

Regional Inspector General for Audit
Cairo, Egypt

**Financial-Related Audit of the United States Agency
for International Development Mission to Egypt
("USAID/E") Nonexpendable Property Inventory
("U-754/1 Report")**

Report No. 6-263-94-011-N
March 15, 1994



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

March 15, 1994

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford
FROM : RIG/A/Cairo, *Philippe L. Barcy*
SUBJECT : Financial-Related Audit of the United States Agency
for International Development Mission to Egypt
("USAID/E") Nonexpendable Property Inventory ("U-
754/1 Report")

The attached report dated September 12, 1993, by Price Waterhouse presents the results of a financial audit of USAID/Egypt nonexpendable property inventory including a review of the system of internal controls. The audit also covered Transcentury Corporation's compliance with the terms of its contract with USAID to manage the property. The auditors also determined whether the Mission had taken adequate corrective action on the recommendations from a prior audit report.

Price Waterhouse issued a report disclaiming an opinion on the Statement of Nonexpendable Property because they were not able to observe the physical inventories, and the accounting records did not permit them to apply other auditing procedures to satisfy themselves as to inventory quantities and their cost. They also noted that Transcentury Corporation's control environment undermined the internal control structure procedures' effectiveness, and USAID/Egypt did not exercise proper contract monitoring and control procedures. Also, Price Waterhouse determined that adequate corrective action had not been taken on the recommendations from a prior audit report.

Price Waterhouse noted several material instances of non-compliance with applicable laws and regulations and contract terms that caused them to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statement of Nonexpendable Property.

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Price Waterhouse has reviewed USAID/Egypt/MGT's response to the findings and conclude that their outline of corrective actions taken or planned adequately addresses the management deficiencies noted in the report.

The following recommendation is included in the Office of Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Egypt address the material internal control weaknesses and compliance issues as detailed on pages 10 through 33 and 35 through 36 respectively, of the audit report.

This recommendation is considered resolved. The recommendation can be closed when RIG/A/C has evidence the plan was implemented.

Please advise this office within 30 days of any actions planned or taken to close the recommendation. We appreciate the courtesies extended to the staff of Price Waterhouse and to our office during this audit. I would like to commend the AD/MGT, the XO and Sayed Ali, FM/FA for their outstanding cooperation during this audit and their diligence in taking prompt, specific and meaningful corrective action.

**AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT**

**AUDIT OF STATEMENT OF
NONEXPENDABLE PROPERTY**

SEPTEMBER 30, 1992

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**AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT**

**AUDIT OF STATEMENT OF
NONEXPENDABLE PROPERTY**

SEPTEMBER 30, 1992

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February 4, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

Dear Mr. Darcy:

This report presents the results of our financial-related audit of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") nonexpendable property inventory ("U-754/1 Report") including the review of the related system of internal controls for nonexpendable and expendable property ("personal property") and determining if the USAID/Egypt personal property management contractor complied with the terms of its contract including AID Handbook 23, App. 4A and other applicable regulations.

The audit of the U-754/1 Report covered the fiscal year ending September 30, 1992 and the review of the related system of internal controls encompassing personal property procurement, control and disposal, and adequacy of the accounting and information systems covered the period from March 21, 1988 through September 30, 1992.

BACKGROUND

The USAID/Egypt Management Office is responsible for providing logistical support to USAID/Egypt offices and to the USAID/Egypt community. Part of this support is provided through the issuance of nonexpendable and expendable personal property.

AID Handbook 23, App. 4A, "Personal Property Management" prescribes policy, principles, responsibilities, and related requirements for management, accountability, utilization, maintenance and disposal of all personal property owned and controlled by an overseas establishment of USAID.

The USAID/Egypt personal property management system, subject to our audit, includes nonexpendable property ("NXP") and expendable property ("EXP"). NXP is defined as personal (as opposed to real) property which (1) is complete in itself, (2) does not lose its identity or become a component part of another article, and (3) is of a durable nature with an expected useful life of one or more years. Examples of NXP property are home appliances, vehicles, beddings, computers, furniture, etc. EXP is property which, when put in use, loses its identity or becomes an integral part of another item of property. Examples are office supplies, some residential furniture, knives, forks, glasses, and welcome kits. (Welcome kits are used by U.S. direct hire personnel upon their arrival in Cairo and until their personal household effects arrive.)

Responsibilities

The primary responsibilities within USAID/Egypt for the personal property management system are detailed below:

Mission Director and Property Management Officer

The USAID/Egypt Mission Director has overall responsibility for the management of USAID/Egypt owned and controlled property located in Egypt. The Mission Director designates an executive officer to serve as property management officer. The property management officer (PMO) is responsible for the following functions of property management: (1) ordering, (2) receiving, (3) storage, (4) utilization, (5) accountability, (6) standardization, (7) maintenance and repair, (8) inventorying, (9) disposals, and (10) settling disputes about property control.

The PMO is required to fulfill his personal property management services in accordance with AID Handbook 23, App. 4A.

USAID/Egypt Controller

The USAID/Egypt Controller is responsible for the establishment of procedures required to provide U.S. dollar monetary accounting control for NXP USAID/Egypt owned property pursuant to AID Handbook 19, Financial Management Handbook. This requires close coordination with the PMO.

Location and amount of property

USAID/Egypt personal property is located in two rented warehouses (the Maadi warehouse which is sublet from the U.S. State Department and the New Maadi warehouse leased from an officer of Transcentury Corporation), USAID/Egypt offices at the Cairo Center and the residences of USAID/Egypt U.S. direct hire personnel. USAID/Egypt is currently constructing its own warehouse which should be available for use in 1994. (This warehouse would eliminate the need for the two rented warehouses.)

As of September 30, 1992 preliminary USAID/Egypt records indicate approximately \$ 6.5 million of NXP.

Property Management Contract and Contractor

In 1986, USAID/Egypt delegated the management of its personal property by entering into a cost reimbursement plus fixed fee contract with Transcentury Corporation to provide a total package of nonexpendable and expendable property management services in accordance with AID Handbook 23, App. 4A and other applicable AIDAR regulations.

Transcentury Corporation's contract combines management of residential and office property, both NXP and EXP, and is hereinafter referred to as the "USAID/Egypt Personal Property Management Contract."

The USAID/Egypt Personal Property Management Contract scope of work includes all facets of property management including requisition, receipt, issuance, storage, control, accountability, disposal, safeguarding, and maintaining detail accounting records of USAID/Egypt personal property.

The USAID/Egypt Personal Property Management Contract has been extended through December 31, 1993.

AUDIT OBJECTIVES AND SCOPE

The objectives of this engagement were to perform a financial-related audit of USAID/Egypt's personal property management system. Specific objectives were to determine whether:

1. The Statement of Nonexpendable Property (U-754/1 Report) for USAID/Egypt at September 30, 1992 presents fairly, in all material respects, the ending inventory, property procurement and disposal for the period, in conformity with generally accepted accounting principles or other comprehensive bases of accounting;
2. USAID/Egypt's internal control structure for personal property was operating effectively during the period from March 21, 1988 through September 30, 1992;
3. The Transcentury Corporation and USAID/Egypt complied, in all material respects, with contract terms and applicable laws and regulations that have a material effect on the inventory as reported on the U-754/1 Report; and
4. USAID/Egypt has taken adequate corrective action on prior audit report recommendations.

Preliminary planning and review procedures were started in May 1993 and consisted of discussions with personnel from the USAID/Egypt offices of RIC/AC, Financial Management and Management Services, and Transcentury Corporation, and review of AID Handbook 19, Chapter 15, Handbook 23, App. 4A and other applicable regulations.

Our testing procedures included testing internal controls over (1) receipt and storage of property, including the extent of inspection, (2) warehousing and storage of property, (3) accountability, including adequate identification procedures and maintenance of detail property records, (4) property cost accounting, (5) physical inventory and reconciliation procedures, and (6) disposal of personal property.

As part of our examination, we performed a study and evaluation of the internal control structure and assessed the control risk as part of the financial-related audit of inventory as reported on the U-754/1 Report. Further, we tested Transcentury Corporation's compliance with applicable laws and regulations that have a material effect on the U-754/1 Report.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

RESULTS OF AUDIT

Statement of Nonexpendable Property (U-754/1 Report)

We were engaged as of May 31, 1993 to audit the U-754/1 Report for the fiscal year ended September 30, 1992. However, because a physical inventory was not taken at September 30, 1992, which was prior to our appointment as independent accountants and the accounting records did not permit us to apply other auditing procedures to satisfy ourselves as to inventory quantities and costs, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the U-754/1 Report.

Internal Control Structure

According to AID Handbook 23, App. 4A "Personal Property Management," "it is the policy of the U.S. Government, through its respective agencies to obtain maximum use of all property in its possession through efficient requirement planning, accountability, utilization, maintenance, and disposal procedures." USAID/Egypt is, therefore, required to establish property management systems and procedures within the scope of AID Handbook 23, App. 4A.

We determined that USAID/Egypt's personal property internal control system did not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Statement of Nonexpendable Property being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions (i.e. material weaknesses). In addition, we noted matters relating to significant deficiencies in the design or operation of the personal property internal control system that, in our judgment, could adversely affect USAID/Egypt's ability to record, process, summarize, and report financial data consistent with the assertions of management in the U-754/1 Report. See the Report on Internal Controls beginning on page 9 which describes the material weaknesses and reportable conditions identified as a result of this financial-related audit.

We also noted certain internal control issues of a non-reportable nature which we have reported to the management of USAID/Egypt in a separate letter dated September 12, 1993.

Compliance with Agreement Terms and Applicable Laws and Regulations

USAID/Egypt contracted with Transcentury Corporation to provide a total package of nonexpendable and expendable property management services in accordance with AID Handbook 23, Chapter 4. Our audit determined that Transcentury Corporation and USAID/Egypt did not materially comply with the provisions of AID Handbook 23, Chapter 4. See the Report on Compliance with Laws and Regulations beginning on page 34 which describes the material noncompliance identified.

We also noted certain immaterial instances of noncompliance that we have reported to the management of USAID/Egypt in a separate letter dated September 12, 1993.

Prior Audit Recommendations

Minimal progress was made in implementing the internal control recommendations made by us in our report dated May 5, 1988.

MANAGEMENT COMMENTS

We have reviewed USAID/Egypt's management response to the financial-related audit of USAID/Egypt's personal property management system which is included in Appendix A. We believe that their response which details current and future actions to be taken adequately addresses the management deficiencies noted in our report. As such, we have not provided any comments to their response.

This report is intended solely for use by the United States Agency for International Development and may not be suitable for any other purpose.

Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS

September 12, 1993

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We were engaged to audit the accompanying Statement of Nonexpendable Property ("U-754/1 Report") of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the period from October 1, 1991 through September 30, 1992. The U-754/1 Report is the responsibility of USAID/Egypt management.

No physical inventory was taken at September 30, 1992, which was prior to our appointment as independent accountants, and we were unable to satisfy ourselves regarding inventory quantities and costs on this date because USAID/Egypt's accounting records do not provide sufficient evidence supporting inventory transactions to permit the application of adequate auditing procedures.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Note 2, the Statement of Nonexpendable Property was prepared in accordance with the requirements of the Agency for International Development instructions for the preparation of the U-754/1 Report and is not intended to be a presentation in conformity with generally accepted accounting principles.

Because we were not able to apply other auditing procedures to satisfy ourselves regarding inventory transactions, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the U-754/1 Report for the fiscal year ended September 30, 1992.

Price Waterhouse

U-754/1 REPORT

Report Control
Symbol U-754/1

A. AID Owned Non-Expendable Property:
General Ledger Trial Balance
as of September 30, 1942

USAID/EGYPT

| Amount | Debit | Credit |
|---|----------------|-----------------|
| Inventory, Non-expendable (Excluding Vehicles) | \$5,949,209.13 | |
| Inventory, Vehicles | \$ 607,680.46 | |
| Goods in Transit | \$ 16,993.45 | |
| Accounts Payable | | \$7,427.79 |
| Investment in Property | | \$ 6,566,455.25 |
| | \$6,573,883.04 | \$ 6,573,883.04 |

Certified Correct

William A. Miller
(Controller)

B. Property Inventory Certification

I Certify that a physical inventory was taken of all A.I.D.-owned Non-expendable property in the Mission's custody, as required by regulations. The inventory has been verified with the property records and all overages and shortages have been reconciled or surveyed or are in process of being otherwise accounted for.

Accountable property office

Submit this paper with two copies of the Mission's physical inventory listing to
AID/W-SER/HO: Attn: Overseas Property Management.

C. SUPPLEMENTAL INFORMATION

Value of Expendable Material
and Supplies as of September 30, 19

Amount of prepaid Rents
as of September 30, '19

See accompanying notes to the Statement of Nonexpendable Property

**AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT**

NOTES TO THE STATEMENT OF NONEXPENDABLE PROPERTY

NOTE 1 - Source of Data

The personal property inventory data reflected in the Statement of Nonexpendable Property ("U754/1 Report") represent USAID/Egypt nonexpendable personal property inventory activity from October 1, 1991 through September 30, 1992.

NOTE 2 - Basis of Presentation

The Statement of Nonexpendable Property was prepared in accordance with the requirements of the Agency for International Development instructions for the preparation of the U-754/1 Report.

REPORT OF INDEPENDENT ACCOUNTANTS
ON INTERNAL CONTROL STRUCTURE

September 12, 1993

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for International
Development

We were engaged to audit the Statement of Nonexpendable Property ("U-754/1 Report") of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the fiscal year ended September 30, 1992 and have issued our report thereon dated September 12, 1993, in which we disclaimed an opinion due to limitations on the scope of our work because we were not able to apply auditing procedures to satisfy ourselves regarding inventory transactions. As part of this engagement, we reviewed the related system of internal controls for nonexpendable and expendable property for the period from March 21, 1988 through September 30, 1992.

No physical inventory was taken at September 30, 1992, which was prior to our appointment as independent accountants, and we were unable to satisfy ourselves regarding inventory quantities and costs because USAID Egypt's accounting records do not provide sufficient evidence supporting inventory transactions to permit the application of adequate auditing procedures.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

The management of USAID/Egypt is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the U-754/1 Report. Because of inherent limitations in any internal control structure, errors or

irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of requirements planning and utilization, receipt and storage, control, accountability and disposal of personal property. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures which comprise the control structure, determined whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the U-754/1 Report being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our engagement disclosed the following conditions which we believe constitute material weaknesses:

MATERIAL WEAKNESSES

- 1. Transcentury Corporation's control environment undermined the internal control structure procedures' effectiveness and USAID/Egypt did not exercise proper contract monitoring and control procedures.**

As discussed in Statement on Auditing Standards No. 55, for purposes of an audit of financial statements, a major element of an entity's internal control structure is the control environment. "The control environment represents the collective effect of various factors on establishing, enhancing, or mitigating the effectiveness of specific policies and procedures. Such factors include, among others, (1) management's philosophy and operating style, (2) management's attitude and demonstrated commitment to establishing a positive atmosphere for the implementation and execution of well controlled business operations, (3) methods of assigning authority and responsibility and (4) management's control methods for remedying material internal control weaknesses that prior auditors have identified in earlier audits.

The control environment reflects the overall attitude, awareness, and actions of management and others concerning the importance of control and its emphasis in the entity, and has a pervasive effect on the entity's internal control structure. That is, has management set an appropriate "tone at the top."

During the course of our engagement we noted that internal controls to top management were not perceived as being important and their awareness and actions regarding internal controls were less than satisfactory. For example:

- There had been no significant progress made to improve operations or controls as recommended in a prior audit report.
- Management's style was not oriented to planning in advance, but rather operated on a "day to day" or "month to month" basis. Planning in advance would indicate a commitment to control and hence a stronger control environment.
- Although the design of the internal control structure (i.e. AID Handbook 23, App. 4A) is considered adequate to prevent or detect material misstatements in the U-754/1 Report, Transcentury Corporation did not materially follow this designed structure and, therefore, the operating effectiveness of the internal control structure was compromised. Operating effectiveness of an internal control structure policy or procedure is concerned with how the policy or procedure was applied, the consistency with which it was applied during the audit period, and by whom it was applied.

USAID/Egypt was aware of the unsatisfactory control environment, and the resultant negative impact on the internal control structure's operating effectiveness, but was not successful in improving the situation. For example we noted that, among others, USAID/Egypt (1) did not materially follow-up on prior audit recommendations, (2) did not perform periodic reviews of property records and (3) required approvals were not made (e.g. work orders were not signed by the Accountable Property Officer ("APO"), or were signed by someone other than USAID/Egypt (e.g. the warehouse supervisor signed Property Disposal Authorization and Survey Report ("PDA") forms in the area that was to be signed by the APO).

USAID/Egypt's lack of oversight and proper contract monitoring procedures may have contributed to many of the internal control weaknesses that existed.

Recommendation 1

Transcentury Corporation should maintain a more effective control environment in order to improve the internal control structure's operating effectiveness and USAID/Egypt should implement proper contract monitoring procedures and ascertain that all prior audit recommendations are followed-up and that AID Handbook 23, App. 4A is adhered to in all material respects.

Management's concern with the organization's control system is necessarily a continuing one. Absent proper monitoring procedures, even the best designed system may become ineffective. Sound policies and procedures are of no value unless they are followed. Knowledge that adherence to AID Handbook 23, App. 4A will be monitored is an essential element of an appropriate control environment. A monitoring feature is, therefore, an integral part of an effective control system.

* * * * *

2. There existed no inventory requirements and utilization planning programs, including the establishment of formal programs for property acquisition, analysis and management, and utilization.

Transcentury Corporation and USAID/Egypt had not (1) prepared a formal acquisition policy, (2) performed proper property analysis and management procedures, and (3) conducted a property utilization program, as required by AID Handbook 23, Section 222. Further, Section 224.5 was not adhered to which requires that USAID/Egypt "develop and maintain control of its stock inventory to assure that the total investment is kept to a minimum consistent with its needs."

Generally the lack of formal inventory requirements and utilization planning programs could be attributed to:

- Inadequate understanding of the basis for the policies and program,
- Insufficient attention by USAID/Egypt, and
- Inadequate inventory records to determine current inventory levels and usage in order to base a determination of appropriate inventory levels and utilization.

Recommendation 2

We recommend that Transcentury Corporation adhere to AID Handbook 23, App. 4A, Section 222, "Requirements Planning And Utilization" and Section 224.5-1 "Supply Management - Stock Control." these sections dictate that formal Inventory Requirements Planning Policies and Utilization Programs be developed. Specifically, USAID/Egypt's Property Management Officer ("PMO") should review and approve each program prior to its implementation. Furthermore, the current inventory records should be improved to produce information on inventory usage and levels so that authorized personnel can initiate responsive planning and utilization actions.

Inventory control includes (1) establishing stock levels for various types of inventory, (2) monitoring inventory levels and usage rates and (3) initiated purchasing decisions in response to perceived requirements. The prescribed inventory levels for a particular item or group of items are not only the result of utilization forecasting techniques, but also arise from consideration of many other functions including:

- Shelf life and perishability
- Risk of style or technological obsolescence
- Dependability of supply
- Predictability of lead times for purchased items
- Anticipated stability (or lack thereof) of purchase prices
- Availability of space
- Storage, transportation, budgetary limitations, and other pertinent costs

In accordance with AID Handbook 23, the fundamental purpose for the development of acquisition and utilization policies is to achieve efficient operations. That is, property acquisition should be limited to the quantity and quality necessary for effective and efficient operations, and property should not be acquired unless a bonafide need exists. Moreover, periodic property surveys should be

conducted to assure care and maximum use of property, to ensure that property is used for official purposes only, and to identify property for reassignment within the organization or return to the warehouse as excess.

Unless an organized approach is used to plan, acquire and utilize personal property, there is a likelihood of ordering items at the wrong time, in the wrong quantities or at excessive costs and that property is not properly cared for and effectively utilized in operations.

* * * * *

3. Transcentury Corporation failed to properly segregate incompatible duties and USAID/Egypt's APO did not conduct and document management reviews.

AID Handbook 23, App. 4A, Section 221.7, requires "that no one individual is in the position to control all aspects of a transaction, and the separation of key functions and duties is a prime means of assuring this." In those situations where the separation of incompatible duties is not feasible "it is important that other internal controls be implemented. In the absence of separation of these functions, therefore, the APO shall conduct and document management reviews at least twice a year."

We identified numerous situations where incompatible duties were not properly segregated. For example, we noted the following:

- The personnel responsible for performing physical inventory counts at the warehouse and at USAID/Egypt's office had custody of the property, access to the property records and bin cards and were also responsible for property disposal.
- The warehouse supervisor had custody of expendable property and was also responsible for its issuance.
- The receiving officer for office supplies was responsible for authorizing disposals and transfers to the supply room at the State Department.
- The assistant warehouse supervisor prepared and approved most work orders, not the person requesting or receiving items. In addition, the residential maintenance services contractor did not complete work orders for items that should be transferred to the warehouse, but merely tagged them as being available for pick-up.
- Physical inventory counts of the apartments were performed by the warehouse supervisor and assistant warehouse supervisor who also had custody of warehouse property and the authority to issue property transfers to and from the apartments.

As discussed above, in those situations where circumstances prevent management from separating incompatible duties, the APO is required to conduct and document management reviews of the system. The APO did not adhere to this requirement.

Recommendation 3

We recommend that all incompatible duties be segregated and in those situations whereby management is prevented from separating appropriate duties, it is important that other internal controls be implemented. In the absence of separation of these functions, the APO should conduct and document management reviews at least twice a year.

One of the most important principles of internal accounting control is that duties should be assigned to individuals in such a way that no one individual can control all phases of the processing of a transaction. Otherwise, errors of omission or commission may go undetected. This means that, ideally, the flow of activities should be designed so that the work of one individual is either independent of, or serves as a check on, the work of another. As mentioned in AID Handbook 23, App. 4A, Section 221.7, duties which are to be separated whenever possible include procurement, receiving, payment, property record maintenance, conduct of physical inventories and disposal. For example, those responsible for inventory planning, receipt of incoming property and custody should not maintain, nor be in a position to control, the accounting for such activities. If one individual controls these functions, an unauthorized disposal of goods could be concealed in the property records.

It is our opinion that given the low number of personnel involved in the personal property management system that a proper segregation of incompatible duties is not practical. If USAID/Egypt wants to properly segregate incompatible duties, additional resources are required. However, it should be noted that the objective of an entity's internal control structure is to provide "reasonable assurance" that specific objectives will be achieved. As discussed in Statement of Auditing Standards No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, the concept of reasonable assurance recognizes that the cost of an entity's internal control structure should not exceed the benefits that are expected to be derived. This cost-benefit relationship should be a primary criterion that USAID/Egypt utilizes in determining if the additional resources (employees) exceed the benefits of a properly segregated system.

* * * * *

4. Physical safeguards over personal property were inadequate.

AID Handbook 23, App. 4A, Section 223.7, "Warehousing and Storage of Property," requires that the PMO, "establish conditions to provide for an efficient, secure, and economical warehousing operation." Special consideration should be given to secure and controlled areas for storing expensive equipment and supplies, and firebreak walls shall be provided. In addition, Section 224.5-1c "Supply Management - Stock Control" requires that, "adequate safeguards and controls shall be established to assure that supplies are issued for official use only."

We identified numerous situations where improvements in present conditions should be made. For example we noted that:

- Certain shipments were being stored outside the warehouse on the street. Although the warehouse was a restricted access area, it is shared with the State Department and security of the area may not prevent the unauthorized issuance of items;

- Expendable property items were stored in a haphazard manner in the same contiguous area as Transcentury Corporation's warehouse offices. The property in this area was uncontrolled and open to everyone in the warehouse;
- The warehouse was not protected by fire and burglar alarms;
- Guards at the warehouse did not inspect property leaving the warehouse to verify that the proper items were exiting the warehouse;
- Property passes were not prepared, were prepared incorrectly (more items were included on a property pass than were reflected in the work order and were not listing enough detail of the contents leaving the warehouse), and were not signed by the guard at the warehouse to evidence his review of property being issued;
- The warehouse storekeeper did not record in the warehouse log book all items coming in and leaving the warehouse; and
- Disposal property, after being delivered to the State Department, was left outside the controlled auction area for up to two weeks. In addition the auction area was left unsupervised for several hours each day.

Recommendation 4

Physical safeguards over personal property should be improved by: (1) restricting access to only authorized employees; (2) improving storage procedures; (3) installing fire and/or burglar alarms; (4) requiring warehouse gate guards to inspect all shipments; and (5) improving procedures relative to the use of property passes.

Appropriate physical safeguards substantially contribute to more effective control over inventory. Physical safeguards help to guard against withdrawal of stock for use without recording and loss from pilferage. Ideally, inventory storage areas should be enclosed and access limited to storekeepers with custodial responsibility. Unless physical safeguards are supplemented by control procedures requiring, for example, written authorizations for all items and packages taken out, the actual control achieved may be minimal.

* * * * *

5. Inspection and receiving requirements were not followed.

We noted numerous instances in which inspection and receiving requirements were not met. As the authorized receiving agent's signature acknowledges receipt of property by the government and for initial shipments, incurs a liability for payment, the performance of proper inspection and receiving requirements is essential to protect the government's interest. During our engagement we noted that property was not properly inspected and documents necessary to perform the required inspection and receiving requirements were not available. Specifically, we noted the following:

- Receiving personnel did not open cartons of property received to verify contents and serial numbers and inspect property. Cartons were opened only in the event that external damage was evident.
- Items such as computers or communications equipment were received by USAID/Egypt or the warehouse but not inspected by a qualified technician.
- Property picked up from various apartments was not inspected when received at the warehouse and was not recorded in the warehouse receiving register.
- Property was received by several different persons in the warehouse yet the warehouse manager signed the receiving report, certifying receipt and condition, even though he did not actually receive the property.
- The warehouse received property with an unapproved copy of the purchase order. USAID/Egypt sent the warehouse copies of the purchase orders as soon as they were prepared, but had not yet been approved. The warehouse was responsible to inspect and compare property received to the purchase order and to notify USAID/Egypt of any over- or under shipments. If property received is not compared to an approved copy of the purchase order, it cannot be assured that the purchase was approved.
- Bills-of-lading or shipping receipts from the supplier or shipper were not maintained with the receiving report. The warehouse was responsible to inspect and compare property received to packing lists or a bill-of-lading therefore these documents should be kept with the receiving report as evidence that the property was received.

Recommendation 5

We recommend that all property be inspected and received in accordance with AID Handbook 23, App. 4A, Section 223. Specifically, we recommend the following:

- All cartons of property should be opened and other forms of packaging removed in order to physically inspect all property. As required by AID Handbook 23 Section 223.5, serialized equipment should be inspected and the serial numbers recorded on receiving and inspection reports.
- Computers, communications, and other technical equipment should be inspected by qualified technical personnel. In these instances, as required by AID Handbook 23, Section 223.4, both the receiving clerk and the inspecting technician should sign the receiving report.
- All property should be promptly inspected when received as to condition, quantity, and quality and to determine that the received property is in accordance with the procurement documents as required by AID Handbook 23, Section 223.1.
- The USAID/Egypt appointed receiving agent, and no other person(s), should inspect and receive property and prepare receiving reports.

- USAID/Egypt should promptly send a copy of the approved purchase order to the USAID/Egypt appointed receiving agent. Upon inspection of shipments, the receiving agent should compare property received with the purchase order. The receiving agent should be instructed not to receive shipments without a copy of the approved purchase order.
- Upon inspection, all shipments should be compared to bills-of-lading or packing lists. These documents should be filed with the appropriate receiving report.

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6. Receiving and inspection reports were not timely prepared.

We noted several instances in which Transcentury Corporation had effectively assumed custody but had not acknowledged receipt of property. In the interval between the time the property was received and the time that Transcentury Corporation acknowledges receipt, USAID/Egypt assumes the risk of loss although Transcentury Corporation has actual custody. During this interval, the risk of fraud, waste, theft, or other misuse of property is greatly enhanced. Specifically, we noted the following:

- Property was received by the warehouse and two days later the property was inspected by USAID/Egypt and a receiving report was prepared.
- A shipment was unloaded and stored inside the warehouse but not received by Transcentury Corporation.
- Generally, there is a 1 to 30 day time lag between receipt of property by the warehouse as evidenced on receiving reports and acknowledgement of receipt by Transcentury Corporation as evidenced by signature of the assistant warehouse supervisor.

We also noted numerous instances where receiving reports were not prepared, were not prepared on a timely basis or were prepared inadequately. Receiving reports should be prepared for property received at the warehouses or USAID/Egypt offices at the Cairo Center and signed by the USAID/Egypt appointed receiving agent and promptly submitted to the warehouse in order to update the property record cards. If receiving reports are not prepared and submitted on a timely basis, the property records cannot be properly maintained. During our engagement, we identified the following:

- Security radios were received by the warehouse but a receiving report and a composite property record card were not prepared. Additionally, when the security radios were issued and transferred out of the warehouse, delivery personnel did not sign for receipt of the property at the time of issuance from the warehouse.
- Property was received at the USAID/Egypt offices and a receiving report was not prepared by USAID/Egypt or the warehouse nor was the warehouse contacted at the time of receipt.
- Property was received at the USAID/Egypt offices and there was a considerable time lag between the receipt of property and the submission of the receiving report to the warehouse.
- Partial deliveries were not recorded on receiving reports. Because of this, an invoice could be paid in its entirety when only a portion of the property has been received.

- Receiving reports prepared by the warehouse and submitted to USAID/Egypt are not stamped received by USAID/Egypt. These receiving reports are used by USAID/Egypt to maintain property records. If USAID/Egypt does not stamp documents as received, it is not possible to ensure that the receiving report has been promptly submitted to USAID/Egypt.

Recommendation 6

We recommend that inspection and receiving reports be prepared promptly upon the receipt of property. These reports should be completed for all receipts and transfers of property and facilities should be centralized to control all property received. Specifically, we recommend the following:

- USAID/Egypt should appoint receiving agents for all designated receiving areas and, as required by AID Handbook 23, Section 223.2, require that all receipts be communicated to a central receiving area, the warehouse.
- Inspection and receiving reports should be promptly prepared by the receiving agent to provide formal evidence of receipt of property in order to justify payment of invoices and to authorize posting entries to the appropriate property records.
- Partial deliveries should be recorded on receiving reports to allow for inventory control and to apportion payment for property received, as required by AID Handbook 23, Section 223.5.
- USAID/Egypt should stamp receiving reports as well as disposal documentation as received, noting date received. Because USAID/Egypt is responsible for the general ledger property records, it is essential that controls are implemented to ensure that these documents are promptly submitted.

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7. The property record system was not maintained properly.

The system of controls surrounding the recording of data on property records contained several weaknesses. Property records, including composite and individual property record cards and the nonexpendable property computer system, were maintained for the purposes of property accountability, inventory control, and to establish custodial responsibility. Therefore the accuracy and reliability of these records was essential. During our engagement, we found that the data recorded on the property records was incorrect and incomplete. Specifically, we noted the following weaknesses:

- Composite property record cards were maintained by types of items without regard to size, capacity and cost. As these items can vary greatly in cost and specifications, their grouping on one composite card may lead to the improper costing and control of these items.
- Individual property record cards were maintained in a disorganized manner. We were unable to locate certain individual property record cards for items with distinct serial numbers. Without proper property control records, tracking items was impossible.

- The nonexpendable computer system and composite cards did not agree with the corresponding individual cards. The data recorded on the different property records was inconsistent, inaccurate, and often incomplete resulting in irreconcilable property records. As composite cards summarize property by type and individual cards are used to track individual property items owned by USAID/Egypt, the two sources of property information should always be correct and agree. Also, we found that data used to determine property life and cost was recorded incorrectly. If this data is not accurate and reliable, items may be disposed of at a distorted value and/or prior to the end of their expected life. Specifically, we noted the following: (1) the dates recorded for receipt and first issuance of property were incorrectly recorded in the nonexpendable property computer system, (2) certain individual property record cards did not include the purchase order number or date received, (3) the cost and quantity of property received as recorded on the composite cards were usually obtained from the purchase order and not the invoice and receiving report, and 4) property cost as recorded on composite cards did not include freight cost.
- Multiple individual property record cards were found for a single item. Our testing of PDA 009/1990, found a serial numbered item with two individual property cards, one with the correct serial number and one with an incorrect serial number. Both cards were completed with all transaction information. Multiple property record cards may overstate inventory and provide for duplicate and non-authorized disposals.
- A transfer of property was not recorded in the property records. While testing PDA 08/1988, we noted that the disposal information was not entered on the composite card and that there were no individual property cards for the items disposed. These items related to air conditioners in the Marine House in Alexandria which were exchanged with items received by the warehouse. All receiving and property disposal forms were prepared by the USAID/Egypt clerk under the direct supervision of the personal property management contractor warehouse manager which is an indication of the complete control of information by the personal property management contractor.
- Property records were easily accessible to all employees. The keys to property records were maintained in a safe in the warehouse office to which all office employees have access.

Recommendation 7

We recommend that procedures in AID Handbook 23, Section 224.3 property records and Section 225.2 be implemented to adequately control property records. Specifically, the following tasks should be completed.

- Property record cards should be sorted alphabetically by standard nomenclature as required by AID Handbook 23, Section 224.3. We recommend that categories be established by the main descriptive noun followed by qualifying adjectives which would best sort items by type and simultaneously reflect cost variations.
- Information recorded on property records, including the composite and individual property cards and the nonexpendable property computer system, should be obtained from the appropriate documents. The quantity received and date of receipt should be obtained from

the receiving report and the date of first and subsequent issuances should be obtained from the work orders. As required by AID Handbook 23, Section 224.3, the actual cost is used for items acquired and the average cost is to be used for items deducted.

- Nonexpendable property that is acquired by purchase should be recorded on property records at full cost. In accordance with AID Handbook 23, Section 225.1, full costs include the following: 1) amount paid to the vendor, 2) transportation charges, 3) handling and storage costs, 4) labor and other direct or indirect production costs, and 5) outside services for designs, plans, or specifications. Nonexpendable property having an invoice cost of \$5,000 or more and an estimated service life of 2 years or longer is considered capitalized personal property. Acquisition cost for capitalized personal property should be determined according to AID Handbook 23, Section 225.2.
- Property records should be reconciled regularly. As required by AID Handbook 23, Section 224.3, the total number of individual property record cards should always equal the balance on the related composite property record card.
- Property records should be locked and keys kept with the personnel responsible for maintaining the records and the accountable property officer only.
- As required by AID Handbook 23, Section 223.5, we recommend that the APO periodically review property recordkeeping to ensure correct posting, pricing, nomenclature, and proper classification of property. Such reviews should be documented by a memorandum to the file.

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8. Identifying tags and labels were not being affixed to USAID/Egypt property that distinguished the inventory number or the ownership of the property.

Specifically, we noted that certain items such as furniture, transformers, fans, ladders and welcome kits did not have associated serial numbers or USAID/Egypt property codes. Without proper identification labels, the inventory counts of these items may result in inventory overages and shortages of certain property as a result of the inconsistent or nonexistent identification of items as interpreted by the individuals counting property. The classification of property on PDA forms may also be recorded incorrectly without adequate identifying information.

In addition, we noted that new property was often stored outside the warehouse after receipt without being marked as USAID/Egypt property or labeled as to the source of funding for up to a month. The required property labels were not kept in a secure place by the contractor and could be accessed by unauthorized individuals. When property labels were eventually affixed to property, they were often applied by personnel who lack the information or experience to determine the true owner or source of funding of the related items. As a result, items that were marked may be marked incorrectly.

We also noted that the source of funds used to purchase the property (e.g., IG, Trust Fund) as required by AID Handbook 23, Section 224.2 was not always marked on the property. The associated property cards for this property often did not identify the source of funds for the individual property items either. Without any information concerning the source of funds of these items, the proper classification of property can not be performed.

Recommendation 8

We recommend that all property be permanently labeled with property classification control numbers providing a standard nomenclature for each type of asset and identifying the source of funds used to purchase the property. Items should be labeled immediately upon receipt by the warehouse. These labels should be cross referenced to the respective property individual record cards.

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9. The system of controls surrounding expendable property contains several weaknesses.

Specifically we noted the following weaknesses:

- Certain expendable items did not have a bin card associated with them. Bin cards were the only method used by Transcentury Corporation to account for expendable property inventories. As a result, items without a bin card were not being properly monitored.
- The USAID/Egypt direct-contracted employee was the custodian of the expendable property and had the authority to approve work orders and issue property passes. These functions should be segregated as they related to expendable property.
- Expendable property was maintained in a haphazard manner in the same contiguous office space as Transcentury Corporation offices and not as dictated in AID Handbook 23, Section 223.7. As a result, the expendable items were uncontrolled and accessible by most of the office and warehouse personnel.
- The bin cards, used to control inventory and movements of expendable property, were maintained in open boxes on the supply clerk's desk. Without restricted access to the bin cards, the property contractor can not ensure that only authorized individuals have access to the records and only valid transactions are entered on the bin cards.

Recommendation 9

We recommend that Transcentury Corporation implement the following procedures to adequately control expendable property:

- Prepare bin cards for all expendable inventory items and ensure that all transactions affecting this property are properly recorded.
- Segregate the incompatible expendable property functions now performed by the USAID/Egypt direct-hire employee to ensure that the same individuals does not have custody of expendable property and the authority to issue property and prepare property passes.
- Establish a restricted access area for the storage of expendable property in an area that is separate from the offices of the Transcentury Corporation and

- Establish a filing system for the bin cards which would restrict access to the expendable property records. This system should be accessible only by those employees who are authorized to record expendable property transaction.

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10. **Discrepancies between the physical inventories and the property records were immediately corrected by issuing property disposal authorizations or receiving reports for the differences without adequate follow-up to determine the cause of the discrepancy.**

Although this policy is outlined in AID Handbook 23, Section 226.4-2, it should be noted that AID Handbook 23, Section 226.5 states that complete documentation is essential and information provided shall be such that reviewing officials will be able to make informed and impartial decisions concerning the disposition of the property and determination of any liability. Implicit in this requirement are accurate and reliable physical inventory counts and property records. Because the inventory counts and property records control system contained many weaknesses, including material weaknesses, the policy of reconciling differences through issuing Property Disposal Authorizations and receiving reports should not have been applied until after very rigorous follow-up procedures.

In addition, little, if any, effort was applied to follow-up and resolve the discrepancies between the physical counts and the property records. A proper internal control system would require that all reconciling items be thoroughly investigated and only after all other procedures were exhausted should inventory amounts have been added or deleted from the property records.

Recommendation 10

We recommend that Transcentury Corporation thoroughly investigate and completely document all discrepancies arising in the comparison between the physical inventory counts and the property records prior to adjusting the property records.

By implementing stringent follow-up requirements, Transcentury Corporation can ensure that property records accurately reflect actual property owned by USAID/Egypt.

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11. **Transcentury Corporation did not adequately document and control the transfers of property to USAID/Egypt personnel.**

In order to effectively monitor property in the custody of USAID/Egypt employees, complete documentation of all transfers to and from the employee's custody must be maintained. This documentation was not complete as it did not always contain the employee's evidence of receipt. Specifically we noted that:

- The recipient was not required to sign the work order or transfer document. We noted numerous instances in which property was transferred from the warehouse without a signed request by USAID/Egypt personnel. We further noted that USAID/Egypt personnel frequently did not sign for receipt of property when delivered.

- For a number of apartments, the certification of contents was not signed by the occupant or was missing from the apartment documentation files. Without such documentation or approval by the occupants, USAID/Egypt and Transcentury Corporation can not adequately monitor property in the custody of USAID/Egypt personnel. This may lead to lost or damaged property not being properly recorded and disposed of in accordance with AID Handbook 23, Section 226.5.
- Certain transfers of property to USAID/Egypt personnel had not been recorded on the personal custody property receipt. This receipt is used to control property in the custody of individuals. Without a properly completed custody property receipt, this control is greatly impaired.
- No inventories were performed prior to USAID/Egypt personnel occupying or vacating their residence. AID Handbook 23 Section 226.3 requires that an inventory be performed at such times to confirm the contents for which the USAID/Egypt personnel is responsible. Any discrepancies between the final inventory and the property records is to be resolved by the occupant and the APO.

Recommendation 11

We recommend that USAID/Egypt and the Transcentury Corporation ensure that adequate documentation is maintained to delegate the responsibility for custody of property outside the warehouse.

Controls should be established to ensure that all documents pertaining to property held outside the warehouse are complete. Specifically, we recommend that:

- All work orders or transfer requests in which property is delivered to an apartment or office of a USAID/Egypt personnel contain the signature of the individual requesting the property prior to delivering such items. In addition, all deliveries or replacement of property should be evidenced by the signature of the person receiving the property.
- Controls be established to ensure that Transcentury Corporation maintains adequate files for all USAID/Egypt apartments and offices. These controls would entail maintaining complete apartment files, listing all USAID/Egypt property contained in the apartment and ensuring that all transfers of property are reflected on personal custody property receipts.
- Inventories are performed for all apartments immediately prior to the arrival and after departure of USAID/Egypt personnel. This inventory should be approved by the occupant and a copy of the property count should be maintained in the apartment files.

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12. Replacement and defective property was not subject to inspection nor were requests from the USAID/Egypt maintenance contractor evaluated for propriety.

We noted several weaknesses surrounding the supervision and authorization of replacement property. Specifically we noted that:

- Defective items were replaced by new property without an evaluation of the incremental maintenance costs, expected life and estimated sales proceeds for each class of property. In addition, several replacements were conducted without an approved work order or a request from the individual with custody of the property. This situation may lead to unnecessary or unauthorized property replacement and unnecessary or unauthorized disposal of replaced property that is in adequate condition.
- The maintenance contractor had requested and received numerous items from USAID/Egypt property inventories to be used to repair USAID/Egypt property. Transcentury Corporation did not perform any follow-up procedures on these issuances of property to ensure that the items were necessary and that they were actually installed in the apartments. AID Handbook 23 Section 222.7-2 requires that repairs other than normal preventive maintenance should be recorded on the respective individual property record cards. Without follow-up on items issued to the maintenance contractor, proper recording of replacement parts may be impaired.
- The maintenance contractor attached a red tag to appliances which were out of order. The tags were used for appliances considered economical for repair as well as for those scheduled for disposal. We noted that no maintenance report stating the condition of the property was provided by the maintenance contractor. No verification of this status was performed by Transcentury Corporation before disposal. When this property was received by the warehouse, it was neither inspected nor were the items scheduled for disposal adequately grouped and segregated from other property in the warehouse.

Recommendation 12

We recommend the implementation of procedures to ensure that all repair or replacement property be properly identified, verified and grouped according to their condition.

In particular, we recommend the following procedures be implemented.

- USAID/Egypt should develop a policy regarding utilization of new or used property based on the incremental maintenance costs, expected life and estimated sales proceeds for each class of property. This would allow USAID/Egypt to base their issuance policy on business and economic factors to maximize return on investment. USAID/Egypt should also ensure that all property issued for replacement is properly requested by USAID/Egypt personnel and authorized by the appropriate person.
- Transcentury Corporation should follow-up all issuances of spare parts and other property to the maintenance contractor to verify their proper use and record major repair items on the appropriate property record card.

- We recommend that property scheduled for disposal, both for end of life span and because of the uneconomic repair condition of the property, be inspected and classified with condition codes and immediately transferred to the State storage area for assets pending disposition.

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13. Disposal documentation was often inaccurate and did not agree with the property records and other supporting documents.

The documentation required to initiate and complete a disposal of unneeded property is required to be in accordance with AID Handbook 23, Section 227.2-3. When the decision is made to dispose of unneeded property, a USAID/Egypt direct hire employee prepares a PDA form and forwards a copy to the APO for approval, who then forwards it to the PMO for approval. The PDA includes the quantity and name of items for disposal, the serial numbers when appropriate, and the reason for disposal. Attached to the PDA form is a list of items which were recommended for disposal. PDA forms are sequentially numbered and recorded in a log book.

We noted numerous instances where the PDA was not completely or accurately prepared or the data recorded on the PDA form did not agree with the supporting documents, the log book, or the property records. Specifically, we noted the following:

- In numerous instances we noted that the type of disposal was not acknowledged on the PDA. If supporting documents are not included, this may allow a disposal to be recorded without verification of the type of disposal.
- The PDAs often contain more than one type of disposal. USAID/Egypt regulations state that every class of disposal should be assigned a separate PDA form with documents that support the disposal decision.
- The PDAs did not always agree with the attached supporting documents or the supporting documents were not available. In three instances we noted that items were included in the attached supporting property listings but were not included on the PDA forms. This discrepancy may prevent effective reconciliation of disposal equipment and may allow for items to be disposed of without proper authorization. Additionally, we found that supporting documents were not available for PDA 54/1990 or PDA 12/1989. Regarding PDA 12/1989, the reason given for the disposal was due to the termination of a lease agreement. However, there was no documentation or authorization supporting the termination of the lease.
- PDA 02/1988 listed eight items for disposal while the log book listed 29 items. Upon questioning the difference, warehouse personnel produced two PDAs with the same PDA number and explained that one PDA number was incorrectly typed and should have been 04/1988. The duplicate PDAs led to the posting of inaccurate information to the individual property record cards and difficulty in verifying disposal information.
- We noted two separate instances where the PDAs did not agree with the individual property record cards. In one instance, a serial number item was disposed of twice. Two different PDAs (10/1988 and 07/1989) listed the same item for disposal; however, the individual property record card included a reference to PDA 07/1989 only. In another instance, an individual property record card referenced a PDA number different from the applicable PDA.

The same PDA referenced an individual property record card different than the appropriate card. This incorrect posting may lead to the inclusion of disposal property on multiple PDA forms.

- In one situation, we noted that a single water heater was disposed of in a PDA. The composite property record card for this item had a note attached that stated that the balance was zero and that the physical inventory revealed that an extra unit had to be disposed. The PDA log book contained different information than the PDA form although the entry in the log book is prepared after the PDA form is finalized. These discrepancies point to a lack of control over the recording of transactions including disposals and physical inventories.

Recommendation 13

We recommend that the following requirements be implemented in preparing PDAs:

- As required by AID Handbook 23, Section 227.2, the APO should be responsible for preparing PDA forms, keep one copy in a pending file, and forward the original to the PMO for approval.
- The APO should ensure that PDA forms are fully completed, including type of disposal, and that proper supporting documents are attached and agree to the PDA.
- Separate PDAs should be prepared for each class of disposal.
- PDAs should be prenumbered to avoid duplication. In addition, the prenumbered PDAs should be subsequently accounted for. By using this system, copies of all PDAs could be sequentially filed and the PDA log book would no longer be necessary.
- As required by AID Handbook 23, Section 223.5, the accountable property officer should periodically review property recordkeeping procedures to ensure correct posting. We recommend that this include a review of PDAs and the respective posting to both individual and composite property record cards. Additionally, such reviews should be documented as a memorandum for the file.

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- 14. We noted a number of weakness surrounding the system for disposals of USAID/Egypt property.**

During our engagement we noted the following situations:

- Property at non-USAID/Egypt locations was disposed of in place without first verifying whether a buyer existed, declaring the items as "foreign excess," and obtaining receiving documentation from the parties receiving the items. These transfers were recorded without ensuring that the property still existed and was in the custody of the documented responsible parties. Such disposals may result in improperly disposing of property or be used to conceal other unauthorized dispositions of property. These practices are not in accordance with AID Handbook 23, Section 227.3-2.

- Transfers of disposal property were not documented with a receipt of the party taking possession of the property. In several cases, when property was left in USAID/Egypt apartments in lieu of a security deposit, no receiving reports were obtained from the respective landlords to evidence the transfer. We also observed during the course of our engagement that when Transcentury Corporation transferred disposal property to the State Department, no signature of receipt verifying quantity and serial number of items was obtained. Transcentury Corporation also transferred disposal property prior to the receipt of formal approval from USAID/Egypt. These situations may lead to the unauthorized disposal of property.
- The property to be disposed was not always specifically identified by serial number. We noted several instances in which the property on the PDA was identified by a different serial number than the one appearing on the related property record card. This situation brought into question the validity of both sources of information.
- Property was not inspected by Transcentury Corporation or USAID/Egypt before it was disposed. Although the property was "viewed" by Transcentury Corporation and USAID/Egypt personnel, no procedures were employed to verify the condition of the disposed equipment or that the actual authorized equipment (as identified by serial number) was disposed.
- We noted one instance in which no support for the cause of the disposal was available. Transcentury Corporation personnel stated that the property may have been disposed due to end of its life span, because of a lease termination or because the property was not obvious or too large to be removed by the contractor. As a result, property may have been disposed for no reason by Transcentury Corporation at no value.

Recommendation 14

We recommend that property disposal controls be improved to ensure that only authorized items are disposed.

In particular, the following controls should be implemented:

- All property at locations other than USAID/Egypt offices and apartments should be appropriately identified prior to disposing of the property. In addition, AID Handbook 23, Section 227.3 should be followed so that all property is appropriately classified prior to disposal.
- A formal signature of receipt should be obtained from entities or individuals receiving disposed USAID/Egypt property. This would provide evidence that proper disposal practices were being followed.
- A thorough review of all disposals should be performed that would ensure that only authorized property is being disposed. This review would entail an matching of the serial number of the property on the PDA and the property record cards. In addition, all property should be inspected to verify the condition of the property prior to disposal.

- Approval for property disposals should not be granted unless complete and accurate justification for the disposal accompanies the PDA. This documentation should be maintained and filed with the actual PDA form.

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15. Physical inventory and reconciliation procedures were not adequately followed.

During our engagement we identified numerous exceptions to the physical inventory and reconciliation procedures required by AID Handbook 23 App. 4A, Section 226, "Physical Inventory and Reconciliation." For example we noted instances in which:

- The count teams did not sign-off on the count sheets.
- The resident did not sign-off the physical inventory at the time of the count.
- The resident only signed the first page of the physical count sheets and left the remaining pages unapproved.
- Residents were not required to certify for the receipt of property or, upon departure, that property is returned in satisfactory condition.
- Residential inventories were not consistently completed upon arrival or departure of residents.
- Physical counts were recorded on the computer without using USAID/Egypt approved count sheets or without maintaining original count sheets signed by the individual counting the property and approved by a supervisor.
- Residential custodial files are not kept current. As a result, physical counts are not able to be reconciled to these files.
- Count sheets that were maintained by the warehouse did not clearly state the quantities in the resident's custody.
- The physical counts were not approved by the USAID/Egypt APO or PMO. The results of these unapproved counts were used to adjust the property records.
- Physical count procedures do not take into account property movements.
- Individuals responsible for property record maintenance materially participated in the physical inventory counts.
- Residential inventory clearance procedures are not adequately followed. That is, shortages are merely listed on a PDA without a proper investigation to determine if the resident is liable for the loss.
- Discrepancy reconciliation procedures are not in place to identify inventory losses that exceeded one percent of the total inventory value, and

- Procedures are not in place to document the circumstances under which government personal property is lost, damaged or stolen.

Proper controls over physical inventories should ensure that the above listed events do not occur. The effect of the above is that the integrity of the physical inventory count is in question and reconciliations are based on inaccurate or incomplete information. In addition, USAID/Egypt funds are not being optimally utilized and personal property is not adequately safeguarded if recovery is not sought in those cases where negligence or theft is suspected. The above instances can be attributed to a lack of adherence to AID requirements.

Recommendation 15

We recommend that procedures enumerated in AID Handbook 23, App. 4A, Section 226, "Physical Inventory And Reconciliation" be strictly followed. In addition, we recommend that the USAID/Egypt controller implement a periodic review to ensure that these procedures are followed, specifically as it relates to the certification process of the U-754/1 Report.

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- 16. Transcentury Corporation's computerized information system environment did not utilize effective controls to mitigate processing and department risks.**

Transcentury Corporation has not implemented procedures or controls to ensure that computer generated information is reliable and verifiable. Additionally, no management review or supervision of the information system processing functions currently takes place. Specifically we noted that:

- Applications are not guarded against unauthorized access risks. The dBase System is readily accessible to any one with access to the office.
- There is no key edit or validation routines performed for the data entry and change procedures. Additionally, no management review is performed on input data.
- Data is sometimes entered without any source documentation. As a result, transaction and standing data entered for processing may be inaccurate, incomplete, or entered more than once. Also, there is no record (audit trail) maintained for transactions input to the system identifying the user, time, and changes made to the data files. These logs could be used to identify unauthorized access or data change attempts and may be used as a follow up procedure when irregularities are observed.
- There is no constant data structure maintained for the dBase system. Data fields or inventory files are manually switched by the assistant warehouse supervisor and reported under various categories. Therefore, the lack of data integrity may cause the production of unreliable data files and reports that are used for the fiscal year end reconciliations.
- There is an inadequate segregation of incompatible duties. For example, the assistant warehouse supervisor is the programmer, data entry person and the data review supervisor. He is also responsible for generating purchase requisitions, inventory receipt and work order follow-up.

- There are no standard procedures for data backup. The data for the dBase system is maintained on the hard drive and a copy is maintained at the assistant warehouse supervisor's home. However, we noted that data backups are neither updated on a regular basis nor logged when performed.
- Data entered to the system is inaccurate and not timely made. For example, improper and incorrect receiving and work order reference data are routinely entered. System data is not entered timely even though users have been adequately trained and their workload is not prohibitive.

Recommendation 16

We recommended that adequate computerized information systems controls be installed. These controls should mitigate processing and security access risks and include continual management review and supervision of all functions. Formal procedures and structures should be adopted for all data processing functions. In addition, we recommend a more controlled security environment through proper segregation of incompatible duties. Specially we recommend that:

- Access to all applications and data records be restricted, segregated, and controlled by USAID/Egypt/DMS Portfolio manager;
- The dBase system be eliminated from inventory tracking; only the USAID/Egypt approved property record system should be used;
- Data input to the system should be based on transactions that have been reviewed and approved by management. Audit trails should be generated and reviewed. System edit and validation checks should not be overridden and accurate and valid data references should be used;
- Responsibility for incompatible functions: programming, data entry and control, data security, and data approval and verification should be separated. Regular management reviews should be performed to guarantee data integrity; and
- Standard backup procedures be adopted. A copy of the data backup should be kept in an offsite location. Master listings should be maintained to be used for data recovery and verification in case of loss.

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17. Transcentury Corporation utilized a non USAID/Egypt approved dBase software program.

AID Handbook 23, App. 4A, Section 224.3-1, "Approved Property Record Systems" encourages the implementation of the Nonexpendable Property Management System, Release 5.1. Systems other than those approved by AID/W must be authorized by MS/MS prior to installation and use.

The dBase system used by Transcentury Corporation has never been approved by USAID/Egypt and, in fact, USAID/Egypt has tried on many occasions, without success, to get Transcentury Corporation to use the approved software. The system used is very weak in terms of functionality and accurateness and the integrity of the output data is highly questionable.

Recommendation 17

We recommend that Transcentury Corporation adhere to AID Handbook 23, App. 4A, Section 224.3-1 "Approved Property Record Systems" which requires the implementation of the Nonexpendable Property Management System, Release 5.1. The implementation and use of this system should be monitored and the accuracy of data input and output should be verified periodically by USAID/Egypt.

* * * * *

We also noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, or summarize, and report financial data consistent with the assertions of management in the U-754/1 Report. Our engagement disclosed the following reportable conditions:

REPORTABLE CONDITIONS

- 18. USAID/Egypt had not determined who would be responsible for controlling and accounting for computer equipment.**

Computer equipment was never included in the property for which Transcentury Corporation was responsible to maintain property records. As a result, the computer equipment owned by USAID/Egypt was not being adequately tracked and accounted for.

Recommendation 18

We recommend that USAID/Egypt assume full responsibility for controlling and recording computer equipment or formally assign this responsibility to Transcentury Corporation.

* * * * *

- 19. There were no procedures in place for identifying excess, obsolete and slow-moving inventory.**

AID Handbook 23, App 4A, Section 224.5-1b "Supply Management" requires that "stocks are periodically reviewed so that slow-moving or obsolete items can be eliminated." Transcentury Corporation personnel claim that the warehouse contains no such items, however, without a review for these items and documentation to support that a review has occurred, no valid determination can be made. The review is especially important because of the insufficient storage space of the current warehouse.

Recommendation 19

Stocks should be periodically reviewed to determine if slow-moving or obsolete items can be eliminated as specified in AID Handbook 23, App. 4A, Section 224.5, "Supply Management."

Excess, slow-moving and obsolete inventory should be valued by officials or employees who are in a position to realistically make this determination. Dispositions should not be made by an employee responsible for purchasing, shipping or inventory custody.

* * * * *

- 20. We noted one instance in which a work order related to a "Make Ready" request (the authorization to prepare an apartment for the arrival of USAID/Egypt personnel) was prepared but the items contained within the work order were not transferred to the applicable apartment.**

We also noted that the apartment's property file did not contain this work order nor did the apartment's physical inventory count include this property. As the work order was completed as witnessed by recipient signature, the property was delivered but not to the noted location. No information was available to determine where the property was located.

Recommendation 20

We recommend that all work orders not related to a specific USAID/Egypt personnel should be verified for completion by the Accountable Property Officer or other independent USAID/Egypt official to ensure that such work orders are properly completed.

* * * * *

- 21. During the disposal process, we noted that the average cost of property as calculated on the composite property cards was used as the value for disposed property. We also noted that disposal property was not deducted from the composite property cards until notice of the actual sale was received from the State Department.**

Because the composite property cards may contain items that differ widely in cost, all property should be disposed of at its actual cost. Only by recording disposals at their actual cost can accurate property records be maintained and the value of USAID/Egypt property be accurately determined. In addition, property transferred to the State Department was not deducted from the property record cards until the property was actually sold. At any one time, a substantial number of items may have been transferred to the custody of the State Department's auction area, yet remained in the property records. As a result, USAID/Egypt and Transcentury Corporation can not accurately determine how many usable items are held in inventory.

Recommendation 21

We recommend that all property disposed be recorded at actual cost and that property transferred to the State Department be removed from the composite property cards and recorded as property "Pending Disposal."

By implementing these procedures, accurate and complete property records can be maintained that would list the actual value of USAID/Egypt property at any given time.

* * * * *

We also noted other matters in the internal control structure and its operation that we have reported to the management of USAID/Egypt in a separate letter dated September 12, 1993.

This report is intended for the information of the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS

September 12, 1993

Mr. Philip Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We were engaged to audit the Statement of Nonexpendable Property (U-754/1 Report) of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the year ended September 30, 1992 and have issued our disclaimer report thereon dated September 12, 1993.

No physical inventory was taken at September 30, 1992, which was prior to our appointment as independent accountants, and we were unable to satisfy ourselves regarding inventory quantities and costs on this date because USAID/Egypt's accounting records do not provide sufficient evidence supporting inventory transactions to permit the application of adequate auditing procedures.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Compliance with contract terms and applicable laws and regulations applicable to Transcentury Corporation's contract with USAID/Egypt to provide a total package of nonexpendable and expendable property management services is the responsibility of Transcentury Corporation management. As part of obtaining reasonable assurance about whether the Statement of Nonexpendable Property is free of material misstatement, we performed tests of Transcentury Corporation's compliance with certain provisions of laws and regulations and the contract. However, the objective of our engagement to audit the Statement of Nonexpendable Property was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws and regulations and the contract that cause us to conclude that

the aggregation of the misstatements resulting from those failures or violations is material to the Statement of Nonexpendable Property. The results of our tests of compliance disclosed the following material instances of noncompliance: (Please note that the material instances of noncompliance below refer to AID Handbook 23, App. 4A, Section 220, "Personal Property Management.")

| <u>Section</u> | <u>Page No.</u> | <u>Regulation</u> |
|-------------------|-----------------|---|
| 221.7 | 4A-5 | Separation of Duties |
| 222.1 | 4A-6 | Acquisition Policy |
| 222.2 | 4A-6 | Property Analysis and Management |
| 222.3 | 4A-6 | Replacement Program |
| 222.6 | 4A-9 | Replacement Standards |
| 222.7-1 | 4A-9 | Responsibility |
| 222.7-2 | 4A-10 | Preventive Maintenance |
| 223.1 | 4A-11 | Receiving and Inspection |
| 223.2 | 4A-11 | Receiving Areas |
| 223.4 | 4A-11 | Extent of Inspection |
| 223.5 a(a,c,f) | 4A-12 | Inspection and Receiving Requirements |
| 223.7 | 4A-13 | Warehousing and Storage of Property |
| 224.1-1 (c) | 4A-14 | Criteria for Accountability |
| 224.2-2 | 4A-15 | Identification - AID only |
| 224.3-1 (b) | 4A-15 | Approved Property Record System |
| 224.3-2 | 4A-15 | Standard Nomenclature |
| 224.3-3 | 4A-15 | Accountability Records |
| a(1),b(1)b(3-4),c | | |
| 224.3-4 (b) | 4A-17 | Personal Custody Records |
| 224.5-1 | 4A-17 | Stock Control |
| 224.6 (1-5),(7) | 4A-18 | Internal Requisitioning Procedures |
| 225.2-3 | 4A-21 | Coordination of Property and Fiscal Accounting Records for AID only |
| 226.1 (a) | 4A-21 | General |
| 226.2-3 (a) | 4A-22 | Taking Inventory |
| 226.3-1 (a,b,c,d) | 4A-22 | Residence Inventories |
| 226.3-2 | 4A-23 | Residential Inventory Clearance |
| 226.4-2 b(2) | 4A-24 | Discrepancy Reconciliation |
| 226.4-3 | 4A-25 | Inventory File |
| 226.5 | 4A-25 | Reporting Property Loss or Damage |
| 226.5-1 a | 4A-25 | Implementation |
| 226.5-1 b(1-4) | | |
| 227.1-4 | 4A-29 | Security Inspection |
| 227.2-3 | 4A-30 | Disposal Documentation |

| <u>Section</u> | <u>Page No.</u> | <u>Regulation</u> |
|----------------|-----------------|--|
| 229.2-1 | 4A-40 | Certification of Inventory Reconciliation |
| 229.3-2 | 4A-42 | AID only |
| 229.4 | 4A-43 | Regulations Compliance Report |

Generally, the cause for the above material instances of noncompliance was due to inattention by Transcentury Corporation in following its contract with USAID/Egypt to provide personal property management services and to USAID/Egypt's failure to perform adequate contract oversight. The effect of these material instances of noncompliance is, among others, that the operating effectiveness of the personal property internal control structure is substantially reduced to the point that no reasonable assurance can be made that USAID/Egypt's internal control structure objectives surrounding the personal property management system will be achieved.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Transcentury Corporation complied, in all material respects, with the provisions referred to in the second paragraph of this report. The extent of noncompliance noted in our testing indicates that, with respect to the transactions that occurred in the administration of the contract that were not tested by us, there is more than a relatively low risk that Transcentury Corporation may not have complied with the contract, laws and regulations.

We noted certain immaterial instances of noncompliance that we have reported to the management of USAID/Egypt in a separate letter dated September 12, 1993.

This report is intended for the information of the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

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**AGENCY FOR INTERNATIONAL DEVELOPMENT
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SUMMARY AND STATUS OF PRIOR AUDIT RECOMMENDATIONS

Price Waterhouse performed a review of USAID/Egypt internal controls over the management of nonexpendable property as of March 20, 1988 under Contract No. OTR-0000-I-00-6168-00, Work Order No. 9, and issued our results in Audit Report No. 6-263-88-10-N dated May 5, 1988. In accordance with USAID/Egypt regulations and Government Auditing Standards, we have reviewed the status of actions taken on the seventeen findings and recommendations reported in this prior audit report. As of the end of our current audit fieldwork on September 12, 1993, the status of these findings is presented below. Note that the recommendations from the prior audit report are numbered as in the original audit report with text from the original report appearing as indented and in quotation marks.

Recommendation 1A:

"General AID policy concerning property management should be revised to stress the Accountable Party concept."

Based on our review of controls and policies of USAID/Egypt and Transcentury Corporation, no implementation of the Accountable Party concept has occurred. There was no evidence that Transcentury Corporation would be held liable for losses of property, either at the warehouse or because of inadequate property records. Shortages were simply accounted for by the issuance of a Property Disposal Authorization and Survey Report ("PDA"), for which no particular party was held responsible except for USAID/Egypt. See documentation of current year findings as Recommendation Nos. 10 and 11.

Recommendation 1B:

"Consider alternative warehouse facilities to replace the State operated Maadi and Transcentury New Maadi locations."

We were informed that a new warehouse facility is currently being constructed. Upon completion of this structure and the transfer of property inventories to the new facility an assessment as to whether the weaknesses noted in the prior report are properly addressed should be performed to close this recommendation.

Recommendation 1C:

"The accuracy of the annual physical inventory count of nonexpendable property and resulting reconciliations should be verified by someone independent of the property management function."

No action has taken place on this finding. We found that no oversight of Transcentury Corporation relating to physical inventories was being performed by USAID/Egypt. In addition, we found other weaknesses in the physical inventory control procedures as outlined in the current year report in Recommendation 15.

Recommendation 1D:

"Subject the property management function and related detail and general ledger property records to annual external review."

No action has taken place on this finding. We determined that no compliance review by a third party or USAID/Egypt is being performed. Although the response to the prior audit report indicates that USAID/Egypt has sufficient internal resources to perform compliance reviews, none of these resources is being used. See current year finding as Recommendation Nos. 1 and 15.

Recommendation 1E:

"Perform unannounced spot counts of expendable and nonexpendable property maintained in warehouses."

No action has taken place on this finding. We found no evidence of review by the Accountable Property Officer during the period under audit. See current year finding at Recommendation 15.

Recommendation 1F:

"The property management contractor should issue new and used property to residents in accordance with a general policy and detail procedures developed by USAID/Egypt."

No action has taken place on this finding. We found that the warehouse continues to issue new property to residents in lieu of operational used property. See current year finding at Recommendation 12.

Recommendation 2A:

"Prepare a dollar value physical inventory reconciliation and adjust the individual accounts annually to reflect the purchase price of nonexpendable property on hand in accordance with established procedures."

The controls surrounding the inventory of these items have deteriorated to such a extent that the physical inventory records as of September 30, 1992 could not be approved by USAID/Egypt officials. Without adequate reliable inventory reports, a reconciliation of the dollar value of items is impossible. See current year findings at Recommendation Nos. 7 and 15.

Recommendation 2B:

"Prepare a reconciliation of current year additions and disposals that can be compared with the final physical inventory."

We found that the controls surrounding the preparation and filing of addition and disposal documentation were not sufficient to create a situation in which such a reconciliation would be reliable, relevant or informative. See current year finding at Recommendation 7.

Recommendation 2C:

"General ledger classifications should be organized to facilitate reconciliation of the physical count and general ledger balances by individual class codes."

Appropriate action has been taken to establish general ledger accounts for various items, including computer equipment, that facilitate reconciliations of physical counts with general ledger balances. This Recommendation is considered closed, however, see comments presented above for items 2A and 2B concerning the reliability of the physical inventory counts.

Recommendation 2D:

"All property disposals should be recorded by the accounting department in the month of disposal."

During our current audit work, we noted that property disposal are being recorded on a timely basis. The USAID/Egypt mission checks to sequence of property disposal authorization forms before they are entered in the general ledger. Amounts relating to proceeds from the disposal of property are recorded when reported to USAID/Egypt by the State Department, however, no reconciliation of these amounts to the property transferred to the auction area is performed. Except for the reconciliation of proceeds to disposed property, the actions taken above adequately address the prior audit finding.

Recommendation 3A:

"Physical inventory listings should be maintained for all AID property located at the Cairo Center and at all other locations."

In theory, the property records are recorded by location which would be adequate for property tracking purposes. The general controls surrounding these records as maintained by Transcentury Corporation and USAID/Egypt is such that the reliability of this information is questioned. However, the structure for addressing this finding is currently in place. This recommendation is considered closed.

Recommendation 3B:

"Accurate subsidiary records by location should be maintained to support the composite property records cards."

No corrective action has taken place on this finding. The current audit also found that the composite property cards could not be reconciled with individual property cards or the subsidiary records maintained by Transcentury Corporation. See current year findings at Recommendation Nos. 6 and 7.

Recommendation 3C:

"Permanently label all nonexpendable property with property classification control numbers providing a standard nomenclature for each type of asset."

USAID/Egypt is currently in the process of affixing bar code identification tags to all nonexpendable property. Once this process is completed and all items have been recorded in a computerized tracking system, this recommendation will be considered closed.

Recommendation 3D:

"Formal policies and procedures concerning maintenance of warehouse property records should be developed by AID to be followed by the property management contractor."

Although a handbook was provided to Transcentury Corporation we found that they and USAID/Egypt were not in compliance with a substantial part of the Handbook. See current year Report on Compliance with Laws and Regulations.

Recommendation 3E:

"Update property records based on sequentially numbered government property passes."

No action has been taken on this recommendation. Property passes are still not numbered and no controls on equipment appearing on the passes are performed. See current year finding at Recommendation 4.

Recommendation 3F:

"Property scheduled for disposal should be classified and grouped in accordance with condition codes."

No action has been taken on this finding. Numerous property disposals were not identified by condition codes. See current year findings at Recommendation Nos. 12, 13 and 14.

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

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MEMORANDUM

January 23, 1994

TO: Jeff Hentges
Price Waterhouse

FROM: John J. Liebner, AD/MGT *J. Liebner*

SUBJECT: USAID/Egypt Management Response to the Price Waterhouse
Draft NP Audit of Statement of Non-expendable Property
dated September 12, 1993

Below find the USAID/Egypt Management (MGT) Office's response to the subject draft audit report. I thank you for submitting a thorough review of the property program at the USAID and appreciate the cooperation and interest your staff has lent to MGT employees during the course of the audit. Also, your management letter and individual review sessions with me and Alan Reed have been extremely helpful in addressing control and accountability issues in our program.

AID Handbook 23 (Overseas Support) provides fundamental guidance to agency administrative officers in managing the logistical support operations of an overseas mission. Appendix 4A of this manual prescribes policy, principles, procedures, responsibilities and related requirements to administer the personal property element of the overseas support program. The handbook makes it clear that oversight and direction of a mission's personal property program are inherent in the duties and responsibilities of a mission's Executive Officer (Associate Directorate for Management in the case of Egypt); his office charged with ensuring mission compliance with the policies, procedures and reporting requirements outlined by the agency.

In 1992, USAID/Egypt Management (MGT) officers observed evidence that inadequate supervision, over the years, had led to a lack of control and accountability over USAID's personal property programs. Consequently, the MGT and Financial Management (FM) Directorates of USAID/Egypt determined that an audit of its internal controls and physical inventory procedures was imperative. Of specific consideration was:

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1.) inadequate human resources to implement and monitor a coherent and comprehensive personal property program within the Management Directorate,

2.) neither USAID nor the contractor to which USAID had delegated its property management responsibilities in 1986 (Transcentury Corporation) could verify that an effort to control and account for mission-owned personal property was being carried out.

3.) the absence of any sign that attempts were being made to address the property management weaknesses identified in an earlier audit by Price Waterhouse dated May 5, 1988.

The decision to contract out for property administration and related duties and responsibilities, essentially U.S. Government responsibilities inherent in AID USDH positions assigned to administer overseas support operations, was counterproductive. Most probably, the contract mechanism was put in place to satisfy the pressures of dwindling Full Time Equivalents or FTE levels authorized by Washington. A warehouse function of the enormity of USAID/Egypt's cannot be carried out adequately by only two FSN employees. Transcentury, on the other hand, could hire dozens of personnel and they would snow nowhere on the USAID staffing pattern. However, MGT failed to maintain control of the program. Officers only assumed that Transcentury was adhering to the handbook guidance. No control systems (i.e. management reviews, requirement of periodic reports, spot checks on data management, spot checks on inventory procedures) were set up to assure adherence and to monitor the level of service the contractor was paid to provide. Transcentury, in the absence of feedback, supposed all was well. The material weaknesses highlighted by the draft audit report have confirmed MGT's understanding that the Mission failed in its attempt to manage its obligations in this manner.

The proper administration of the warehouse requires adequate levels of PSC staffing. However, as the FTE issue stays with us, close coordination between USAID positions and those of a contractor is essential. More important, USAID MGT officers must provide an environment, direction and oversight that will ensure a successful symbiosis between contractor and the Mission.

Price Waterhouse's observations came as no surprise. This response to the draft audit findings and recommendations describes management's philosophy in rectifying the property management function. It outlines actions taken subsequent to the end-of-fiscal year 1992 physical inventory and depicts actions that are planned throughout FY-1994 to improve management deficiencies. Actions already undertaken or in the design stage address the counsel embraced in the Price Waterhouse draft audit of Statement of Non-expendable Property as of September 30, 1992 as well as that

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presented in the Price Waterhouse Audit Report No. 6-263-88-10-N, dated May 5, 1988, and in a joint AID/State Inspector General Audit Report of early calendar year 1992.

The plan is in narrative form. Where details on actions address recommendations of the draft audit report, an appropriate note is made. MGT's reform effort premises that USAID assumes the leadership for a responsible property management program. Audit recommendations directed specifically for Transcentury Corporation action are, therefore, considered obligations of USAID/Egypt.

INITIATING REVISIONS

Since responsibility for complying with AID handbook guidelines on property management and reporting lies with the Mission, the MGT Office responded to a joint AID/State IG audit recommendation of 1992 by modifying its contract with Transcentury Corporation. The modification significantly changed the scope of work and responsibility of Transcentury Corporation, calling for the company to "assist" the USAID in fulfilling property control, monitoring and reporting (inventorying) requirements, in addition to the performance of property storage and movement tasks.

During the past eighteen months the Mgt office has amplified its effort to correct recognized weaknesses in the internal control structure.

CONTROL ENVIRONMENT

(Action below addresses Price Waterhouse Draft Audit recommendation No. 1.

As the draft audit report advises, USAID/Egypt management must establish a fitting "tone at the top" to create an environment that reflects a positive overall attitude and awareness when it comes to property management, controls and accountability. To improve the internal control structure's operating effectiveness, USAID must establish and maintain an effective control environment.

The USAID Associate Director (AD) for Management and his deputy have made property management a primary concern; a major continuous objective on their agenda. They believe that USAID must be held responsible for all elements of property management and that a service contractor must 1) coordinate closely with USAID in all areas of property management and reporting 2) may ASSIST the USAID in accomplishing this duty by becoming part of a team and 3) may act as an agent of the mission only to execute movement, storage,

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inventory and data maintenance under guidance and supervision provided by USAID personnel.

Management gave a clear sign of the new administrative tone toward property management, in December of 1992, when a direct employee of the warehouse was dismissed for cause, after misusing USG property. Furthermore, MGT has introduced a number of administrative and organizational improvements and issued pertinent procedural directives to reinvigorate the property program.

IMPROVEMENT ACTIONS UNDERTAKEN

Actions address Price Waterhouse Draft Audit Recommendation No. 3.

In spite of a joint AID/State IG audit recommendation (1992) that the two PSC positions at the warehouse be deleted, MGT direct staffing levels have been insufficient to satisfy the requirement to segregate property receiving and control duties. Additionally, before October of 1992, USAID employees at the warehouse were unsure to whom they were responsible --USAID or Transcentury Corporation. Transcentury employees were preparing evaluation reports for direct USAID employees and, in effect, providing them with on-site supervision. These activities were not part of the contractual agreement between USAID and Transcentury and were in violation of US Government personnel precepts. MGT has since lobbied for and obtained approval to hire two additional direct PSC employees in order to establish clear lines of authority and a required segregation of responsibilities when property acquisition is planned, property is ordered, received, stored, distributed, issued, counted or identified for disposal. The segregation of duties will assure that one individual acts independent of and serves as a check on the work of another. Transcentury employees will be needed to assist them in these tasks and teamwork will be indispensable. Initial drafts of the appropriate PSC position descriptions (PDs) have been completed. Final versions are set for classification, prior to advertisement within the mission community. A statement of work (SOW) for a Transcentury-type contract must be drafted to delineate that USAID will determine which and how many positions are needed to assist USAID property personnel. USAID will prepare the position descriptions for a proposed contractor, ensure that equal pay for equal work precepts are met and regulate payroll proceedings through a company like Transcentury Corporation (with a new SOW, the contract will be competed).

The new Associate Director (AD) for Management has recruited and hired a USPSC Supervisory General Services Officer with a proven track record in USAID personal property management. This US citizen employee is already on board. His responsibilities include those of Mission Accountable Property Officer and supervisory authority over

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all employees in the property/warehouse structure. He is also the project manager of the Transcentury contract and will work closely with the Transcentury supervisor to ensure all ingredients exist for a cohesive team effort at the warehouse. For now, Transcentury will help plan and execute the movement of NXP items throughout the mission. The USDH Supervisory Executive Officer has been appointed to oversee the property program as Property Management Officer (PMO) with general guidance coming from the AD himself, who has over 20 years of experience with the agency as a Property Management Officer. His early years in AID were spent as a General Services Officer specializing in warehouse management.

Actions below address Price Waterhouse Audit Recommendations No. 5, No. 6 and No. 14.

USAID/Egypt has taken charge of the property program from Transcentury Corporation. In May of 1993, USAID formally issued detailed Letters of Instruction to its property management staff (and Transcentury Corporation) covering the control, inventory and reporting of all property. Letters of Instruction specifically address standard operating procedures for: receiving and inspection of property; the physical inventory process; property storage, movement and disposal. The prompt completion of Receiving Reports is covered in Letter of Instruction No. 1. Inventory procedures are covered in Letter of Instruction No. 2, while storage, movement and disposal details are contained in Letter No. 3. In addition, FM/FO has prepared and issued a standard operating/accounting manual that outlines all procedures for disposing of NXP. The manual covers all steps of the property disposal process from an agency accounting perspective; from the designation to dispose of items, to the receipt of funds, up to the deletion of items from property ledgers.

A Mission Order outlining the duties of the PMO, APO and Mission Property Disposal Officer is in draft and will be issued after the move to USAID's new warehouse. Given the current lack of functional space for disposal activities at the shared warehouse facility, Disposal Officer responsibilities also will not be assigned to a USAID employee until the new warehouse is completed (c. 4/94). The Mission Order will establish a USAID Property Board of Survey as per HB 23 guidance.

Action below addresses Price Waterhouse audit recommendations No. 13, and No. 21.

The record now confirms that the USAID Accountable Property Officer (APO) has physically inspected all personal property identified for disposal (by a USAID employee familiar with disposal requirements). A detailed justification to dispose of property meeting HB 23 disposal (replacement) criteria has been entered on each Property Disposal Authorization (PDA) form since October, 1992. Disposal

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documents are prepared by category code, and actual costs of acquisition, if they are known, are used to adjust property ledgers. PDAs are also prepared by property category class.

Actions below address Price Waterhouse Draft Audit Recommendations No. 2, and No. 19.

Mission replacement standards for personal property, which delineate minimum age and/or the minimal condition of items to be replaced, have been prepared for the past three fiscal years. These standards form the basis for establishing a Mission replacement cycle for all NXP items. The replacement plan is incorporated in the Mission's NXP procurement plan and reported in the Annual Budget Submission to USAID/Washington. The replacement timetable issue has been resolved and new warehouse space will further facilitate a more timely replacement/disposal process.

Property usage plans with appropriate stock levels for each item of NXP are now being developed. Ordering of property will be based on this plan in accordance with allotments of USAID operating expense funds. Note is made that such plans are extremely difficult to adhere to in the absence of a clear understanding of the Operating Expense allotment process from Washington at any point in time. Intelligent implementation of acquisition plans call for the mission to be prepared to "buy off" succeeding fiscal years whenever possible, given the unknowns associated with fluctuating OE budget levels and other mission's or agency concern's abilities to obligate end of year monies. This may require the mission to procure NXP items well in advance of what is called for in the best laid property replacement/stock level plans.

Actions below address Price Waterhouse Draft Audit recommendations No. 4 and No. 12.

MGT initiated the construction of a new warehouse in December, 1992. This facility is designed to house all mission-owned personal property. Access and other security aspects of the new facility have been approved by the State Regional Security Office .

The area provides space to perform NXP disposal activities and this will simplify and expedite receiving and inspection responsibilities. Property staff will have sufficient space to open containers and cartons in order to complete receiving and inspection reports in accordance with the Letters of Instruction. Additionally, USAID will no longer require to sublease extra storage space from Transcentury Corporation. USAID is in the process of laying out and designating storage areas by class or categories of property, and will ensure that separate areas of the facility are dedicated to the disposal, sale, refinishing and safeguarding elements of property management. Property to be replaced will be grouped by condition class in the property

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disposal section of the warehouse site. A secure location for expendable property has also been designed and dedicated. Special racks and shelves have been procured to set up an EXP storage and record keeping function. Property passes for furniture leaving the Cairo Center and warehouse sites are prepared with appropriate approvals and are checked by security guards. Security guards are not trained to recognize pieces of USG property enumerated on the passes in standard USAID nomenclature. As these guards are supervised and controlled by the Department of State Regional Security Office, USAID will have to rely on its staff to inspect property as it leaves a particular site. MGT will include these duties in the position descriptions of the warehouse and contract staff as an appropriate safeguard.

Actions below address Price Waterhouse Audit recommendations No. 8, No. 10, No. 15, and No. 16.

A comprehensive physical inventory of all NXP was designed and carried out in August and September of 1993. The inventory was performed by five, two person teams, each team headed by a US citizen family member contractor. During the course of the physical inventory, teams applied ownership identification stickers, funding source codes and affixed bar code labels to each item of NXP. Tally sheets were utilized to record condition codes as well as individual, bar code label numbers. In the meantime, specialists from the Data Management (DMS) section of MGT took charge of "loading" the USAID NXP data base program (release 6.0). This task was labor intensive, and has involved research, training of property personnel and the temporary hiring of data input personnel to enter over 14,000 individual items of property (including corresponding funding source, vendor, date, standard nomenclatures, etc.) Currently, physical inventory data sheets are being reconciled with a fully loaded property data base. Once this activity is complete, the mission will be able to reconcile/establish property ledgers maintained by FM with the inventoried property. This process is expected to be complete by April 1, 1994.

Note is made that this is the first complete physical inventory taken at the USAID in over six years.

The property data base program, along with the placement of bar code label numbers on each piece of property, will allow MGT to convert to a complete, computerized inventory procedure by summer of 1994. Bar code readers (acquired recently) will be used to inventory property this fiscal year, simplifying the physical inventory process and saving time. Backup procedures for this system are enforced by the MGT/DMS staff.

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Actions below address Price Waterhouse recommendations No. 5, No. 16, and No. 17

Since the property data base is composed of information taken from source documents (i.e. Purchase Orders and Receiving Reports), the USAID receiving clerk must now prepare receiving reports as soon as

property is received and can be compared to original POs and packing lists. Partial deliveries have been noted in the Receiving Reports by the Receiving Clerk since October of 1992. Standard nomenclatures for all categories of property are built into the data base program. USAID Property management clerks apply bar code labels immediately after receipt and inspection. A separate property data base program that was maintained by Transcentury Corporation has not and will not be used to either monitor or account for property. It has, essentially, been discounted and discarded by MGT.

Actions below address Price Waterhouse audit recommendations No. 11, and No. 20.

USAID warehouse staff have been charged to deliver copies of approved Issue/Return work orders to allow employees to maintain an updated listing of personal property for which they are responsible as custodians of items issued to respective residences and offices. The APO has initiated a "tickler" file system of following up on and ensuring that approved work orders have been carried out. The recording of transfers of property to approved locations has been a serious problem. Given low resource levels, Transcentury employees will continue to be responsible for delivering furniture to approved locations once work orders are authorized. However, USAID staff will now follow up on the status of individual work orders as discussed above and spot checks will be performed as outlined in the Letters of Instruction.

Actions below address Price Waterhouse audit recommendation No. 7.

MGT will replace the individual and composite card system and account for all NXP by utilizing the NXP bar code data base system to track and account for property. Once the bar code conversion of the data base is made, property cards will be discontinued. Reports generated from the property data base program will then be used as a basis for comparing and reconciling property values with controller ledgers and the preparation of the U-754 report. As the data base is designed to account for property by category and location code, a properly maintained base will result in much greater efficiency. Additionally, this advancement is in line with Agency trends and mandates. The Associate Director of FM and staff are in agreement to make this procedural shift.

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With the impending reconciliation of inventory values with ledger values the mission expects to produce the first valid U-754 property balance report since the early 1980's. A quarterly reconciliation of NX property and general property ledger will follow.

Action below addresses Price Waterhouse audit recommendation No. 9.

A similar system of tracking and recording has been ordered for the control of expendable property (EXP). Once management improvements are near completion on the NXP side, a computerized system will be implemented for EXP (as will a system to monitor the status of all purchase orders). However, recent spot checks of EXP composite cards indicate that this element of control has been carried out quite well, in spite of an absence of the correct recording forms (BIN cards, copies of executed Receiving Reports). A review conducted by the Acting AD for Management and the Executive Officer in March of 1993 revealed accurate record keeping at both the warehouse EXP site and with cupboard stock in Cairo Center.

Action below addresses Price Waterhouse recommendation No. 18.

The warehouse staff of MGT/GSO has been charged with accounting for all computer equipment. This task requires close coordination with the Data Management (DMS) section of the Management Directorate, which prepares the specifications for purchase. A procedure and schematic has been developed to guide warehouse receiving clerks and inventory teams through both the record keeping and bar code inventorying operations. Computer equipment is now received by a warehouse staff clerk and inspected by a member of DMS, simultaneously.

SUMMARY

Correcting the property accountability systems, performing a complete and thorough inventory, and constructing a warehouse facility have been milestones for USAID/Egypt. What has been accomplished to date has been a concerted effort on the part of personnel from various support sections within MGT and FM, with complete cooperation of the staff and management of Transcentury Corporation. Although more needs to be accomplished to restore the integrity of the property program, the chain of events leads us to believe we are on the right track. Property management, by its very nature, is a never ending job that requires attention to detail, supervision and continuous and diligent oversight by all employees.

Action in progress, the experience and guidance of a new Associate Director for Management, and the adoption of a total quality management (TQM) philosophy in the directorate are indicative of a thorough effort to create an exemplary property management program in USAID/Egypt. The transformation that is taking place

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characterizes and demonstrates a spirited endeavor to revitalize internal property controls in this large USAID mission. We also believe that the above initiatives suit the recommendations in the three external audit reports on property management that have been issued to the mission since 1988.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

March 7, 1994

MEMORANDUMRECEIVED
8 MAR 1994

TO: Philippe L. Darcy, RIG/A/C

FROM: Amanda Levenson, OD/FM/FA *Levenson*

SUBJECT: Financial-Related Audit of the United States Agency for International Development Mission to Egypt ("USAID.E") Nonexpendable Property Inventory ("U-754/1 Report"). Draft Report

Mission is working with the contractor to close the recommendation under the subject draft audit report. Please issue the final report.

JPA
3/9/94

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