

PD-AAZ-938

ASN=63073

AUDIT OF  
USAID/PHILIPPINES' MANAGEMENT OF  
PERSONAL PROPERTY

Audit Report No. 2-492-89-15  
September 13, 1989

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

UNITED STATES POSTAL ADDRESS  
USAID/RIG/A/M  
APO SAN FRANCISCO 96528

INTERNATIONAL POSTAL ADDRESS  
c/o AMERICAN EMBASSY  
MANILA, PHILIPPINES

September 13, 1989

MEMORANDUM

TO: Mr. Malcolm Butler  
Director, USAID/Philippines

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

SUBJECT: Audit of USAID/Philippines' Management of  
Personal Property  
Audit Report No. 2-492-89-15

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

The draft report was submitted to you for comment and your comments are attached to the report. The report contains four recommendations. Recommendation No. 2a is closed. Recommendations No. 2b, 2c, 2d, 3 and 4 are resolved and can be closed once the actions in process are completed. Recommendation No. 1 is unresolved. Please advise me within 30 days on the status of actions planned and in process to close the open recommendations.

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

## EXECUTIVE SUMMARY

This audit reviewed two classes of personal property - nonexpendable and expendable. Items of nonexpendable property consisted of generally larger distinct items such as vehicles, refrigerators, desks, and computers. Items of expendable property included supplies and spare parts. Personal property managed by USAID/Philippines, as of September 30, 1988, was valued at about \$2.9 million.

This was a performance audit with the objective of determining if the USAID/Philippines had effectively managed its personal property. The audit found that the USAID had not effectively managed its personal property and was not in compliance with certain A.I.D. regulations and guidance. The USAID had not recorded and controlled repairs for nonexpendable property nor kept adequate records for the purchase, and use of expendable property. Internal controls also needed to be improved.

Generally, accountability records for nonexpendable property accurately identified the location of the items, and disposal actions were performed in accordance with A.I.D. regulations. An annual inventory of nonexpendable property was conducted, and adjustments to accounting records were properly made. However, repairs to nonexpendable property were made unnecessarily. The purchase of automotive spare parts lacked needed controls, and some spare parts could likely have been purchased at lower cost. Also, improved control and management of expendable property was needed.

Repairs to nonexpendable property were made unnecessarily because USAID/Philippines did not have adequate maintenance records. These records were required by A.I.D. regulations to provide managers information on the frequency of repairs, preclude unnecessary repairs and identify candidates for disposal. Although a USAID report had recommended revised procedures for reporting and controlling maintenance and repairs for motor vehicles, the recommendation had not been implemented. USAID personnel stated that they did not have time to prepare the needed records, but the responsible USAID official disagreed. The USAID needed to establish revised maintenance control procedures for nonexpendable property and assess their impact within one year. The USAID agreed and had established a plan of action for motor vehicles and was considering several initiatives for other expendable property.

The USAID lacked control over its purchases of automotive spare parts. The General Services Officer allowed automotive spare parts to be purchased by motorpool personnel without assessing the need for the parts, and he approved some purchases after the fact. As a result, abuse and theft were possible. The USAID needed to inventory existing spare parts, dispose of unneeded items, establish usage standards for procurement purposes and revise requisition procedures. The USAID agreed with the audit recommendation, and it had conducted the needed inventory and established a plan of action to address the remaining issues.

Items for A.I.D. motor vehicle operations may be purchased at more reasonable cost. The USAID used the two U.S. military exchange services for automotive spare parts purchases because many spare parts for American-made vehicles were not available on the local market. The USAID was overcharged for 100 sparks plugs and could possibly reduce its cost for tires and other spares if it found other sources. The USAID had not canvassed other sources because it was convenient to use the exchanges. The USAID needed to determine if sources other than the military exchange services could satisfy its requirements at lower cost. The USAID agreed with the recommendation and planned to conduct a survey of alternative sources for automotive spare parts.

A.I.D. guidance calls for the establishment of controls to ensure a minimum investment in expendable property. Accordingly, stock control records were to be maintained. The USAID had not properly maintained Stock Record Cards nor had it established other controls to ensure a minimum investment in this type of property. The extent of the losses due to a lack of control were not readily determinable because of inadequate record keeping by USAID's property management contractor. The personnel provided by the contractor did not understand the requirements for record keeping or the need to maintain minimum stock levels. The USAID should require its contractor to provide personnel capable of maintaining an adequate expendable property management system. The USAID agreed to negotiate changes with the existing contractor or find an alternative solution.

*Office of the Inspector General*

AUDIT OF  
USAID/PHILIPPINES' MANAGEMENT OF  
PERSONAL PROPERTY

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objective and Scope	1
PART II - RESULTS OF AUDIT	3
A. Findings and Recommendations	4
1. Maintenance Records on Nonexpendable Property Were Inadequate	
2. Automotive Spare Parts Were Purchased Without Prior Approval or Demonstrated Need	
3. Automotive Spare Parts May Be Purchased at Lower Cost	
4. Improved Control and Management of Expendable Property Were Needed	
B. Compliance and Internal Controls	18
PART III - EXHIBIT AND APPENDICES	
A. Exhibit	
B. Appendices	
1. Management Comments	
2. List of Recommendations	
3. Report Distribution	

AUDIT OF  
USAID/PHILIPPINES' MANAGEMENT OF  
PERSONAL PROPERTY

PART I - INTRODUCTION

A. Background

Personal property covers a wide variety of items and includes vehicles, furniture, equipment, appliances and supplies. It refers to all property not otherwise classified as land, land improvement, buildings, and other structures which are normally referred to as real property.

This audit reviewed two classes of personal property - nonexpendable and expendable. As defined by A.I.D., an item of nonexpendable property (1) was complete in itself, (2) did not lose its identity or become a component part of another item when used, (3) had an anticipated useful life of over 1 year, and (4) had an original cost or replacement value of \$50 or more. Examples were motor vehicles, rerrigerators, desks, and computers. An item of expendable property was either 1) consumed when used, 2) lost its identity by becoming an integral part of another item of property or 3) was of low value not requiring formal accountability after issue. Examples were office supplies and spare parts. As of September 30, 1988 the USAID's nonexpendable property was valued at about \$2.8 million, and its expendable property was valued at about \$100,000.

The Executive Office, through the General Services Office at USAID/Philippines, was responsible for the management of USAID personal property. The USAID had contracted with a local firm to assist in the management of personal property. The local contractor was responsible for receiving, storing, issuing and delivering the property and for maintaining appropriate records of these actions.

B. Audit Objectives and Scope

This was a performance audit with the specific audit objective of determining if USAID/Philippines had effectively managed nonexpendable and expendable property in compliance with A.I.D. regulations. The audit included a review of USAID records, reports and contracts. Discussions were held with USAID and contractor representatives. Tests were made of payment vouchering, requisitioning, receiving, recording, issuing, and disposing of property. The audit did not review Mission standardization policies.

1

The audit assessed USAID controls over \$2.8 million in nonexpendable property, and tests were made of selected fiscal year 1987 and 1988 purchases. For expendable property, the audit assessed controls over the \$100,000 inventory and reviewed the acquisition of automotive spare parts and payments to automotive maintenance contractors. The audit assessed the USAID implementation of a personal property-related recommendation in a prior audit report, entitled Audit of Operating Expenses, Support Costs and Functions - USAID/Philippines, dated April 15, 1986. The USAID had effectively implemented that recommendation.

The audit was performed from February through April 1989. The audit was made in accordance with generally accepted government auditing standards.

AUDIT OF  
USAID/PHILIPPINES' MANAGEMENT OF  
PERSONAL PROPERTY

PART II - RESULTS OF AUDIT

USAID/Philippines had not effectively managed its personal property in accordance with A.I.D. regulations and guidance. The USAID had not recorded and controlled repairs for nonexpendable property nor kept adequate records for the purchase, use and management of expendable property. Internal controls also needed to be improved.

Generally, accountability records for nonexpendable property accurately identified the location of the items and disposal actions were performed in accordance with A.I.D. regulations. An annual inventory of nonexpendable property was conducted and adjustments to accounting records were properly made. However, repairs to nonexpendable property may have been made unnecessarily. The purchase of automotive spare parts lacked needed controls and some parts could likely have been purchased at lower cost. Also, improved control and management of expendable property was needed.

To ensure compliance with A.I.D. Regulations and improve internal controls, USAID/Philippines needed to establish procedures for recording and controlling maintenance on nonexpendable property; adopt improved controls over the purchase, inventory and utilization of automotive spare parts; review its practice of not seeking the lowest cost for the procurement of automotive spare parts; and require its property management contractor to provide personnel who are capable of providing an adequate expendable property management system.

A. Findings and Recommendations

1. Maintenance Records on Nonexpendable Property Were Inadequate

Repairs to nonexpendable property were made unnecessarily because USAID/Philippines did not have adequate maintenance records. These records were required by A.I.D. regulations to provide managers information on the frequency of repair, preclude unnecessary repairs and identify candidates for disposal. Although a USAID report had recommended revised procedures for reporting and controlling maintenance and repairs for motor vehicles, the recommendation had not been implemented. USAID personnel stated that they did not have time to prepare the needed records, but the responsible USAID official disagreed.

Recommendation No. 1

We recommend that USAID/Philippines establish procedures for recording and controlling maintenance on nonexpendable property and assess the adequacy of these procedures within one year.

Discussion

Maintenance records on motor vehicles and household appliances were not being maintained by USAID personnel and contractors. USAID staff claimed that a heavy workload precluded them from preparing these records, but the Executive Officer disagreed. Motor vehicles had repetitive maintenance and repairs within short periods without evidence of need. Household equipment was returned to the warehouse in reportedly good condition and subsequently determined to be defective without explanation.

Keeping track of routine maintenance and emergency repairs to nonexpendable property is an important function of inventory control. A.I.D. Handbook 23 - Overseas Support requires these records. The primary reason for keeping track of maintenance and repairs is to allow the property manager to detect items requiring excessive maintenance so that appropriate action can be taken. In addition, the maintenance record is an effective internal control device in assisting property managers to prevent performance of unneeded maintenance.

Motor Vehicle Repairs. - Even though a 1986 internal USAID review of motorpool operations reported that some vehicles

had received questionable repairs, the recommendation to correct this condition has not been implemented. A July 1986 USAID Controller review of motorpool operations stated that "\*\*\*questionable frequency and reasonableness in the replacement of certain spare parts and related labor" were made. One of the report's recommendations was that a ledger for repairs and maintenance should be kept for each vehicle showing the dates of various types of repairs and the parts replaced. This ledger was to be submitted along with the request for approval of motor vehicle repair service. The ledger was to assist the General Services Officer (GSO) in determining whether the replacement of parts and the related labor cost were necessary and valid. The GSO supervisor stated that this recommendation was not implemented because motorpool personnel did not have the time to prepare this ledger. He stated that the motorpool administrative clerk sometimes works as a driver and could not take on additional duties.

The audit reviewed invoices totalling about \$11,000 from the USAID's motor vehicle repair contractors for the period April to June 1988. The sample disclosed that contractors billed the USAID and were paid for the same repairs performed twice on the same vehicle within a few days without explanation. These examples were:

- 1) The air conditioner compressor and dehydrator on vehicle number 1397 were replaced with new parts on April 20, 1988. On May 14, 1988, the compressor and dehydrator were replaced again.
- 2) The propeller cross joint was replaced on vehicle number 13558 on April 6, 1988 with new parts. On April 15, 1988, the propeller cross joint was replaced again.
- 3) The power steering hose on vehicle number 13560 was replaced on April 23, 1988. On April 30, 1988 the power steering hose was replaced again.

While the USAID procedures for authorizing repairs for motor vehicles required preparation of a Vehicle Repair Request to be approved by the GSO, the GSO did not have a historical record to compare against the request to determine if a similar repair was made recently. In each of the above cases, a separate repair request was made and the contractor submitted a separate invoice.

The auditors could not determine if the USAID supplied parts were withdrawn from inventory because the parts inventory records and the material request/issue records were incomplete. Also, the controlling issuance records (material request/issue slip) for the period were incomplete. The voucher examiner would not have been able to detect such similar repairs because the vouchers were submitted at different times. However, the GSO, who approved each voucher for payment, should have been able to detect this situation had maintenance records been kept and reviewed prior to approval.

Further examples demonstrating the need for maintaining individual maintenance record for motor vehicles, involved the issuance of batteries and spark plugs. An analysis of battery issuances showed that 34 vehicles were identified as receiving new batteries during the period October 1987 to February 1989. During this 17-month period a total of 51 batteries were issued. One vehicle received five batteries, two received three, nine received two and 22 received one. None of these issuances were supported by a Vehicle Repair Request. The elapsed time between issuances for vehicles receiving more than one battery ranged from 14 months to less than 1 month. An analysis of spark plug issuances for the period October 1987 to April 1988 showed that 19 vehicles were issued new spark plugs. Six of these vehicles received more than one set of spark plugs during this 7-month period. The elapsed time between issuances to these vehicle ranged from 10 months to as little as 7 days. For these six vehicles, the audit attempted to trace the 12 issuances to a Vehicle Repair Request and found an approved repair request for only 4 of the 12 issuances. The audit had to rely on time between replacement for analysis purposes because documentation of vehicle mileage related to repairs was not maintained.

For one of the vehicles identified above, records of the USAID and its vehicle service contractor showed that the vehicle was tuned-up on February 12, 1988 and again on April 23, 1988. The records showed that the USAID issued 8 spark plugs for the April tune-up even though the vehicle has only 6 cylinders. Both USAID and the service contractor records showed that the vehicle had 8 spark plugs installed. This vehicle was reportedly tuned up again in December 1988, and at that time the service contractor supplied only 6 spark plugs.

Household Nonexpendable Property Records - Although the USAID's management of household nonexpendable property was

generally in compliance with A.I.D. requirements, some improvements were needed. Routine maintenance and emergency repair records for appliances were not maintained as required by A.I.D. Handbook 23. Also, the property was not marked with the year of purchase, and property stock control cards were not updated as required. As a result, the age of appliances could not be readily determined for property disposal purposes. The warehouse supervisor stated that staff shortages kept them from preparing these records.

Several items were returned to the warehouse because the items were defective, but there were no notations on the property records to indicate why the items had not been repaired. Other items were returned to the warehouse in good condition but were later determined to be defective with no explanations made to the property records. For example, a refrigerator was returned to the warehouse in May 1986 but the Property Record Card only indicated that it was defective. No explanation was included on the card showing what the defect was or why it was not repaired. The refrigerator was kept in stock until it was disposed of in October 1988. Another example was a washing machine which was purchased in 1987 and reported defective after a few months of use. The machine was marked for disposal but no reason was indicated on the Property Record Card. The warehouse supervisor told us that it required a part which was not available in the Philippines. In another example, the Property Record Card for a refrigerator showed that it was turned-in because it was defective and should be repaired. The card indicated that repairs were made, but the type and cost of the repair was not indicated. The item was never reissued; it stayed in the warehouse for three years and was reported as defective and disposed of in the fourth year.

#### Management Comments

The USAID agreed with the audit recommendation and has taken steps to implement the recommendation. The Vehicle Repair Request was now being reviewed by the Assistant Executive Officer, mileage was being recorded on the request, and the maintenance file was being attached to the request for decision purposes. The USAID stated that it would elaborate on several initiatives related to the recording and control of maintenance for other nonexpendable property in its response to the final audit report.

Office of the Inspector General Comments

The USAID's actions concerning reporting and controlling maintenance for motor vehicles is responsive to the audit recommendation. Once the USAID provides the status of its initiatives regarding the recording and control of maintenance for other nonexpendable property, Recommendation No. 1 can be resolved. The recommendation will be closed when a satisfactory test of the new procedures has been completed.

2. Automotive Spare Parts Were Purchased Without Prior Approval or Demonstrated Need

USAID/Philippines lacked control over its purchases of automotive spare parts. A.I.D. regulations and USAID/Philippines procedures required that only necessary items be authorized for purchase. The GSO supervisor allowed automotive spare parts to be purchased by motorpool personnel without assessing the need for the parts, and he approved some purchases after the fact. As a result, abuse and theft were possible.

Recommendation No. 2

We recommend that USAID/Philippines:

- a) conduct a full and complete inventory of automotive parts on hand, and establishes inventory records which identify spare parts to applicable vehicles,
- b) dispose of obsolete automotive spare parts,
- c) establish minimum stock levels for spare parts based on prior usage or standards established by A.I.D. Handbook 23 - Overseas Support, and
- d) establish requisition procedures that identify the specific vehicles or classes of vehicles to the spare parts ordered.

Discussion

USAID/Philippines established blanket purchase orders with the Philippine Area Exchange at Clark Air Base and the Naval Exchange Service. Under these arrangements, the USAID could purchase domestic automotive spare parts. USAID's procedure called for the GSO or Executive Officer to issue a requisition for items purchased under this agreement.

According to A.I.D. Handbook 23 - Overseas support, Chapter 6 - Motor Vehicle Management, automotive replacement spare parts should be acquired on the basis of the USAID's motor vehicle parts usage records. If usage records do not exist, the Handbook provides guidelines for missions until appropriate usage records can be developed.

USAID/Philippines did not maintain spare part usage records. The decisions of which spare parts to purchase were made by the motorpool supervisor and the mechanic.

These persons stated that they determined the purchase requirements by assessing what stocks were on hand and the need for the parts. However, they maintained no records to support their purchases or assist in future decisions.

Purchases of Automotive Spare Parts - The standard procedure for purchasing spare parts for the USAID required the preparation of a requisition which described the needed items. Each requisition was to be approved by the GSO. The audit sampled automotive spare part purchases from the Philippine Area Exchange at Clark Air Base and the Naval Exchange Service at Subic Naval Base for fiscal year 1988. The audit sample covered spark plugs, tires, batteries, airconditioner compressors, alternator assemblies and windshields. During the period, purchases of these items totalled about \$16,000.

The audit sample disclosed that about two-thirds of the items were purchased without a requisition. The total value of items purchased without a supporting requisition was in excess of \$10,000. Those supported by requisitions did not indicate the type or class of vehicle for which the parts were intended. While these purchases were approved by the GSO for payment, no explanation was given for why the established procedures were not followed.

The USAID's April 1989 purchase of automotive spare parts further demonstrated the need to improve internal controls. While a requisition was prepared and approved, it did not specify part numbers, sizes, or other specific descriptions to identify what was to be acquired. (See Exhibit 1). Of the 18 items requisitioned, 17 were received and a receiving report was prepared. However, for the remaining item on the requisition, which was 37 tires, no receiving report was issued. Further, the USAID motorpool staff in executing this requisition ordered an additional 13 tires valued at about \$1,700 and 24 bottles of brake fluid valued at about \$54 without prior approval.

Automotive Spare Parts Records - USAID/Philippines records did not identify automotive spare parts in inventory with vehicles in its fleet. The audit estimated that the parts inventory included about 500 items, some of which were not applicable to the existing fleet. Common types of parts were listed on the same stock record card and bin card, even though the individual parts were for different vehicles. Also, only issuances and not receipts were posted to stock bin cards. As a result, the USAID had in its inventory parts for vehicles no longer in its fleet; however, the extent of the problem was not known.

For internal control purposes, stock control cards and bin cards should be maintained at the General Services Office and at the warehouse, respectively. In addition, Handbook 23, Chapter 4 Personal Property Management Overseas, required that expendable property be reviewed periodically to identify and eliminate items that were slow-moving or obsolete.

The audit found that the automotive stock clerk did not prepare an inventory ledger but merely recorded the part numbers on the bin cards. The bin cards indicated the common name of the items and their location. However, the information on the bin cards was not recorded elsewhere at the warehouse. For example, the stock clerk had one bin card for 449 spark plugs. The stock included five different types of spark plugs, but the clerk did not know which vehicles used which spark plugs.

During the audit, the warehouse manager explained that about one-third of the automotive spare parts were obsolete or slow-moving. However, this could not be verified by reviewing the stock control cards because the cards had not been updated since 1986. The warehouse manager provided a list of automotive spare parts in inventory for which no issuances had been made for the last several years. The list covered 475 items: 54 which had no reported issuances since 1986 and 421 which had no reported issuances since 1983. The acquisition price for 29 of the items not issued since 1986 ranged from \$43 to \$347 each for a total value of over \$6,200. The acquisition price for 341 of the items not issued since 1983 ranged from \$4 to \$145. The total value for these 341 parts was about \$8,800. The acquisition price of the remaining items could not be determined.

The audit confirmed that the General Services Office had not maintained stock control cards since 1986. While bin cards for individual items were maintained in the warehouse, these were not kept up to date. The property officer stated that he had a personnel shortage and only had time to maintain records for nonexpendable property. Consequently, there was no basis for determining inventory balances from the warehouse records. An audit test was made to determine what the inventory should be for motor vehicle batteries. An inventory of the batteries was made by the auditors on March 1, 1989. Receiving reports and issuance slips for the period October 1, 1987 to March 1, 1989 were then analyzed. The receiving reports indicated that 72 batteries were received and 51 were issued for that period. There should have been a balance of at least 21 batteries; however, only

14 batteries were in stock and recorded on the bin card. The stock clerk could not account for the seven batteries received during the year but not issued plus any beginning inventory. The bin card for the period prior to the audit test was reportedly lost.

Management Comments

The USAID agreed with the audit recommendation and had initiated corrective actions. The USAID reported that it had conducted a full inventory of automotive spare parts and updated its stock cards. Also, minimum and maximum stock levels were being established and obsolete and excess automotive spare parts were being identified for disposal. Beginning June 1, 1989 parts requisitions were to identify the class of vehicle for which spare parts were intended.

Office of the Inspector General Comments

The USAID's actions are responsive to the recommendation. Accordingly, part 2a is closed on issuance of the report and all other parts are considered resolved. Recommendation No. 2 can be closed when the actions in process are completed.

### 3. Automotive Spare Parts May Be Purchased at Lower Cost

Items for A.I.D. motor vehicle operations may be purchased at more reasonable cost. USAID/Philippines used the two U.S. military exchanges for automotive spare parts purchases because many spare parts for American-made vehicles were not available on the local market. The USAID was overcharged for 100 spark plugs and could possibly reduce its cost for tires and other spares if it found other sources. The USAID had not canvassed other sources because it was convenient to use the exchanges.

#### Recommendation No. 3

We recommend that USAID/Philippines review its practice of purchasing automotive spare parts only from the military exchanges and determine if other sources offer comparable items at less cost.

#### Discussion

Personal property for A.I.D. operations should be purchased at the most reasonable cost. Under its blanket purchase order arrangements with the Philippine Area Exchange at Clark Air Base and the Naval Exchange Service at Subic Naval Base, the USAID purchased automotive spare parts. The exchanges were used because most spare parts for USAID's fleet of American-made vehicles were not available locally.

The audit found that the USAID had not adequately reviewed exchange invoices before payment was made. The audit identified an overpayment of \$1,457 for 100 spark plugs. In January 1988, the Philippine Area Exchange sold 100 spark plugs to the USAID for \$14.80 each plus a 12.5 percent accessorial charge. The invoice was sent to the USAID Controller's Office where it was processed, certified for payment and paid at the total cost of \$1,665. The audit verified that the correct unit price for the spark plugs was \$1.85 plus the accessorial charge. The 100 spark plugs should have cost about \$208 instead of \$1,665. When this was brought to the attention of the USAID Controller's Office, a request for refund from the Philippine Area Exchange was initiated.

Most of the USAID's tires have been purchased from the exchanges. The audit found that the USAID had an inventory of 90 tires valued at about \$7,600. The inventory included 14 sizes of tires for eight classes of vehicles. The price per tire ranged from \$50 to \$165. At the time of the audit,

the USAID was in the process of purchasing about 50 additional tires from the Philippine Area Exchange. The auditors contacted local tire suppliers and found that, generally, the types of tires needed by the USAID were available locally and at a lower cost. While the audit could not determine the quality of the locally available tires, they were about \$20 each less expensive than those from the exchanges. Therefore, the audit concluded that locally purchased tires could reduce the cost of USAID tire purchases. Furthermore, the USAID might not need such a large inventory of tires if it acquired them from local suppliers.

The audit identified other automotive spare parts which might be purchased from U.S. suppliers at less cost than at the two military exchanges. For example, a U.S. mail order firm listed the price of a muffler for a carryall in the USAID fleet at \$17 while the exchange price was \$64. The U.S. supplier priced distributor caps at \$6 while the exchange price was \$21. The USAID Executive Officer explained that using the military exchanges had been convenient but agreed that a review of this process should be done.

#### Management Comments

The USAID agreed with the audit recommendation and agreed to perform a study to identify other cost effective sources of spare parts. Also, the USAID reported that the ordering of automotive spare parts was now under the direct supervision of the Assistant Executive Officer.

#### Office of the Inspector General Comments

Based on the Mission's planned actions, Recommendation No. 3 is resolved on issuance of the report. The recommendation can be closed once actions resulting from the study have been completed.

#### 4. Improved Control and Management of Expendable Property Was Needed

A.I.D. guidance calls for the establishment of controls to ensure a minimum investment in expendable property. Accordingly, stock control records should be maintained. The USAID had not properly maintained Stock Control Cards nor had it established other controls to ensure a minimum investment in this type of property. The extent of any losses due to a lack of control were not readily determinable because of inadequate record keeping by USAID's property management contractor. The personnel provided by the contractor did not understand the requirements for record keeping nor the need to maintain minimum stock levels.

#### Recommendation No. 4

We recommend that USAID/Philippines requires its property management contractor to provide personnel who can operate and maintain an adequate expendable property management system, or replace the contractor if necessary.

#### Discussion

A.I.D. Handbook 23 - Overseas Support, Chapter 4, requires each overseas establishment to develop and maintain control of its expendable property inventory to assure that the total investment is kept at the minimum consistent with its needs. A Stock Control Card was to be kept for each item in stock to allow verification of the balance in the warehouse against the recorded balance on the card. In determining quantities for stock, consideration was to be given to budgetary limitations, the rate of issue, delivery lead time, availability of space and costs of procurement, storage, transportation, and other pertinent costs. The Handbook also requires that Stock Control Cards contain the minimum and maximum stock levels based on past experience.

The USAID had two locations where expendable property was stored and issued. One was its warehouse where most expendable property was received, stored and issued. The other location was its office building, where office and janitorial supplies were stored and issued. The USAID had a contractor which provided the personnel to manage its expendable property.

The audit found that at both locations the stock clerks provided by the contractor were not maintaining Stock Control Cards and did not determine the minimum or maximum

levels for items stocked. At the warehouse, Stock Control Cards had not been posted since September 1987. At the office building stockroom, the stock clerk had posted his Stock Control Card the previous month, but he had not posted the individual stock card each time there was an issuance.

An example of the contractor's personnel not understanding A.I.D. requirements, was the issuance of office supplies. USAID internal procedures for controlling the issuance of office supplies (USAID Mission Order No. 541.1) required office chiefs to designate one employee to order and receive supplies from the central stockroom. The designated employee was to complete a Stock Issue Record (FORM PHIL 5-113) listing the office supplies required with the corresponding stock numbers. The form was to be prepared in triplicate and signed by the office chief or his designee. The above procedure was not being followed. Instead, the contractor's stock clerk maintained a stock issuance record slip for each office. The clerk explained that he wrote down the supplies requested, the date of issuance, the quantity, and the name of the employee requesting supplies. When the slips were filled up, he transferred the information to the Stock Issue Records. Then, he distributed these forms to the designated employees for their signatures and for the approval of the office chiefs. A sample of 21 items stocked in the office building showed that about half of these items had unrecorded issuances amounting to about \$600. Unexplained losses occurred for one file organizer and three typewriter ribbons with a total value of \$24. The stock clerk stated that he could not remember to whom he issued the missing items.

At the warehouse, the audit found that Stock Control Cards and individual bin cards had not been reconciled by the contractor's personnel. The Stock Control Cards had not been updated since September 1987 and many bin cards had not been posted since the last inventory in September 1988. A review of nine items, ranging in value from \$.25 to \$39.00, showed that all had unrecorded issuances or losses. The total value of losses for the nine items was about \$400. The stock clerk believed that annual postings to the Stock Control Cards was acceptable.

In summary, the USAID's internal controls over expendable property needed strengthening. The USAID needed to ensure that its contractor provides trained personnel to perform this function.

### Management Comments

The USAID agreed with the audit recommendation but reported that the scope of work in the contract with the property management contractor was not adequate to require the contractor to comply with the recommendation. The USAID will attempt to negotiate a new scope of work with the contractor if a reasonable cost can be agreed to or it will investigate other less costly alternatives.

### Office of the Inspector General Comments

Since the USAID has established an acceptable plan of action, Recommendation No. 4 is considered resolved. This recommendation can be closed once the actions in process have been completed, including updating the stock control records so that they are useful in accounting for and maintaining acceptable levels of expendable property.

## B. Compliance and Internal Controls

### Compliance

The report discusses instances of USAID/Philippines noncompliance with A.I.D. Handbook 23 regulations and guidance on the management of personal property. The USAID had complied with requirements for inventory records and disposal actions on nonexpendable property. However, the USAID had not complied with requirements for recording maintenance of non-expendable property, keeping accurate personal property records, establishing procedures for maintaining inventory at a minimum investment, and acquiring automotive spare parts at a reasonable price.

The audit cannot express an opinion on untested items because the nature of noncompliance found for the items tested.

### Internal Controls

Audit findings addressed the following internal control weaknesses: 1) inaccurate and inadequate record keeping, 2) inadequate review of maintenance needs of motor vehicles, 3) issuance of supplies without documented authorization, 4) purchase of auto spare parts without authorization, 5) automotive spare parts inventory in excess of needs and without periodic review of requirements for individual items, and 6) untrained personnel.

AUDIT OF  
USAID/PHILIPPINES' MANAGEMENT OF  
PERSONAL PROPERTY

PART III - EXHIBIT AND APPENDICES

Phil-5-47 (Rev. 6/66) U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT Manila, Philippines		(DO NOT FILL THIS SPACE)		
SUPPLIES/EQUIPMENT/SERVICES/REQUISITION		P.O. NUMBER:	REQUISITION NO. 8209-371	
		APPROPRIATION:	ALLOTMENT:	
INSTRUCTIONS				
1. All requisitions must be typewritten and must include an adequate justification. 2. Forward the original and one (1) copy to the General Services Branch. If desired, the originating office may prepare an additional copy for its file.				
TO: HOUSING & PROPERTY OFFICER REQUESTED BY:		Date: <u>March 29, 1989</u>		
<u>Prudencio Nicdao</u> (Signature)		<u>MP/Romas Blvd., Manila</u> (Office Symbol/Residence Location)	<u>2476</u> (Phone No.) (Room No.)	
Quantity	Unit (Eggs, Sats, Boxes, etc.)	Description of Material or Services Required	COST -- LEAVE BLANK	
			Unit	Total
3	pcs.	A/C compressor (to be purchased at Subic)  The following items to be purchased at Clark Air Base:		
5	pcs.	A/C compressor		
5	pcs.	Accumulator		
4	pcs.	Glass back window		
5	pcs.	A/C compressor		
3	pcs.	Spark plug wire		
12	pcs.	Hub cap		
11	pcs.	Muffler		
5	pcs.	Distributor rotor		
5	pcs.	Ignition coil		
25	pcs.	Fuel filter		
5	pcs.	Ignition switch		
4	pcs.	Windshield		
5	pcs.	Distributor cap		
5	pcs.	Clamp (tail pipe)		
5	pcs.	Tail pipe		
5	pcs.	Module		
37	pcs.	Tires		
		_____ USAID Mission vehicle's use.		
HOUSING & PROPERTY OFFICER APPROVAL:		DATE:	PARTIAL SHIPMENT:	SHIPMENT COMPLETE:
Kathy McCall <i>[Signature]</i>				
FILLED BY:		SUPPLIES/SERVICES/EQUIPMENT - RECEIVED BY:		
DELIVERED BY:		DATE DELIVERED:	DATE RECEIVED:	

UNITED STATES GOVERNMENT

# Memorandum

TO : Mr. William C. Montoney  
Regional Inspector General, RIG/A/Manila

DATE: AUG 2 1989

FROM : Malcolm Butler, Director  
USAID/Philippines *MB*

SUBJECT : Mission Response  
Draft Audit Report on USAID/Philippines' Management of  
Personal Property

REF : Montoney/Butler Memorandum dated May 12, 1989

First, I regret that USAID was not able to get this reply to you sooner. However, I am pleased to advise that we agree in substance with all the recommendations. Prior to release of subject audit report, we terminated the services of the former GSO for convenience of the Government as he had not been responsive to directions; including directions with major internal control implications. This report has served to reaffirm the appropriateness of our difficult decision. Also, we have placed Motor Pool directly under the Assistant Executive Officer in the Executive Office (EO) because EO is physically closer to MP than GSO which is several miles away in Pasay City. Specific comments follow:

## Recommendation No. 1

We recommend that USAID establish procedures for recording and controlling maintenance on non-expendable personal property.

## USAID/PHILIPPINES RESPONSE:

We agree with recommendation no. 1.

We have taken several actions to implement this recommendation. Organizationally, Motor Pool has been moved from GSO to EO to permit physically closer supervision. Along with the organizational move, each Vehicle Repair Request (VRR) is now given close scrutiny by the Assistant Executive Officer before it is approved. The mileage is now listed on each VRR and the maintenance file is attached for review before a decision is reached.

Our experience to date indicates that reviewing the file helps us factor in other important variables such as level of armor (armor adds weight which tends to result in more maintenance) and field trip history which also takes its toll. Also, a review of spare parts in stock is made by the AEO before any additional spare parts procurement decisions are reached.

21'

Regarding the recording and control of maintenance on property other than vehicles, several initiatives are underway. We will be able to elaborate on these initiatives in our response to the final report.

Therefore, this recommendation will remain unresolved at report issuance.

RECOMMENDATION NO. 2

We recommend that USAID/PHILIPPINES:

- a) conduct a full and complete inventory of automotive spare parts on hand and establish inventory records which identify which vehicles these parts are intended for;
- b) purchase spare parts only if the need for item can be established by A.I.D Handbook 23 - Overseas support;
- c) install the computerized Vehicle Management System; and
- d) establish procedures where the requisition identifies the specific vehicle or class of vehicle the parts were intended for.

USAID PHILIPPINES RESPONSE:

We agree with recommendation No. 2.

- a) On May 25/26, a full inventory of spare parts was done and stock cards were updated. Photocopies of the stock cards can be made available to RIG/A if desired.
- b) A review of spare parts usage for the last year was completed on July 15 1989 and minimum/maximum levels will be established in accordance with Handbook 23 criteria by October 15, 1989.
- c) The Vehicle Management System (VMS) will be installed and activated as soon as we receive the revised version from M/SER/IRM in Washington. (They have requested we not use original VMS.) In the meantime, all information to be input for the VMS is being made ready. We estimate the new version will arrive in August.
- d) Effective June 1, 1989, spare parts requisitions identify the class of vehicles for which the spare parts are intended.

Therefore, we request that recommendation no. 2a and d be closed and that recommendation no. 2b and c be considered resolved upon report issuance.

- 3 -

RECOMMENDATION NO. 3:

We recommend USAID dispose of obsolete and excess automotive spare parts.

USAID/PHILIPPINES RESPONSE:

USAID agrees with recommendation No. 3.

After the inventory of May 25/26, many obsolete spare parts were made ready for disposal. We are in the process of reviewing spare parts usage for the last year using Handbook 23 as a guide. Excess spare parts will be disposed of by December 15, 1989.

Therefore, we request that recommendation no. 3 be considered resolved upon report issuance.

RECOMMENDATION NO. 4

We recommend that USAID establish procedures to review the purchase of automotive spare parts from sources other than the Exchange Services.

USAID/PHILIPPINES RESPONSE:

USAID/Philippines agrees with the recommendation. The ordering of spare parts is now under the direct supervision of the AEO. A study will be made to find other sources for G.M. spare parts which will accept orders from the U.S. Government. The study will provide the basis for a decision on likely cost effective sources for automotive spare parts. The completion date for the study is December 31, 1989.

Therefore, we request that recommendation no. 4 be considered resolved upon report issuance.

RECOMMENDATION NO. 5

We recommend that USAID require its contractor to provide personnel who can operate and maintain an adequate expendable property management system.

USAID/PHILIPPINES RESPONSE:

USAID agrees with the recommendation. However, implementation will prove more complex than anticipated. A review of the Nazareno contract by the USAID Contract Office has revealed that the present scope of work is not adequate to require the contractor to comply with the recommendation. USAID will attempt to negotiate a new scope of work with Nazareno which incorporates the recommendation at a cost which appears reasonable. If Nazareno's cost appears too high USAID will investigate other less costly alternatives. Estimated completion date is December 31, 1989.

Therefore, we request that recommendation no. 4 be considered resolved upon report issuance.

In summary, we request that recommendation no. 2a and d be closed, and recommendations no. 2b, 2c, 3 and 4 be considered resolved with issuance of the report. This will leave only recommendation no. 1 as unresolved.

List of Recommendations

	<u>Page</u>
<u>Recommendation No. 1</u>	4
We recommend that USAID/Philippines establish procedures for recording and controlling maintenance on nonexpendable property and assess the adequacy of these procedures within one year.	
<u>Recommendation No. 2</u>	9
We recommend that USAID/Philippines:	
a) conduct a full and complete inventory of automotive parts on hand, and establishes inventory records which identify spare parts to applicable vehicles,	
b) dispose of obsolete automotive spare parts,	
c) establish minimum stock levels for spare parts based on prior usage or standards established by A.I.D. Handbook 23 - Overseas Support, and	
d) establish requisition procedures that identify the specific vehicles or classes of vehicles to the spare parts ordered.	
<u>Recommendation No. 3</u>	13
We recommend that USAID/Philippines review its practice of purchasing automotive spare parts only from the military exchanges and determine if other sources offer comparable items at less cost.	
<u>Recommendation No. 4</u>	15
We recommend that USAID/Philippines requires its property management contractor to provide personnel who can operate and maintain an adequate expendable property management system, or replace the contractor if necessary.	

APPENDIX 3

Report Distribution

	<u>No. of Copies</u>
Mission Director, USAID/Philippines	1
Assistant Administrator, Bureau for Asia and Near East (AA/ANE)	1
Philippines Desk (ANE/P)	1
Audit Liaison Office (ANE/DP)	1
Bureau for External Affairs (AA/XA)	1
Office of Press Relations (XA/PR)	1
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Assistant to the Administrator for Management (AA/M)	2
Office of Financial Management (PFM/FM)	2
PPC/CDIE	3
US Ambassador to the Philippines	1
Office of the Inspector General	
IG	1
IG/A	1
IG/PPO	2
IG/LC	1
IG/ADM	12
IG/I	1
IG/PSA	1
Regional Inspectors General	
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1
RIG/I/Singapore	1

-- 26 --