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REVIEW OF
USAID/EGYPT INTERNAL CONTROLS
OVER THE MANAGEMENT OF
NONEXPENDABLE PROPERTY
Audit Report No. 6-263-88-10-N
July 21, 1988

memorandum

DATE: July 21, 1988
REPLY TO: *Joseph R. Ferri*
ATTN OF: Joseph R. Ferri, RIG/A/Cairo
SUBJECT: Review Of USAID/Egypt Internal
Controls Over The Management
Of Nonexpendable Property
TO: Mr. Marshall D. Brown, Director USAID/Egypt

The attached report dated May 5, 1988 by Price Waterhouse of Egypt presents the results of an internal control review of USAID/Egypt nonexpendable property and related accounting records. The nonexpendable property inventory was valued at about \$4.6 million.

The review was made to: (a) document the current system of internal controls as it relates to requisitioning, receiving, storing, counting, transferring and disposing of nonexpendable property controlled by the USAID/Egypt property management contractor (the Transcentury Corporation); and (b) determine the adequacy of the controls for safeguarding property and maintaining accounting records; and (c) make specific recommendations for improvements to the system of internal controls.

Price Waterhouse flow charted and described the existing procedures and controls in Exhibit A of the attached report. The testing of key controls resulted in the seventeen findings and recommendations of the report. Seven recommendations related to the accountability of property, warehousing facilities, and segregation of duties for property management services. Price Waterhouse did not believe that these weaknesses were significant (or material). A material weakness, however, was found with respect to the financial management functions related to the accounting for property. General ledger accounts did not reflect the purchase price of property on hand and inventory adjustments were not reconciled to the general ledger accounts. Consequently, nonexpendable property account

balances could be significantly misstated. The auditors made four recommendations to improve financial management functions.

Other nonmaterial weaknesses were found with regard to the contractor's property management responsibilities. The auditors stated that the lack of comprehensive accountability, particularly for the property located in the Cairo Center warranted immediate attention. Six recommendations were made to strengthen contractor operations.

The Price Waterhouse report contains a total of seventeen recommendations, which we have revised and restated here as Recommendation No. 1. This recommendation will be included in the Office of Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that USAID/Egypt's Office of Management and Office of Financial Management implement the Price Waterhouse report recommendations to strengthen internal controls concerning the management of and accounting for nonexpendable property.

The report findings and recommendations were discussed with USAID/Egypt Office of Management and Office of Financial Management officials on June 1, 1988. Formal USAID/Egypt management comments were obtained on July 14, 1988. These comments were positive and constructive and are included as Exhibit D of the attached Price Waterhouse report. Mission officials generally agreed with the report findings and recommendations but noted some areas where different management actions would satisfy the intent of the recommendations. Since USAID/Egypt officials have already initiated implementing actions, the above audit report recommendation was considered resolved. The recommendation will remain open until all appropriate actions have been completed.

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Price Waterhouse



May 5, 1988

Mr. Joseph R. Ferri
Mr. Leonard Deege
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USAID/Egypt
106 Kasr El Aini Street
Cairo, Egypt

Dear Sirs,

RE: OTR-0000-I-00-6168-00, Work Order No. 09

In accordance with the above referenced contract, we are hereby submitting our final report for the internal control review conducted for the USAID relating to property management. An executive summary highlighting areas of significance is included as a preface to our report. Our report is included as Section I. Section II contains an overview of the USAID mission, as well as a description of the internal control process and the approach we followed in conducting this engagement. Section III of our report contains the testing methodology followed and corresponding test results. Section IV presents recommendations and findings resulting from our work. Flow charts and other useful reference material are presented as exhibits.

We would like to thank those involved for the assistance and cooperation provided throughout our review. The participation of USAID and contractor personnel has added significantly to the completeness of our report. We look forward to assisting you in the future.

Yours very truly,

Afifi H. Shahawi

Afifi H. Shahawi

Encls: As stated.

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EXECUTIVE SUMMARY

We performed a limited review, applying only certain procedures to the system of internal controls surrounding nonexpendable property management at the U.S. Agency for International Development in Cairo. Our work was performed at the request of the Regional Inspector General for Audit.

The first objective of our limited review was to document the current system for requisitioning, receiving, storing, counting, transferring and disposing of nonexpendable property controlled by the property management contractor. Flowcharts documenting receiving, requesting and disposal transactions are included as Exhibit A of this report.

The second objective was to determine the adequacy of the controls for safeguarding property and maintenance of adequate accounting records and to make specific recommendations for improvements to the system of internal control.

Our findings include seventeen specific recommendations. Management comments to each recommendation are included as Exhibit D to this report.

The AICPA Professional Standards, AU Section 323, defines a material weakness in internal accounting control as "a condition in which specific control procedures or the degree of compliance with them do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the accounting records may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions."

The first seven recommendations relate to property management services responsibilities. Although we did not identify any weaknesses relating to Property Management Service functions which are considered material weaknesses, we believe the recommendations relating lack of accountability, inadequacy of warehousing facilities, and segregation of duties require management attention.

Recommendations 2A through 2D relate to the financial management function of general ledger accounting for nonexpendable property. As more fully discussed in recommendation 2A, the inadequate reconciliation process and particularly the failure to adjust the general ledger property accounts to reflect the purchase price of nonexpendable property on hand at each fiscal year end represents a material weakness in the financial management system of internal control and, if not corrected could result in the material misstatement of nonexpendable general ledger account balances. Other recommendations relating to financial management address weaknesses in reconciliation procedures and in the recording of nonexpendable property disposals. As a result of the lack of procedures for recording property disposals, six of the nine 1987 disposals were not recorded in 1987. The unrecorded disposals are valued at \$ 4,000.

The final six recommendations relate primarily to the property management contractor's responsibilities. None of these weaknesses are considered material weaknesses as defined by the the AICPA Professional Standards. However, we believe the lack of accountability, particularly for property located at the Cairo Center reduces the level of control for safeguarding AID nonexpendable property. As further explained in recommendation 3A, this matter warrants the immediate attention of the property management contractor. Other recommendations relate to procedures for maintaining detail property records, lack of a standard nomenclature for nonexpendable property and noncompliance with the property management procedures as identified in the AID handbook.

In addition to the recommendations noted above, we believe that the Agency should develop a comprehensive procedures manual for the control of accounting for nonexpendable property. Furthermore, the Agency should subject the nonexpendable property manangement system and records to an annual review by an independent party.

In summary, although improvements are warranted, compliance with existing controls appear to provide for adequate safeguarding of AID nonexpendable property. Existing procedures for maintenance of nonexpendable property general ledger accounts is generally inadequate and does not appear to ensure the fair presentation of nonexpendable property general ledger account balances.

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Price Waterhouse



April 21, 1988

Mr. Joseph R. Ferri
Mr. Leonard Deege
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USAID/Egypt
106 Kasr El Aini Street
Cairo, Egypt

Dear Sirs,

Re: OTR-0000-I-00-6168-00, Work Order No. 05

We have applied certain agreed-upon procedures as discussed in section III of our report to the system of internal accounting control for nonexpendable property management of the United States Agency for International Development-Cairo Mission (AID) as of March 20, 1988, solely to assist you in documenting and determining the adequacy of controls for safeguarding of nonexpendable property.

The management of AID is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the maintenance of adequate accounting records.



Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our testing was limited to the procedures discussed in Section III of our report and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of accounting control for nonexpendable property of AID. However, our study and evaluation disclosed the following condition in the system of internal accounting control for nonexpendable property of AID in effect at March 20, 1988, which, in our opinion, results in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the nonexpendable property account balances may occur and not be detected within a timely period.

As more fully described recommendation 2A, the lack of procedures for reconciling nonexpendable property general ledger account balances to the extended value of the nonexpendable property physical count listing, and the failure to adjust the account balances annually to reflect the original purchase price of property on hand could potentially result in the material misstatement of the nonexpendable property general ledger account balances. Our findings are discussed in further detail in section IV of our report.

This report is intended for the information of the Regional Inspector General for Audit-Cairo and AID and should not be used for any other purpose.

Price Waterhouse

II. Introduction

A. Agency for International Development Overview.

The United States Agency for International Development - Cairo Mission (AID) is primarily responsible for the allocation of U.S. economic assistance to Egypt. AID expects to allocate U.S. assistance to Egypt valued at \$970 million in 1988. This economic aid package is second only to that provided to Israel. The Cairo mission employs 104 direct hire Americans and 270 foreign service nationals making it one of the largest missions in the world.

The AID Executive Office of Management Services is part of the Management Services department and is directed by the Associate Mission Director of Management Services. Management Services, together with the Legal and Finance departments, and other development, resources and support offices, report directly to the AID Director's office.

The AID Executive Office of Management Services is responsible for providing logistical support for AID direct hire employees, Regional Inspector General (RIG) employees and participating agency employees. The services include providing housing and furnishings to the 128 AID, RIG, and participating agency employees and their families. AID owns and maintains personal property for the support of operations and employees.

Personal nonexpendable property owned by the Cairo mission consisting of 19,000 separate items is valued at \$ 4.6 million.

AID has contracted Transcentury Corporation to maintain custody and detail property records for nonexpendable residential and office furnishings and equipment.

The property is generally located at AID residences and offices and in the Maadi warehouse space sublet from the U.S. State department and the New Maadi warehouse leased from Transcentury Corporation. AID has also contracted United Engineering Co. to provide maintenance for the residential appliances and housing units.

Our limited review of the system of internal control focused on AID nonexpendable property maintained by the property management contractor.

B. Internal Control Defined

The U.S. General Accounting Office, in prescribing standards for Internal Controls in the Federal Government, States that "Good internal controls are essential to achieving the proper conduct of Government business with full accountability for the resources made available. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers."

Internal controls should not be looked upon as separate systems within an agency. Rather, they should be viewed as an integral part of each system that management uses to manage its operations.

In this sense internal controls are really management controls. For internal controls to be effective, government officials should ensure that they have established an environment that creates the appropriate control awareness, attitude and discipline and that each control system: fits the organization and its operating philosophy, focuses on areas of inherent risk, and achieves a thoughtful balance between control costs and benefits.

C. Scope and Methodology

1. Statement of Work

The scope of our work covered the areas identified in Article III - Statement of Work of our contract and related exclusively to AID nonexpendable property and the interaction of property management with AID's controllers department. We organized our review according to the following functions:

- 0 Receipt of nonexpendable property
- 0 Control of nonexpendable property
- 0 Disposal of nonexpendable property
- 0 Maintenance of general ledger property records

Through extensive interviewing and walk-throughs, we identified event cycles for the functions listed above. These event cycles were flowcharted and existing controls highlighted. We then developed control objectives and suggested control techniques to correspond with the event cycles.

Within these functions, we selected key controls to be tested. The final step in our review was to develop findings and recommendations based on the scope of work.

A narrative explanation of certain of our significant tests is included as Section III of this report. Findings and recommendations are presented in Section IV.

2. Timing

The on-site work was conducted from March 23, 1988 to April 21, 1988. All on-site work was performed at the warehouse in Maadi and New Maadi and the Controller's office located in the Cairo Center in Cairo. A draft of this report was presented to RIG/A officials on May 9, 1988 and was discussed on June 1, 1989; all substantive comments have been incorporated in this final report.

III. TESTING

Specific means of testing the control techniques were developed in order to evaluate their performance under operating conditions. Our testing followed the format below:

- 0 Select controls to be tested.
- 0 Select test methods.
- 0 Determine number of records to be tested and sample selection criteria.
- 0 Conduct the test.
- 0 Document test results.

In addition, a significant portion of our review involved walkthrough procedures, interviews of AID personnel and observations made during our testing at the controllers office and the property warehouse. Certain of our significant tests are explained below. Recommendations relating to noted deficiencies are included in Section IV.

A. Receipt of Nonexpendable Property

We observed the receipt of 60 appliances at the AID Maadi warehouse on March 26, 1988. We observed and documented the procedures for receiving and transferring the appliances to the New Maadi warehouse, processing source documents and updating property records. We judgementally selected 10 recent receiving reports (of 181 issued 1987) and examined the documents for proper approval and agreed the items to proper entry in the detail property records maintained at the warehouse. We judgementally selected 5 debit (of approximately 120 total debit entries for 1987) entries from the nonexpendable property general ledger accounts and agreed the value and quantities to source documents maintained at the warehouse. We judgementally selected 5 nonexpendable property receipts from the receiving report log book maintained at the warehouse and agreed the transactions to proper entry in the nonexpendable property general ledger accounts.

B. Control of Nonexpendable Property Movements and Maintenance of Property Records.

We visited each of the warehouses noting location and condition of the nonexpendable property in storage. We physically verified all serial numbered items in the warehouse and agreed each item to the detail property record cards. We also selected 10 non-serialized property items on a judgemental basis in order to reconcile quantities on hand at the warehouse to the detail property

records. The results for serial numbered property were generally satisfactory. The records for non-serial numbered property tested were less accurate; the quantities recorded for 3 of the 10 non-serialized property items exceeded the quantities on hand in the warehouse.

In addition, we attempted to reconcile the quantities of subsidiary records for the 10 non-serialized property items selected to the quantities per the composite property record cards. We were generally unable to do so.

We reviewed the physical inventory reconciliation of quantities counted by AID representatives at September 30, 1987 to the detail property records. We judgementally selected 10 shortages and 10 overages and attempted to obtain detailed explanations for the differences. The lack of detail subsidiary records for the office equipment precluded management from performing a thorough follow up of all differences and accordingly, we were not able to obtain explanations for all shortages and overages selected. We do recognize that prior to fiscal year 1987 the AID nonexpendable property and related records were maintained by State and as a result, many of the current year differences could be related to previous years.

C. Disposal of Nonexpendable Property

We documented disposal procedures based on discussions with property management contract personnel. We examined disposal documents for all nine 1987 disposals and determined that they were properly approved and that the transactions were properly reflected in the detail property records. We judgementally selected ten disposal items from Property Disposal Authorization 87/001 and compared the selling prices to the acquisition costs, noting an average recovery of 46% (ranging from 3% to 60%).

We reconciled property disposals recorded in the general ledger accounts during 1987 to Property Disposal Authorizations. Our tests indicated only three of nine 1987 disposals were recorded during the proper fiscal year.

D. Maintenance of General Ledger Property Records

We discussed the procedures for maintenance of general ledger records for nonexpendable property with AID financial management personnel.

We reviewed the reconciliation of the extended physical inventory to the nonexpendable property general ledger accounts at September 30, 1987. During our review we noted unresolved and unrecorded differences. The extended value of the nonexpendable property on hand according to the physical inventory exceeds the September 30, 1987 general ledger balances by approximately \$ 130,000 (5% of the balance). Though we did not expand our scope to investigate the difference we did note that the unrecorded 1987 disposals would appear to have the effect of compounding the discrepancy by \$ 4,000. Other unresolved misclassifications resulting from previous years have not been corrected.

IV. FINDINGS AND RECOMMENDATIONS

Our recommendations are the result of applying only certain tests to the system of control; had we conducted additional tests, other weaknesses may have been detected.

Prior to 1987 the AID nonexpendable property was maintained by the United States State Department. It is possible that some of the compliance deviations or discrepancies noted during our review are a result of weak controls or accounting errors existing in previous years.

We acknowledge that general improvements appear to have occurred as a result of assigning property management responsibilities to the property management contractor. However, we have noted matters which we consider to represent weaknesses in internal controls. The following recommendations are numbered with alpha-numeric characters that correspond to AID management services, AID financial management, and the property management contractor.

Management Comments to each recommendation are included as Exhibit D to this report.

1. AID Property Management Services

RECOMMENDATION 1A:

General AID policy concerning property management should be revised to stress the "Accountable Party" concept .

The property management contract with Transcentury Corporation obligates the Contractor to safeguard AID property and to maintain adequate records but does not penalize the Corporation for unresolved property shortages identified during the annual physical inventory.

Future property management contracts should be revised to financially obligate the contractor to reimburse AID for the replacement cost of all unresolved property shortages.

We believe such a clause is consistent with normal practices and prudent whenever a third party accepts possession and management on a consignment like basis.

Such a revision would prompt the contractor to maintain detail records for all property outside the warehouse. The records would include a document signed by an "Accountable Party." All shortages not traced to an "Accountable Party" as reported by the Contractor to the AID Controller's Office, would therefore relate to the warehousing function and an appropriate charge to the Contractor would be assessed. The assessment would not be affected by overages as excess property generally reflects inaccurate physical counts of the current or prior year. Overages recorded which result from current year inaccurate counts would likely result in an assessment to the contractor in the subsequent year; this would provide an incentive for careful resolution of all overages prior to the preparation of a receiving report and subsequent entry in the property records as well as an obvious incentive to resolve shortages identified by the completion of the physical inventory and reconciliation.

We believe this recommendation has particular merit when considered in conjunction with recommendation 3A, which suggests improvements to the detailed inventory records (i.e. maintain accurate perpetual inventory records by location). The decision to financially obligate the contractor should be made by AID management based on their review of inventory matters without the influence of contractor personnel. On the basis of present inventory records this recommendation has a few practical limitations, none of which are unsurmountable. Such a recommendation would lose its effectiveness if implemented only at one location (the warehouse) since all differences could be attributed to other locations and would effectively relieve the contractor of all obligation.

RECOMMENDATION 1B:

Consider alternative warehouse facilities to replace the State operated Maadi and Transcentury New Maadi locations.

Used property is maintained in the State operated facility in Maadi. New property is stored in warehouse space in New Maadi which is rented from Transcentury Corporation and was leased in an effort to relieve capacity shortages first experienced in 1986.

We noted physical deficiencies in both of the warehouse facilities as well as inefficiencies and control weaknesses arising as a result of maintaining the dual locations. Our observations include:

1. New property is received by the contractor at the Maadi location and subsequently transferred to New Maadi, resulting in an unnecessary movement of all nonexpendable property received.
2. Both locations are generally crowded resulting in inefficient daily operation of the warehouses.
3. Maintenance of property records for both locations and moving personnel from one location to the other result in inefficiencies which could be eliminated by replacing the current facilities.
4. Security of the State owned facility is weakened by providing access to an inordinate amount of people. This is a result of sharing the facilities with the following organizations: Supply and Property Management, American Employees Cooperative and Welfare Association, Office of Military Cooperation and Building and Grounds Maintenance.

Other factors compromising the security of the State facility are lack of barbed wire along all areas of the fence and inconsistent enforcement of security measures regarding admission of unauthorized personnel to the warehouse compound.

5. The New Maadi location is generally locked, but it is not guarded 24 hours and is remotely located from the Accountable Property Officer's work place.
6. Air Conditioners awaiting possible disposal are located outside the warehouse, exposed to the elements due to a lack of warehouse space.

We believe that each of these weaknesses merit attention. We recommend that an alternative warehouse facility be considered in an effort to adequately safeguard AID property and allow for efficient administration of the warehousing function.

RECOMMENDATION 1C:

The accuracy of the annual physical inventory count of nonexpendable property and resulting reconciliation should be verified by someone independent of the property management function.

The property management contractor is responsible for safeguarding property, maintaining detail property records and follow-up of inventory differences. The combination of these factors results in a lack of segregation of duties (custodial and record keeping functions).

The limited number of personnel employed by the property management services contractor may preclude complete segregation of the custodial and record keeping functions.

However, as a suggested means of mitigating the weakness, we recommend that AID contract a third party to observe the physical count of nonexpendable property and ensure the accuracy of the related reconciliation.

RECOMMENDATION 1D:

Subject the property management function and related detail and general ledger property records to annual external review.

Current procedures do not provide for periodic compliance review of property management functions including compliance of the property management contractor with AID procedures or contract obligations. Further, current procedures do not provide for periodic substantive review of detail and general ledger property records. An annual external review could be obtained at a modest cost and would identify potential weaknesses and problem areas before controls are compromised and the integrity of the records is impacted. Such a review would provide an extra incentive for contractors and AID employees to comply with established procedures and contract obligations and to maintain accurate records.

RECOMMENDATION 1E:

Perform unannounced spot counts of expendable and nonexpendable property maintained in warehouses.

The AID Handbook 23 (227.4-1.D) states that the Accountable Property Officer is responsible for performing periodic unannounced spot counts of expendable and nonexpendable property in warehouses to verify the balances against stock records.

During the course of our review we noted no evidence of recent compliance with this requirement. We recommend that such counts be performed and documented by a memo to the file.

RECOMMENDATION 1F:

The property management contractor should issue new and used property to residents in accordance with a general policy and detail procedures developed by AID.

We noted that the contractor generally issues new property to residents in lieu of operational used property. We recommend that AID develop a policy regarding utilization of new or used property based on the incremental maintenance costs, expected life and estimated sales proceeds for each class of property. Implementation would enhance utilization of AID capital investments and provide the property management contractor with a basis for decisions regarding issuance and warehousing of nonexpendable property.

In essence, we are suggesting AID base their property issuance policy on business and economic factors in order to maximize return on investment.

2. AID Financial Management

RECOMMENDATION 2A:

Prepare a dollar value physical inventory reconciliation and adjust the individual accounts annually to reflect the purchase price of nonexpendable property on hand in accordance with established procedures.

General ledger account 1710 entitled "Goods In Transit" includes a balance of \$ 832,000 at September 30, 1987. The balance appears to represent the purchase price of property misclassified in previous years; the most recent entry to the account was posted in 1985.

At September 30, 1987 the general ledger accounts for nonexpendable property were reconciled to the extended physical inventory listing prepared by the property management contractor resulting in a difference of \$ 130,000. Accounting personnel have not identified the cause of the difference, nor have they corrected the accounting records to agree to the physical count.

It is imperative that the dollar value physical inventory be prepared on an account number basis and that the account balances be adjusted annually to reflect the purchase price of each class of property on hand at September 30. Accounting personnel appear to lack guidance required to resolve differences relating to current and previous years.

Accordingly, we recommend that detail procedures be documented to provide guidance to the accounting department for maintenance of general ledger nonexpendable property accounts and preparation of the annual physical inventory reconciliation. Implementation would provide for consistent application of proper procedures, clarify inter and intra departmental responsibilities, and enhance the accuracy of the general ledger nonexpendable property accounts.

RECOMMENDATION 2B:

Prepare a reconciliation of current year additions and disposals that can be compared with the final physical inventory.

A dollar value reconciliation should be prepared that combines the prior year ending inventory balances with current year purchases and disposals. A critical part of the process would be to prove each component of the reconciliation by reconciling the value of property

additions to liquidated obligations, comparing property disposals with property disposal authorizations (matched with proceed receipts received from the state department cashier) and finally the ending inventory balance with the physical count. The reconciliation should be performed by general ledger account and should be prepared by the AID financial management department.

RECOMMENDATION 2C:

General ledger classifications should be organized to facilitate reconciliation of the physical count and general ledger balances by individual class codes.

General ledger account 310, Office Furniture, and account 319, Other Furniture and Equipment, generally include the purchase costs of property controlled by the AID property management contractor. However, both balances also include the purchase cost of computer equipment which is not included in the contractor's physical inventory listing. The cost of the computer equipment is deducted from the total general ledger account balance based on memorandum type records. The process could be simplified by classifying the equipment in a separate general ledger sub-account. This would facilitate the reconciliation process and avoid possible confusion in future years resulting from the disorganized classification and memorandum records.

RECOMMENDATION 2D:

All property disposals should be recorded by the accounting department in the month of disposal.

For fiscal year 1987, all disposals received by the accounting department throughout the year were recorded at year-end. The accounting department failed to account for the numerical sequence of the Property Disposal Authorizations to determine that the general ledger

accounts were updated to reflect all disposals. As a result only three of the nine property disposals occurring during 1987 were properly recorded in the fiscal 1987 property general ledger accounts (the six unrecorded disposals are valued at \$ 4,000). Further, the accounting department did not match disposal authorizations with proceeds received by the State Department cashier on AID's behalf to determine that AID was properly credited for auction proceeds from the sale of AID property.

We recommend that the accounting department maintain a file of Property Disposal Authorizations accounting for the numerical sequence, record disposals in the month they occur, and reconcile property disposals arising from sales with proceeds from the State Department.

3. Property Management Contractor

RECOMMENDATION 3A:

Physical inventory listings should be maintained for all AID property located at the Cairo Center and at all other locations.

Listings are maintained for nonexpendable property included in the warehouse and a file is kept for each residence including an inventory sheet and documents for issues and pick-ups which are signed by the respective residents. Combined, the signed documents and listing in the file effectively define the "Accountable Party" for all property located in the residences.

While reviewing the shortages arising from the September 30, 1987 physical inventory, we noted that many of the unidentified shortages relate to property which should have been located during the physical inventory of the Cairo Center. Lack of detailed records for the offices prevented adequate follow-up to eliminate possible errors in counting or to identify the specific source of bona fide shortages.

We recommend that detail physical inventory listings be prepared for offices and signed by supervisors to define custodial responsibility for the office property and provide a means to perform meaningful follow-up of all shortages and overages identified in the annual physical inventory.

RECOMMENDATION 3B:

Accurate subsidiary records by location should be maintained to support the composite property record cards.

Detailed listings are maintained for property held at the warehouses. The subsidiary records facilitate the physical safeguarding of the assets and the reconciliation process at each fiscal year end.

The composite property record cards alone, do not provide an adequate basis for maintaining physical control of fixed assets. for this reason, the contractor maintains subsidiary records by location as follows:

Maadi Warehouse	Perpetual listing
New Maadi Warehouse	Perpetual listing
Residences	File for each residence containing signed inventory sheet and signed source documents for deliveries and pick ups
Cairo Center	Physical inventory list

With the assistance of the property management contractor, we attempted to combine the above subsidiary records for 10 items (adjusted for property still held by state etc.) and to reconcile the combined quantity to the composite property record cards. We were unable to do so for nine of the ten items.

Maintenance of accurate subsidiary records by location is imperative. Without such records there is no means to identify the source of differences identified during the annual physical inventory reconciliation. However, unless the subsidiary records are properly maintained so that the combined totals agree to the composite property record cards, their usefulness in this regard is limited.

We recommend that the property management contractor maintain accurate perpetual subsidiary records for all locations to support the composite property record cards.

RECOMMENDATION 3C:

Permanently label all nonexpendable property with property classification control numbers providing a standard nomenclature for each type of asset.

Superficial overages and shortages commonly result from the inconsistent identification of items by description as interpreted by persons counting nonexpendable property. This frequently requires extensive follow-up and partial recounts during the reconciliation process and could result in the incorrect preparation of Property Disposal Authorizations and Receiving Reports to record the perceived differences.

If standard labels were used for each type of property, physical count teams could record the control numbers marked on each item and verify the related description as they count the property. Implementation would eliminate the subjectivity of applying standard descriptions to items during the physical count and facilitate the preparation and follow-up of the physical inventory reconciliation.

RECOMMENDATION 3D:

Formal policies and procedures concerning maintenance of warehouse property records should be developed by AID to be followed by the property management contractor.

The Transcentury Corporation property management contract requires the contractor to maintain records but does not specifically obligate them to do so in accordance with the Property Management provisions of the AID Handbook 23. We noted during our review that Transcentury representatives did not possess a copy of the Handbook.

Furthermore, the contractor has replaced bin cards with files maintained on a micro-computer owned by a Transcentury employee. We believe the computer files, properly maintained, could represent a preferred substitute for the bin cards, noting that the information provided by either is essential and serves as a subsidiary record by location to the composite property record cards. However, maintenance of such essential files on an employee's personal computer without a formal policy and agreement is not considered prudent. We also noted that the files were stored on diskettes without proper backups.

We recommend that future property management contracts specifically obligate the contractor to maintain records in accordance with the general guidelines of Handbook 23 and with the specific procedures provided by AID.

RECOMMENDATION 3E:

Update property records based on sequentially numbered government property passes.

Currently the request form is the source document that prompts entries (other than the original purchase and final disposition) to the property records. The documents are not sequentially numbered and contract personnel have no means of determining that property records are updated for all transactions.

The government property pass serves as the source document authorizing movement of assets out of the State Department warehouse yard. The property passes are not prenumbered. We recommend that prenumbered passes be used for all transfers of property and that they be matched with the request forms, attached and filed numerically based on the prenumbered property pass forms. Together the documents would serve as the source document for updating property records and insure that all movements are reflected in the underlying records.

RECOMMENDATION 3F:

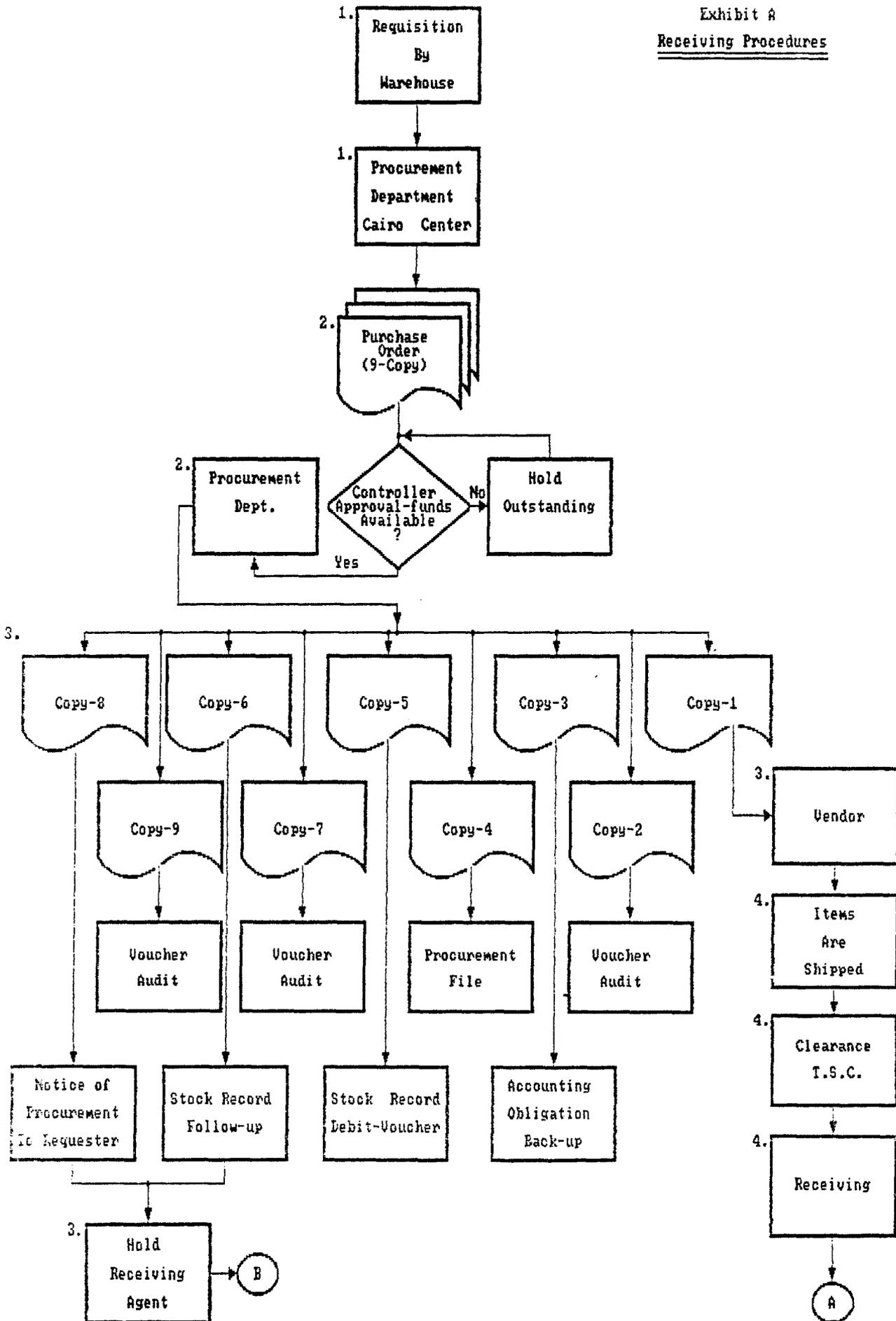
Property scheduled for disposal should be classified and grouped in accordance with condition codes.

The AID Handbook 23 (234.4(6)c.) states that property scheduled for disposal should be classified and grouped in accordance with condition codes cited in Exhibit 234.4c to the AID Handbook in order to facilitate the disposal process.

Currently a red tag prepared by the services contractor is attached to appliances which are out of order. The tags are used for appliances considered economical for repair as well as for those scheduled for disposal. Furthermore, not all property scheduled for disposal is adequately grouped or separated from other property.

We recommend that all property scheduled for disposal be classified with condition codes and immediately transferred to the State storage area for assets pending disposition. It is expected that in the future, as auctions are scheduled to be held more frequently, the State storage area capacity will be adequate to allow for immediate transfer.

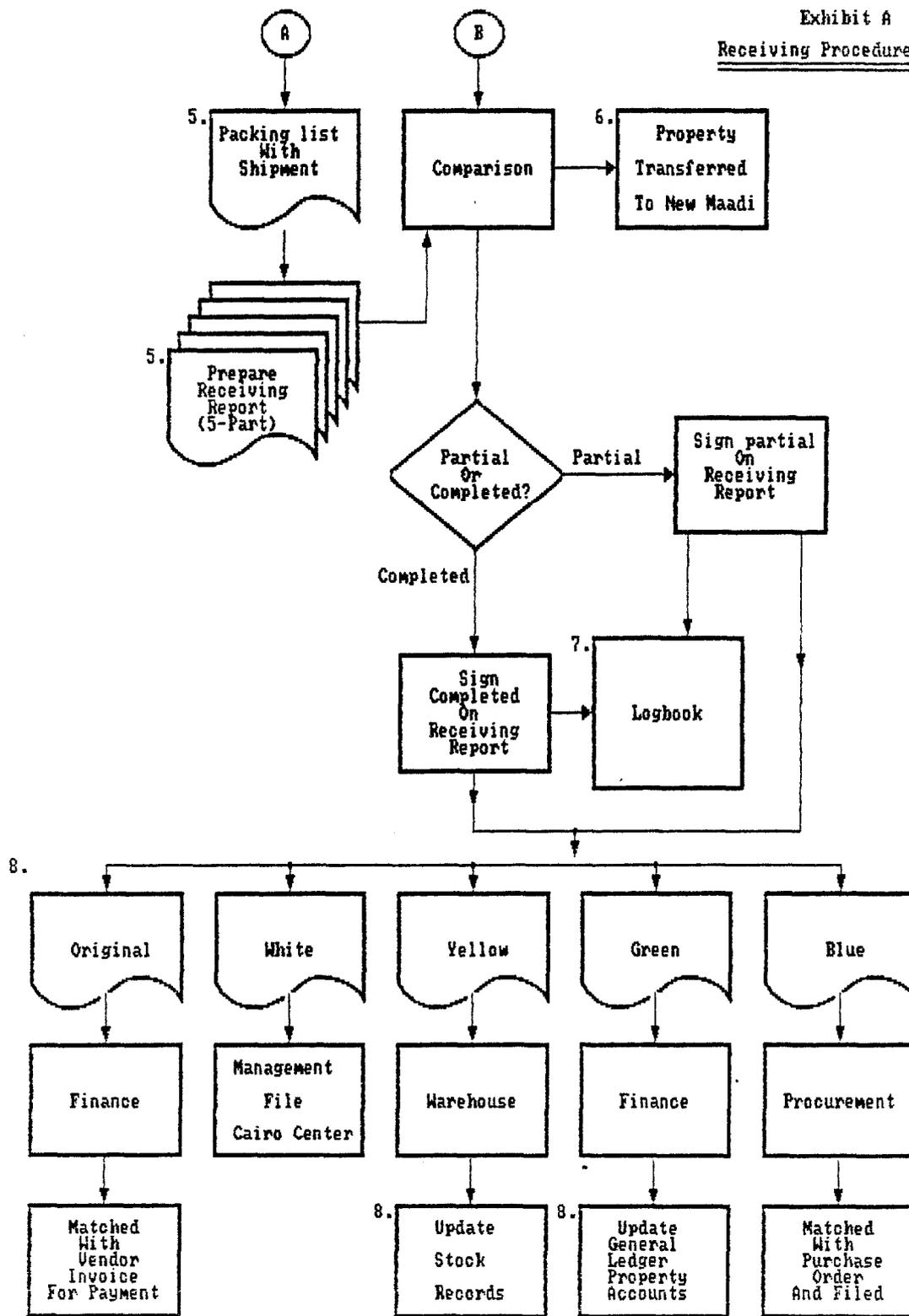
Exhibit A
Receiving Procedures



Receiving Procedures
Flow Chart Explanations

1. Requisitions are approved by the Accountable Property Officer and forwarded to the AID procurement department in the Cairo Center.
2. A purchase order is completed and approved by the AID Procurement Officer.
3. The 9 copies of the purchase order are distributed. The copies sent to the receiving agent are held for subsequent use. The vendor copy prompts shipment.
4. The property is shipped and clears Travel, Shipping and Customs prior to receipt at the Maadi warehouse AID receiving department.

Exhibit A
Receiving Procedures(Cont.)



Receiving Procedures (Cont.)

Flow Chart Explanations

5. The packing list and purchase order are compared to the property received and a receiving report is completed.
6. The New property is transferred to the Transcentury warehouse in New Maadi.
7. The receiving report is logged onto the micro-computer by the property management contractor.
8. The Copies are distributed and the detail and composite property records and the general ledger property accounts are updated.

Exhibit A
Requesting Procedures

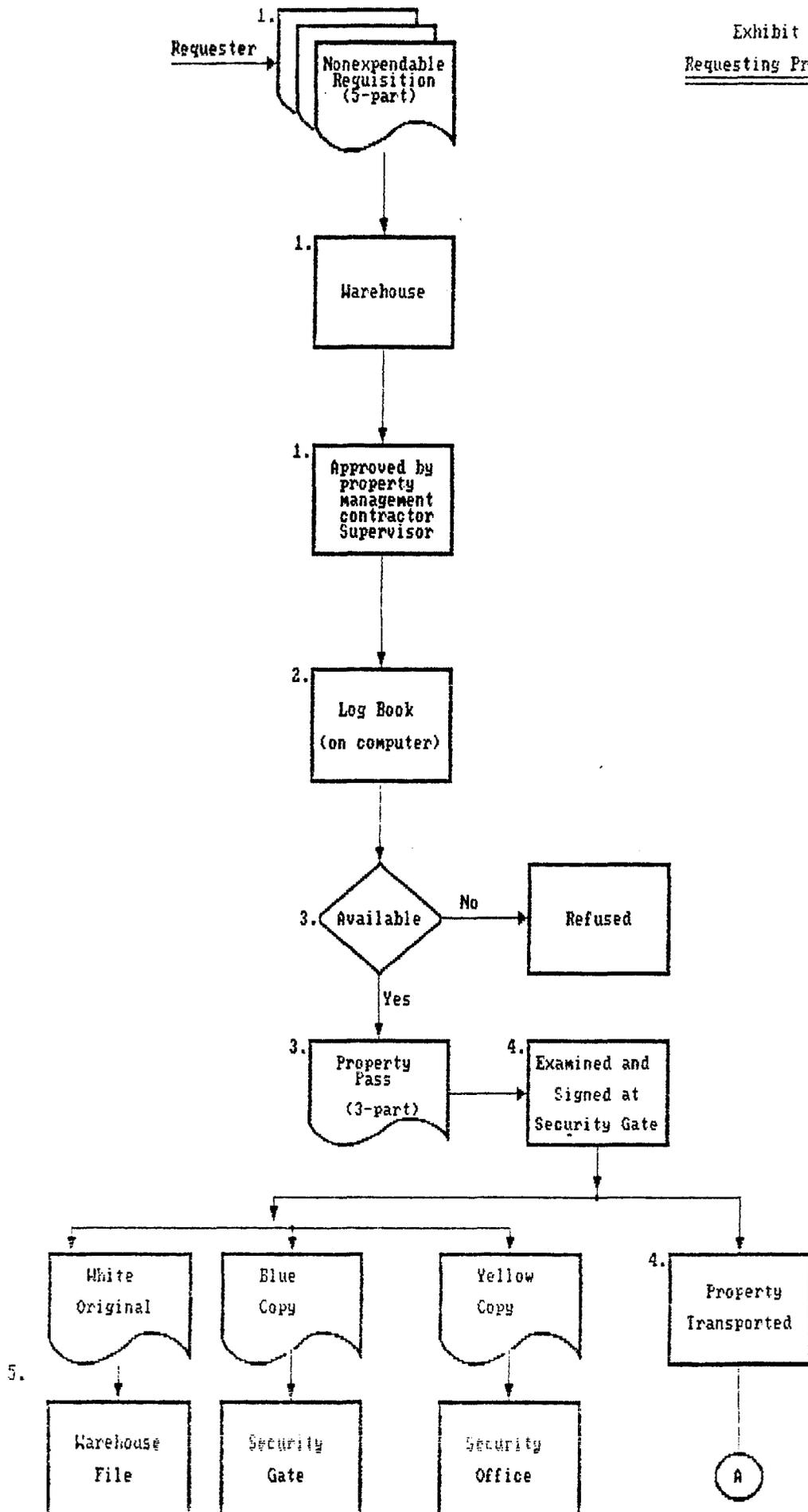
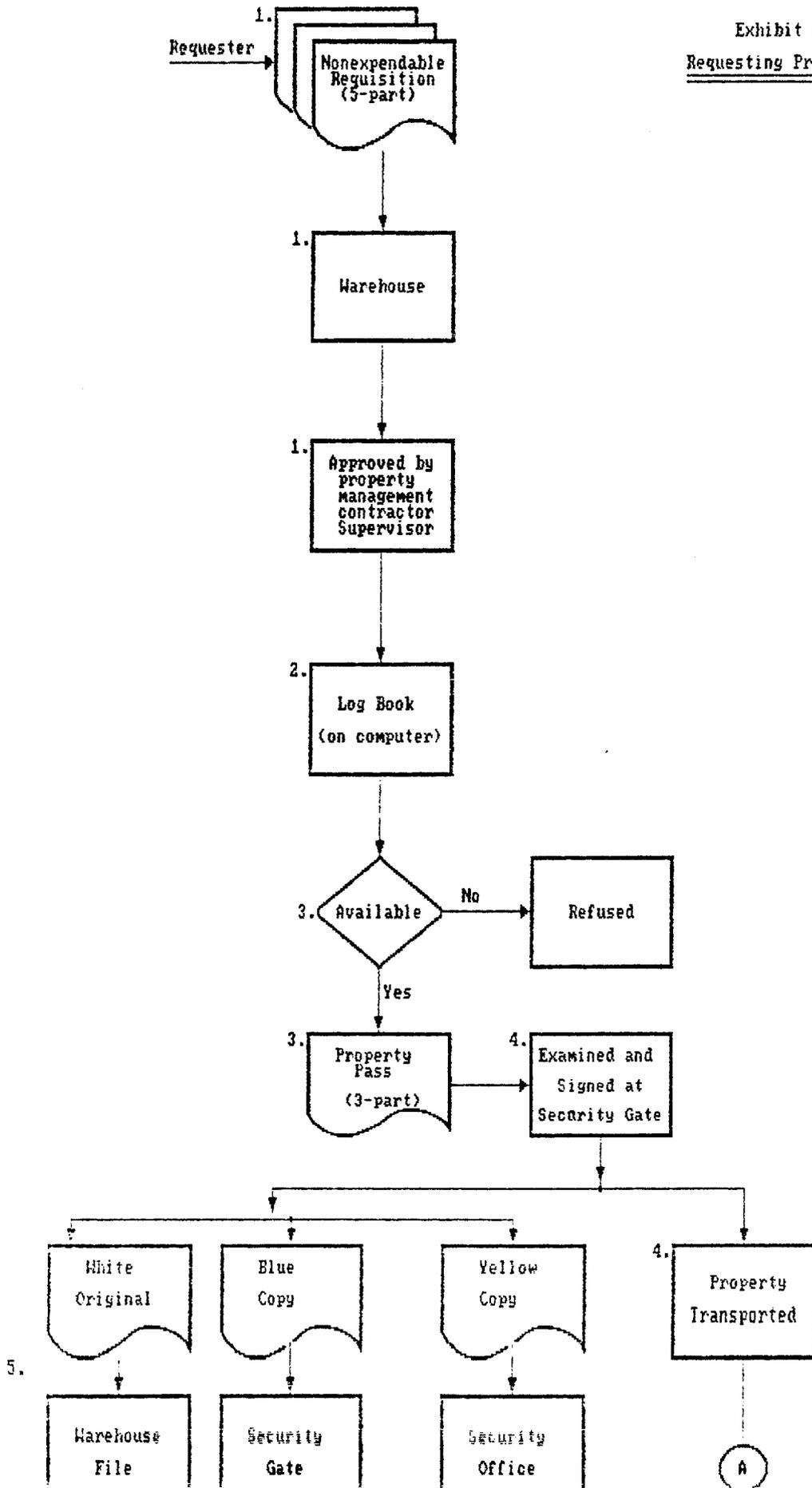


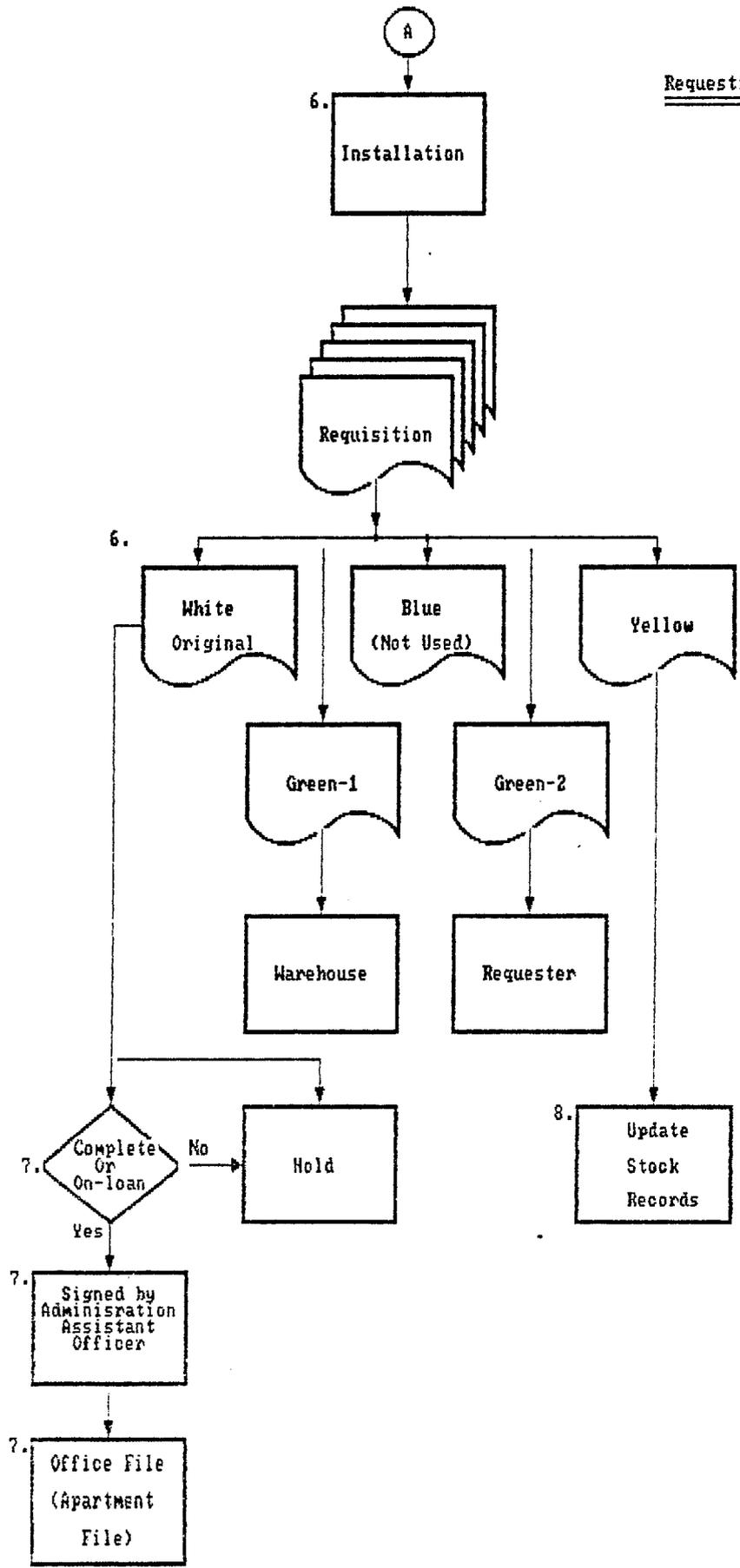
Exhibit A
Requesting Procedures



Requesting Procedures
Flow Chart Explanations

1. Five part request forms are completed by One-Stop or the AID warehousing office and forwarded to Roy Kellog for approval.
2. Request forms are assigned a number and logged using the mirco-computer.
3. If the requested item is available a 3 part property pass is completed and signed by Rog Kellog.
4. The security guard examines and signs the property pass and allows requested items to be removed from the warehouse compound.
5. The property passes are distributed.

Exhibit A
Requesting Procedures(Cont.)

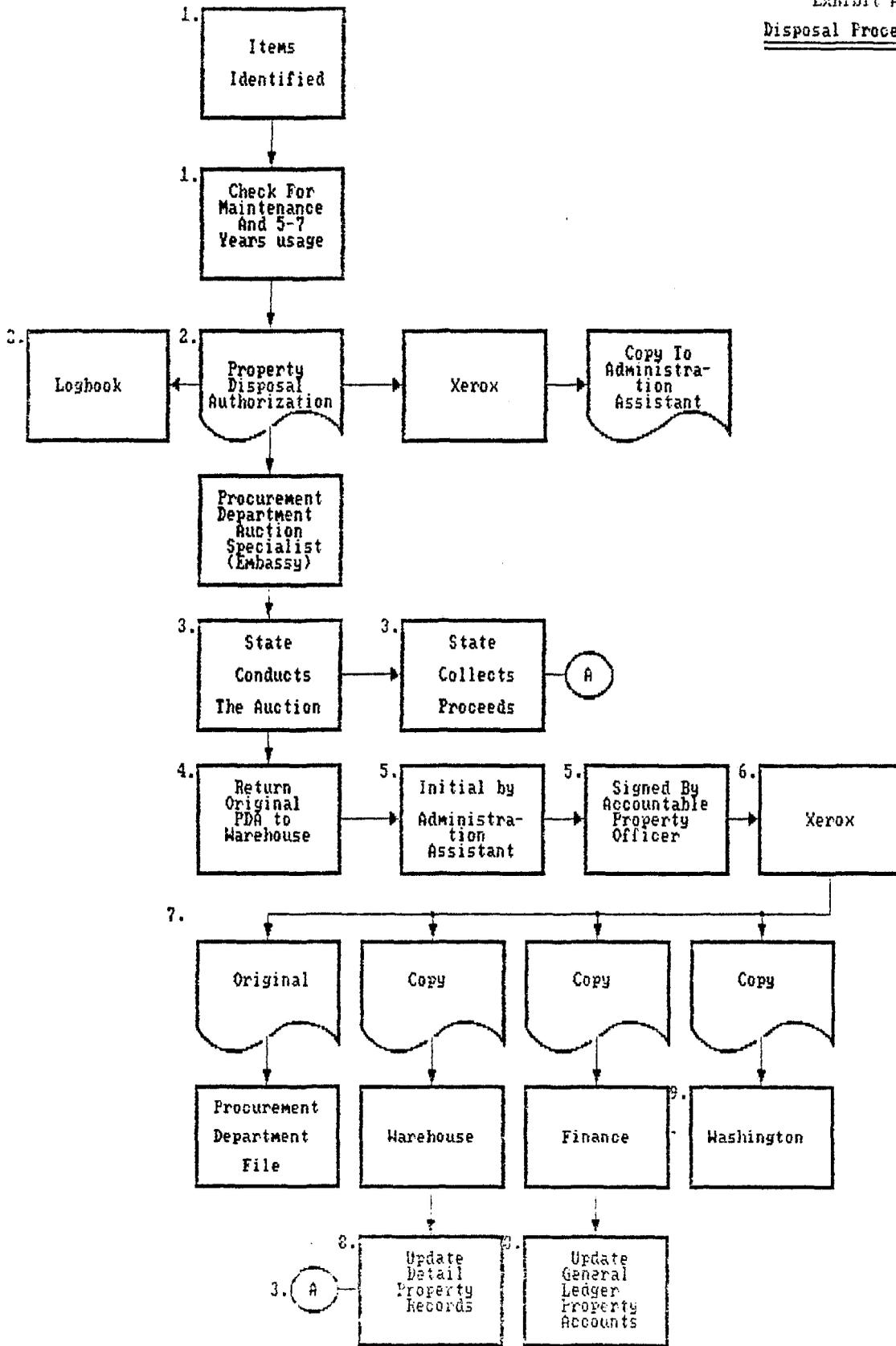


Requesting Procedures (Cont.)

Flow Chart Explanations

6. The property is installed and the requisition copies are distributed.
7. The original requisition is filed in the apartment file after it is completed and approved.
8. The detail subsidiary records and Composite Property Record cards are updated.

Exhibit A
Disposal Procedures



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Exhibit A

Disposal Procedures
Flow Chart Explanations

1. Items are first identified for possible disposal by the maintenance contractor or property management contractor based on condition, maintenance record and expected life.
2. The Property Disposal Authorization is completed and logged. The copies are distributed.
3. State conducts the auction and collects the proceeds. AID is credited for the proceeds after processing.
4. The original Property Disposal Authorization is forwarded to the warehouse.
5. The document is approved and forwarded to the Controllers Office for final approval.
6. The Property Disposal Authorization is copied.
7. The original and copies are distributed.
8. The detail property records and general ledger property accounts are updated.
9. The Property Disposal Authorization is forwarded to Washington.

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Internal Control Defined

The U.S. General Accounting Office, in prescribing standards for Internal Controls in the Federal Government, states that "Good internal controls are essential to achieving the proper conduct of Government business with full accountability for the resources made available. They also facilitate the achievement of management objectives by serving as checks and balances against undesired actions. In preventing negative consequences from occurring, internal controls help achieve the positive aims of program managers."

For internal controls to be effective, government officials should ensure that they have established an environment that creates the appropriate control awareness, attitude and discipline and that each control system: fits the organization and its operating philosophy, focuses on areas of inherent risk, and achieves a thoughtful balance between control costs and benefits. What constitutes an effective system of internal control is a difficult question. Government officials should ensure that they have established an environment that creates the appropriate control awareness, attitude and discipline and that each control system: (1) fits the organization and its operating philosophy, (2) focuses on areas of inherent risk and (3) achieves a thoughtful balance between control costs and benefits. The following concept of internal control as defined by the U.S. General Accounting Office (GAO) is essential in understanding and applying an effective system of internal control.

EXHIBIT B

"The plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports."

Therefore, in accordance with this concept the ultimate responsibility for good internal controls rests with management. In this sense internal controls are really management controls.

Internal controls or management controls should not be looked upon as separate systems within an agency. Rather, they should be viewed as an integral part of each system that management uses to manage its operations. Good management controls are essential to achieving the proper conduct of government business with full accountability for the resources made available to management.

The achievement of management's objectives and goals is also facilitated by good internal controls by serving as checks and balances against undesired actions.

The role of people-

There are many factors beyond good organization, management systems and procedures which can offset the quality of the control environment within a governmental organization. Such factors include:

- 0 The attitude of senior officials with respect to the importance attached to good internal controls.
- 0 Supervisory level acceptance of responsibility for proper execution of controls within their activity.
- 0 The knowledge of all employees, supervisory and others, that an effective control evaluation and review procedure has been constituted within the organization.

EXHIBIT B

Reasonable assurance that the objective of internal controls are achieved also depends on the competence and integrity of personnel, the independence of their assigned functions, and their understanding of prescribed procedures. The overall effectiveness of controls depends on having an adequate number of competent employees to administer controls at all levels.

Although these factors are individually important, their combined contribution is to provide an environment conducive to achieving good internal control.

A control procedure which requires the exercise of judgement beyond the ability or experience of the individual expected to execute the control cannot be effective. Managers should be satisfied that, at all levels of their operations they have:

- 0 Screened the background of all employees who will perform control functions.
- 0 Determined the qualifications needed for each position.
- 0 Assigned or promoted appropriately qualified individuals.
- 0 Provided a clear statement of responsibilities and the reasons for them.
- 0 Provided adequate training and supervision.
- 0 Measured the quality of individual performance.

All too frequently documented control systems are found to contain major weaknesses simply because of a lack of recognition that a well-maintained control environment requires senior management, supervisory and employee support, attention and compliance. Although we have discussed the need for evaluating the effectiveness of internal controls, such evaluations will prove to be of

EXHIBIT B

little continuing value unless appropriate recognition is given to these human factors.

The extent of controls-

If controls were free or funds were unlimited, controls might be installed to cure every known weakness. But funds are limited and controls are not free. The time that can be devoted to evaluating internal controls is limited. Thus, it is important to focus on the greatest exposures first and cure them. Then, as time is available to look at the lesser exposures, they should be pursued. A technique that can be used to facilitate this decision-making process is known as the "worst case" method.

The first step is to conjuncture the "worst case" - the greatest amount of loss and the greatest frequency of occurrence reasonably attributable to the weakness. If the "worst case" exposure is not large, the weakness should simply be documented and reserved for consideration at a later time.

Frequently, there are a number of control techniques available, each with different costs and offering different degrees of effectiveness. One class of controls is designed to prevent errors from occurring in the first place. Another class of controls is intended to discover and correct an error if it does occur. For example, using a calculator instead of mental arithmetic is designed to prevent errors. Having a second clerk check the work of the first is designed to detect and correct any errors that might have been made.

EXHIBIT B

When forced to choose among controls when only a limited number can be chosen, usually those controls that are designed to prevent or detect the largest amount of errors should be chosen.

In summary, the discussion contained in the above paragraphs relates to the standard of reasonable assurance. Reasonable assurance is one of the general internal control standards prescribed by GAO and required to be implemented by all federal agencies.

Federal Managers Financial Integrity Act (FMFIA)-

The provisions of the FMFIA are designed to re-emphasize that government managers are accountable for the efficient and effective operations of programs under their control. As such, Federal Government officials have to (1) establish and maintain effective internal controls, and (2) assure the President and Congress on the adequacy of those controls each year.

To ensure that this goal is met, the FMFIA amended the Accounting and Auditing Act of 1950 to require:

1. Each Federal agency must maintain an effective system of internal accounting and administrative controls as an integral part of its management practices.
2. The systems of each agency shall be evaluated on an ongoing basis and weaknesses when detected, must be promptly corrected.
3. All levels of management in the Federal agencies must involve themselves in assessing and strengthening the systems of internal accounting and administrative controls to minimize fraud, errors, abuse and waste of government funds.

The FMFIA requires the Comptroller General to establish standards for internal accounting and administrative controls which shall provide reasonable assurances that:

EXHIBIT B

- 0 Obligations and costs comply with applicable law.
- 0 All assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
- 0 Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

In addition, the Act directs the heads of executive agencies to:

- 0 Make an annual evaluation of their internal controls using guidelines established by the Office of Management and Budget.
- 0 Provide annual reports to the President and Congress that indicates whether agency systems of internal control comply with the objectives of internal controls set forth in the Act and with the standards prescribed by the Comptroller General.
- 0 Where systems do not comply, agency reports must identify the weaknesses involved and describe the plans for corrective action.

Exhibit C contains the Comptroller General's internal control standards to be followed by Executive agencies in establishing and maintaining systems of internal control as required by the FMFIA.

INTERNAL CONTROL STANDARDS

The internal control standards define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated. These internal control standards apply to all operations

and administrative functions but are not intended to limit or interfere with duly granted authority related to development of legislation, rulemaking, or other discretionary policymaking in an agency.

General Standards

1. Reasonable Assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.

2. Supportive Attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

3. Competent Personnel. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their

assigned duties, as well as understand the importance of developing and implementing good internal controls.

4. Control Objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.

5. Control Techniques. Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.

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Specific Standards

1. Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.

2. Recording of Transactions and Events. Transactions and other significant events are to be promptly recorded and properly classified.

3. Execution of Transactions and Events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.

4. Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions

should be separated among individuals.

5. Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

6. Access to and Accountability for Resources. Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

Audit Resolution Standard

Prompt Resolution of Audit Findings. Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit find-

ings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.



CAIRO, EGYPT

Exhibit D

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

July 12, 1988

Mr. Alan W. Page
Price Waterhouse
4, Road 261, New Maadi
Cairo, Egypt

Dear Mr. Page:

Thank you for your letter of June 8, transmitting your report for the USAID Property Management Internal Controls review to this office for comments. We note that our meeting of June 1st helped greatly to clear misunderstandings which occurred previous to that time. The report now contains a very good review of USAID property activities and procedures and we find that the recommendations are something with which we can live and we shall therefore proceed to implement them as early as possible.

Specific Comments relative to Numbered Recommendations:

1. AID Property Management Services

RECOMMENDATION 1A: General AID policy concerning property management should be revised to stress the "Accountable Party" concept.

1. You have recommended that general AID policy concerning property management be revised to stress the "Accountable Party" concept. While I agree completely with the recommendation, the suggestion that the Transcentury Corporation be financially obligated to reimburse USAID for the replacement cost of all unresolved property shortages does not make sense and in fact does not satisfy the "Accountable Party" concept.

2. The Contractor should be made financially accountable for property in the control of the Contractor, i.e. while it is in the warehouse and while it is being delivered from or returned to the Warehouse. Accountability does not rest with the Contractor once the property is delivered to a residence or office, when it is in the custody of an American officer, or when it is turned over to JAO for disposal. During these periods of time, property accountability is transferred to other parties and therefore the Contractor must not be held responsible. When property is issued to a vacant house and is untended for a long period, financial accountability is lacking, except that the accountable property officer is still responsible for the property. When property is left in an office untended over a weekend or evening, financial accountability is lacking. It is assumed that with the withdrawal of guards from unoccupied housing and the seeming inability of our office guard service to prevent such thefts from

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from occurring in the office, the USG (U.S. Mission, Cairo) has accepted a policy of self-insurance and that the property will be written off, naturally using the proper disposal procedures. In either case, the responsible person charged with the property at the time must explain the loss. If a theft has occurred, action must be taken to attempt recovery of the property, to attempt to determine who took the property, and failing that, to prepare a property disposal authorization that will relieve the responsible persons of financial accountability and allow the property to be dropped from USAID records.

3. USAID agrees that property accountability should be effectively maintained at all times but that financial liability should be charged to those persons responsible for the property at the time of loss or damage. In those cases where the property is unprotected through approved and established procedures of the Mission, financial liability must be waived and the provisions of the USG self-insurance policy should be in effect.

4. One must also consider the fact that actual responsibility for the performance of the accountability function of property management can be delegated only to "other U.S. citizen officers". Also it is obvious that the Contractor's responsibility is limited to that outlined in the terms and conditions of his Contract. In actual fact, responsibility for accountability (as well as inventorying property) has not been delegated to the Contractor; instead general inventories are accomplished by direct hire employees of the Management Office. The only inventory charged to the Contractor is the warehouse stock inventory. We have no objection to adding a provision to the Contract that charges the Contractor with responsibility for warehouse inventories and with financial liability for warehouse and delivery losses. I will see that the contract is amended at an early date to show this change. If I attempted to charge the custody, care and safekeeping of all property to the Contractor, he would be required to increase his staff to accommodate inventory teams and security staff. He would probably also have to be bonded to adequately safeguard approximately three million dollars worth of furniture, appliances and other equipment. The greater costs attributable to additional staff and to the costs of bonding would make our contractual agreement less than cost effective, probably prohibitively expensive.

RECOMMENDATION 1B: Consider alternative warehouse facilities to replace the State operated Maadi and Transcentury New Maadi locations.

1. The American Embassy JAO is currently seeking new warehouse space that could also accommodate USAID warehousing requirements. USAID is also seeking an adequate warehouse location in the event suitable joint facilities are not located. USAID unequivocally agrees that more satisfactory warehousing facilities are vital to an effective and efficient property management function and will do everything possible to find such a location.

2. Under existing conditions however it is still necessary that we continue to use both USAID warehouses, that new property received in combined State/AID shipments must be transferred to the New Maadi location to segregate it from other property. You should note that new property received in a full container for USAID is received directly at the New

Maadi warehouse site and is not unboxed at the Maadi warehouse. We recognize the inefficiencies of our current operation but realize that we can only correct these problems when new facilities are available to us. Notwithstanding the above, USAID intends to take early action to correct the facility problem and thus all of the recognized deficiencies.

RECOMMENDATION 1C: The accuracy of the annual physical inventory count of nonexpendable property and resulting reconciliation should be verified by someone independent of the property management function.

1. USAID concurs fully with this recommendation and, in the future, will utilize a party outside the property management function to observe the physical count of nonexpendable property and to ensure the accuracy of the related reconciliation. It should be noted that the function is currently performed by the Management Office so that there is in fact a division of responsibility in effect already.

2. The Mission is currently involved in establishing the Wang PC based non-expendable property control program at the warehouse. Once this program is fully in place, we will be better able to determine how we can segregate the custodial and record keeping functions. Every attempt will be made to keep these functions separate and apart. It will also be better known at that time whether additional personnel should be employed by the property management services contractor or perhaps even by the Mission. A relocation of the warehouse will also bear on this matter.

RECOMMENDATION 1D: Subject the property management function and related detail and general ledger property records to annual external review.

1. USAID agrees on a more limited basis than is recommended in the review that there is merit in employing an periodic external compliance review to identify potential weaknesses of the system and problems that have or might develop before controls are compromised:

a. to ensure compliance of the property management contractor with USAID procedures and contractual obligations.

b. to ensure a periodic substantive review of detail and general ledger property records.

2. USAID believes that the Mission possesses heretofore unused internal resources that should first be used for compliance reviews on an annual basis and that the use of external means should be used periodically when it has been determined by management that it is economically feasible and sufficiently serious to bring in outside resources. The financial analysts of the Directorate of Financial Management are available for this purpose and can be used to advantage in this regard.

3. It must also be noted that USAID is currently working at having all AID property that is now inappropriately issued to the American Embassy and other agencies in Egypt returned to USAID control. Property is therefore constantly moving back and forth between agencies. Until we have established a control over this situation and this daily movement of

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property stops, the reviews envisaged would be difficult to accomplish and would prove of little value.

RECOMMENDATION 1E: Perform unannounced spot counts of expendable and nonexpendable property maintained in warehouses.

1. USAID agrees that the Accountable Property Officer in accordance with AID Handbook 23 (227.4-1.D) should make periodic unannounced spot counts of expendable and nonexpendable property in warehouses to verify the balances against stock records.
2. The results of these spot counts of warehoused property will be documented by a memorandum to the Associate Director for Management and filed accordingly in both offices.
3. It must again be noted that USAID is currently trying to have all AID property with the American Embassy and other Agencies returned to USAID control and property is now constantly moving back and forth between agencies. Until this daily movement of property stops, the spot counts could be made but they would prove of little value.

RECOMMENDATION 1F: The property management contractor should issue new and used property to residents in accordance with a general policy and detail procedures developed by AID.

At the present time, an unwritten policy provides for new property to be used primarily to replace property under the USAID replacement program and for issuance to new leases. However, since there is nothing in writing on this, the USAID Accountable Property Officer will develop and reduce to writing a policy relative to the ordering, receipt, issuance, care and storage, and disposal of non-expendable property utilizing factors such as life expectancies, maintenance costs, and estimated sales proceeds upon disposal. This will help us to establish property utilization policy on a more businesslike and sound economic basis.

2. AID Financial Management

RECOMMENDATION 2A: Prepare a dollar value physical inventory reconciliation and adjust the individual accounts annually to reflect the purchase price of nonexpendable property on hand in accordance with established procedures.

1. USAID agrees fully with this recommendation. The Directorate for Financial Management in conjunction with the Directorate of Management will be responsible for preparing a dollar value physical inventory reconciliation and will adjust individual accounts annually to reflect the purchase price of nonexpendable property on hand in accordance with established procedures.
2. The procedure for implementing the above requirement will be detailed in writing to provide guidance to the accounting department.

RECOMMENDATION 2B: Prepare a reconciliation of current year additions and disposals that can be compared with the final physical inventory.

USAID agrees fully with this recommendation. The Associate Director for Financial Management in conjunction with the Directorate for Management will be responsible for preparing a reconciliation of current year additions and disposals that can be compared with the final physical inventory.

RECOMMENDATION 2C: General ledger classifications should be organized to facilitate reconciliation of the physical count and general ledger balances by individual class codes.

1. USAID agrees with this recommendation. It is believed however that computer equipment should also be shown on the USAID's physical inventory record. There is no reason from a property management control viewpoint to treat computer equipment any differently than any other property, although it is recognized that such controls will have to be coordinated with data management personnel.
2. The Accountable Property Officer will ensure that property records include an upto date inventory of all computer equipment.
3. The Associate Director for Financial Management will reorganize their general ledger classifications to facilitate reconciliation of the physical count and general ledger balances by individual class codes.

RECOMMENDATION 2D: All property disposals should be recorded by the accounting department in the month of disposal.

1. USAID agrees that property disposal should be handled more effectively and that they should be recorded by the Accounting Department in the month of disposal, or as soon thereafter as possible.
2. A copy of the Property Disposal Authorization Form, AID 5-71, should be sent to the Accounting Department upon approval of the disposal to form a basis for the disposal file. Adjustment to accounting records should take place upon receipt of the Property Disposal Record Form, AID 5-73, which attests to the actual disposal of the property, identifies the method of disposal and shows the sales proceeds received for the property.

3A. Property Management Contractor

RECOMMENDATION 3A: Physical inventory lists should be maintained for all AID property located at the Cairo Center and at all other locations.

1. USAID agrees with this recommendation and it should be noted that USAID already maintains a detailed physical inventory listing for all AID property at the Cairo Center, at all USAID residences and at any other location where AID property may be found. It is not fully complete as yet since the Mission is still in the process of having all USAID property returned to its control from other agencies of the USG at Cairo and at Alexandria.

2. USAID will prepare inventories for offices within each each Directorate that will be signed by the appropriate office supervisor to define custodial responsibility (not financial liability) of all furniture, office equipment, appliances and any other nonexpendable property issued to offices. In addition, all serially numbered property will be signed for on a hand receipt. As stated previously, we can not hold individuals responsible for property stolen from the building until and unless security is greatly improved.

3. Office inventory listings have been recorded on the WANG PC computer in the same manner in which residential inventories are maintained.

RECOMMENDATION 3B: Accurate subsidiary records by location should be maintained to support the composite property records cards.

USAID fully agrees and supports this recommendation. The Accountable Property Officer will ensure that USAID maintains accurate perpetual subsidiary records for all locations to support the composite property record cards, but it will not be possible to immediately reconcile subsidiary records to the cards since a great deal of property is located in Embassy or OMC residences and offices in Cairo and in Congen Alexandria residences and offices and has not so far been recorded on USAID records. When the full review of Embassy, Congen, OMC and other Agency property has been accomplished, USAID records at that time will be complete and a reconciliation can then be accomplished. This work is being done as quickly as is possible given the personnel and time that we have. Note that all current USAID records are being maintained in accordance with Handbook #23.

RECOMMENDATION 3C: Permanently label all nonexpendable property with property classification control numbers providing a standard nomenclature for each type of asset.

USAID supports the wisdom of the recommendation and will attempt to implement it. It should be noted however that the Embassy and AID have not had the greatest success in affixing labels to property so that they would stay in place. We can try it again.

RECOMMENDATION 3D: Formal policies and procedures concerning maintenance of warehouse property records should be developed by AID to be followed by the property management contractor.

1. USAID agrees that formal policies and procedures concerning maintenance of warehouse property records should be developed and documented and that they should be given to the Property Management Contractor for his implementation. Also, a copy of AID Handbook #23 will be provided to the Contractor immediately. USAID has already established a WANG PC computer at the warehouse site for the purpose of maintaining the nonexpendable property record control system. Proper backup documentation (diskettes) will be maintained.

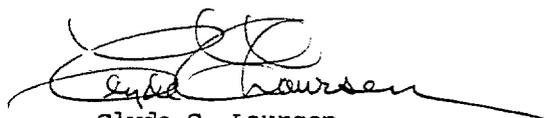
RECOMMENDATION 3E: Update property records based on sequentially numbered government property passes.

1. USAID agrees that source documents prompting entry to property records should in most cases be prenumbered sequentially.
2. Prenumbered gate passes especially are being used for all transfers of property at the warehouse, as well as at Cairo Center. Such property passes will be included in the appropriate property file.

RECOMMENDATION 3F: Property scheduled for disposal should be classified and grouped in accordance with condition codes.

1. USAID agrees that all property scheduled for disposal be classified with condition codes in accordance with AID Handbook 23, paragraph 234.4c.
2. It is agreed that all disposal property should be grouped and stored separately from other property. This may not be possible with all property in view of current space limitations but the requirement will be implemented as soon as proper space is obtained. It should be noted that once property is turned over to the JAO Disposal Officer, the responsibility for storage rests with the Embassy. The current storage area is only half covered, thus appliances are stored in the open. Again, it is hoped that this will be remedied with a new warehouse.

In summary, you will find that USAID property management staff, including the Transcentury contract staff, are extremely anxious to improve property management control procedures so that we are more in accordance with AID/W guidance. Following the transfer of responsibility for property management from the American Embassy JAO operation to USAID control, USAID personnel have worked steadily on bringing property records up to standard. With approximately one million dollars worth of property missing, stress was placed on identifying USAID property that was in the hands of other government agencies at post. By having all of our property returned to USAID control, we will have come a long way towards having the kind of accurate and useful property records system we need to effectively and efficiently manage USAID resources. The guidance and assistance of Price Waterhouse is greatly appreciated. The staff of the Management Office will make every effort to implement your recommendations without undue delay. Thank you for your help!


Clyde C. Laursen
Associate Director for Management

Cleared:

AD/FM: William Miller 
EXO : Terry Stefan Brown 
Transcentury: Roy Kellogg (in draft)

CC: DDIR
RIG/A
AD/FM
MGT/EXO
TRANSCENTURY
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APPENDIX 1

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