AUDIT OF USAID/THAILAND MANAGEMENT OF REAL PROPERTY

Audit Report No. 2-493-89-13
July 10, 1989

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

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USAID/RIG/A/M
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c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: July 10, 1989

MEMORANDUM

TO: Dr. John R. Eriksson,
Director, USAID/Thailand

FROM: William C. Montoney
Regional Inspector General, RIG/A/M

SUBJECT: Audit of USAID/Thailand Management of Real Property
Audit Report No. 2-493-89-13

The Office the Regional Inspector General for Audit/Manila has completed its Audit of USAID/Thailand Management of Real Property. Five copies of the audit report are provided for your action.

The draft report was submitted for your comment and your comments are attached to the report. The report contains two recommendations. Both are resolved and can be closed when actions in process are completed. Please advise me within 30 days on the status of actions in process to close the recommendations.

I appreciate the courtesy and cooperation extended to my staff during the audit.

Background

Real property managed by USAID/Thailand, as of April 1989, included 31 leased residences, for Mission staff and contractor personnel, offices and a warehouse. Rental payments were about $708,000 during fiscal year 1988. Major maintenance and repairs to leased residences were provided by the landlords. The cost of minor maintenance and repairs provided by USAID/Thailand during fiscal year 1988 was about $20,000. Electricity for Mission residences, offices and the warehouse was supplied by the Thai utility company. Electricity costs were about $94,000 in fiscal year 1988.

Audit Objectives and Scope

This was primarily a financial and compliance audit. The main objective of the audit was to determine whether USAID/Thailand was managing real property in compliance with Agency regulations. Specifically, the audit: (1) compared the size of Mission residences to standards set by the Department of State for overseas housing; (2) evaluated and compared electricity costs between Mission residences to determine whether greater electricity conservation efforts were needed; (3) assessed leased housing to determine whether A.I.D. limitations on lease costs, advance lease payments and costs of preparing residences for new occupants were met; and (4) reviewed procedures for providing routine maintenance to Mission residences.

The audit assessed $822,000 spent by USAID/Thailand, during fiscal year 1988, to manage real property. This included $708,000 in rental payments for leased residences, offices and a warehouse; $20,000 for maintenance and repairs to leased housing and janitorial services for Mission offices; and $94,000 in electricity payments for Mission residences. Audit work included reviews of: (1) leases and lease negotiations for rental properties; (2) financial records related to lease payments and preparation of housing for occupancy; and (3) electricity payments for Mission residences. Internal control examinations included controls over the size of Mission housing, expenditures for preparation of Mission housing for occupancy, and electricity costs for Mission residents.

Audit work was performed during April 1989. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

The audit of USAID/Thailand management of real property demonstrated that improvements related to housing size and the Mission electricity conservation program were needed. Audit work showed that 83 percent of Mission residences significantly exceeded space limitations set by the U.S. Department of State for overseas housing and that more stringent electricity conservation measures may be needed to reduce electricity costs at some Mission residences. Audit work also showed that, during fiscal years 1987 and 1988, lease costs and advance lease payments were within Agency limitations. Maintenance and repairs to Mission real property and preparation of housing for occupancy were provided primarily by landlords.

To better comply with government regulations and reduce the cost of housing and utilities, USAID/Thailand should justify and obtain approvals for oversized Mission housing and assess the impact of the Mission electricity conservation program to determine whether more stringent measures are required to reduce electricity costs.

1. Most Mission Residences Significantly Exceeded Space Limitations Without Required Justifications and Approvals - Eighty-three percent of Mission residences significantly exceeded Agency space limitations without required written justifications and AID/Washington approvals. This occurred because the Mission had not obtained approval for circumstances justifying retention of oversized housing in the Mission inventory. As a result, USAID/Thailand was vulnerable to criticism for providing oversized housing.

Discussion - U.S. Department of State Airgram A-1093, dated May 30, 1979, set limitations on the maximum number of finished square feet allowed in government residences overseas. A.I.D. Handbook Circular 23-5, dated December 15, 1980, Section 721.2(a) extended these limitations to A.I.D. overseas housing. The limitations were intended to establish consistency and uniformity in housing size among U.S. Government employees stationed overseas. The limitations were based on housing size in the Washington, D.C. area with allowances for availability of cultural and recreational activities in the overseas locations.

The Department of State Airgram also required that Missions' take action to relinquish housing which exceeded the space limitations by more than 10 percent of the maximum authorized square footage. In cases where Agencies believed that oversized housing should be retained in Mission housing inventories, because of circumstances favorable to the U.S. Government, the Airgram required that the circumstances be documented in written justifications and that Washington approvals be obtained. The A.I.D. Bureau for Management, Directorate for Program and Management Services has authority to grant waivers for A.I.D. residences.

Most Mission residences exceeded the space standards by more than 10 percent. The audit compared the sizes of the 30 Mission residences occupied as of April 1989 to the space limitations for overseas housing (See Exhibit 1). This comparison revealed that 25 of the 30 residences, 83 percent, exceeded the maximum space limitations by more than 10 percent. Justifications had not been prepared and approvals had not been obtained for retaining the oversized residences in the Mission housing inventory.

Twenty-five Mission residences exceeded the space limitations by more than 10 percent without required written justifications and AID/Washington approvals. For example, Department of State Airgram A-1093 set a limitation of 1,650 square feet for three-bedroom residences located in Bangkok. These residences could exceed the limitation by no more than 10 percent, or 165 square feet. The Mission housing inventory included a leased three-bedroom house with 3,152 square feet. This house exceeded the 1,650 square foot space limitation by 1,502 square feet, or 91 percent. However, a written justification for retaining this house in the Mission housing inventory had not been prepared and approval for retaining the house had not been obtained. The State Department Airgram set a limitation of 2,200 square feet for four-bedroom residences located in Bangkok. These residences could exceed the limitation by no more than 10 percent, or 220 square feet. The Mission housing inventory included a leased four-bedroom apartment with 3,312 square feet. This apartment exceeded the 2,200 square foot limitation by 1,112 square feet, or 51 percent. However, a written justification for retaining this apartment in the Mission housing inventory had not been prepared and approval for retaining the apartment had not been obtained.

Written justifications had not been prepared for 25 oversized residences because the Mission did not have an internal requirement to justify the retention of oversized housing in the Mission inventory or to obtain AID/Washington approval. USAID/Thailand Mission Order 2[illegible], titled Mission Leased Housing and dated March 17, 198[illegible], did not specify circumstances which justify retaining oversized residences. Such circumstances might include: security considerations, low rental costs, favorable locations, or limited housing availability. In addition, the Mission Order did not specify procedures for preparing justifications or for obtaining approvals for oversized Mission residences.

USAID/Thailand was vulnerable to criticism for providing oversized housing. On October 5, 1988, a representative of the U.S. General Accounting Office testified before a Congressional Committee on the results of a six-month review of U.S. Department of State overseas housing. The testimony was highly critical of the State Department's application of the overseas space limitations. According to the testimony, 66 percent of the Department's housing in Buenos Aires, Argentina and 45 percent in Rio de Janeiro, Brazil exceeded the limitations. The testimony concluded that overseas posts either ignored or misinterpreted the space limitations.

USAID/Thailand was open to similar Congressional criticism. Most Mission housing exceeded space standards by more than 10 percent. Justifications for retaining these residences in the Mission housing inventory had not been prepared and required AID/Washington approvals had not been obtained.

Recommendation No. 1

We recommend that USAID/Thailand review its housing inventory to identify residences which exceed space limitations set by the Department of State by more than 10 percent and

a. determine which of these residences it wishes to retain and which should be released once it is economically feasible to do so within the terms of the lease,

b. prepare justifications and obtain AID/Washington approvals for those it wishes to retain, and

c. prepare an action plan for releasing those residences it does not wish to retain.

The USAID is preparing justifications and plans to obtain AID/Washington approvals for retaining oversized residences currently in the Mission housing inventory. Officials said that several years ago most Mission personnel were moved from houses into apartments for security reasons. These apartments exceeded the State Department space standards. However, current lease costs, which are 40 to 60 percent higher than the costs of apartment leases held by the Mission, make replacement of the apartments uneconomical. In negotiating future leases, the Mission will seek acceptable housing which meets State Department standards.

The USAID plan of action is responsive to the recommendation. Therefore, Recommendation No. 1 will be considered resolved on issuance of this report and can be closed when justifications have been prepared and AID/Washington approvals have been obtained.

2. <u>More Stringent Conservation Measures May Be Required to Achieve Reductions in Residential Electricity Costs</u> - Electricity costs among families of the same size varied by as much as 465 percent during fiscal year 1988, although Agency regulations required that such costs be held at

reasonable levels. These variations may continue because the Mission has not assessed its electricity consumption patterns to determine which conservation measures are needed to reduce electricity costs. An effective electricity conservation program which would decrease the cost variations among families of the same size could significantly reduce the Mission's electricity costs.

Discussion - A.I.D. Handbook 23, Appendix 5A, Section 716.1(a) directed that Missions hold utility costs for Mission residences at reasonable levels. Audit work at USAID/Thailand revealed significant variations in electricity costs among families of comparable size occupying Mission residences. During fiscal year 1988, electricity costs for Mission residences totaled $94,000. Electricity costs were analyzed for 18 Mission residences, which were assigned to the same families throughout fiscal year 1988. Families of the same size were grouped together to form four groups of one to four members, respectively. Total electricity costs for each residence were divided by the finished square footage in the residence to obtain the cost per square foot for the 12 month period (See Exhibit 2). Table 1 presents the variations in electricity costs per square foot between families with the highest and lowest costs for each of the four family-size groupings.

Table 1

Percentage Difference By Family Size Between The Lowest and Highest Electricity Costs Per Square Foot of Living Space

Family Size	Highest Cost/Sq.Ft.	Lowest Cost/Sq. Ft.	Percentage Difference 1/	Number of times Highest Exceeded Lowest Cost
1	$3.56	$ .63	465	5.7
2	2.95	.93	217	3.2
3	2.93	1.27	130	2.3
4	2.92	1.40	108	2.1

1/ The median percentage difference was 174 percent.

For each family size grouping, the table shows a significant variation in energy costs between the family with the highest cost per square foot of living space and the family with the lowest cost. For example, among families with two members the electricity costs per square foot ranged from a high of $2.95 to a low of $.93 for the the fiscal year under review. Therefore, the percentage difference in cost per square foot between the two families was 217 percent.

The percentage difference between the highest and lowest cost per square foot by family size ranged from a low of 108 percent for families of four to a high of 465 percent for households with one family member. The extreme variations in electricity costs between families of comparable size demonstrated the need for an effective electricity conservation program which could bring these variations within reasonable range and thus reduce electricity costs.

Large variations in electricity costs between families of the same size existed even though the Mission had implemented an electricity conservation program. Prior to January 1989, the Mission electricity conservation program consisted of monthly notifications to Mission residents informing them of their electricity costs, the average monthly costs for all Mission residences, and the percentage difference between their costs and the Mission average. The program did not establish ceilings on electricity costs by family size or establish other criteria for determining when electricity costs were excessive. Also, it did not include information programs about energy conservation methods, require surveys of Mission residences to determine the cost-benefit of installing electricity saving devices, such as exhaust fans, or direct that electricity consumption be considered in selecting and leasing new Mission residences.

In January 1989, changes in the monthly notifications were implemented. The changes were intended to reduce electricity costs and Mission operating expenses. These changes, however, were not based on an assessment of the Mission's electricity consumption patterns. Therefore, USAID/Thailand could not be sure that the changes would achieve the desired cost reductions. The changes modified the monthly notifications to include a numerical ranking of each family's monthly electricity costs as compared to other families in the Mission and a rating of whether the family's costs were average, above average or below average for the Mission. As of April 1989, notifications using the revised format had been distributed for January 1989. In addition, notifications for calendar year 1988 had been sent to Mission residents.

An electricity conservation program which reduced variations in electricity costs between families of the same size could significantly reduce the Mission's electricity costs. The effect of a 20 percent reduction in electricity costs for the family with the highest cost per finished square foot in each of the four Mission family categories during fiscal year 1988 is presented in Table 2.

Table 2

Estimated Impact of an Electricity Conservation Program on Four Mission Families During Fiscal Year 1988

Family Size	Highest Cost/Sq.Ft.	20% Reduction in Cost/Sq.Ft.	Total Sq.Ft. in Residence	Estimated Savings
1	$3.56	$ .71	1068	$ 758
2	2.95	.59	1217	718
3	2.93	.59	1415	835
4	2.92	.58	1629	945
			Total	$3,256

The table shows that an estimated annual savings of over $3,000 could have been realized had the electricity costs per finished square foot for the four families been reduced by 20 percent. An electricity conservation program which affected other families could have had an even greater impact on reducing the Mission's total electricity costs.

Recommendation No. 2

We recommend that USAID/Thailand assess the impact the January 1989 changes have had on reducing Mission electricity costs during the one-year period January through December 1989, and implement, as appropriate, more stringent electricity conservation measures such as:

- ceilings on electricity costs by family size or other criteria for determining when electricity costs are excessive,

- information programs about energy conservation methods for Mission residents and their household employees,

- surveys of Mission residences to determine the cost/benefit of installing electricity saving devices, and

- a requirement that electricity consumption be an important factor in selecting and leasing new Mission residences.

The USAID plans to monitor electricity usage at Mission residences during calendar year 1989. Consumption patterns established by this information will determine whether more stringent conservation measures are required. Although the draft audit report called for monitoring electricity consumption over the six-month period January through June 1989, the one-year period proposed by the Mission is reasonable. The final report recommends the one-year period. The USAID plan of action is responsive to Recommendation No. 2, which will be considered resolved on issuance of this report. The recommendation can be closed when the actions in process have been completed.

AUDIT OF
USAID/THAILAND MANAGEMENT OF
REAL PROPERTY

EXHIBITS AND APPENDICES

Comparison of Authorized to Actual
Finished Square Footage by Residence as of April 1989
USAID/Thailand

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess Square Footage 1/	Excess Space as % of Authorized
Arcadia Mansion	3	2,180	1,650	530	32
Asa Garden	3	2,484	1,650	834	51
Ban Mokwon	4	1,706	2,200	(494)	(22)
Soi Eleven 2/	3	3,570	2,200	1,370	62
Insaf Towers 1	3	2,270	1,650	620	38
Insaf Towers 2	3	2,270	1,650	620	38
Insaf Towers 3	3	2,270	1,650	620	38
Insaf Towers 4	3	2,270	1,650	620	38
Insaf Towers 5	3	2,270	1,650	620	38
Insaf Towers 6	3	2,270	1,650	620	38

1/ Parentheses Indicate Negative Amounts
2/ Representational Housing

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess Square Footage 1/	Excess Space as % of Authorized
Insaf Towers 7	3	2,270	1,650	620	38
Insaf Towers 8	3	2,270	1,650	620	38
Insaf Towers 9 3/	3	2,270	1,650	620	38
Insaf Towers 10	3	2,270	1,650	620	38
Int'l Condominium	4	3,312	2,200	1,112	51
Kanta Mansion	3	2,335	1,650	685	42
Mitr Mansion	3	2,748	1,650	1,098	67
Montien Compound	4	1,415	2,200	(785)	(36)
Orchid Towers 1	3	2,672	1,650	1,022	62
Orchid Towers 2	3	2,672	1,650	1,022	62
Royal Apartments	3	1,928	1,650	278	17
Ruamchai	3	2,161	1,650	511	31
Sachayan Court	3	2,472	1,650	822	50

1/ Parentheses Indicate Negative Amounts
3/ Vacant

Address	Number of Bedrooms	Finished Square Feet	Maximum Authorized Square Feet	Excess Square Footage 1/	Excess Space as % of Authorized
Samaharn	3	1,217	1,650	(433)	(26)
Shiva Towers 1	3	2,696	1,650	1,046	63
Shiva Towers 2	3	2,696	1,650	1,046	63
Shiva Towers 3	3	2,696	1,650	1,046	63
Shiva Towers 4	3	2,696	1,650	1,046	63
Sittiratana Mansion	2	1,068	1,380	(312)	(23)
Sukhumvit 1	3	3,152	1,650	1,502	91
Sukhumvit 2	4	2,210	2,200	10	1

1/ Parentheses Indicate Negative Amounts

EXHIBIT 2

Variations in Electricity Costs by Family Size
Fiscal Year 1988

	Size of Residence in Square Feet	Energy Cost per Year	Cost per Sq. Foot	% Difference from Low User
Families of One	2,484	$1,675	$ .67	6
	2,696	3,202	1.19	87
	1,068	3,804	3.56	465
	2,180	1,380	.63	0
Families of Two	2,672	2,506	.93	0
	1,217	3,600	2.95	217
	1,928	2,298	1.19	27
Families of Three	3,570	4,563	1.27	0
	1,629	4,316	2.64	107
	1,415	4,152	2.93	130
Families of Four	1,629	3,767	2.31	65
	1,629	4,769	2.92	108
	3,152	5,041	1.59	13
	2,210	3,591	1.62	15
	2,672	3,765	1.40	0
	1,629	4,446	2.72	94
	2,696	4,579	1.69	20
	1,629	4,471	2.74	95

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MEMORANDUM

June 26, 1989

TO: Mr. William C. Montoney
Regional Inspector General, RIG/A/M
USAID/Philippines

FROM: John R. Eriksson, Director
USAID/Thailand

SUBJECT: Draft Report: Audit of USAID/Thailand Management of Real Property

REF: Memo RIG/FA-89-110, dated 5/19/89

The attached Memorandum represents our official response to subject draft audit report. We will provide you copies of our waiver requests and the responses thereto.

Also, following an evaluation of the effectiveness of our voluntary compliance program, we will advise of our intentions regarding electricity consumption.

Attachment: EXO's Memo dated 6/20/89

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MEMORANDUM June 20, 1989

TO: Douglas Franklin, Controller

FROM: Karl L. Mahler, Executive Officer

SUBJECT: Real Property Audit.

Our interim response to the real property audit is as follows:

1. USAID/T is in the process of reviewing its housing inventory. It is unlikely that we will be able to release any of the houses now under lease. However, we continue to search for, and evaluate any housing that appears to meet our requirements, and meets the standards established by State. The housing market in Thailand has exploded during the past 10 months. New leases for any acceptable housing are 40-60% higher than the the present leases that the Mission now holds. For example a lease obtained in April 1988 for a three bedroom apartment in a 3-year-old building was negotiated for 38,000 Baht per month. (Currently $1520 per month). The same size apartment is now renting for 55,000 Baht per month ($2200). Most Mission leases have 2-3 years before expiration. Should the mission cancel these leases, the cost of canceling and moving into much more expensive housing, IF IT COULD BE FOUND, is prohibitive under present O.E. constraints. Housing that meets the standards set by State are not available in an area that provides a reasonable commute from the Mission, (one hour is considered a reasonable commute). The location is such that children can attend the only available school in Bangkok, and it provides reasonably acceptable security.(Areas outside the center of Bangkok have a much higher crime rate).

USAID/T manages its housing pool so that apartment size is appropriate for the average USAID/T employee, i.e., Two adults and 1.7 children. Occasionally a single employee arrives at post, but it is not economically feasible to terminate leases, and obtain new leases to accommodate the exact size of each family. This is particularly significant in that one of the few bargaining points to obtain leases at a more economical rate is the ability to negotiate a 1 or 2 year lease with several renewal options.

Unfortunately, housing for expatriates in Bangkok is built to standards that the landlords feel expatriates desire. That is relatively large and airy apartments, to compensate for the always oppressive heat and air pollution. This makes obtaining houses that meet standards difficult if not impossible to obtain. We note that few other USG agencies in Bangkok are able to meet the space standards. Those agencies that have met the standards with some of their housing, have rented whole apartment buildings and provide all maintenance support services. Most of the apartments rented under these conditions were built some years ago. Landlords are no longer building this size housing.

However, USAID/T is actively soliciting landlords who may wish to build small apartment/towers for lease to the USG. If this project comes to pass, USAID/T will explore the possibility of concentrating our employees in one compound, where the standards more nearly meet State standards. We approach this option with caution, since most landlords are not willing to build for the USG standards since other expatriates do not have this restriction.

Justifications are being prepared for each oversize apartment/house and we are requesting waivers for the size limitations. These waivers will be completed by July 15, and will then be forwarded to AID/W. We call your attention to the fact that the measurements used in the audit for the Insaf Towers were incorrect. Insaf towers is actually 2,270 square feet; somewhat over the allowed size. We further note that several years ago USAID/T intentionally moved most of their residents from individual houses to apartment buildings for security purposes. Presently, the few remaining individual houses are the only ones that meet State standards. Unfortunately, individual houses are no longer available within any reasonable commute distance to and from work.

A more detailed action plan will be prepared as information is obtained on apartment/house availability .

2. USAID/T has been evaluating our precise electrical usage only since Jan 89. We will continue to do so for the balance of this year. At that time we will have a pattern that will allow us to establish reasonable limitations if that becomes necessary. Meanwhile, we closely monitor all electrical usage, and counsel each user when the bills seem high. After evaluation of apartment size, insulation factors, family size, other issues such as medical conditions, and correctness of the meter, we may establish a limitation.

USAID/T has moved toward electrical savings by installation of self starting gas stoves. This reduces the heat in the kitchens, thereby reducing the cooling requirement. Additionally, we have issued fans so that air circulation can be improved without the increased use of air conditioning. The installation of exhaust fans as suggested by the Inspectors is impractical in most cases, since most outside walls are glass. Furthermore, our aim is to keep the inside cool, not to exhaust the cool air into the heat. We will consider, if funding is available of issuing insulated curtains, which will reduce heat, and keep cool air in.

Electrical consumption is always an important factor in choosing leases. However, this is a sellers market. The EXO has looked at more than 70 apartments and houses to obtain one apartment for one employee. Hence electrical consumption, although important becomes a lessor priority, than just getting apartments/housing for an increasing staff. If an employee arrives and must be housed in a hotel, the TLA quickly uses up any savings we might obtain in reduced electical cost, or for that matter smaller apartments.

APPENDIX 2

Report Distribution

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