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**AUDIT OF
REGIONAL DEVELOPMENT
OFFICE/CARIBBEAN
MANAGEMENT OF LEASED PROPERTY**

**Audit Report No. 1-538-90-01
October 11, 1989**

AGENCY FOR INTERNATIONAL DEVELOPMENT

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October 11, 1989

MEMORANDUM

TO : RDO/C, Director, Aaron S. Williams
FROM : *for* RIG/A/T, *George J. Bussis* Coinage N. Gothard, Jr.
SUBJECT: Audit of Regional Development Office/Caribbean
Management of Leased Property

This report presents the results of audit of Regional Development Office/Caribbean (RDO/C) management of leased property. The draft audit report was submitted to you on July 27, 1989 for comment and your comments are attached as appendix 1 to the report. The report contains two recommendations: Recommendation No. 1 is considered resolved but open pending evidence that the recommended actions have been completed. Recommendation No. 2 is considered unresolved. Please advise me within 30 days of any additional information related to action planned or taken to implement the report recommendations. I appreciate the cooperation and courtesy extended my staff during the audit.

Background

As of June 8, 1989, A.I.D.'s RDO/C managed a total of five leased real properties in the Caribbean countries of Barbados and Grenada. These properties consisted of two residences (one in Barbados and one in Grenada) and two offices and one warehouse in Barbados. These leases represented annual costs of \$210,741. RDO/C did not own any properties. ¹

RDO/C's Executive Officer is responsible for ensuring that its leased properties comply with Agency guidance.

¹ Following the United States and Caribbean island armed forces intervention to restore peace and order in the aftermath of serious civil disturbances in Grenada in October 1983, A.I.D. established an office there to manage the large number of economic revitalization projects approved for the country. From January 26, 1984 to June 8, 1989, A.I.D. had leased up to 21 residences, 3 offices and 1 warehouse there in support of its operations. At the time of our audit in 1989, only one residential lease was still active.

Audit Objectives and Scope

The Office of the Regional Inspector General for Audit, Tegucigalpa conducted a performance audit of the five active leased real properties managed by RDO/C. Specifically, the audit objective was to determine if the leases were in compliance with A.I.D. guidance regarding the management of real property overseas (see appendix 2) and advantageous to the United States Government.

To accomplish the objective, we interviewed RDO/C personnel responsible for negotiating and managing the leased real properties in Barbados and Grenada, reviewed pertinent records including rental leases and related financial payment documents, and physically inspected the properties. While in Grenada, we also reviewed inactive leases for general compliance purposes.

The audit was performed from April 28 to June 8, 1989 and covered about \$2.0 million in rental payments for leases covering the period January 26, 1984 to June 30, 1989. Our review of internal controls and compliance covered the findings in this report, a questionable use of Mission's vehicles (an issue which was reported separately) and three other issues which were addressed separately. We performed the audit in accordance with generally accepted government auditing standards.

Results of Audit

The audit found that the leases were generally in compliance with A.I.D. guidance and advantageous to the United States with the following exceptions. RDO/C was inappropriately paying for swimming pool maintenance costs on its residential lease in Barbados. In addition, the audit noted that an earlier audit finding involving excessive payments for gardening services in Grenada had not been satisfactorily resolved. The report recommends that the Barbados residential lease be modified so as to relieve the United States Government from paying for swimming pool maintenance costs and to recover such past payments from the previous occupant, and to resolve the outstanding gardening payment issue.

1. The United States Government Was Inappropriately Incurring Swimming Pool Maintenance Costs - Contrary to A.I.D. Handbook guidance, RDO/C was paying from October 1986 until May 1989 the costs of maintaining the swimming pool at the RDO/C Director's residence in Barbados. RDO/C did not adequately justify the

payment of these costs which began in October 1986 and amounted to \$98 per month. At the time of our audit these maintenance costs totaled \$3,038.

Discussion - A.I.D. Handbook 23, Chapter 5, states "No U.S. Government lease shall be entered into for residential quarters, representational or other, which includes a swimming pool, tennis court, sauna, or other recreational facility: 1. Unless no other adequate quarters are available. . . .; 2. Unless, in circumstances where adequate and suitable public recreational facilities do not exist, recreational facilities which as a part of the residence to be leased for an A.I.D. principal officer will be made available to the entire U.S. community, through the official community or Mission and not through occupant control of use. . . (c) facilities acquired. . . above may be maintained at U.S. Government expense only to the extent required to protect lease commitment in regard to condition of property All cost of operating the facility, i.e., labor, equipment, supplies and material related to personal use of facilities will be borne by the occupant or the lessor, but not by the U.S. Government."

The existing RDO/C Director residence was leased on July 1, 1985 at an annual cost of \$24,000. A.I.D./Washington's approval was requested and obtained because the property included a swimming pool. In its request for approval, RDO/C stated that "Since no adequate, or suitable public repeat public recreational facilities exist in Barbados, and access to the pool can and will be given to the U.S. community (under Mission control), adequate justification exists for leasing this residence . . ." On July 26, 1985, RDO/C issued Mission Order 23-3 establishing guidelines over the use of the pool by Mission personnel including hours of operation.

The swimming pool in question is approximately 35 feet long and 20 feet wide. Besides the Director and his family, we identified only four individuals at post (3 A.I.D. spouses, and 1 U.S. Embassy spouse) who had ever used the pool. In our opinion, the low usage relates to the fact that many adequate recreational facilities exist in Barbados, and it was not in the proximity of other mission personnel residences.

On October 13, 1986, RDO/C amended the lease agreement by increasing the monthly rental payment from \$2,000 to \$2,098 per month. According to the amendment, the increase of \$98 per month was to compensate the lessor for all maintenance related

to the swimming pool. At the time of our audit these maintenance costs totaled \$3,038.

Increasing the rental cost of the Director's residence to cover the pool maintenance cost was not justified under the circumstances. In our opinion, the primary beneficiary of this arrangement was the occupant of the residence. A.I.D. guidance is clear that either the occupant or the lessor must bear the pool's maintenance cost when the pool is not required for general Mission recreational use.

Recommendation No. 1

We recommend that the Regional Development Office/Caribbean:

- a. amend the current lease to make the occupant or the lessor responsible for swimming pool maintenance costs in accordance with A.I.D. Handbook 23; and
- b. issue a bill for collection for \$698.74 to the former Director for his personal use during the 31 months that swimming pool maintenance was paid by the U.S. Government.

Management Comments

RDO/C generally agreed with the intent of the recommendation but stated that it could not formally assign responsibility for the pool maintenance costs to the Director within the new lease with the landlord. However, the Mission Director confirmed that he accepts responsibility for maintenance costs for personal use of the pool.

The Mission also believed that the Bill for Collection associated with the former Director's personal use of the swimming pool should be for \$698.74. The Mission recommended that since the lease was proposed to and approved by AID/Washington and that the pool was open to and used by Mission personnel and their families except for Saturday afternoons and Sundays, only a portion of the time be considered personal use and billed to the previous Mission Director.

Office of Inspector General Comments

The actions taken by the RDO/C did not fully satisfy part "a" of the recommendation because it did not formally assign responsibility to the occupant for the swimming pool maintenance

costs nor did it clearly establish procedures covering how the occupant would pay these costs. At the time of the audit, this lease was to expire on June 30, 1989. Apparently the lease was amended and extended without considering our comments to Mission staff on this issue. We do not understand why RDO/C did not clearly assign the responsibility for swimming pool maintenance costs when the lease was amended. A.I.D. Handbook 23, Chapter 5 Section 721.2(6)(b) states that leases in existence which do not conform to the 6(a)1 and 2 restrictions are to be terminated as they expire or at the earliest date which is in the best interest of the Agency. Since RDO/C agreed that the occupant should pay for the maintenance costs, we have classified part "a" as resolved but open pending evidence that the recommended action as stated has been completed.

Regarding part "b" of recommendation No. 1, RDO/C stated that the lease was proposed to and approved by AID/Washington based on the inadequacies of public recreational facilities in Barbados and that numerous Mission families have used the pool. The Mission expressed that they were not sure why the auditors were able to identify only four individuals who took advantage of the swimming pool. We would like to note that we were told by two responsible Embassy officials that they found it hard to believe that the pool was justified on the grounds of lack of adequate recreational facilities. One dependent who used the pool on a few occasions stated that Barbados had plenty of adequate recreational facilities and identified at least seven.

There was no log book maintained for using the swimming pool, therefore we could not determine the number of families who had used the pool. Several Mission officials were interviewed to determine if they used the facility and in this process we were able to identify only four individuals who used the pool. Nevertheless, RIG/A/T agreed that the \$698.74 suggested by the Mission to be recovered from the former Director seemed appropriate and thus changed the amount in the recommendation accordingly. Recommendation No. 1(b) is considered resolved and can be closed when the RIG/A/T receives evidence that RDO/C has issued a bill of collection to the former director for \$698.74 corresponding to his share of the swimming pool maintenance paid by the U.S. Government.

2. Inappropriate Reimbursements Made to A.I.D. Employees for Gardening Services in Grenada Have not Been Resolved - A 1988 Inspector General report disclosed that \$9,000 in reimbursements had been incorrectly made to A.I.D. employees for gardening services at leased residences in Grenada. The Office of

Management and Budget (OMB) Circular A-50 requires the timely resolution of audit related matters. The current audit identified that these payments had not been recovered apparently because of inadequate management follow-up. As a result, the proper accounting of the \$9,000 is still pending.

Discussion - During a previous Inspector General audit at RDO/C the auditors noted that A.I.D. was reimbursing employees living in Grenada for their gardening and lawn care costs. This audit finding was discussed in Audit Report No. 1-538-88-14 dated April 26, 1988, under "Other Pertinent Matters".

OMB Circular A-50 requires the timely resolution of audit related matters. The current audit determined that little progress had transpired on this issue and no decision had been made on whether to issue bills for collection to A.I.D. employees who received such reimbursement.

The RDO/C Controller stated this issue had fallen through the cracks because the issue was discussed in "Other Pertinent Matters" and was not included in the I.G. formal audit recommendation tracking system.

As a result of the inaction on this matter the proper accounting of the \$9,000 is still pending. Therefore, we have made this issue an audit recommendation subject to tracking in the I.G. formal audit recommendation tracking system.

Recommendation No. 2

We recommend that the Regional Development Office/Caribbean issue bills for collection for \$9,000 to those employees as identified in Audit Report No. 1-538-88-14 who were incorrectly paid for gardening services.

Management Comments

RDO/C responded that A.I.D. employees should be billed only if Department of State employees are similarly billed since A.I.D. was following a policy established by the State Department.

Office of Inspector General Comments

RDO/C's comments were not responsive to the intent of the recommendation, therefore, recommendation No. 2 is considered unresolved upon report issuance.

**AUDIT OF
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN
MANAGEMENT OF LEASED PROPERTY**

APPENDICES

September 7, 1989

Aaron Williams, Mission Director

Audit of RDO/C Management of Leased Property

Mr. Coinage Gothard, Jr., RIG/A/T

Our comments on the subject draft report is as follows:

Recommendation 1(a)

Amend the current lease to make the occupant or the lessor responsible for swimming pool maintenance costs in accordance with A.I.D. Handbook 23.

Status

Although RDO/C cannot formally assign responsibility for the pool maintenance cost to the Director within the new lease with the landlord, the Mission Director has confirmed in a separate memo that he accepts responsibility for maintenance costs for personal use of the pool. Please list this part of the recommendation as closed in your final report.

Recommendation 1(b)

Issue a bill of collection for \$3,038 to the former director for the thirty-one (31) months that swimming pool maintenance was paid by the U.S. Government.

Status

The Mission believes that the Bill of Collection should be for \$698.74 associated with the Director's personal use. The lease was proposed to Washington based on the inadequacies of public recreational facilities in Barbados and appropriately approved. Since that time, numerous Mission families have used the pool. In addition, swimming lessons were conducted in the pool as well as a number of children's parties. We are not sure why the auditors were able to identify only four individuals who took advantage of the facility. That number is definitely understated. Nevertheless

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the house was contracted for and the pool was made available to the Mission community in good faith. Also, although there is no central residential location in Barbados, the house is located on the West Coast which is one of the two principal residential areas.

As the pool was open to and used by Mission personnel and their families except for Saturday afternoons and Sundays, we recommend that only this portion of time be considered personal use and billed to the previous Director accordingly. This time would be approximately 23% of the week, assuming daily availability between the hours of 8:00 am and 6:00 pm. ($\$3,008 \times .23 = \698.74). We request that RIG recognize that the spirit of their recommendation has been met by assigning personal use costs to the Director and therefore modify part (b) of this recommendation in their final report.

Recommendation 2

We recommend that RDO/C issue bills of collection to those employees as identified in Audit Report No. 1-538-88-14 who were incorrectly paid for gardening services.

Status

The attached memo indicates the State Department has not billed State employees for gardening services beyond that which AID employees were billed during the period 1984 through 1986. As AID was following a policy established by the State Department, it would be discriminatory to now bill the AID employees for gardening services. RDO/C recommends that AID employees be billed only if State employees are similarly billed. We request that RIG delete this recommendation from the final report.

Drafted by:CONT:TFallon:Jr:0540D

8/15/89

Clearance

DIR:AWilliams	In Draft
DDIR:LArmstrong	In Draft
EXO:JParson	In Draft

Note: This is a typed transcript of RDO/C's faxed response to the draft audit report.

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APPENDIX 2

GUIDANCE ON MANAGEMENT OF REAL PROPERTY OVERSEAS

A.I.D. Handbook 23, Appendix 5A provides guidance on the management of real property overseas. In summary this guidance is as follows:

1. If the post is leasing residential properties, has the leasing been justified in lieu of a quarter's allowance?
2. Does A.I.D. lease space for other agencies or users?
3. Has the post identified excess or under-utilized property in its annual assessments?
4. Do A.I.D. leases comply with regulations of not exceeding \$25,000 a year and 5 years in duration unless approved by SER/MO?
5. Do the leases:
 - a) provide an option for renewal of the lease?
 - b) contain the standard diplomatic escape clause?
 - c) clearly specify the lessor responsibilities as to the facilities to be furnished, such as heat, light, water, power, janitor, sewage disposal and elevator service?
 - d) exempt the lessee from responsibility for repairing damages resulting from ordinary wear and tear, fire, earthquake, storm, war, civil disturbances and other conditions beyond his control?
 - e) clearly specify that the lessor should pay taxes, assessments and other charges of a public nature?
 - f) provide for payment in local currency?
 - g) provide for reasonable rent advances?
 - h) provide for installation and removal of government-owned fixtures and the right to make alterations?
 - i) clearly establish responsibilities of the lessor and lessee with regard to initial improvements, renovations, alterations, or repairs prior to occupancy?
 - j) clearly specify the responsibilities for all maintenance and repair, unless local custom dictates otherwise?

APPENDIX 3

REPORT DISTRIBUTION

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