLA	77,378	679	89
SULTANA VILLA	73,527	645	55
SADRUDDIN HOUSE	72,980	640	50
SUFIA VILLA	68,912	604	14
SANGSAPTAK	68,586	602	12
RAHMAN VILLA	59,250	520	BELOW AVERAGE
MARY MANZIL	58,572	514	BELOW AVERAGE
LUTFA HOUSE	56,034	492	BELOW AVERAGE
ROWSHAN MOHAL	51,785	454	BELOW AVERAGE
AROVE	46,493	408	BELOW AVERAGE
RAZIA HOUSE	42,198	370	BELOW AVERAGE
IKAMAL HOUSE	40,395	354	BELOW AVERAGE
AHMED HOUSE	28,407	249	BELOW AVERAGE
SANCHAYTA	23,171	203	BELOW AVERAGE
QAZI HOUSE	23,096	203	BELOW AVERAGE
SAIF NIKETON	21,762	191	BELOW AVERAGE
HALIMA VILLA	20,237	178	BELOW AVERAGE
SALINA HOUSE	11,888	104	BELOW AVERAGE
SALEHA HOUSE	8,712	76	BELOW AVERAGE
ASYA HOUSE	8,655	76	BELOW AVERAGE
CHEZ NOUS	2,296	20	BELOW AVERAGE
TOTAL	2,287,459	20,065	5,034
TOTAL SAVINGS FOR QUARTER			x3 mos = 15,102

*MONTHLY AVERAGE = US \$590

ESTIMATED ELECTRICITY COST SAVINGS =	US \$46,851
JULY 1991-JUNE 1992	

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SCOPE AND METHODOLOGY

Scope

At the request of USAID/Bangladesh, we audited USAID's management of operating expenses in accordance with generally accepted government auditing standards. The audit was made from August 30, 1992 through October 14, 1992, covered \$8.1 million in operating expenses incurred between October 1, 1990 and September 30, 1992, and reviewed the reasonableness of Foreign Affairs Administrative Support (FAAS) allocations, which comprise a large portion (\$1.3 million) of USAID's operating expenses. We made our field work at the USAID and U.S. Embassy in Bangladesh. We examined records and reports and interviewed appropriate USAID and U.S. Embassy officials.

In addition to the methodology described in the following section for each audit objective, we obtained a representation letter from USAID/Bangladesh's management confirming in writing, information that we considered essential for answering our audit objectives and for assessing internal controls and compliance. At the request of the USAID Director, these representations are included as part of USAID comments attached to this report as Appendix II.

Our scope was limited because many of the functions which would normally fall under a USAID's operating expenses were performed under a joint operating agreement with the U.S. Embassy and consequently fall under the jurisdiction of the Department of State's Inspector General Office. In addition we could not conclude on the reasonableness of USAID/Bangladesh's FAAS allocation because the cost data necessary to make such a determination were unavailable.

Methodology

The methodology for each audit objective is described below.

Audit Objective One

The first audit objective was to determine whether USAID/Bangladesh followed A.I.D. policies and procedures for leasing real property, maintaining real property, and monitoring utility costs. To accomplish this objective, we evaluated USAID controls against the policies and procedures in A.I.D. Handbook 23, Appendix 5A, Sections 720 and 730.

We discussed USAID/Bangladesh's housing policies with Joint Administrative Office housing officials, USAID administrative officials, and an A.I.D.-funded housing resident. We reviewed the Joint Administrative Office housing information to document lease conditions, utility costs, space standards, advance rental payments, housing maintenance, and rent costs for the 36 houses under A.I.D. leases. The primary purposes of our tests were to determine if utility costs were reasonable; if space allowed to employees was consistent with family size and employee rank; if advance payments for rents were for longer periods than necessary; if housing maintenance was the responsibility of USAID or the landlord; and if rent costs were reasonable. We substantiated the data by reviewing the housing files for 5 of the 36 houses. We also inspected one residence to evaluate electricity consumption.

Audit Objective Two

The second audit objective was to determine whether USAID/Bangladesh followed A.I.D. policies and procedures governing personal property, motor vehicles, imprest funds, and communication services. To accomplish this objective, we evaluated USAID controls against the policies and procedures in A.I.D. Handbook 19, Chapters 2, 13, and 15; Handbook 21, Chapter 8; Handbook 23, Chapters 4, 5, and 6; A.I.D. Acquisition Regulation 701.6; Federal Acquisition Regulation 13.404(a); and U.S. Code 31-655—Antideficiency Act.

We discussed USAID/Bangladesh's procurement and personal property policies with the Executive Officer, the General Services Officer, the Property Accountability Officer, procurement personnel, motor pool

personnel, and the cashier. We conducted a surprise cash count of the cashier's imprest fund. We reviewed inventory records, motor vehicles records, procurement documents, and imprest fund documents. We physically examined inventories and inoperable vehicles. We reviewed the annual non-expendable property report for fiscal year 1991 which was sent to A.I.D./Washington. We reviewed 10 transactions out of 358 to determine whether procurement was supported by written justification, purchase orders were signed, and reservations of funds had been made. We also reviewed petty cash transactions for fiscal years 1991 and 1992 to determine if these transactions exceeded \$300.

Audit Objective Three

The third audit objective was to determine whether USAID/Bangladesh followed A.I.D. policies and procedures for allowances, travel, and personnel management. To accomplish this objective, we evaluated USAID controls against the policies and procedures in A.I.D. Handbook 19, Chapter 11; Handbook 22, Appendix 9A; Handbook 23, Chapter 9 and Appendix 5A; Handbook 26, Chapter 13; and Handbook 31, Section 900.

We discussed USAID/Bangladesh's allowance, travel, and personnel policies with voucher examiners, time keepers, the General Services Officer, the Financial Management Officer, the Facilities Manager, and motor pool personnel. We reviewed 20 travel vouchers out of 667, payroll documents for one pay period, staffing patterns, and FAAS Agreement worksheets. Allowance expenditures were reviewed to determine if those receiving benefits were qualified recipients and if official residence expenditures and representation allowance expenditures were properly classified. The travel vouchers were selected based on their high dollar value and their relationship to international travel. Payroll documents were examined to determine if employee leave was properly authorized; if time and attendance sheets were properly maintained; and if hiring ceilings were observed.

Audit Objective Four

The fourth audit objective was to determine whether the costs charged to USAID/Bangladesh under the FAAS Agreement were reasonable. We evaluated USAID controls against the policies and procedures in A.I.D. Handbook 19.

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We discussed USAID/Bangladesh's FAAS Agreement with the U.S. Embassy Financial Management Officer and USAID Executive Officer. We reviewed the FAAS Agreement worksheet and the agreement files to better understand the allocation process. We also requested and received additional information from A.I.D./Washington. The primary purposes of our tests were to gain an understanding of how the FAAS worksheet was calculated; what were the actual services and the actual expenses incurred by FAAS in the operations of the U.S. Embassy's Joint Administrative Office; and how the allocation of costs was handed down from Washington to USAID/Bangladesh.

We were unable to accomplish this objective. We plan to request assistance from the Department of State Inspector General.



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

APPENDIX II
PAGE 1 OF 12

February 02, 1993

MEMORANDUM

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

FROM : Ms. Mary C. Kilgour, ^{Mary Kilgour} Mission Director,
USAID/Bangladesh

SUBJECT: Draft Audit Report on Audit of USAID/Bangladesh's
Management of Operating Expenses

Thank you for the opportunity to respond to the subject draft report. We have several comments for your consideration, but first let me state that we are very pleased to note that the controls over Operating Expenses are adequate in most areas; that USAID/Bangladesh successfully follows A.I.D. policies and procedures governing real property, personal property, communications services, imprest funds, allowances, travel, and personnel management; and, that USAID/Bangladesh complies with A.I.D Acquisition Regulation 701.6, Federal Acquisition Regulation 13.40(a), and U.S. Code 31-655 Antideficiency Act. This demonstrates that in most areas the JAC system, by and large, does work.

Before we comment on specific parts of the report, we would like to make a general comment regarding an overriding factor which affects three of the seven recommendations contained in the draft report (which likewise affects the quality of the analysis); and, that is the fact that USAID/Bangladesh is part of a Joint Administrative Operation (JAO). Reference to this is made throughout the draft report, but it is not made clear that the JAO Director is not under the supervision of the USAID Mission Director. The draft recommendations are not crafted to indicate how USAID/Bangladesh operates within a JAO framework. The effect is to leave the reader with a false impression that the USAID can take unilateral action to resolve these recommendations. The report should distinguish between what is in the purview of USAID/Bangladesh to act on within its own authority and with its own resources, and what it is permitted to do only with consent of, or action by, the JAO. This is fundamental.

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An example of the problem is seen in the report's imprecise use of the term "Mission"; it would be more appropriate for the report's context to refer to USAID/Bangladesh and the U.S. Mission as distinct entities. We suggest that wherever the report refers to USAID as the "Mission" that it be changed to "USAID". This would assure that the reader would be clear as to which agency is being referred. Moreover, it is not clear from the audit analysis that there was a thorough and exhaustive review of JAO data, records, or analytical work. JAO input into the audit findings appears, in some parts, to have been limited to interviews which were not independently verified by examination of JAO records or interviews with American supervisory personnel.

Because USAID/Bangladesh does not act independently with regard to housing, most motorpool operations, and procurement of nonexpendable property (NXP), the recommendations in these areas require actions that are not the sole responsibility of USAID and can only be taken under the authority, or with the advice, of the JAO to ensure conformity among all agencies of the post. This means our ability to resolve/close recommendations involving these areas will be limited to what we can persuade the JAO to do within the framework of their operations. The point is illustrated most clearly in those areas of the audit cited as "AID Policy" (involving findings in the area of rent advances) which are actually uniform regulations contained in the Foreign Affairs Manual (FAM). Our discussion of the specific recommendations will point to such areas which require JAO action rather than USAID/Bangladesh action.

Finally, we feel that the audit's treatment of FAAS should be reconsidered. We concur that it was difficult, and probably, impractical to have attempted an audit of FAAS costs from the field level. During the entrance conference for this audit, USAID officials expressed this view to the auditors. As the auditors discovered, substantial work in Washington, drawing on the personnel and resources of AID/Washington and the State Department will be necessary as a starting point. Rather than reach a stand-alone conclusion that the audit could not determine if costs charged USAID/Bangladesh under FAAS are reasonable because actual cost figures were unavailable at post, RIG should take the next step and recommend an audit of the FAAS system overall, with the effort based in Washington and in collaboration with State/IG.

Following are USAID Management Comments addressing each specific recommendation.

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- RECOMMENDATION NO. 1 We recommend that USAID/Bangladesh coordinate with the U.S. Embassy and establish procedures to:
- 1.1 Limit advance payments for rent to not more than three months, unless a clear and documented benefit is provided the U.S. Government for an advance payment of a longer period, and
 - 1.2 Obtain AID/Washington approval for any advances which extend past the end of the next fiscal year.

Management Comment: The draft audit findings related to this recommendation are based, in our opinion, on a faulty understanding of the manner pooled housing is managed under a JAO system. The pitch of this recommendation should recognize that USAID/Bangladesh does not locate and negotiate leases for its staff--this is a function carried out by the JAO Leasing Section. So far as we know, the only leases reviewed by the auditors were leases that were occupied by USAID staff. These leases were, in fact, negotiated by JAO and under the JAO-managed system could in the future become occupied and funded by any of the agencies served by the JAO. The agency of the person assigned to a house by the Post Housing Committee has to accept the terms of the lease.

That fact notwithstanding, the USAID agrees with the intent of the recommendation which we understand to be to reduce, to the maximum extent possible under prevailing practices, the months of advance rental payments. We plan to work with the JAO to ensure that uniform regulations pertaining to advance payments for, and documentation of, leases are applied to all agencies. Conforming to the uniform regulations is incumbent on the agency charged with the responsibility of providing the leasing service. USAID expects the JAO to be responsive in adhering to the regulations to ensure uniform and equitable housing among all personnel of all agencies.

On page five of the draft, the "Embassy Housing Officer" is quoted that it is unlikely that monthly payment terms could be negotiated with landlords, but he believed that quarterly payment terms could be negotiated. According to the Supervisory GSO, the employee quoted is, in fact, an FSN whose correct title is Real Property Supervisor. It is the Supervisory GSO's understanding that the housing referred to which could be obtained under quarterly advance payment terms would be substandard housing. Therefore, the feasibility of acting on the FSN's remark is poor, and we suggest the point be deleted from the text of the report.

Recommendation No. 1.2 is acceptable. The USAID Executive Officer has now advised the Supervisory GSO in writing of this AID policy and that USAID will be unable to provide funding for

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any proposed advanced lease payment which would extend beyond 18 months or the end of the next fiscal year without having obtained prior AID/W approval.

RECOMMENDATION NO. 2 We recommend that USAID/Bangladesh establish a program to control electricity costs which would include procedures for:

- 2.1 Encouraging electricity conservation;
- 2.2 Establishing an acceptable level of electricity usage based on the size and numbers of occupants in each residence and on the utility costs in comparable private leases;
- 2.3 Monitoring electricity usage at each residence;
- 2.4 Notifying employees who exceed the established acceptable level; and
- 2.5 If consumption is not reduced, requiring employees who repeatedly exceed the acceptable levels to pay for the excessive electricity costs or taking other administrative action to make these employees conserve electricity.

Management Comment: We accept the recommendation, in general. However, we request two changes to the proposed recommendation.

First, the introductory sentence should be changed to read, "We recommend that USAID/Bangladesh, in concert with the JAO, establish a program to control residential electricity costs which would include procedures for:." JAO involvement in the program is crucial because JAO is responsible for residential maintenance and the supply and operation of residential equipment which consumes electricity. Furthermore, given that USAID operates under a JAO, we believe that such a program would not be successful unless it was implemented for all agencies at post. In this regard, we request that the quote from Handbook 23 on page 7 of the audit findings section be expanded to include, "The principal officer shall take the initiative to assure uniformity between the agencies at the post in establishing ceilings or in taking other administrative action." Also, please note before the quote that this is a uniform State/AID/USIA regulation. The insertion of the word "residential" adds a needed specificity to this recommendation, given that USAID does not fund office electricity consumption.

USAID is very concerned with the findings related to this recommendation. We will diligently attempt to implement this important recommendation in concert with the JAO. However, implementation of residential electricity conservation will not be easy, unlike at posts where a living quarters allowance is established and the employee must pay any excess residential costs, including costs of utilities.

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For example, in order to implement Recommendation 2.2, careful consideration will be required of factors such as the varying energy efficiency of USG-leased residences and USG residential equipment. Whether a house is equipped with efficient "split" air conditioners or the old, inefficient window units will be an important factor. Ages of occupants, spousal work habits, and employee travel patterns will be other important factors. In short, we expect that an acceptable wide variance from the average electricity costs based on house size and occupant number will be required to make the program workable. We note that only two residences had "above average" electricity consumption for the four quarters shown in the tables which support the recommendation. We expect that, to make the program workable, we will have to measure electricity consumption over a longer period of time than three months.

The second change in the recommendation that we request concerns Recommendation 2.5. The words, "make these employees" should be deleted. Excess electricity consumption may be the fault of the employee. However, as indicated above, sometimes excess consumption is due to faulty USG residential equipment, inefficient housing architecture or other factors beyond the employee's control. In these cases, "other administrative action" could be repair of faulty equipment or termination of a residential lease, for example. Please note that we are aware of instances in which attempts to implement administrative actions (e.g. charging the employee for excess electricity use) against employees for failing to properly conserve electricity have raised legal and employee relations issues. Great care will be given to the legal aspects of the program so that the program is workable.

RECOMMENDATION NO.3 We recommend that USAID/Bangladesh establish procedures to:

- 3.1 Analyze at least annually the usage of all vehicles.
- 3.2 Limit the procurement of new vehicles to the number required for official business.

Management Comment: The audit identified that USAID had acquired a fleet of 37 vehicles which was more vehicles than authorized by AID policies. The auditors established, applying formulas in Handbook 23, Chapter 6E, that USAID should have not more than 30 vehicles in its fleet. They also point out that included in the fleet of 37 vehicles were ten vehicles which had been taken out of service over the past several years and were awaiting disposal. The JAO is prohibited from disposing of vehicles without the permission of the Government of Bangladesh (GOB). Historically, it has taken several years for

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the GOB to provide this permission. As an example, since the audit was completed one vehicle has been disposed of and the permission to dispose was requested from the Government in 1985. It took seven years to receive permission. USAID cannot wait seven years to replace a vehicle; therefore, while awaiting permission to dispose, we have had to go ahead and procure replacements for the several vehicles taken out of service.

The point is that if one reduces the fleet of 37 vehicles on our records by the 10 vehicles which were awaiting disposal, we have a fleet of 27 which is three under the level of 30 which the audit established as the maximum we should have. We had no intentions to replace the 10 vehicles that were awaiting disposal. Therefore, we concur with Recommendation 3.2, but request that the recommendation be closed. In view of this, there would also be no savings of \$66,000 as suggested at the top of page 14 of the draft.

We also concur with Recommendation 3.1. Since necessary data is readily available, we would be able, working with JAO, to perform the analysis required in AID Handbook 23, Chapter 6E, to annually monitor the size of our fleet and determine if it is the size and composition required to carry out official business.

Regarding the photographs on page 12 of the draft, we request that the captions be changed to reflect that for the top photo three of the six vehicles and for the bottom photo that only one of the three vehicle pictured are USAID vehicles.

RECOMMENDATION NO. 4 We recommend that USAID/Bangladesh:

- 4.1 Establish a reliable system to plan for the replacement of air conditioners; and
- 4.2 Transfer the inventory excess of 84 air conditioners to any Agencies in need.

Management Comments: The basis of the finding and recommendation appears flawed. The auditors have incorrectly used 8 years as the replacement factor for air conditioners. The 6 FAM Exhibit 222.6 gives an average life span of 3 years for air conditioners. The post replacement cycle is 6 years. We submit, therefore, that the calculations and ensuing results therefrom have no validity and the recommendation should be withdrawn and the photographs on page 16 be deleted. The savings of \$65,000 mentioned on page 14 is not valid.

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RECOMMENDATION NO. 5 We recommend that USAID/Bangladesh eliminate 3 janitors, 2 dispatchers, and at least 14 drivers from the A.I.D. payroll.

Management Comments: First, we suggest that the recommendation be re-structured into two parts as follows--

- Recommendation No. 5: We recommend that USAID/Bangladesh:
- 5.1 Abolish three janitor positions, and
 - 5.2 Request JAO to review and determine the appropriate number of drivers and dispatchers required for USAID's vehicles. If that number is less than current staff, USAID should abolish those positions.

USAID has been actively working with the JAO to correct the problems of AID-funded employees working for the JAO and Embassy. The draft report accurately reflects these efforts which have been on-going for over two years. Specific steps have been taken by USAID which have resulted in the reduction of 71 percent of the excess janitor positions (5 of 7). Currently, both USAID dispatchers have applied for a vacant Dispatcher position in the JAO motor pool, and both the current remaining janitors have applied for a vacant Laborer position at GSO.

The foregoing actions demonstrate that USAID accepts, and has been concerned about, the issues contained in this recommendation. It is difficult, however, to accept outright the recommendation regarding the motor pool employees. We are not convinced that the rationale (or formula) used by the auditors with respect to the proper number of drivers is appropriate. It appears that the audit makes the statement that there should be only one driver for each vehicle. We find this too simplistic. While this may be true of some vehicles, using only the sedans as an example, they operate well beyond an eight-hour shift. This post has an approved program for "other authorized uses" which means a significant amount of after-hours work--for both vehicles and drivers. If we had only one driver per sedan, how would we operate after hours? It is significant to note that the Embassy has about 40 drivers for its 24 vehicles.

With respect to the paragraph mid-way on page 20, beginning with the sentence on line 4 and the word "Only", we suggest that from that point to the end of the paragraph be replaced with the following, "USAID may be funding excess drivers and dispatchers." We suggest this change because until the study is completed on the motorpool operations, we do not believe

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that there should be speculation on the numbers of drivers and dispatchers which may be excess. We are suggesting deletion of the last two sentences of the same paragraph because even though an Embassy official told the auditors that 15 employees were no longer needed after combining the two motor pools, that statement conflicts with other information made available to the auditors. A 1991 memorandum to the USAID Executive Officer from the then-S/GSO made the recommendation "that USAID authorize 4 additional driver positions with immediate effect". The draft report does not, however, mention this memorandum and the fact that USAID declined to consider the request.

Further, the USDH JAO Personnel Officer has stated that "when this Audit Team was in Dhaka, they did not talk to me about staffing and recruitment. They talked with my assistant about the total number of employees by agency from our staffing pattern. Nothing else." We are concerned that the draft report has drawn conclusions without confirming information with the responsible American officer who would have informed them that of the 6 drivers hired in 1991 (cited on page 21, para. 2, of the draft), 4 were hired by USIS who are totally outside the JAO because they decided to operate their own motor pool completely independent of the JAO.

Although the number of USAID drivers has not changed since 1991, we very much need to resolve the question which the audit has raised--does USAID have drivers/dispatchers in excess of its needs? We accept that there may be surplus drivers and dispatchers, and for that reason, the JAO was requested to undertake a full review of the motor pool operations: vehicles, type, useage, mileage, drivers, dispatchers, spare parts--everything. This will be, of course, a time-consuming process and the results may not be available for several months. When we receive results of the JAO review, if the appropriate number of drivers and dispatchers is less than staffing on-board, USAID will prepare a plan to abolish excess positions and reduce staff expeditiously.

In summary, we concur that we have excess janitors and are moving to resolve the matter expeditiously. We also accept that we may have excess drivers and dispatchers. But, we do not believe that outright dismissal of drivers and dispatchers is the proper action without benefit of the results of a full-scale review of the JAO motor pool operation.

RECOMMENDATION NO. 6 We recommend that USAID/Bangladesh establish procedures to ensure more timely submission of travel vouchers.

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Management Comments: USAID accepts this recommendation. USAID/Bangladesh Manual Order No. 500-4, dated February 13, 1990, established that travel vouchers are to be submitted to approving officials for administrative review and approval within five working days after completion of travel. Requirements of AID Handbook 22 and Federal Travel Regulations cited in the draft seem to open the question as whether AID travel vouchers should be submitted within 30 days or 5 days. For your information, since the completion of the audit the Office of the Controller has been operating under an informal procedure which forwards a series of three reminder memorandums when a traveler has not promptly submitted his travel voucher following completion of authorized travel. USAID will prepare a new Manual Order to replace the existing Manual Order 500-4 which will address all phases of travel voucher submission to include a formal procedure for assuring that travelers submit their travel vouchers in accord with AID policy. We will ascertain from AID/W whether we should be using 5 days or 30 days as the measurement of timely submission.

RECOMMENDATION NO. 7 We recommend that USAID/Bangladesh determine whether the internal control weaknesses identified in this report should be included in the next internal control assessment to ensure compliance with the Federal Manager's Financial Integrity Act.

Management Comment: USAID concurs with this recommendation and will assure that those weaknesses identified in this report are addressed in the next internal control assessment. The Mission Control Review Committee has purview over administering of the Internal Control Assessment exercise. The MCRC will be advised of the weaknesses identified in this report to ensure that they will be addressed in the next assessment.

As your are aware, we have been negotiating the Representation Letter for several weeks. We recently Fax'd a draft copy to you and we await your comments. Again, thank you for the opportunity to comment on the draft report and we look forward to receiving your final report.

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APPENDIX II
PAGE 10 OF 12

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
Dhaka, Bangladesh

REPRESENTATION LETTER

TO: Regional Inspector General for Audit/Singapore

1. You have asked that USAID/Bangladesh provide a Representation Letter in connection with your audit of USAID/Bangladesh's management of operating expenses. The audit was made from August 30, 1992 to October 15, 1992, a period during which I personally was on Home Leave. Your audit covered USAID/Bangladesh's management of operating expenses during the period October 1, 1990 to September 30, 1992 (note that I arrived at post October 3, 1990) and was intended to answer the following audit objectives:
 - 1.1. Did USAID/Bangladesh follow A.I.D. policies and procedures in (1) leasing, monitoring utility costs, and maintaining real property, (2) managing personal property, motor vehicles, imprest funds, and communication services, and (3) administering allowances, travel and personal; and are the costs charged to USAID/Bangladesh under the Foreign Affairs Administrative Support Agreement reasonable?
2. USAID/Bangladesh, the Department of State (hereinafter U.S. Embassy) and other U.S. government agencies in Bangladesh operate under a Joint Administrative Office (JAO) whereby the U.S. Embassy takes the lead role in administering the JAO operations. USAID/Bangladesh, for instance, does not act independently of the JAO with regard to housing, most motorpool operations and procurement of non-expendable property. As a consequence of being in a JAO operation, USAID/Bangladesh has only one American U.S. direct hire Executive Officer who liaises with the JAO. He is involved on a day-to-day basis[^] in managing USAID/Bangladesh's operating expense-funded transactions. The great bulk of administrative work is performed by the U.S. Embassy's sizeable JAO and GSO staff who report to the U.S. Embassy's Administrative Counselor. The Embassy Administrative Counselor in turn reports to the Deputy Chief of Mission and onward to the Ambassador.
3. In those administrative areas where the JAO takes the lead role, my knowledge of and control over their activities where USAID/Bangladesh's operating expenses are involved is necessarily limited, whereas the knowledge (but not control) of my Supervisory Executive Officer is somewhat greater. I can make no representations on behalf of the JAO for the areas listed above in terms of the seven items below. They are not under my management authority. The Administrative Counselor has informed me that no Embassy

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staff of the JAO can provide representations similar to those listed in paras 3.1 to 3.7 below because State Department employees are not required to provide representations of this type within the State Department. As the Controller and Executive Officer are the ones most knowledgeable in the subject matter of this audit, I have asked them to make available to you all records in our possession for the purpose of this audit. They have represented to me that they are aware that I am relying on their knowledge and that of their staff as the basis for the representations herein. Based on their written representations to me, I confirm the following representations made to your auditors during the audit with respect to USAID/Bangladesh's management of operating procedures under audit:

- 3.1. For the management of operating expenses under audit, and within the direct control of USAID/Bangladesh, USAID/Bangladesh is responsible for the internal control system, for compliance with applicable U.S. laws, A.I.D. regulations, and contracts, and for the fairness and accuracy of the accounting and management information.
- 3.2. To the best of my knowledge and belief, USAID/Bangladesh has provided to RIG/A/Singapore auditors all the records it maintains related to the audit objectives.
- 3.3. To the best of my knowledge and belief, those records are accurate and complete and give a fair representation as to the status of the matters under audit.
- 3.4. Subject to the caveats in paragraphs 2 and 3 above, to the best of my knowledge and belief, USAID/Bangladesh has disclosed any known material irregularities related to USAID/Bangladesh's operating expenses under audit and which we consider substantive involving individuals with internal control responsibilities.
- 3.5. Subject to the caveats in paragraphs 2 and 3 above, to the best of my knowledge and belief, USAID/Bangladesh is aware of no material instances where financial or management information on matters directly relating to this audit have not been properly and accurately recorded, other than the findings in the draft audit report.
- 3.6. Subject to the caveats in paragraphs 2 and 3 above, to the best of my knowledge and belief, as a layman and not as a lawyer, I confirm that USAID/Bangladesh has reported to the auditors all known instances of material noncompliance with A.I.D. policies and procedures or violations of U.S. laws and regulations.

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- 3.7. After review of your draft audit report and further consultation with my staff, I know of no other facts as of the date of this letter (other than those expressed in our Management Comments to the draft report) which, to the best of my knowledge and belief, would materially alter the conclusions reached in the draft report.
4. I request that this Representation Letter be considered a part of the official USAID/Bangladesh comments on the draft report and be published as an annex to the final report.

Date: Feb. 18, 1993

Mary C Kilgour
Mary C. Kilgour
Director

SV

APPENDIX III

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