

Report of Audit

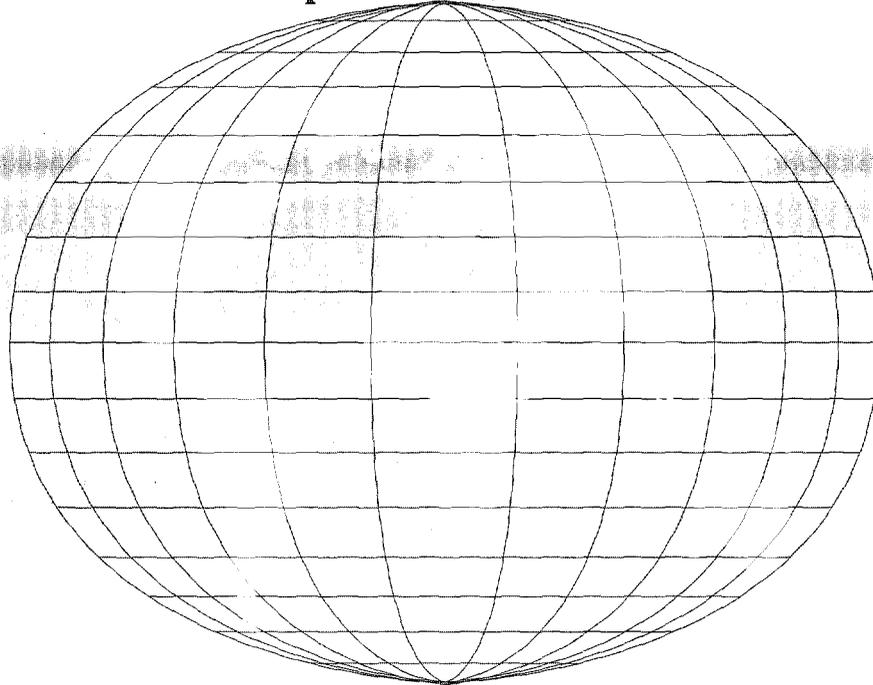
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Audit of the USAID/Egypt's Management of Leased Housing

Regional Inspector General for Audit
Cairo, Egypt

Report No. 6-263-96-012
September 19, 1996



OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

CAIRO, EGYPT

September 19, 1996

MEMORANDUM

TO : Director USAID/Egypt, John Westley
FROM : RIG/A/Cairo, Lou Mundy *Lou Mundy*
SUBJECT : Audit of USAID/Egypt's Management of Leased Housing

This is our report on the subject audit. We have included your comments on the draft report in Appendix II. The report contains one recommendation which is closed based on the final action taken by USAID/Egypt.

Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the audit program in Egypt.

Background

As of June 6, 1996, USAID/Egypt managed 95 residential leases for its U.S. employees and personal services contractors. The annual cost of these leases was \$1.8 million, of which \$505,720 was funded with appropriated dollars and \$1.3 million was funded with Government of Egypt trust funds.¹

USAID/Egypt's Management Directorate/General Services Office is responsible for managing residential leases, with participation from other offices in the Mission and the Embassy.

¹ Throughout this report, local currency is converted to dollars using the exchange rate of LE 3.40 to \$1.00.

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Audit Objectives

In response to a request by USAID/Egypt, this audit was performed to answer the following questions:

- Did USAID/Egypt procure and manage leased housing in accordance with applicable laws and regulations?
- Were USAID/Egypt's leases reasonably priced given local conditions?

The audit scope and methodology are discussed in Appendix I.

Audit Findings

Our answers to the following audit objectives are qualified to the extent of the effect, if any, of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I discusses this qualification.

Did USAID/Egypt procure and manage leased housing in accordance with applicable laws and regulations?

USAID/Egypt procured and managed leased housing in accordance with applicable laws and regulations in all significant respects, except for not ensuring that security inspections were performed and that make-ready costs were properly approved.

As shown below, most aspects of the Mission's leased housing program were in accordance with applicable regulations:

- The Mission periodically prepares a "housing profile" for USAID/Washington approval. The profile compares the number and size of the properties in the Mission's lease pool with the position rank and family size of employees at post. We verified the information in the last housing profile, approved by USAID/Washington in October 1995, and concluded that the information was reasonably accurate and that the properties in the lease pool were appropriate given the Mission's position structure.
- According to Section 06 731-2.2 of the Foreign Affairs Manual (FAM) new leases or lease renewals over \$25,000 per year must be approved by USAID/Washington. Based on a review of a random sample of 30 leases (out of 95 total), we concluded that this requirement was met.

- Advance lease payments cannot extend beyond 18 months or the end of the next fiscal year, whichever is shorter (FAM Section 06 731.3-4). Advance payments for all 30 of the leases in our sample were in compliance with this limitation.
- Lease payments should be made directly to owners and not assigned to third parties without USAID/Washington approval (FAM Section 06 731.2-2). Payments for all 30 of the leases in the audit sample were made directly to the owners.
- No offshore (that is, other than local) payments should be made without USAID/Washington approval (FAM Section 06 731.3-7). No offshore payments were made for the 30 leases in the audit sample.

However, as discussed in the following sections, requirements for security inspections and make-ready costs were not met. We are also reporting certain minor matters to USAID/Egypt in a separate letter.

Residential Security Inspections Should Be Requested

FAM Section 06 723.2-5 requires the Regional Security Officer (RSO) to conduct an inspection of prospective residential properties and make a determination on their suitability and securability. We found records verifying that an inspection took place for only 11 of the 30 leases we reviewed. Neither USAID/Egypt nor the Regional Security Office had records of inspection for the remaining 19 leases. This was because USAID/Egypt did not routinely request inspections of the leases before 1995. Also, the Regional Security Office's records were not centralized and it is possible that some inspections were not documented. Since 1995, it has been USAID/Egypt's standard practice to request inspections for new leases. In addition, the responsible Assistant Regional Security Officer stated that the Regional Security Office would inspect all properties for which there was no record of inspection. Accordingly, we are not making a formal recommendation.

Make-Ready Costs Should Be Monitored

Missions are authorized to accomplish minor alterations, improvements, and repairs (known as make-ready costs) when a lease is initially acquired or reassigned. According to FAM Section 06 731.3-9, make-ready costs may not exceed \$5,000 without prior approval from USAID/Washington. Of the 30 leases reviewed, make-ready costs for 4 leases exceeded the \$5,000 threshold (by a total of \$9,647) but were not approved as required. This occurred because the Mission did not monitor the cumulative costs incurred for each leased property. Although we did not consider this a major problem

because of the relatively small sums of money involved, make-ready costs should be more closely monitored.

Recommendation No. 1: We recommend that USAID/Egypt develop a system to ensure that make-ready costs estimated to exceed \$5,000 are properly approved by USAID/Washington.

Were USAID/Egypt's leases reasonably priced given local conditions?

USAID/Egypt leases were reasonably priced given local conditions.

In comparison with other U.S. government agencies in Cairo, USAID/Egypt paid slightly more, on average, per dwelling (\$18,679 per year versus \$18,363, or a difference of 2 percent). This was because USAID/Egypt rented larger apartments with more bedrooms, on average, than other U.S. government agencies at post. The size of the apartments rented by USAID is based on an analysis of the position rank and family size of the proposed occupants and other factors. This analysis is documented in a housing profile which is periodically reviewed and approved by USAID/Washington. We reviewed the analysis in USAID/Egypt's most recent housing profile, which was approved on October 19, 1995, and concluded that it was reasonable.

On the other hand, USAID/Egypt's average costs per square foot of living space, or per bedroom, were significantly lower than the average costs for other U.S. government agencies at post. Details are provided in the following table.

Average Lease Costs for Other U.S. Government (USG) Agencies and USAID in Cairo, Egypt (June 1996)			
	Other USG Agencies	USAID	Difference (Percent)
Per lease	\$18,363	\$18,679	1.7%
Per gross square foot of living space	\$8.77	\$7.00	-20.2%
Per net square foot of living space (useful space)	\$10.57	\$8.85	-16.3%
Per bedroom	\$5,929	\$5,425	-8.5%

We also compared USAID/Egypt's lease costs with the costs of other organizations in Cairo that rent similar properties. In comparison with these other organizations, USAID/Egypt's costs appeared to be reasonable. For example, an official at another

Western embassy in Cairo stated that the embassy predominantly rents three-bedroom apartments in a neighborhood in downtown Cairo at an average cost of approximately \$11,470 per year. USAID/Egypt rents two three-bedroom apartments in the same neighborhood, at an average cost of \$11,206 per year. As another example, a representative of a U.S. oil company in Cairo stated that the company almost exclusively rents four- and five-bedroom apartments in a suburban neighborhood in Cairo at an average cost of about \$19,800. USAID/Egypt rents 48 four- and five-bedroom apartments in this neighborhood at an average cost of \$20,475. We considered these amounts to be comparable.

In 1995, and 1996, USAID/Egypt's General Services Office conducted a survey which asked respondents to rate their satisfaction with their housing on a five-point scale where 5 indicated that the respondent was very satisfied. The results, summarized below, indicate that USAID/Egypt has been successful in upgrading the quality of its pool of leases while the cost has remained reasonable.

	1995	1996
5 Very Satisfied	28%	34%
4 Satisfied	27%	34%
3 Usually Satisfied	<u>27%</u>	<u>27%</u>
	82%	95%
1,2 Dissatisfied or Very Dissatisfied	<u>18%</u>	<u>5%</u>
	100%	100%

Management Comments and Our Evaluation

USAID/Egypt agreed with the report recommendation. The Mission has implemented Recommendation No. 1 by directing the contractor responsible for make ready work to notify the Mission when the cost of a make ready reaches \$4,000 so the Mission may make the determination as to whether to proceed with requested work or reduce the scope of the project to ensure the cost does not exceed \$5,000. Accordingly, Recommendation No. 1 is closed based on the final action taken by USAID/Egypt.

SCOPE AND METHODOLOGY

Scope

We conducted our audit in accordance with generally accepted government auditing standards. These standards require auditors to obtain written representations from management when they deem them useful. The Office of the Inspector General deems such representations necessary to support potentially positive findings. USAID/Egypt's Director provided us with a management representation letter for the audit that contained essential assertions about the activities we audited. However, USAID/ Egypt officials directly responsible for these activities did not provide written representations. Therefore, our answer to the audit objective is qualified to the extent of the effect, if any, of not having such assertions.

The audit covered residential leases managed by USAID/Egypt as of June 6, 1996. The audit fieldwork was performed from May 27, 1996 through August 22, 1996. Fieldwork was performed in the USAID/Egypt, at the U.S. Embassy in Cairo and at three leased residences.

As part of the audit, we assessed the management controls used by USAID/Egypt to provide reasonable assurance that legal requirements were met. To perform this assessment we obtained an understanding of the significant management controls, determined if the controls were implemented, and assessed control risk.

Methodology

Audit Objective No. 1

To answer this objective, which dealt with whether leases were managed in accordance with applicable laws and regulations we selected a random sample of 30 leases (of 95 managed by USAID/Egypt as of June 6, 1996.)

For the 30 leases sampled, we performed the following steps:

- We reviewed the lease file for each of the 30 leases and gathered basic information including lease start and end date, lease period, payment schedule, and annual lease cost.
- We compared the information in the USAID/Egypt housing profile, approved by USAID/Washington in October 1995, to USAID/Egypt's position structure for the same period.
- We reviewed the most recent make-ready costs for each of the sampled leases to determine if the USAID/Egypt complied with guidance prescribed by the FAM for make-ready costs that exceeded \$5,000.
- We confirmed the useable space measurements by reviewing diagrams and measurements recorded by the USAID/Egypt General Services Office for the 30 sampled residences and re-measured 3 of the 30 leased apartments.
- We interviewed Mission personnel and personnel at the U.S. Embassy. We also reviewed the files maintained by the Regional Security Office to determine if the Mission complied with security requirements.
- To determine if lease payments complied with guidance prescribed by the FAM, we reviewed Mission Accounting and Control System (MACS) reports for the last two payments as of April 30, 1996 and compared them to corresponding vouchers. We verified the name of the owner against the leases and reviewed payment schedules to verify that payments were made directly to the owners.
- We compared information in the Real Estate Management System (REMS) to information contained in lease files.

Audit Objective No. 2

To answer this objective, which dealt with whether leases were reasonably priced, we compared USAID/Egypt's lease costs to the costs paid by other U.S. Government agencies at post, one other Western embassy in Egypt, and two private businesses for similar properties in Cairo.

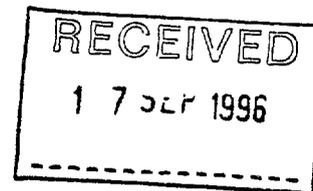
USAID



CAIRO, EGYPT

Appendix II
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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT



M E M O R A N D U M

TO: RIG/A/C, Lou Mundy
FROM: DIR, John Westley
SUBJECT: Draft Report for the Audit of USAID/Egypt's
Management of Leased Housing.
Draft Report Dated August 27, 1996.
REF: MGT memo dated 09/12/96 (copy attached)

Following is the Mission's response to the recommendation under the subject draft report.

Recommendation No. 1:

We recommend that USAID/Egypt develop a system to ensure that make-ready costs estimated to exceed \$5,000 are properly approved by USAID/Washington.

Mission Response:

Based on the referenced memo from the Technical Office and the attached documents, Mission believes that a system has been developed to address Recommendation No. 1.

Therefore, please issue the final report with no recommendations.

Attached: a/s

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CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

M E M O R A N D U M

DATE : September 12, 1996

TO : OD/FM/FA, Shirley Hunter

FROM : *Fred G. Nichols*
MGT/GSO, Fred Nichols

SUBJECT : Draft Report for the Audit of USAID/Egypt's
Management of Leased Housing

Mission Management has reviewed the supporting documentation and factors contributing to Recommendation No. 1 for the Audit of Residential Leases. The review revealed that the four instances cited by the auditors as exceeding the \$5,000 threshold authorized by FAM Section 06 731.3-9 were originally estimated and approved/amended at less than the authorized amount. The Mission average make ready costs for the 30 residences surveyed by the audit was \$1,265.00. Several extenuating factors contributed to the actual costs exceeding the threshold amounts.

Finding No. 1 identified a total of \$9,647 in make ready costs as excess to the \$5,000 per residence threshold authorized by the FAM. A total amount of \$1,256 was attributed to three residences for overtime expenses paid to laborers to allow the three families to move directly into their apartments, thereby avoiding the costs associated with temporary lodging.

The remaining \$8,391 related to the securing of new lease quarters for a large family for whom assignment to post was deemed critical for programmatic reasons on a major infrastructure project. The family was originally temporarily housed pending the renegotiation of an existing lease for a residence in our housing pool. When the

negotiations proved unsuccessful, a concerted effort was made to obtain a new lease to get the family settle into their permanent quarters before the start of the school year. The original estimate of make ready costs for the new lease was authorized below the threshold amount. However during the renovation, our GSO contractor identified hidden damage to some of the walls and floors in the residence which were not readily apparent at the onset of the lease and would preclude our placing a family in the residence. The landlord agreed to share in this extra costs at \$4,200 representing 50% of the excess as oppose to our canceling the lease. Another 20% or \$1,680 of the excess was due to security upgrades and unrelated work orders which were erroneously charged to the make ready account for the residence. The final 30% accrued from the Mission decision to proceed with the lease so as to settle the family expeditiously into their permanent quarters. The Mission did not expect these expenses to exceed the threshold level authorized by the FAM nor the agreed to amount negotiated with the landlord.

Regardless of the extenuating circumstances, the Mission realizes the importance of complying with FAM Section 06 731.3-9 and has strengthened our internal controls for residential leases to ensure that the initial surveys and make ready costs are within the authorized limit. Our maintenance services contractor, United Engineering & Marketing Company (UEM), has been formally instructed (Attachment) that we will engage their professional engineers to perform an assessment of make ready costs before negotiating any new leases. We have also advised UEM to stop work on all residential projects once the costs reach \$4,000. Our General Services Officer for Real Property Management and his staff will review all estimates, make appropriate adjustments to ensure that the Mission is in compliance with the FAM and make recommendations for Mission Management or USAID/W approval as required.

Based on Mission management review and implementation of the documented actions, we request resolution and closure of Recommendation No. 1.

Att: a/s

cc: AD/MGT: J. Liebner
MGT/EXO: C. McFarland

Major Contributors to this Report

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