Financial Audits

AUDIT OF USAID'S EXCESS PROPERTY REVOLVING FUND'S FISCAL YEAR 1992 FINANCIAL STATEMENTS

Report No. 0-000-94-001
May 16, 1994

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

May 16, 1994

MEMORANDUM FOR AA/M, Larry E. Byrne

FROM: AIG/A, James B. Durnil

SUBJECT: Audit of USAID's Excess Property Revolving Fund's Fiscal Year 1992 Financial Statements

Attached are the audited financial statements for fiscal year 1992 of the U.S. Agency for International Development's (USAID) entity known as the Excess Property Revolving Fund, as well as our reports on internal controls and compliance with certain laws and regulations. USAID established a revolving fund in 1967, through which USAID expended funds for refurbishing and transporting excess Federal property which was provided to private voluntary organizations (PVO's) operating overseas. The PVO's, in turn, paid service fees to the revolving fund.

We started this audit following special requirements issued by the Office of Management and Budget (OMB) for audits under the Chief Financial Officers (CFO) Act of 1990. However, based on our discussions with OMB and USAID officials, we decided that this entity -- although called a "revolving fund" -- was not operating as a revolving fund. As such, an audit was not required under the CFO Act; nevertheless, we completed an audit of the entity's operations.

We did not review performance measures as would have been required under a CFO Act audit. The audit objectives -- as revised -- were to determine whether: (1) the FY 1992 financial statements of the entity known as the Excess Property Revolving Fund were presented fairly in accordance with the accounting principles described in Note 1 to the financial statements, (2) the internal control structure of this entity was adequate, and (3) USAID complied with laws and regulations that could have a direct and material effect on the financial statements of this entity.

Our audit found the following:

- **The financial statements of the audited entity present fairly, in all material respects, the financial position at September 30, 1992, and the results of operations and changes in net position, cash flows, and budget and actual expenses for the year then ended in conformity with accounting policies described in Note 1 to the financial statements.**

- **We did not identify any reportable conditions or material weaknesses in the internal control structure of the entity audited.**

- **We did note one instance of noncompliance. The entity, although known as the Excess Property Revolving Fund, was no longer operating as a revolving fund.**

Enacted in 1967, Section 608 of the Foreign Assistance Act (FAA) authorized establishment of a "revolving fund" through which USAID would expend funds for acquiring, refurbishing and transporting excess property available from Federal agencies, and charge fees to the PVOs who receive the excess property. However, in October 1986, USAID discontinued this "pure" revolving fund-type activity and replaced it with a contractor-operated data exchange activity. Under the revised approach, a USAID contractor matches requirements of PVOs to existing excess Federal property after which equipment is acquired by the PVO on an "as is, where is" basis.

Since October 1986, USAID has used the residual balance in the revolving fund to cover the cost of the contract for this data exchange activity. However, USAID has yet to formally approve, and document procedures for, the current mode of operating this activity. Early in our audit, we advised USAID officials that this data exchange activity was inconsistent with the approach envisioned under Section 608 of the FAA. Also, during our audit, Congress enacted legislation authorizing USAID to transfer the remaining $6.7 million in the Excess Property Revolving Fund to USAID's Property Management Fund. Subsequent to our audit, USAID transferred the original $5 million out of the revolving fund to the Property Management Fund, leaving a residual balance of approximately $1.7 million in the original fund.

Recommendation No. 1: We recommend that the Associate Administrator for the Bureau for Management:

1.1 formally approve and properly fund the data exchange activity which currently facilitates the transfer of excess U. S. Government property to PVO's, and

1.2 properly close the Excess Property Revolving Fund pursuant to the authority under PL 103-87.

Management Comments and Our Evaluation

Agency management agreed that USAID policies and procedures have not have been formalized for the current excess property program. Regarding Recommendation 1.1, management further agreed to (1) revise and reissue USAID Handbook 16 "Excess Property" to reflect the operation of the current program, and (2) approve a decision memo confirming the program's precepts. **Based on these planned actions, Recommendation 1.1 will be resolved upon final report issuance, and closed when copies of the revised handbook and related decision memo are received.**

Management stated they had determined that PL 103-87 allows the Agency to retain $1.7 million for the continued funding of the data exchange activity. **Based on Agency management's determination, Recommendation 1.2 will be closed upon final report issuance.**

Agency management disagreed with some aspects of our conclusions. For example, management believed that using funds provided for establishment of the Excess Property Revolving Fund to support the data exchange activity was in compliance with applicable laws and regulations. While we reached somewhat different conclusions, the corrective actions taken and planned by management adequately address the major issues discussed in this report.

A copy of management's written comments to the draft audit report is attached as Appendix 1. I very much appreciate the courtesies and cooperation extended to my staff during this audit.

Please advise me within 30 days of any actions planned or taken to close Recommendation 1.1.

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<u>Inspector General's Report</u>

We have audited the accompanying statement of financial position of the U.S. Agency for International Development's (USAID) entity known as the Excess Property Revolving Fund as of September 30, 1992, and the related statements of operations and changes in net position, cash flows, and budget and actual expenses for the year then ended. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting prescribed in OMB Bulletin Number 93-02, <u>Form and Content of Agency Financial Statements</u>, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the audited entity as of September 30, 1992, and the results of its operations and changes in net position, its cash flows, and budget and actual expenses for the year then ended in conformity with the accounting policies described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements. Non-financial statement information presented by USAID is not a required part of the financial statements but is supplementary information required by OMB Bulletin Number 93-02, <u>Form and Content of Agency Financial Statements</u>. Also, Appendix I (accompanying this report) is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Office of the Inspector General
March 14, 1994

AGENCY FOR INTERNATIONAL DEVELOPMENT
EXCESS PROPERTY REVOLVING FUND
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1992
(In Dollars)

	1992
ASSETS	
Financial Resources:	
Fund Balances with Treasury (Note 2)	$ 6,671,832
Total Financial Resources	6,671,832
Non Financial Resources:	
None	-
Total Assets	$ 6,671,832
LIABILITIES	
Funded Liabilities:	
Accounts Payable, Non-Federal	$ 12,400
Total Funded Liabilities	12,400
Unfunded Liabilities:	
None	-
Total Liabilities	$ 12,400
NET POSITION	
Fund Balances: (Note 3)	
Revolving Fund Balances	$ 6,659,432
Less: Future Funding Requirements	-
Net Position	6,659,432
Total Liabilities and Net Position	$ 6,671,832

The accompanying notes are an integral part of the financial statements.

AGENCY FOR INTERNATIONAL DEVELOPMENT
EXCESS PROPERTY REVOLVING FUND
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
FOR THE PERIOD ENDING SEPTEMBER 30, 1992
(In Dollars)

	1992
REVENUE AND FINANCING SOURCES	
None	$ -
Total Revenue and Financing Resources	$ -
EXPENSES:	
Operating Expenses by Program: (Note 4)	
Private Voluntary Organizations (PVOs) Program	$ 79,865
Total Expenses	79,865
Excess (Shortage) of Revenues and Financing Sources over Total Expenses before Adjustments	(79,865)
Plus: Prior Period Adjustment (Note 5)	135
Excess (Shortage) of Revenues and Financing Sources over Funded Expenses	$ (79,730)
Net Position, Beginning Balance	$ 1,739,162
Excess (Shortage) of Revenues and Financing Sources over Funded Expenses	(79,730)
Net Position, Ending Balance	$ 1,659,432

The accompanying notes are an integral part of the financial statements.

AGENCY FOR INTERNATIONAL DEVELOPMENT
EXCESS PROPERTY REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDING SEPTEMBER 30, 1992
(In Dollars)

(INDIRECT METHOD)

CASH FLOWS FROM OPERATING ACTIVITIES:	1992
Excess (Shortage) of Revenues and Financing Sources over Total Expenses	$ (79,730)
Adjustments Affecting Cash Flow:	
Decrease (Increase) in Accounts	4,346
Receivable (Note 6)	
Increase (Decrease) in Accounts Payable	(1,660)
Net Cash Provided (Used) by Operating Activities	(77,044)
CASH FLOWS FROM INVESTING ACTIVITIES:	
None	-
CASH FLOWS FROM FINANCING ACTIVITIES:	
None	-
Net Cash provided (Used) by Operating, Investing and Financing Activities	(77,044)
Fund Balances with Treasury, Beginning Balance	6,748,876
Fund Balances with Treasury, Ending Balance	$ 6,671,832

The accompanying notes are an integral part of the financial statements.

AGENCY FOR INTERNATIONAL DEVELOPMENT
EXCESS PROPERTY REVOLVING FUND
STATEMENT OF BUDGET AND ACTUAL EXPENSES
FOR THE PERIOD ENDING SEPTEMBER 30, 1992
(In Dollars)

		BUDGET		ACTUAL
		OBLIGATIONS		
PROGRAM NAME(s)	RESOURCES	DIRECT	REIMBURSED	EXPENSES
PVO Program	$ 6,680,085	$ 89,368	-	$ 79,730
Totals	$ 6,680,085	$ 89,368	-	$ 79,730

Budget Reconciliation:

A. Total Expenses	$ 79,730
B. Add:	
(1) Capital Acquisitions	-
(2) Loans Disbursed-	
(3) Other Exp. Bud. Auth.	-
C. Less:	
(1) Dep. and Amort.-	
(2) Unfunded Annual Leave Exp.	-
(3) Other Unfunded Expenses	-
D. Accrued Expenditures	79,730
E. Less Reimbursements	-
F. Accrued Expenditures, Direct	$ 79,730

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements have been prepared to report the financial position and results of operations of the Excess Property Revolving Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Excess Property Revolving Fund in accordance with the form and contents specified by the Office of Management and Budget (OMB) in OMB Bulletin 93-02 and the Excess Property Revolving Fund policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by the Excess Property Revolving Fund pursuant to OMB directives, that are used to monitor and control the Excess Property Revolving Fund's use of budgetary resources.

The financial statements are presented in accordance with accounting principles and reporting standards contained in the Agency's accounting policies and procedures handbook (Agency Handbook 19); USAID Accounting Manual Part VII, Excess Property, and related documentation.

REPORTING ENTITY

The Section 608 Excess Property Program, as originally conceived, was a program for acquiring, storing, and renovating domestic and foreign excess property and other property in advance of the known requirements for use in furtherance of the purposes of Part I of the Foreign Assistance Act of 1961. The program is operated on a revolving fund basis established under Section 608(a) of the FAA. This section of the Act authorized the establishment of a $5,000,000 revolving fund which is used to fund costs, including personnel costs, incurred in the advance acquisition and provision of excess property. The Treasury Symbol for this program is 72X4590 and the OMB Control Number is 15-05-00-01-4590.

BUDGETS AND BUDGETARY ACCOUNTING

OMB annually apportions funds to meet operating expenses. Availability of funds is limited to the amounts apportioned by OMB.

BASIS OF ACCOUNTING

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal restraints and controls over the use of federal funds. The accounting system provides for controls to serve as means to fix and identify fund availability, unapportioned and unallowed; and to account for the fiscal processes involved in the use of the amount apportioned by allotment, obligation, and expenditure. The general ledger contains two group of control classifications over the proprietary and budgetary transactions of the program.

REVENUES AND OTHER FINANCING RESOURCES

The Excess Property Revolving Fund is currently financed by its available unobligated balances which represents its Cumulative Results of Operations balance (Retained Earnings). As of September 30, 1992, this amount is $1,659,432. Additional appropriated funds are not made available to the entity and the entity does not currently generate any income as it is presently operated.

FUNDS WITH THE U.S. TREASURY

The fund balance represents the Net Cumulative Result of Operations and the initial Investment Capital made by the United States Government to create the fund. The entity does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury.

LIABILITIES

Liabilities represent the amount of monies that are payable by the Excess Property Program as the result of an event that has already occurred. The $12,400 accounts payable balance in the Statement of Financial Condition represents the amount payable for the accrued contract services as of September 30, 1992.

ANNUAL, SICK, AND OTHER LEAVE

No employees are funded from the Excess Property Program. No information related to employee compensation costs and accrued annual leave is included in the statements.

RETIREMENT PLAN

No employees are funded from the Excess Property Program.

COMPARATIVE DATA

Comparative data for the prior periods have not been presented because this is the first year for which financial statements are prepared for the Excess Property Program. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the Excess Property Program.

NOTE 2. - FUND BALANCES WITH TREASURY, CASH AND FOREIGN CURRENCY:

A. Fund Balances with Treasury:

	Available	Restricted	Total
(1) Trust Funds	$ -	$ -	$ -
(2) Revolving Funds	6,671,832	-	6,671,832
(3) Appropriated Funds	-	-	-
(4) Other Fund Types	-	-	-
Total	6,671,832	-	6,671,832
B. Cash	-	-	-
C. Fund Balances and Cash	$ 6,671,832	-	$ 6,671,832

Other Information:

Cash Reconciliation of Year End Fund Balance with Treasury:

Balance per Entity	$ 6,671,832
Balance per Treasury (72X4590)	6,771,551
Cash reconciliation difference	$ (99,719)

This difference represents overseas deposits that were erroneously credited to the 72X4590 Excess Property Revolving Fund. The U.S.D.O. in RAMC/PARIS was notified and the $99,719 has been corrected in October 1992.

NOTE 3 - FUND BALANCES:

	Revolving Funds	Trust Funds	App. Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	$ -	$ -	$ -	$ -
b. Unavailable	-	-	-	-
(2) Undelivered Orders	-	-	-	-
B. Invested Capital	5,000,000	-	-	5,000,000
C. Cumulative Results of Operations	1,659,432	-	-	1,659,432
D. Donations	-	-	-	-
E. Transfers	-	-	-	-
F. Total	$ 6,659,432	$ -	$ -	$ 6,659,432

NOTE 4 - PROGRAM OR OPERATING EXPENSES

A. Operating Expenses by Object Classification: 1992

OBJECT CLASS	DESCRIPTION	AMOUNT
(5)	Contractual Services	$ 79,865

Total Operating Expenses by Object Class $ 79,865

NOTE 5 - PRIOR PERIOD ADJUSTMENT:

The prior period adjustment represents the processing of an old (April 1987) SF 1098 stop payment document of $135.00.

NOTE 6 - DECREASE IN RECEIVABLES

In FY 1991 receivables of $4,345 was established to offset erroneous charges made to the Advance Acquisition of Excess Property fund in FY 1991. The corrections were processed in FY 1992 and the receivables were cleared. The receivable activity does not pertain to revenue generated receivables resulting from services or goods provided. This note is included in the statements to prevent any misconception that there was recent revenue activity in the program.

Inspector General's Report on Internal Control Structure

We have audited the financial statements of the U.S. Agency for International Development's (USAID) entity known as the Excess Property Revolving Fund as of and for the year ended September 30, 1992, and have issued our report thereon dated March 14, 1994.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of this entity for the year ended September 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

USAID management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure 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 financial statements in accordance with applicable accounting principles. 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 policies and procedures may deteriorate.

For the purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories: cash disbursements, accounts payable and accrued expenditures, and external financial reporting.

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we assessed control risk.

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 entity's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted no matters involving the internal control structure and its operations that we consider to be a material weakness as defined above.

Office of the Inspector General
March 14, 1994

Inspector General's Report on Compliance with Laws and Regulations

We have audited the financial statements of the Agency for International Development's (USAID) entity known as the Excess Property Revolving Fund as of and for the year ended September 30, 1992, and have issued our report thereon dated March 14, 1994.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations is the responsibility of USAID's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the audited entity's compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our test of compliance disclosed the following instance of noncompliance: **the current operations of the excess property program are no longer consistent with the original, authorizing legislation.**

Section 607 of the Foreign Assistance Act (FAA) provided for furnishing services and commodities to friendly countries, international organizations, the American Red Cross, and voluntary nonprofit relief agencies registered with USAID. Subsequently, Section 608 of the FAA provided $5 million to establish a "revolving fund" for acquiring, storing, and refurbishing foreign excess property and authorized USAID to acquire up to $15 million of excess property to carry out the responsibilities in section 607 and 608. In response to this legislation, USAID established the Government Property Resources Division (GPRD), which was headquartered in Pennsylvania and employed about 30 full-time personnel, to carry out activities under this program. USAID's acquisition costs of the excess property — as well as other costs, such as refurbishing and transportation — were passed on to the private organization which received the equipment. Fees charged to recipients served as income to offset costs incurred by USAID.

From inception through September 30, 1986 this entity operated as a "true" revolving fund. USAID processed a considerable amount of activity through the Excess Property Revolving Fund (see table in Appendix II). For example, in FY 1986, revenues were $3,377,603 and expenses were $3,812,907. At the end of FY 1986, the fund balance had increased to $7,588,309, a 52% increase from the original appropriation of $5 million. Recipients have received millions of dollars worth of equipment, such as used medical and office equipment and computers. According to an USAID official, recipients have repeatedly expressed strong support for this activity.

On October 1, 1986, the entity's operations changed significantly. On September 30, 1986, USAID closed the GPRD and all of its field offices and transferred operational control of the program to USAID's Office of Procurement in Washington, D.C. According to a USAID official, reasons for this change included budgetary pressure and the fact that, in the mid 1980's, the fund balance had begun to decrease (after several years of increasing). Under USAID's revised approach, the private organizations are responsible for locating the excess property and arranging for its inspection and transportation — on an "as is, where is" basis. USAID no longer acquires, refurbishes and transports property. Instead, USAID's only activity is a contractor-operated data exchange — using Federal data bases from the Department of Defense and the General Services Administration to identify possible sources of excess equipment for Private Voluntary Organizations (PVOs). In sharp contrast to the earlier operation, the costs of the contract for data exchange activity is relativity low, never exceeding $80,000 annually, and there are no revenues.

Under the revised approach, USAID no longer charges fees to the PVOs obtaining equipment. Section 608 of the FAA envisioned that the revolving fund "be used to pay costs (including personnel costs) of acquisition, storage, renovation and rehabilitation, packing, crating, handling, transportation, and related costs of ... excess property." The current data exchange activity is being funded from the residual balance generated by Section 608 activity.

USAID's written policies and procedures do not reflect this activity as it has operated since October 1, 1986. For example, USAID files contained a draft action memorandum, dated April 1, 1988, for the Assistant to the Administrator for Management which stated that this "...effort has been conducted without a clearly stated policy that could be properly published in the A.I.D. Handbook." The April 1, 1988 draft memorandum included a "... proposed revised A.I.D. Excess Property Policy Statement"; however, USAID files indicate the policy statement was never signed and approved. As a result, the A.I.D. Handbook on excess property has not been updated since 1982 and describes the activity as it operated before October 1, 1986. Also, the pro forma letter currently used by USAID to communicate with excess property recipients continues to state that "A.I.D. is in the process of formulating a revised Excess Property Program policy."

USAID's current activity is significantly different from the activity authorized, established and operational until October 1, 1986, as highlighted in the Chart below.

Activity Before October 1, 1986	**Activity After October 1, 1986**
♦ "true" revolving fund with receipts and disbursements	♦ disbursements only from residual fund balance
♦ written USAID policies and procedures which described the activity	♦ written policies and procedures no longer describe this activity
♦ operated by about 30 USAID personnel	♦ operated by one contracted individual with essentially no USAID personnel
♦ managed by a USAID division — the Government Property Resources Division (GPRD)	♦ GPRD disbanded, managed by one USAID employee in the Office of Procurement (OP) with very small time investment
♦ annual revenues and expenses of several million dollars each	♦ no revenues, annual expenses never in excess of $80,000

Recently enacted legislation authorized USAID to transfer the remaining funds in the Excess Property Revolving Fund to the Property Management Fund. On September 30, 1993, the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1994 (P.L. 103-87), Section 556, provided that "Any funds remaining in the Acquisition of Property Revolving Fund (i.e., Excess Property Revolving Fund) administered by the Agency for International Development may be transferred to, and consolidated and merged with, funds in the Property Management Fund[3]." Thus, USAID management now has available a way to resolve this compliance issue. Subsequent to the close of our audit, USAID management did transfer $5 million, to the Property Management Fund leaving a balance of $1.7 in the original fund.

[3]Section 585 of P.L. 101-513 (November 5, 1990) authorizes USAID to deposit the proceeds of the sale of overseas real property acquired under the authority of section 636(c) of the Foreign Assistance Act of 1961, as amended, into a separate revolving fund — the Property Management Fund. Such proceeds shall be available for use only for the purpose of section 636(c) of the Act. This entity has had a zero balance until recently. If and when the Property Management Fund begins to carry a significant balance, it may be subject to annual audits under the CFO Act of 1990.

We therefore recommend that the Associate Administrator for the Bureau for Management:

1.1 formally approve and properly fund the data exchange activity which currently facilitates the transfer of excess U.S. Government property to PVOs, and

1.2 close out the Excess Property Revolving Fund pursuant to the authority under P.L. 103-87.

We considered this instance of noncompliance in forming our opinion on whether the Excess Property Revolving Fund's 1992 financial statements are presented fairly, in all material respects, in conformity with the accounting policies described in Note 1 to the financial statements. With respect to items not tested, nothing came to our attention that caused us to believe that the Excess Property Revolving Fund had not complied, in all material respects, with those provisions.

Office of the Inspector General
March 14, 1994

AUDIT OF USAID'S
EXCESS PROPERTY REVOLVING FUND'S
1992 ANNUAL FINANCIAL STATEMENT

USAID'S Management's
Program Overview of the
Excess Property Revolving Fund

19A

PROGRAM OVERVIEW

Legislative Background

A.I.D. and its predecessor agencies have carried out a program of utilizing U.S. Government excess property as part of its foreign assistance programs. The authority for A.I.D. to use excess property is provided in the following extracts of sections of legislation:

1. Section 102 - Statement of Policy of the Foreign Assistance Act of 1961, as amended, provides in part, "It is the sense of the Congress that assistance under this part should be complemented by the furnishing under any other Act of surplus agriculture commodities and by disposal of excess property under this and other Acts."

2. Section 607 - Any agency of the U.S. Government is authorized to furnish services and commodities to friendly countries, international organizations and voluntary relief agencies under Section 607, Furnishing of Services and Commodities of the Foreign Assistance Act of 1961, as amended which provides, "Whenever the President determines it to be consistent with and in furtherance of the purposes of Part I and within the limitations of this Act, any agency of the United States Government is authorized to furnish services and commodities on an advance-of-funds or reimbursement basis to friendly countries, international organizations, the American Red Cross, and voluntary nonprofit relief agencies registered with and approved by the Advisory Committee on Voluntary Foreign Aid.

3. Section 608 - Advance Acquisition of Property of the Foreign Assistance Act of 1961, as amended, which established the revolving fund provides "the President is authorized to maintain in a separate account, which shall, notwithstanding Section 1210 of the General Appropriation Act 1951 (64 Stat. 765), be free from fiscal year limitation $5,000,000 of funds made available under Section 212, which may be used to pay costs, including personnel costs, of acquisition, storage, renovation and rehabilitation, packing, crating, handling, transportation, and related costs of property classified as domestic or foreign excess property pursuant to the Federal Property and Administrative Services Act of 1949, or other property.

Description of Entity

The Section 608 Excess Property Program, as originally conceived, was a program for acquiring, storing, and renovating domestic and foreign excess property and other property in advance of the known requirements for use in furtherance of the purposes of Part I of the Foreign Assistance Act of 1961. The program is operated on a revolving fund basis established under Section 608(a) of the FAA. This section of the Act authorized the establishment of a $5,000,000 revolving fund which is used to fund costs, including personnel costs, incurred in the advance acquisition and provision of excess property.

Corpus of Fund

Pursuant to Section 608 of the Foreign Assistance Act of 1961, as amended, the $5,000,000 corpus of the Excess Property Revolving Fund was established by transfer of $2,000,000 from appropriation Development Grants, Economic Assistance (1121004), Executive, 1962, on April 27, 1962, and $3,000,000 from appropriation Development Grants, Economic Assistance (1121004), Executive, 1962, on June 30, 1962.

Program prior to October 1, 1986

The principal origin of property acquired by A.I.D. for use in its Section 608 Program was Department of Defense installations in the U.S. and overseas. Some property was acquired during the GSA-authorized screening period and some was acquired on an exchange sale or reduced price sale basis directly from the DOD. Property acquired from the screening process was obtained at no acquisition costs; property acquired directly from DOD on a reduced price sale or exchange basis is acquired by A.I.D. on a negotiated, usually low-cost basis. Any acquisition costs incurred by the Section 608 Program were passed on to the recipient of the property. Income to the fund was derived from service charges to missions and others. Service fees and reimbursements charges to A.I.D. mission programs were funded from development assistance appropriations made to the Agency. These service charges were used to recoup expenses incurred under the revolving fund for costs pertaining to acquiring, processing and shipping the excess property to the ultimate user.

The Excess Property Revolving Fund was operated by the Government Property Resources Division of A.I.D. from a headquarters in New Cumberland, Pennsylvania. The operation, including three domestic and four overseas field offices, was staffed by approximately 30 full-time personnel. In addition, there were two Office of Financial Management personnel which serviced the program, including a cost accountant on location in New Cumberland, Pennsylvania.

Program after October 1, 1986

Due to a variety of factors such as the decline of the popularity of the Excess Property Program; increase in reconditioning and transportation costs; and passage of P.L. 94-519 on October 17, 1976, which lowered A.I.D.'s priority in acquiring declared excess property, the decision was made to close the Government Property Resources Division on September 30, 1986, and it was initially decided that A.I.D. would get out of the excess property business entirely. The phase-out operations were carried out through the use of contractor services.

During this phase-out period, certain Private Voluntary Organizations (PVOs) expressed to the Agency serious interest in acquiring excess property. Consequently, a decision was made to provide limited support to Private Voluntary Organizations (PVOs) properly registered with A.I.D to acquire excess property and continue the program in a limited fashion. Currently, the operation of the program is assigned to the Overhead and Special Costs and Contract Closeout Branch of the Office of Procurement with ongoing operations of the program being handled by a contractor service. Its responsibility is to provide the required assistance and logistical support to furnish Private Voluntary Organizations (PVOs) with excess property under Section 607 of the Foreign Assistance Act of 1961, as amended.

FINANCIAL CONDITION AND FINANCING RESOURCES

The program currently has a net position of $6,659,432, which includes $5,000,000 of Invested Capital. The program has not generated any new income since September 30, 1986, when the nature of the program's operations was significantly changed. The expense for the contract service has been financed the past six years from the Cumulative Results of Operations balance. It was a management decision not to bill the PVOs for any of the services provided.

PERFORMANCE MEASURES

Due to the size and nature of the program, it was mutually agreed by A.I.D. and the Office of Management and Budget (OMB) that performance measures were not warranted and, therefore, none are presented. Listed below is the summary of the FY 1992 Annual Report of Excess Property furnished to non-federal recipients that the Agency's Office of Procurement submitted to the General Services Administration for FY 1992. The original acquisition cost of the excess property furnished to the PVOs totaled $7,379,932.

Private Voluntary Organization	Amount
Pan American Development Foundation	$ 2,567,927
ADRA International	1,052,048
American Latvian Association	136,177
Direct Relief International	840,962
Food for the Poor	1,283,320
National Cristina Foundation	794,466
Extended Hand	319,933
Salvation Army	135,000
World Vision Relief & Development, Inc.	250,099
Total	$ 7,379,932

CONCLUSION

This is a very small program, as far as financial related activities are concerned. The only expenses for the program are the monthly payments for the contractor services. There are no significant comments concerning its financial activity in FY 1992 and its financial well being as of September 30, 1992.

In regards to its objectives and goals, it seems that a worthwhile service, at a relatively minor cost, is being provided to Private Voluntary Organizations (PVOs) to acquire excess property as legislated in Section 607 of the Foreign Assistance Act of 1961.

It does appear, however, that since the program's operations have changed so significantly, A.I.D. management and OMB need to discuss the current operation and use of this Revolving Fund and come to a decision concerning its future.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the Excess Property Revolving Fund, pursuant to the requirements of the Chief Financial Officers Act of 1990.

While the statements have been prepared from the books and records of the Excess Property Revolving Fund in accordance with the form and contents specified by the Office of Management and Budget (OMB), the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a sovereign entity, that any unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

MAY 6 1994

MEMORANDUM

TO: AIG/A, James Durnil

FROM: DAA/M, Michael D. Sherwin

SUBJECT: Draft Audit Report on USAID's Excess Property Revolving Fund's Fiscal Year 1992 Financial Statement

Thank you for the opportunity to comment on the recommendations posed in the subject report.

We agree with the audit report that the policies and procedures of the current excess property program have not been formalized. To rectify this situation we intend to revise and reissue USAID Handbook 16 "Excess Property". The statement in the draft audit report that the current operation of the Fund constitutes a noncompliance with laws and regulations is, in our opinion, not valid. The Office of the General Counsel was asked whether the statutory authority exists to operate the data exchange activity with funding from the Excess Property Revolving Fund. GC responded as follows:

> We believe that authority exists under Section 608. The first sentence contains an expression of the sense of Congress that the use of excess as opposed to new commodities is acceptable under USAID-financed projects. Later, that section allows the use of $5,000,000 for "acquisition, storage,... and related costs of property classified as excess". It would be within the scope of this language, in our view, to finance the subject contract from the fund even though USAID is now no longer warehousing excess property. Further, Section 123(a) also states that "The Congress further declares that the financial resources of such organizations {PVOs} and cooperatives should be supplemented by the contribution of public funds for the purpose of undertaking development activities...." Funds in the Excess Property Fund are "public funds" and, therefore, we believe, could be used to finance the contract.

Thus, we believe that the data exchange activity is being properly funded with appropriations intended for the broad purpose of making excess Federal property available to private organizations. Furthermore, decisions taken in 1987 to change the way the program was managed were approved by appropriate USAID officials, namely the then Assistant Administrator for Management. Finally, a description of the revised program and the fact that the Excess Property Revolving Fund was being used to fund the contracted data exchange activity has been included in most, if not all, of the Agency's annual budgetary Congressional Presentation submissions since the time the program was revised. There has been no objection to this course of action from the Congress.

From a practical standpoint, we oppose transferring the entire remaining balance of the Excess Property Revolving Fund to the Property Management Fund pursuant to the authority under PL 103-87. First, we had informed Congressional staff that we intended to transfer the original $5 million of capital appropriated to the Fund, and not the entire Fund balance. Since the statute said any balance may be transferred to the Property Management Fund, the Agency maintains the discretion to leave a portion of those balances in the Excess Property Revolving Fund. The transfer of the $5 million was effected at the end of FY 1993. The language allowing this transfer was included in PL 103-87 at the Agency's initiative, an action which was begun far in advance of the subject audit review. Second, GC has determined that the data exchange contract activity could not be funded from the Property Management Fund if the retained earnings from the Excess Property Revolving Fund were transferred to that Fund. Thus, the only funding source remaining for the continuation of the data exchange contract would be USAID's program funds. We see no utility in setting aside $80 thousand in program funds on an annual basis to fund this activity when we can continue to fund it from the Excess Property Revolving Fund.

Our specific comments on the recommendations in the draft audit report are as follows:

a. Recommendation 1.1: We disagree that the change in the Agency's excess property program was not formally approved and properly funded.

   The second paragraph on page 3 of the draft report, lines 2 and 3, states. "...Consequently, a decision was made to provide limited support to Private Voluntary Organizations (PVOs)..." This decision was made by the Assistant Administrator for Management, Mr. Thomas Rollis. The discussion on funding provided above is the basis of the Agency's position that the current data exchange activity is properly funded. We do agree with the finding that the changed excess property program was never properly documented in the Agency's policies and procedures. To rectify this situation we intend to rewrite and reissue Handbook 16 "Excess Property" to reflect the operation of the current program and its policies and procedures. To support the new handbook DAA/M will approve a decision memo confirming the program's precepts.

b. Recommendation 1.2: The $5 million originally appropriated for the Excess Property Revolving Fund was transferred to the new Property Management Fund at the end of FY 1993 as authorized by PL 103-87. The terms of PL 103-87 give the Agency the discretion to determine the amount to be transferred and our decision has been to retain the remaining $1.7 million in the Fund for the continued funding of the data exchange activity. We informed Congressional staff of our intent to follow this course of action and no objections were raised.

We have no further comments on the draft report, and I wish to thank you and your staff for your cooperation in the audit of these financial statements.

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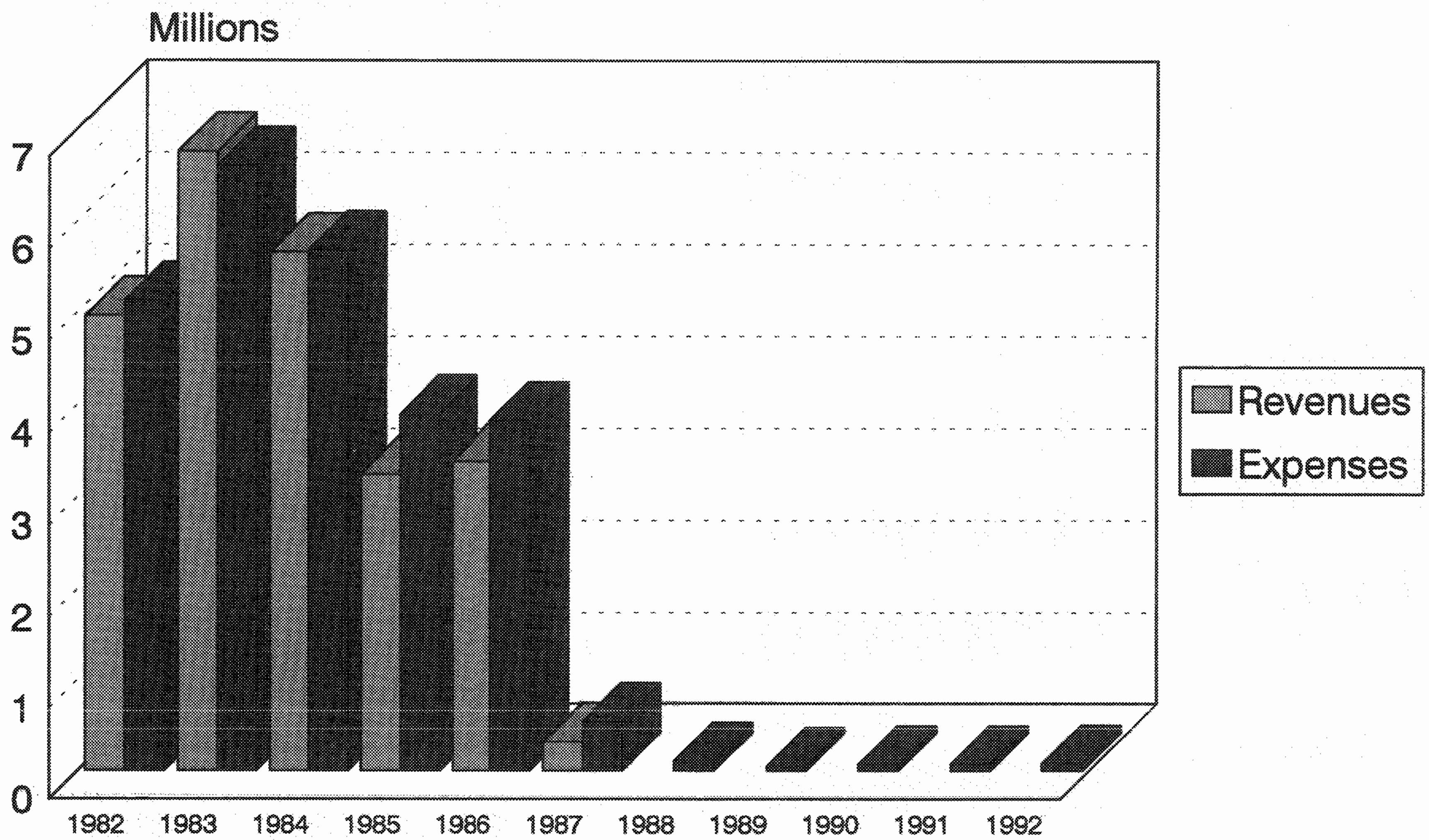
EXCESS PROPERTY REVOLVING FUND

HISTORICAL REVENUES/EXPENSES PER SF-221 (1982 - 1992)*

(UNAUDITED)



*Information for 1967 through 1981 was not readily available.

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