

Financial Audits

Audit of USAID's Property Management Fund Financial Statements for the Years Ending September 30, 1995 and 1994

Report No. 0-000-96-010
April 1, 1996



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



J.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

April 1, 1996

MEMORANDUM FOR AA/M, Larry E. Byrne

FROM: IG/A/FA, Director, Bruce N. Crandlemire

SUBJECT: Audit of USAID's Property Management Fund Financial Statements for the Years Ending September 30, 1995 and 1994

This is our final report on the audit of the financial statements for the U.S. Agency for International Development's (USAID) Property Management Fund for fiscal years 1995 and 1994.

The Office of Management and Budget (OMB) Bulletin No. 93-18 established March 1, 1996 as the date by which these financial statements were to be submitted. As set forth in a March 14, 1996 letter to OMB from USAID's Chief Financial Officer and Inspector General, these financial statements would not be submitted until April 1, 1996.

The audit was performed in accordance with generally accepted government auditing standards and the *Audit Requirements for Federal Financial Statements* as pronounced in the Office of Management and Budget Bulletin Number 93-06.

The audit showed that the financial statements are presented fairly and that, for the items tested, USAID complied with applicable laws. We did note a matter involving the operation of the internal control structure that we have reported to the management of the Fund in a separate letter dated March 27, 1996. This matter does not affect the financial statements.

USAID management's response to our draft audit report is attached as Appendix II.

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

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**Audit Report on USAID's
Property Management Fund
Financial Statements for the Years Ending
September 30, 1995 and 1994**

Background

The Property Management Fund (Fund) of the U.S. Agency for International Development (USAID) is a revolving fund used to finance acquisition of real property overseas and to deposit proceeds of sales of similar properties. The fund, which had its first significant activity in fiscal year 1994, is to be used only to acquire properties as defined in Section 636(c) of the Foreign Assistance Act, as amended.

Section 636(c) of the Foreign Assistance Act of 1961 (P.L. 87-195) authorized USAID to construct or otherwise acquire outside the United States:

- (1) essential living quarters, office space, and necessary supporting facilities for use of personnel carrying out activities authorized by this Act; and
- (2) schools (including dormitories and boarding facilities) and hospitals for use of personnel carrying out activities authorized by this Act, United States Government personnel, and their dependents.

The law restricts the use of funds available to a maximum of \$6 million in any given fiscal year.

Prior to fiscal year 1991, there was no mechanism to retain and readily use the funds received from the disposal of property owned by USAID in foreign countries. In order to remedy this situation, a separate fund was authorized by the U.S. Congress in fiscal year 1991 with the enactment of Section 585(a). Section 585(a) of the Foreign Assistance Appropriations Act dated November 5, 1990, (P.L. 101-513) stated that the proceeds of overseas property acquired by USAID under the authority of section 636(c) of the Foreign Assistance Act of 1961 would be deposited in a separate fund, which would be known as the Property Management Fund. The law restricted the use of such proceeds for the purposes of section 636(c) of the Act and stated that the funds would remain available until expended. This law also required the USAID Administrator to report all uses of funds deposited into the Property Management Fund as part of the annual Congressional Presentation Materials submitted by USAID during the appropriations process.

Prior to fiscal year 1994, the Property Management Fund had very little activity. The first

major activity was triggered when \$5 million was added to the Property Management Fund in November 1993. Section 556 of the Foreign Assistance Appropriations Act dated September 30, 1993, (P.L. 103-87) directed the transfer of any funds remaining in the Acquisition of Property Revolving Fund to be transferred to, and consolidated and merged with, funds in the Property Management Fund.

Fiscal year 1994 was the first year of significant activity and the first year that financial statements were prepared pursuant to the requirements of the Chief Financial Officers Act of 1990.

Auditor's Opinion

We have audited the accompanying statements of financial position of the Property Management Fund (the "Fund") of the U.S. Agency for International Development (USAID) as of September 30, 1995 and 1994, and the related statements of operations and changes in net position, of cash flows, and of budget and actual expenses for the years then ended. These financial statements are the responsibility of USAID management. Our responsibility is to express an opinion on these statements based on our audit.

Our audit was made in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the basis of accounting prescribed in OMB Bulletin Number 94-01, *Form and Content of Agency Financial Statements* which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at September 30, 1995 and 1994, and the operations and changes in net position, cash flows, and budget and actual expenses, for the years then ended in conformity with OMB Bulletin Number 94-01, *Form and Content of Agency Financial Statements*.

Internal Control Structure

USAID management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objective of an internal control structure is to provide management with reasonable, but not absolute, assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements in accordance with applicable accounting principles;
- Transactions are executed in accordance with management's authorization;
- Funds, property and other assets are safeguarded against loss from unauthorized use or disposition; and
- Transactions, including those related to obligations and costs, are executed in compliance with: (i) laws and regulations that could have a direct and material effect on the financial statements; and (ii) any other laws and regulations that the Office of Management and Budget and the Trust Fund's management have identified as being significant, and for which compliance can be objectively measured and evaluated.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Property Management Fund for the years ended September 30, 1995 and 1994, we obtained an understanding of the internal control structure. With regard to this structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. A

material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts material to the financial statements would not be detected within a timely period by employees in the normal course of their duties. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. However, we have reported to USAID management other matters and observations involving the internal control structure in a separate memorandum dated February 7, 1996.

Compliance with Laws and Regulations

Our audit was made in accordance with generally accepted government auditing standards and (OMB) Bulletin Number 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to USAID is the responsibility of USAID's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of USAID's compliance with certain provisions of laws and regulations. Applicable laws included the following:

- Chief Financial Officers Act of 1990;
- Property Management Fund's authorizing legislation (P.L. 101-513);
- Federal Managers' Financial Integrity Act (FMFIA) of 1982; and
- other Fund-related legislation (P.L. 87-195 and 103-87).

However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our test of compliance indicate that, with respect to the items tested, the Property Management Fund complied, in all material respects, with the provisions stated above.

Consistency of Other Information

USAID management is responsible for providing reasonable assurance that data which support performance measures reported in the Program Overview are properly recorded and accounted for to permit preparation of reliable and complete performance information. The Program Overview contains a wide range of data, some of which are not directly related to the

financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with management. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

This report is intended for the information of the U.S. Congress and the management of USAID. This restriction is not intended to limit the distribution of this report and the report will become a matter of public record.

Office of the Inspector General

Office of the Inspector General

February 7, 1996

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROPERTY MANAGEMENT FUND
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1995 AND 1994
(in U.S. Thousands)**

| | <u>1995</u> | <u>1994</u> |
|--|-----------------|-----------------|
| ASSETS | | |
| ENTITY ASSETS: | | |
| Intragovernmental Assets: | | |
| Fund Balance with Treasury (Note 2) | \$ 2,292 | \$ 3,486 |
| TOTAL ASSETS | <u>\$ 2,292</u> | <u>\$ 3,486</u> |
| LIABILITIES AND NET POSITION | | |
| LIABILITIES COVERED BY BUDGETARY RESOURCES: | | |
| Intragovernmental Liabilities: | | |
| Accounts Payable | \$ 0 | \$ 3 |
| Governmental Liabilities: | | |
| Accounts Payable | <u>0</u> | <u>54</u> |
| Total Liabilities | <u>\$ 0</u> | <u>\$ 57</u> |
| NET POSITION | | |
| Balances: (Note 3) | | |
| Cumulative Results of Operations | \$ 2,292 | \$ 3,429 |
| Total Net Position | <u>2,292</u> | <u>3,429</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 2,292</u> | <u>\$ 3,486</u> |

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROPERTY MANAGEMENT FUND
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994**

(In U.S. Thousands)

| | <u>1995</u> | <u>1994</u> |
|---|-------------------|-------------------|
| REVENUES AND FINANCING SOURCES | | |
| Proceeds from Sale of Real Property (Note 4) | \$ <u>204</u> | \$ <u>0</u> |
| Total Revenues and Financing Resources | \$ <u>204</u> | \$ <u>0</u> |
| EXPENSES: | | |
| Operating Expenses by Object Class: (Note 4) | | |
| Purchase of Structures (Note 5) | \$ <u>1,341</u> | \$ <u>2,028</u> |
| Funded Expenses | \$ <u>1,341</u> | \$ <u>2,028</u> |
| Shortage of Revenues and Financing Sources over Total Expenses | <u>(\$ 1,137)</u> | <u>(\$ 2,028)</u> |
| Net Position, Beginning Balance | 3,429 | \$ 457 |
| Shortage of Revenues and Financing Sources over Total Expenses | (\$ 1,137) | (\$ 2,028) |
| Plus Non-Operating Changes (Note 6) | <u>0</u> | <u>5,000</u> |
| Net Position, Ending Balance | <u>\$ 2,292</u> | <u>\$ 3,429</u> |

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROPERTY MANAGEMENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(in U.S. Thousands)**

| | <u>1995</u> | <u>1994</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Shortage of Revenues and Financing Sources Over Total Expenses | <u>(\$ 1,137)</u> | <u>(\$ 2,028)</u> |
| Adjustments Affecting Cash Flow: | | |
| Increase (Decrease) in Accounts Payable | <u> (57)</u> | <u> 57</u> |
| Net Cash Used by Operating Activities | <u>(\$ 1,194)</u> | <u>(\$ 1,971)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Transfer of Funds from Acquisition of Property Fund | <u>\$ 0</u> | <u>\$ 5,000</u> |
| Net Cash Provided by Financing Activities | <u>\$ 0</u> | <u>\$ 5,000</u> |
| Net Cash Provided (Used) by Operating, and Financing Activities | <u>(\$ 1,194)</u> | <u>\$ 3,029</u> |
| Fund Balances with Treasury, Beginning | <u> 3,486</u> | <u> 457</u> |
| Fund Balances with Treasury, Ending | <u>\$ 2,292</u> | <u>\$ 3,486</u> |

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROPERTY MANAGEMENT FUND
STATEMENT OF BUDGETARY RESOURCES AND ACTUAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(in U.S. Thousands)**

| | <u>1995</u> | <u>1994</u> |
|--|-----------------|-----------------|
| BUDGET RESOURCES | \$ 1,933 | \$ 5,457 |
| BUDGET OBLIGATIONS | <u>220</u> | <u>3,728</u> |
| TOTAL UNOBLIGATED BALANCE | <u>\$ 1,713</u> | <u>\$ 1,729</u> |
| <u>Budget Reconciliation:</u> | | |
| Total Expenses | \$ 1,341 | \$ 2,028 |
| Add: | | |
| Capital Acquisition (Note 1 Prop. & Equip.) | 0 | 0 |
| Loans Disbursed | 0 | 0 |
| Other Expended Budget Authority | 0 | 0 |
| Less Expense Not Covered by Available Budgetary Resources: | | |
| Depreciation and Amortization | 0 | 0 |
| Annual Leave | 0 | 0 |
| Other Expenses | <u>0</u> | <u>0</u> |
| Accrued Expenditures | 1,341 | 2,028 |
| Less Reimbursements | <u>0</u> | <u>0</u> |
| Accrued Expenditures, Direct | <u>\$ 1,341</u> | <u>\$ 2,028</u> |

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

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROPERTY MANAGEMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 1995 AND 1994**

NOTE 1. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis Of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Property Management Fund pursuant to the requirements of the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the Property Management Fund in accordance with the form and content requirements of the Office of Management and Budget (OMB) Bulletin 94-01 and the Property Management Fund policies which are summarized in this note.

Reporting Entity

The Property Management Fund, as authorized by Public Law 101-513, is maintained for the deposit of proceeds from the sale of overseas real property acquired by USAID. The proceeds are available to construct or otherwise acquire outside the United States: 1) essential living quarters, office space, and necessary supporting facilities for use of USAID personnel, and 2) schools (including dormitories and boarding facilities) and hospitals for use of USAID personnel, U.S. Government personnel, and their dependents. In addition, the proceeds may be used to equip, staff, operate, and maintain such schools and hospitals. The Treasury Symbol for this program is 72X4175 and the OMB Control Number is 72-4175-0-3-151. Capital accounts are not included in this entity since such accounts are part of the USAID's Non-Expendable and Real Property account.

Budgets And Budgetary Accounting

OMB annually apportions funds for this program. Availability of funds is limited to the amounts apportioned by OMB.

Basis Of Accounting

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

PROPERTY MANAGEMENT FUND

Notes to the Financial Statements (cont.)

as of September 30, 1995 and 1994

NOTE 1 (cont):

ledger contains two groups of control classifications over the proprietary and budgetary transactions of the program.

Revenues And Other Financing Resources

The Property Management Fund is financed by proceeds from the sale of overseas real property acquired by the Agency for International Development. In addition, Section 556 of PL 101-513 authorized USAID to transfer available funds from the Acquisition of Property Revolving Fund. In fiscal year 1994, USAID transferred \$5 million to the Property Management Fund.

Funds With The U.S. Treasury

The fund balance represents the cumulative results of operations as reflected in the agency's records. This amount is the net of funds deposited into the fund (both proceeds of sale of real property and the transfer of funds from the Acquisition of Property Revolving Fund less disbursements made for the purchase of real property). The Property Management Fund does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury.

Liabilities

Liabilities represent the amount of monies that are payable by the Property Management Program as the result of an event that has already occurred. There were no accounts payable reported as of September 30, 1995.

Annual, Sick And Other Leave

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

Retirement Plan

No employees are funded from the Property Management Program.

Operating And Administrative Expenses

The creation of this fund did not result in additional material costs to the agency's operations. Operating and administrative costs, including the audit of the program, were absorbed by USAID as a whole, and are not recorded as expenses in this financial report.

PROPERTY MANAGEMENT FUND

Notes to the Financial Statements (cont.)

as of September 30, 1995 and 1994

NOTE 1 (cont.):

Property And Equipment

All disbursements from this fund are for the purchase of real property for the agency. These disbursements are considered program expenses of this entity and they are not capitalized. The capitalization of these purchases is recognized at the agency level and are included in the financial statements of those entities benefitting from these acquisitions.

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

| Fund Balances with Treasury: | (in U.S. Thousands) | | |
|------------------------------|---------------------|-------------------|-----------------|
| | <u>Available</u> | <u>Restricted</u> | <u>Total</u> |
| Trust Funds | \$ - | \$ - | \$ - |
| Revolving Funds | 2,292 | - | 2,292 |
| Appropriated Funds | - | - | - |
| Other Fund Types | - | - | - |
| Total | <u>\$ 2,292</u> | <u>\$ -</u> | <u>\$ 2,292</u> |
| Cash | - | - | - |
| Fund Balances and Cash | <u>\$ 2,292</u> | <u>\$ -</u> | <u>\$ 2,292</u> |

NOTE 3 - BALANCES

(in U.S. thousands)

| | <u>1995</u> | <u>1994</u> |
|-------------------------------------|-------------|-------------|
| Cumulative Results of Operations | \$ 2,292 | \$ 3,429 |

The \$ 2,292 and \$ 3,429 amounts include the \$5,000 transfer from the Acquisition of Property Fund. The \$5,000 is not reported separately as Invested Capital.

- The purpose of the \$5,000 transfer was not to cover start up costs associated with establishing a new program. It was to be consolidated and merged with other available funds in the Property Management Fund that was already established.
- As mentioned in Note 1 under "Property and Equipment" and Note 4, property acquisitions are recorded as operating expenses of the fund and are not capitalized. The

PROPERTY MANAGEMENT FUND

Notes to the Financial Statements (cont.)

as of September 30, 1995 and 1994

NOTE 3 (cont.):

property acquisitions are capitalized at the agency level and will be included in the financial statements of those specific reporting entities that benefit from such acquisitions. Any funds utilized for the purchase of real property will be reported as Invested Capital in those entities.

NOTE 4 - PROCEEDS FROM SALE OF REAL PROPERTY AND OPERATING EXPENSES BY OBJECT CLASS

Proceeds from the sale of real property are reported in the Revenue and Expense Sections of the Statement of Operations and Change in Net Position and in the Cash Flows from Operating Activities Section of the Statement of Cash Flows. They are not being reported as Cash Flow from Investing Activities. Instead, they are treated as operating activities because the purpose of the Fund is for the deposit of proceeds from the sale of real property and for the purchasing of real property. Any sale and/or purchase of real property will be reported as Investing Activities in those entities for which the property is intended to benefit.

NOTE 5 - PROGRAM OR OPERATING EXPENSES

| A. Operating Expenses by Program: | | 1995 | 1994 |
|-----------------------------------|------------------------|-----------------|-----------------|
| <u>PROGRAM</u> | <u>DESCRIPTION</u> | | |
| USAID/Albania | Residential properties | - | \$ 1,684 |
| USAID/Jamaica | Office properties | \$1,341 | - |
| USAID/Tanzania | Residential properties | - | <u>344</u> |
| Total Operating Expenses | | <u>\$ 1,341</u> | <u>\$ 2,028</u> |

NOTE 6 - NON-OPERATING CHANGES

The \$ 5 million non-operating change represents the \$5 million transfer into the Property Management Fund from the Acquisition of Property Fund that was done in fiscal year 1994.

PROPERTY MANAGEMENT FUND

PROGRAM OVERVIEW

September 30, 1995

DESCRIPTION OF ENTITY

The Property Management Fund (Fund) was established by Section 585 of the fiscal year 1991 Foreign Assistance Appropriations Act (PL 101-513). Under the provisions of this Act, net proceeds of sale of overseas real property, acquired by the United States Agency for International Development (USAID), under the authority of section 636(c) of the Foreign Assistance Act of 1961, may be deposited to the Fund for the express purpose of acquiring real property assets in other countries. [Under 636(c), USAID has the authority to spend up to \$6 Million of its annual appropriation for the purpose of buying and/or constructing real property assets.] These funds are available only for the acquisition of real property, and remain available until expended. Prior to the establishment of the Fund, excess real property assets were transferred to the Department of State's Foreign Buildings Office (FBO), with the Agency realizing little or no benefit for this transfer of assets.

Notwithstanding the fact that USAID had sought this authority for many years, the Fund remained inactive in its early years. From fiscal year 1991 through fiscal year 1993 proceeds of sales totalling \$573,590 were generated, and in December of 1992 a purchase of a single residential dwelling was effected in Dar-es-Salaam, Tanzania. In response to an internal audit suggestion recognizing that some impetus was needed to generate activity in the fund, Congress authorized (Section 556 of PL 103-87) the transfer of any funds remaining in the Acquisition of Property Fund. This relatively large deposit induced the Agency to appoint a temporary full-time manager to establish a program to invest the balance in July 1994.

ORGANIZATIONAL RESPONSIBILITY

Ultimate responsibility for administering the program is vested to the Assistant Administrator for Management (AA/M), who in turn has delegated authority for day-to-day administration of the program to the Office of Administrative Services, Overseas Management support staff. Routine decisions are made at that level; however, authority to make decisions on acquisition and disposal of specific properties have been retained by the AA/M.

ACTIVITY IN FISCAL YEAR 1995

Activity in the program during fiscal year 1995 was concentrated in a single project, the new office building (NOB) in Kingston, Jamaica, which was initiated in the preceding fiscal year. There were three major reasons for this:

1. Unanticipated cost overruns to cover changes in design, security and safety enhancements and the purchase of additional property adjacent to the NOB for a

PROPERTY MANAGEMENT FUND

Program Overview (cont.)

September 30, 1995

parking lot caused the cost of this project to escalate from the original estimate of \$1.7 million to \$3.1 million. The building construction was funded using \$1.9 million from the Property Management Fund and \$1.2 million from the Mission's FY-95 Operating Expense (OE) budget allocation. Funds that were originally programmed for developing other projects had to be reprogrammed to cover the increased costs.

2. The cash flow (originally estimated to amount to approximately \$4 million) from the sale of properties in countries in which USAID was to close missions was far less than expected. Bureaucratic struggles both internal (U.S. Government) and external (host government) have contributed to these delays. These delays have now run their course and M/AS/OMS predicts that sale of the various buildings will proceed.
3. The uncertain future of the Agency precipitated by debates in Congress over the budget and whether the Agency should be consolidated into the Department of State, have hindered the ability of M/AS/OMS to effectively plan for the future. Decisions on acquiring real property have been deferred until we have a clearer picture of the Agency's future.

PERFORMANCE MEASURES

This has been the second year of substantive operation; however, because activity in the Fund has been limited and concentrated in a single (\$3.1 million) building project in Kingston, Jamaica, during fiscal year 1995, useful and appropriate performance measures are still being debated. As additional funds are generated through the sale of properties, as described in the preceding section, more experience will be gained and the lessons learned will also assist in developing the necessary standards.

During this initial stage, M/AS/OMS has taken the following under consideration as performance measures:

1. Capital investment in real property must be either amortized in less than six years, or buildings must not be otherwise available on the open market in which construction or acquisition is proposed. Every effort is to be made not to expend money from the Fund for the purpose of construction on property owned by FBO. Since such property could not be sold on the open market it would be impossible for us to realize fair market value, if it exists, when the property becomes excess to the Agency's needs.
2. Properties must be either sold or purchased at or below fair market value. Such values are to be determined by appraisals performed by competent and independent commercial establishments operating within the country where the property is situated.

PROPERTY MANAGEMENT FUND

Program Overview (cont.)

September 30, 1995

3. Properties earmarked for disposal must be determined to be excess to the needs of the Agency. For the purpose of making this determination, in addition to a lack of a requirement for continued use of the property, properties that have severe structural damage, high maintenance costs, and/or pose serious security problems may be determined to be excess.

Because the Fund utilizes 636(c) authority, the above suggestions have been developed from the informal and undocumented criteria standards that have traditionally been applied when making decisions on 636(c) real property investments.

LIMITATION ON THE FINANCIAL STATEMENTS

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

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

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

Objectives, Scope and Methodology

Management has the responsibility for:

- preparing the financial statements in conformity with applicable accounting principles;
- establishing and maintaining internal controls and systems to provide reasonable assurance that the control objectives of Federal Managers' Financial Integrity Act (FMFIA) are met; and
- complying with applicable laws and regulations.

The three objectives of this audit were to: (1) express an opinion on whether the financial statements are fairly presented; (2) consider the internal control structure; and (3) test for compliance with applicable laws and regulations.

In performing our audit of the Property Management Fund, we conducted an audit of the financial statements and of internal controls over safeguarding of assets, assuring material compliance with budget authority and with laws and regulations we considered relevant, and assuring that there were no material misstatements in the financial statements. We also tested the Property Management Fund's compliance with laws and regulations we considered relevant. We did not plan to evaluate all internal controls relevant to operating objectives as broadly defined in FMFIA.

We were able to evaluate internal controls in the following areas: (1) revenue transactions (including cash receipts and disbursements; (2) treasury funds; and (3) approval and authorization processes.

We could not evaluate internal controls relative to performance measures since they had not been developed by USAID as stated in the overview section of this report. However, we assessed whether information in the Overview section was materially consistent with the information in the financial statements.

We tested compliance with selected provisions of the following laws and regulations:

- Chief Financial Officers Act of 1990 (Public law 101-576);
- Property Management Fund's authorizing legislation (Public law 101-513);
- Property Management Fund related legislation (Public law 87-195 and 103-87); and
- Federal Managers' Financial Integrity Act of 1982 (Public law 97-255).

Our work was done in accordance with generally accepted government auditing standards and OMB Bulletin 93-06, *Audit Requirements for Federal Financial Statements*.



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INTERNATIONAL
DEVELOPMENT

MEMORANDUM

DATE: MAR 27 1996
TO: Bruce Crandlemire, Director, IG/A/FA
FROM: Donald K. Charney, CFO, USAID *D.K. Charney*
SUBJECT: Draft Audit Report on FY 1995 Annual Financial
Statement for USAID's Property Management Fund under
the CFO Act

Mr. Larry E. Byrne and I have reviewed the draft audit report,
and we have no comments.