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The Agency for International Development's (AID's) operating expenses for administrative and overhead costs have been of increasing concern to the Congress in recent years. AID's fiscal year 1978 operating expense budget totaled \$233.8 million. Findings/Conclusions: AID's operating expense budgets are formulated without adequate reviews of overseas missions' budget requests. Washington offices responsible for reviewing overseas operating expenses lack sufficient personnel and information to make effective evaluations. Operating expense funds are sometimes used for questionable or, in some cases, unauthorized purposes, often because of the failure of AID officials to follow applicable policies. Deficiencies found in property management in Washington were: incomplete property records, failure to conduct physical inventories since June 30, 1974, and inadequate guidance to personnel. Deficiencies found overseas were: incomplete records, failure to establish authorized type and quantities of property items, and failure to conduct utilization reviews to ascertain equipment needs. These weaknesses could waste public funds through unnecessary procurement and misuse or loss of Government property. Recommendations: The AID Administrator should make certain that: headquarters thoroughly and critically reviews and analyzes operating expense budgets of AID's missions overseas before they are submitted to the Congress, the regulations and procedures governing the expenditure of operating expense funds are fully complied with, and an effective management and control system is established and maintained over AID's property and equipment. (Author/ETW)



*UNITED STATES
GENERAL ACCOUNTING OFFICE*

Improved Management Needed Over The Agency For International Development's Operating Costs

AID's operating expense budgets are formulated and presented to the Congress without an adequate evaluation of budget requests submitted by its missions overseas. As a result, AID has no assurance that a mission's request for operating expense funds is reasonable and for purposes authorized.

Operating expense funds have been used for questionable and, in some cases, unauthorized purposes. AID needs to improve also its management and control of nonexpendable property, in Washington and overseas, to prevent unnecessary procurement and misuse or loss of Government property.

AID has taken several actions to strengthen and correct weaknesses in its management of operating expense funds.



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

B-133220

The Honorable John J. Gilligan
Administrator, Agency for
International Development

Dear Mr. Gilligan:

This report discusses the need for the Agency for International Development to improve the management of operating expense funds and recommends actions to achieve more efficient operations.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The review was directed toward ascertaining whether the agency was using its resources for authorized purposes and in an effective and economical manner--concerns expressed by congressional committee in recent years.

We are sending copies of the report to the Director, Office of Management and Budget, and to the Chairmen of the House and Senate Committees on Appropriation, and other committees on authorization and oversight.

Sincerely yours,

J. K. Fasick
J. K. Fasick
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE ADMINISTRATOR
OF THE AGENCY FOR
INTERNATIONAL DEVELOPMENT

IMPROVED MANAGEMENT NEEDED
OVER THE AGENCY FOR INTER-
NATIONAL DEVELOPMENT'S
OPERATING COSTS

D I G E S T

The Congress has been concerned about the Agency for International Development's (AID's) cost of doing business. Congressional hearings and reports contain many examples of waste and laxity in AID's management of such costs. AID's fiscal year 1978 operating expense budget submitted to the Congress totaled \$233.8 million. (See pp. 1 to 2.)

AID's Administrator needs to improve the management of operating expense funds. He should make certain that

- headquarters thoroughly and critically reviews and analyzes operating expense budgets of AID's missions overseas before they are submitted to the Congress (see pp. 9 to 10),
- the regulations and procedures governing the expenditure of operating expense funds are fully complied with (see p. 18), and
- an effective management and control system is established and maintained over AID's property and equipment. (See pp. 24 to 25).

BUDGET REVIEW

AID's operating expense budgets are formulated and presented to the Congress without overseas missions' budget requests being adequately reviewed and evaluated.

Washington offices responsible for reviewing overseas operating expenses lack sufficient personnel and adequate information to evaluate and analyze effectively budget requests from the missions. As a result, AID has no assurance that the missions' requests for operating expense funds are reasonable and for authorized purposes. (See p. 4.)

ID-78-15

USE OF OPERATING EXPENSE FUNDS

Operating expense funds continue to be used for questionable and, in some cases, unauthorized purposes. Many of the instances resulted from the failure of AID officials to follow policies and regulations governing use of operating expense funds. (See p. 11.)

For example, missions are not allowed to spend more than \$1,500 in making alterations, improvements, and repairs to short-term leased properties without prior Washington approval. Several missions have exceeded the \$1,500 limitation without receiving prior approval. (See pp. 11 to 13.)

Unauthorized and questionable uses of operating expense funds included

- purchasing residential and office furnishings and equipment (see pp. 13 to 15) and
- advancing rental payments, even though not required by the lease agreement. (See p. 16.)

NONEXPENDABLE PROPERTY MANAGEMENT

AID needs to improve its management and control of nonexpendable property, both in Washington and overseas.

In Washington GAO found

- property records were incomplete,
- physical inventories had not been made since June 30, 1974, and
- adequate guidance had not been given to property management personnel. (See pp. 21 to 22.)

Overseas, GAO found

- property records were incomplete,
- authorized type and quantities of property items had not been established, and

--utilization reviews had not been conducted to ascertain equipment needs. (See pp. 22 to 24.)

GAO believes these kinds of property management weaknesses will waste public funds through unnecessary procurement and misuse or loss of Government property.

AGENCY COMMENTS

The Administrator and other AID management officials generally concur with the recommendations. AID has initiated several actions to improve its management of operating expense funds, and further improvements are planned.

The Administrator has specifically directed the Auditor General to closely examine the cases cited in the report. In addition, a program of management audits of overseas missions is now underway to insure that operating expense funds and U.S. Government property are appropriately controlled and administered. More intensive budget justification and review processes are also being instituted. (See app. I.)

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ABBREVIATIONS

AID Agency for International Development

GAO General Accounting Office

CHAPTER 1

INTRODUCTION

CREATION AND PURPOSE

The Agency for International Development (AID), created following the passage of the Foreign Assistance Act of 1961, is charged with carrying out the U.S. foreign economic assistance program. As stated in the act, the program's basic objectives are to

"* * * promote the foreign policy, security, and general welfare of the United States * * * by aiding peoples of less developed friendly countries of the world to develop their resources and improve their living standards, to realize their aspirations for justice, education, dignity, and respect as individual human beings, and to establish responsible governments."

AID is an agency within the Department of State, although its Administrator reports to both the Secretary of State and the President. Organizationally, AID consists of a central headquarters staff in Washington, D.C., and a field staff in some 71 missions and offices in most of the world's less developed countries. At November 30, 1977, AID had a full-time, direct-hire work force of 3,703 U.S. and 1,952 foreign national employees.

OPERATING EXPENSES

AID's operating expenses are those administrative and overhead costs required to manage and operate the agency. ^{1/} AID's justification, management, and expenditure of operating expense funds has come under increased congressional scrutiny in recent years. Congressional hearings and committee reports contain many examples of waste and laxity in managing AID's cost of doing business.

For a number of years, AID funded its operating expenses largely from appropriations made available for its economic aid program activities with only about one-fourth

^{1/} Beginning in fiscal year 1979, AID will fund all direct-hire employees from operating expenses, including some which are currently funded from program activities.

of total operating expenses being funded from its administrative expenses appropriation. This arrangement allowed AID a great deal of latitude and flexibility in funding its operating expenses. Also, there was no accounting for the total costs of running the agency because of this intermingling of program and operating expense funds.

The Senate Committee on Appropriations' Subcommittee on Foreign Operations insisted on separating program and operating expense funds and took the position that separate appropriations would provide better accountability, clearer oversight, and, hopefully, tighter and more prudent management of AID's cost of doing business. Due largely to the Subcommittee's insistence, AID was required to identify and budget its operating expenses separately, beginning in fiscal year 1976.

OPERATING EXPENSE FUNDS

AID constructs separate operating expense budgets for its Washington and overseas operations. Its operating expenses for the last 3 fiscal years follow.

	FY 1976 (actual)	Transition (quarter)	FY 1977 (estimated)	FY 1978 (proposed)
----- (millions) -----				
AID/Washington	\$ 92.5	\$24.2	\$ 91.5	\$102.5
Overseas	<u>114.3</u>	<u>32.5</u>	<u>121.0</u>	<u>131.3</u>
Total	<u>\$206.8</u>	<u>\$56.7</u>	<u>\$212.5</u>	<u>\$233.8</u>

SOURCE OF FUNDING

The Congress provides about 94 percent of AID's operating expense funds through annual appropriations. The remaining 6 percent is derived from

- reimbursements from other agencies for services performed by AID,
- funds from AID's housing guaranty and excess property programs not requiring annual appropriations, and
- local currency trust funds provided by recipient countries supporting AID operations.

SCOPE OF REVIEW

We reviewed AID's management of operating expense funds to ascertain if it was using its resources--funds and property--for authorized purposes and in an effective and economical manner. Our review concentrated on AID's budgeting process for fiscal years 1976-78, and AID's expenditure of funds and management of nonexpendable property for fiscal years 1976-77.

While personnel costs, including salaries and benefits, comprise over 60 percent of AID's operating expenses, they were not included in this study. AID's staffing levels and policies are the subject of another of our reviews.

We made our review from May to November 1977 at AID in Washington, D.C., and at selected missions in Honduras, Guatemala, Bolivia, Kenya, and Pakistan. During our review we examined and analyzed operating expense budgets, reports, and other related documents, and held discussions with AID management officials and operating personnel. We also considered work performed by AID's Office of the Auditor General and the Office of the Inspector General for Foreign Assistance.

CHAPTER 2

BUDGETARY CONTROL OF OVERSEAS OPERATING EXPENSES

AID's operating expense budgets are formulated and presented to the Congress without adequately evaluating budget requests submitted by overseas missions. Washington offices responsible for reviewing overseas operating expenses lack sufficient personnel and adequate information to effectively evaluate and analyze mission budget requests. As a result, AID cannot be assured that operating expense funds requested by the missions are reasonable and for only authorized purposes.

Effective budgetary evaluation is a fundamental prerequisite to insure that funds requested by overseas missions are well supported and in amounts actually needed. With AID's operating expense budget aggregating \$233.8 million in fiscal year 1978, it is imperative that AID perform a more thorough analysis and evaluation of its mission budget requests to better assure the Congress that these estimates are reasonable and well justified.

PREPARATION AND REVIEW OF MISSION OPERATING EXPENSE BUDGETS

Each overseas mission prepares its operating expense budget in accordance with guidelines issued by Washington. The budgets are submitted to the Bureau of Program and Management Services for review and incorporation in the total AID operating expense budget.

Two offices within AID's Bureau of Program and Management Services are responsible for formulating and reviewing overseas operating expense budgets.

- The Office of Financial Management issues guidance for developing and submitting a mission's proposed operating expense budget and incorporates the mission budget requests into AID's operating expense budget for presentation to the Congress.
- The Office of Management Operations is responsible for reviewing and analyzing mission budgets to insure the adequacy and suitability of proposed funding levels. In addition, this office develops policies, standards, and guidelines for managing AID's overseas resources and operating expense funds.

INADEQUATE REVIEW OF MISSION BUDGET PROPOSALS

AID officials confirmed that mission budget submissions are incorporated into the Agency's overall budget and forwarded to the Congress with little, if any, review. AID officials attributed the practice to a lack of personnel and data necessary to effectively analyze and evaluate the missions' requests. The problem is further compounded by the continuous turnover of staff in key management positions.

As part of its reorganization effort, AID contracted Coopers & Lybrand's Management Consulting Services to conduct a study of the management functions in the Bureau of Program and Management Services. Our views on AID's budget formulation were confirmed by Coopers & Lybrand's October 1977 Operations Management Study, which concluded that "there is minimal budget analysis or review performed on the operating expense budget." According to the report, the lack of financial analysis during budget formulation and execution is the outgrowth of three factors.

- The requirement for budgeting operating expense is new and, as such, AID has not developed adequate procedures, reviews, or an experience level from which to draw.
- The input provided by the missions as well as by Washington offices is generalized and almost devoid of supporting narrative and justification.
- Staffing is inadequate to perform the needed analysis. The staff is highly mobile in that many positions are occupied by people awaiting other assignments. As such, the majority of staff are not in a position long enough to learn the process, much less perform any meaningful analyses.

We believe this lack of oversight in AID's budget preparation resulted in including expenditure requests that would certainly be questioned if scrutinized in an indepth review and evaluation process. We believe the following two cases illustrate what is happening in AID's budget preparation.

Honduras mission budget request

While examining the Honduras mission's operating expense budgets for the transition quarter and fiscal years 1977

and 1978, we discovered that funds were included for the operation and maintenance of an airplane. In preparing its budgets, the mission classified its request for the funds under Miscellaneous Contractual Services (Object Classification 259). The following amounts were included in the mission's budget request submitted to AID offices in Washington.

	<u>Transition quarter</u>	<u>FY 1977</u>	<u>FY 1978</u>
Maintenance contract	\$ 2,928.48	\$11,713.94	\$11,713.94
Pilot contract	1,257.47	5,029.90	5,029.90
Airplane repairs	<u>6,141.60</u>	<u>15,666.43</u>	<u>15,666.43</u>
Total	<u>\$10,327.55</u>	<u>\$32,410.27</u>	<u>\$32,410.27</u>

We ascertained that AID included these amounts in its total operating expense budget submitted to the Congress. The congressional budget does not, however, disclose the purpose for which the funds were requested.

Upon further investigation, we learned that the Honduras mission has maintained exclusive use of a Piper Super Apache airplane since 1965 through a lease arrangement with a local contractor. The mission executed the lease in December 1965 at a cost of \$29,969.75. The lease provides AID with the right and option to purchase the plane at any time for \$1.00. No further payments have been required for leasing the airplane, although AID has paid for its maintenance, operation, and repair costs. For the 2 years ended June 30, 1977, AID obligated operating expense funds totaling \$80,303 for such costs.

Although AID does not legally hold title to the airplane, its lease arrangement has enabled the mission to enjoy the rights and benefits which would normally accrue through ownership. The Foreign Assistance Act of 1961, as amended, (22 U.S.C. 2396), states that appropriated funds shall be available for "purchase, maintenance, operation, and hire of aircraft: Provided, that aircraft for administrative purposes may be purchased only as specifically provided for in an appropriation or other Act * * *."

Washington officials were not aware that operating expense funds were being used for leasing the airplane.

Subsequent to completing our work in Honduras, the mission director reported the results of our review to the Assistant Administrator of the Bureau for Latin America. An excerpt from his August 1977 letter dealing with the leased airplane follows.

"We are examining the whole matter carefully since AID must not take precipitous action on the basis of partial information. Perhaps the Congress, or some Congressional Committee, was consulted. We do not know that they were not. Furthermore, I find it most unlikely that a responsible Mission Director would initiate a purchase of this sort without some consultation and go ahead by Washington. Nevertheless, if consultation had not then been undertaken, there would now be three options open: (1) to pay the \$1.00 and take title and to advise the Congress according to the prescribed procedures--whatever that may be, (2) to "sell" the plane, i.e., give up the Mission's right to purchase the plane for \$1.00, or (3) to grant-in-aid the plane to Honduran Government, but with its continuing to be available to the USAID so long as there was USAID requirement."

In commenting on this matter, AID acknowledged that operating expense funds have been used for the operation and maintenance of the airplane and that Washington should review such large expenditures by overseas missions.

AID did not comment, specifically, as to how the operation and maintenance of the airplane would be funded in the future. However, on January 20, 1978, we were advised that AID intends to sell its interest in the airplane.

Kenya mission budget request

The Kenya mission relocated its offices to the top eight floors of a new office building in December 1976. The cost of relocation, including capital improvements, totaled about \$151,000. AID regulations require prior Washington approval for initial improvements and alterations to short-term leased property exceeding \$1,500. Mission officials told us that they had not specifically requested prior approval because they considered Washington's funding of its budget submission, which included \$84,700 for relocation, as constituting blanket approval for all improvements and expenses associated with the move.

As early as January 1976, Washington had approved the relocation contingent upon the availability of funds in the operating expense budget. The approval specifically provided that if funds were insufficient, the mission should submit a revised budget for the increased costs of relocation and restoration, if any, associated with current leases. The approval notice also stipulated that the mission should submit data required by applicable AID regulations, specifying whether any initial repairs and improvements were needed, and whether they were to be done by the landlord or by AID.

Contrary to these instructions, the mission did not submit an itemized listing of all improvements needed for the relocation. However, in May 1976 the mission included \$84,700 in its transition quarter budget under "Miscellaneous Contractual Services" for its anticipated costs of moving. Washington's approval of the budget, according to mission officials, was construed as blanket approval for all capital improvements.

The actual cost of relocating exceeded the budget estimate by about \$66,000. Actual costs associated with the relocation were:

Elevator equipment	\$ 9,652
Carpeting material and installation	31,526
Partitioning (including painting)	<u>a/49,087</u>
Painting walls and columns	3,244
Constructing cashier's office	1,240
Constructing window sills and cupboards	25,310
Security grills and screen	2,108
Other miscellaneous changes and adjustments	18,692
Architectural design and supervision	<u>b/10,300</u>
 Total	 <u>c/\$151,159</u>

a/Washington's initial approval of the relocation stated that the landlord should install partitioning at his own expense. The landlord refused to install the partitions and Washington subsequently granted the mission contractual authority to procure and install partitions at a cost not to exceed \$45,000.

b/AID regulations prohibit obligations or commitments for architects, engineers, or experts, or contracts in connection with proposals and recommendations for capital improvements, alterations, or major repairs without specific prior authorization. Without prior authorization, the mission contracted with a local architectural firm to design and supervise construction of the offices at a cost of \$10,300.

c/Approximately \$109,000 was charged to miscellaneous contractual services (Object Classification 259).

AID officials in Washington, responsible for managing overseas property, were not made aware of the renovations to Kenya's office space. However, a complete and thorough review of its budget submission should have revealed that the mission was requesting funds for renovations for which they had not received prior Washington approval.

CONCLUSIONS AND RECOMMENDATIONS

The lack of budget review, exemplified by the preceding examples, raises doubts about the accuracy of data included in AID's congressional budget presentation.

Furthermore, there is little assurance that AID is carrying out its operations in an effective and economical manner. We believe AID should carefully scrutinize each mission's budget to determine if estimates are reasonable and justified. Such a review process would provide AID management with better oversight and strengthen its control over mission operations.

We therefore recommend that the AID Administrator insure that a thorough review of AID's operating expense budget is performed before submitting it to the Congress.

AGENCY COMMENTS

With respect to its weaknesses in reviewing mission operating expense budget requests, AID advised us that:

"The operating expense budget concept where all administrative costs are lodged in a single account is relatively new to A.I.D. As a result A.I.D. did not assign the amount of staff time needed to develop criteria and procedures for a systematic analysis of operating expense items at all levels - mission, regional, and central. A major A.I.D. effort to identify and correct operating expense deficiencies has been assisted by the recent Coopers & Lybrand Study of A.I.D.'s Bureau for Program and Management Services."

AID is taking the following actions to achieve more effective review in Washington.

- Expand the informational content of budget submissions.
- Increase the budget management staffing.
- Examine the number and competence of the budget management staff.
- Insure greater staff continuity.

CHAPTER 3

USE OF OPERATING EXPENSE FUNDS

In recent years congressional committees overseeing AID's operations have urged AID to improve its management of operating expenses and eliminate waste and extravagance. Nevertheless, opportunities for improvement still exist. We identified instances where operating expense funds were continuing to be used for questionable and, in some cases, unauthorized purposes. Many of the instances resulted from the failure of AID officials to comply with the Agency's own policies and regulations governing use of operating expense funds.

AID'S CONTROL OVER EXPENDITURES

In overseeing the budgeting and expenditure of operating expenses, AID's Administrator must rely heavily on mission officials to insure that funds are used only for necessary and proper purposes. Accordingly, each mission has responsibility for obligating and expending funds allocated to it and for adhering to AID's overall policies and regulations governing mission operations. Each mission is required to maintain fiscal and accounting records and to submit financial reports to Washington. This decentralized method of operation removes Washington management from the decisionmaking process and places the responsibility for efficient and economical operations in the missions.

We believe the existence of poor oversight and review by Washington, within AID's decentralized operating environment, has fostered the questionable and unauthorized use of operating expense funds as illustrated by the examples included in this chapter.

Renovations to leased residences overseas

AID regulations authorize a mission to make minor alterations, improvements, and repairs to short-term leased properties. The mission can spend up to \$1,500 ^{1/} when the lease is initially acquired. If renovations exceed \$1,500, AID regulations require the mission to obtain Washington approval before renovating. In the case of capital improvements and major alterations, Washington approval is required regardless of the cost.

^{1/}Before November 1976 the limit was \$500.

Several missions used operating expense funds to make renovations exceeding the \$1,500 limitation without obtaining Washington's approval. We identified renovations to 33 leased properties in 7 countries that exceeded the limitation. Three such cases are described below:

--According to work orders, \$17,376.20 was spent to renovate the Zaire mission director's residence during fiscal year 1976. Washington approval was not obtained. To date, the mission has only been able to account for \$8,078.58 of the renovations. The remaining \$9,297.62 is unexplained. Renovations included:

Enlarging and rearranging the kitchen	\$ 2,216.56
Constructing a new bathroom and dressing room off the master bedroom	3,508.90
Improving the outside garage	455.44
Installing additional security lights	1,376.34
Painting and other miscellaneous	<u>521.34</u>
Total	\$ <u>8,078.58</u>

--During fiscal year 1975, \$24,527 was spent to renovate the Liberia mission director's residence. Washington approval was not obtained. Renovations were:

Constructing a generator house and related electrical circuitry	\$13,531.00
Painting	2,073.00
Installing a water pump and pressure system	1,189.00
Installing security devices	1,870.00
Constructing an entertainment area	1,554.00
Building an outside storage facility for garden tools, cleaning supplies, etc.	1,204.00
Miscellaneous renovations (landscaping, plumbing, shelving, cabinets, etc.)	<u>3,106.00</u>
Total	\$ <u>24,527.00</u>

In addition to these renovation costs, another \$8,986.00 was spent to overhaul an electrical generator to be installed in the generator house.

--During fiscal year 1976, \$28,170.35 was spent to renovate the Kenya mission director's residence. Washington approval was not obtained. Renovations included:

Landscaping	\$ 2,647.40
Installing an 8-foot perimeter bamboo fence	2,166.00
Constructing laundry space and remodeling kitchen	14,440.43
Installing perimeter lights	3,008.42
Installing folding awnings	755.97
Miscellaneous renovations (water tank, cabinets, shelving, painting, etc.)	<u>5,152.13</u>
Total	<u>\$28,170.35</u>

Washington reluctantly granted ex post facto approval for these renovations. Our review showed that the AID mission assumed responsibility for accomplishing work which was the landlord's responsibility (i.e., installing security lighting, relocating kitchen cabinets, and constructing additional cabinets and shelves in the pantry and kitchen). After becoming aware of the renovations, Washington officials cabled the Kenya mission that:

"The expenditure is viewed as highly excessive even under the most unusual circumstances and reflects extremely poor judgment on the part of mission management officials."

The message went on to point out that if officials in Washington had been apprised of the planned renovations in advance, the cost would have been held to a considerably lower level. It also stipulated that any future expenditures on the director's residence would require prior Washington approval.

Procurement of furniture and equipment

Our review of furniture and equipment purchases made in fiscal years 1976-77 showed that most expenditures appeared reasonable and proper. We did, however, identify several questionable purchases.

In February 1977 the Bolivian mission purchased a portable gas grill with a vinyl cover, a cookbook, and a

rotisserie kit for the mission director's residence. The items cost \$341.80, including transportation. According to mission officials, these items were ordered because the director performed much of his representational entertaining outdoors. However, AID regulations state:

"Personal preference items, e.g., ice cream and popcorn machines, electric blankets, yogurt makers, hibachis, crock pots, and other like items, shall not be procured for representational use."

We interpret this provision as prohibiting the Bolivian mission purchase. AID agreed that this purchase was contrary to agency regulations and is taking action to correct this inappropriate use of operating expense funds.

In Pakistan the mission purchased electric typewriters without determining if less costly equipment could have satisfied its requirements. From August 1973 to June 1977, the mission purchased 92 IBM Executive model typewriters with certain variable spacing capabilities that standard models lack. However, mission secretaries stated they used few, if any, of the additional features. Mission officials acknowledged that the standard model would have satisfied their needs, and they informed us that the IBM Executive typewriters will be phased out and less expensive models procured. Based on 1977 U.S. Government catalog prices, the mission could have saved \$11,000 by purchasing less expensive typewriters.

In Guatemala, where there is both an AID mission and an AID regional office for Central America and Panama, the following items were purchased on the local market for the AID mission and regional directors' residences.

	<u>Quantity</u>	<u>Total cost</u>	<u>Date of purchase</u>
Leather sofa	1	\$ 1,014	12-75
Ceiling lantern	5	96	11-75
Decorative lamp	1	131	11-75
Dining room set (table and 14 chairs)	1	2,135	8-76
Lamps	11	255	3-76

Mission personnel said the dining room set was purchased because the regional director's dining room was too large for the dining room set normally provided. A similar reason was given for the sofa purchased for the AID mission

director's residence. We learned that another AID employee is currently using the sofa because the director has been transferred to another post and his replacement did not need the sofa.

AID has subsequently issued guidelines on purchasing residential furnishings which provide that furniture and decorative pieces available under State Department furniture contracts are considered adequate for representational and other requirements of upper level AID officials.

In March 1976 one Washington office bought a \$42.75 toaster oven because the office was not conveniently located near the State Department cafeteria. The item was never recorded on Washington inventory records and during our review, could not be located by AID employees. Even though the item's value is under \$50, it is a controllable item and should have been recorded in the inventory.

AID also purchased 2 sets of revolutionary flags and 400 square yards of carpet costing \$4,283.90 for a Bicentennial exhibit. Neither the carpet nor the flags were ever used and are currently in storage. After our review, AID officials said the carpeting will be installed in Washington or made available to an overseas mission if transportation costs are not prohibitive.

During fiscal year 1977 AID purchased at least 276 electric typewriters at a cost of approximately \$180,000. As of October 6, 1977, AID's inventory records showed that 2,480 typewriters were in Washington. This number seems extremely high considering that there were only 2,329 full-time and 377 part-time employees in Washington as of September 30, 1977. In addition, AID obligated \$34,664 on September 26 and 30--the last week of the 1977 fiscal year--to purchase 50 electric typewriters.

In March 1977 AID purchased a conference table costing \$1,275 for the Administrator's office in Washington. During our review the table was stored in AID's warehouse because, according to AID officials, it would not fit properly in the intended space. After making this matter known to AID officials, the table was placed in AID's Office of Housing.

Other questionable uses of
operating expense funds

Our review of AID's use of operating expense funds also revealed other expenditures which did not comply with AID's regulations or were of a questionable nature. Some examples follow.

The Bolivian mission made advance rental payments of \$19,100 in July 1975, August 1976, and March 1977 for the leasing of its office space, even though the lease agreement did not require the payments. AID regulations state that when advance payments are made, the landlord

"should be induced to grant a percentage discount equivalent to the prevailing interest rate within the country, or other valuable consideration."

There was no indication that the mission was obligated to make the advance payments or that any effort was made to negotiate a reduction in the lease cost. Mission officials told us, however, that they received goodwill in return for the payments. AID officials in Washington agreed that the mission's actions were improper.

In Mali we found that all 15 U.S. Government leased houses occupied by AID families as of July 1977 had swimming pools. We found in March 1977 that pool maintenance, including chlorine, was paid from operating expense funds. Houses without pools are available, but are located in more congested areas.

We question this practice because a public pool, nearly olympic size, is available to all mission personnel. This pool seldom has more than a few people there. Also, AID personnel in Mali receive a 25-percent hardship post differential plus a cost-of-living allowance.

Furthermore, in November 1976 AID began curtailing the leasing of houses with swimming pools. Although many of the houses in Mali were leased before the November 1976 policy, we found that four houses had been leased with pools after the policy was established.

AID made the following comments regarding the leasing of houses with pools in Mali:

"The Auditor General's review of the Mali Mission (Cable Nairobi 16697) found that housing units available to rent which included adequate plumbing and other reasonable facilities also generally are built with swimming pools, and elimination would severely hamper the leasing of adequate housing comparable to that occupied by other donors. Ambassador Byrne's statement for the record is as follows:

'All American Personnel of all agencies at Bamako, including the Marine Security Guard Detachment, currently live in homes that have swimming pools. The primary reason for this situation is that houses meeting acceptable standards for space, safety, security, and health almost invariably have swimming pools as a matter of course. If we were to seek housing for AID personnel without pools, (a) we would limit severely the number of potential houses we could consider for rental, (b) we would be unlikely to find suitable housing at all, since houses without pools would probably have major defects or unacceptable living conditions, and (c) we would discriminate against AID personnel vis-a-vis other U.S. government personnel at post.'

"In addition, the public pool cited in the GAO report was found to be empty much of the year, and unsafe for children particularly, since minimum depth is two meters. Public pools in the tropics also generally carry a serious, high risk of disease from poor sanitation practices.

"As the report states, AID had established a policy to curtail leasing of pool equipped housing, including specific allowable exceptions. In addition, AID is reaffirming with the Department of State its policy in regard to leases which include pools, to clearly exclude leasing arrangements for the specific purpose of including a swimming pool. Other aspects of leased housing standards are also being reviewed."

In a similar situation, AID's Auditor General, in May 1977, questioned Upper Volta's practice of providing residential quarters with swimming pools for any staff member who wanted one. In one case the Auditor General's staff reported that midway through a lease the Upper Volta mission arranged to have a pool installed and paid for the installation through increased monthly rental payments. At that time, the lease had 15 months remaining and resulted in the U.S. Government paying an additional \$3,000. The lease was extended another 3 years, costing an additional \$7,200 as a result of the pool installation.

After the Auditor General's review, the housing policy in Upper Volta was revised to prevent this situation from recurring.

RECOMMENDATIONS

To use operating expense funds more prudently, we recommend that the Administrator (1) insure that regulations and procedures governing the expenditure of funds are strictly enforced and (2) curtail the leasing of residences that include such luxury items as swimming pools.

To achieve greater oversight and control of operating expenses within AID's decentralized method of operation, we also recommend that the Administrator intensify internal audits of overseas missions. Particular emphasis should be given to reviewing the missions' use of operating expense funds and their budget formulation process.

AGENCY COMMENTS

AID advised us that the specific cases of questionable or unauthorized uses of funds are being investigated. Additionally, the following actions will be taken:

- Current practices of field missions will be audited and reviewed in the coming months and improvements effected as required.
- Washington overview will be strengthened in terms of policy and refinement of instructions.
- Expenditure proposals will be examined in more detail.

--Particular attention will be given to improve control over capital acquisitions to assure their appropriateness.

CHAPTER 4

MANAGEMENT AND CONTROL OF NONEXPENDABLE PROPERTY

As of September 30, 1977, AID estimated that its investment in nonexpendable personal property was \$5.2 million in Washington and \$15 million ^{1/} overseas. Nonexpendable personal property is that property which (1) does not lose its identity when used, (2) is not consumed in use and has a useful life beyond 1 year, and (3) has sufficient value to justify the maintenance of property records for control and disposition.

AID needs to more effectively manage and control its nonexpendable personal property in Washington and overseas. We identified numerous weaknesses in acquiring, using, disposing, and safeguarding AID's nonexpendable property.

In the case of overseas property management, the weaknesses resulted not from a lack of guidance, but from failure to adhere to existing guidance and procedures. In Washington, where a high concentration of nonexpendable property exists, the weaknesses resulted largely from an absence of adequate guidance and a lack of personnel. With respect to property management in Washington, the October 1977 Coopers & Lybrand Management Operations Study stated that:

"The Personal Property Management Branch is not in compliance with federal property regulations concerning personal property inventory reconciliation; in fact, it does not have the personnel available to accomplish such an inventory or to properly update records on a continuous basis."

NEED FOR PROPERTY MANAGEMENT AND CONTROL

The magnitude of AID's investment in nonexpendable personal property dictates that these resources be accounted for by using all appropriate techniques, including reliable property records.

^{1/}In December 1977 AID officials told us this is the most current dollar value of overseas property for all but 16 missions.

Property records are the primary data source for determining the quantities and value of nonexpendable personal property held by AID. The property record card is the basic control document of AID's property accountability system. Consequently, complete and accurate property records are essential for managing property disposals, procurements, and use, and preventing excess accumulations.

Property management in Washington

AID lacks effective management and control over its nonexpendable personal property in Washington because

- property records are incomplete,
- property records have not been verified for accuracy by a physical inventory in more than 3 years, and
- AID has not given its personnel adequate property management guidance.

We found several nonexpendable property acquisitions that were not recorded on property records. This resulted primarily because property was delivered directly to requisitioners rather than to the AID warehouse, which is the central receiving and record preparation point for all Washington property.

For example, a \$14,130 paper folding and inserting machine purchased for a Washington office in June 1976 was not recorded on the inventory records in August 1977.

A similar situation exists for security equipment that was purchased for overseas missions with Washington operating expense funds. We noted that even though the equipment is procured using Washington funds and stored in Washington, it is not recorded on Washington property records.

AID has not made a physical inventory of its Washington property and reconciled its records since June 30, 1974. AID officials advised us that a physical inventory was made in 1975 but, because of personnel shortages, the count was never fully reconciled with existing records.

Regular physical inventories are necessary to ascertain the status of nonexpendable property situated in Washington and to assure good management control for determining requirements and evaluating current property usage. AID began in December 1977 to make an immediate physical inventory, identify excess property, and reconcile its property records.

We identified that little, if any, written guidance was provided to the property management personnel in Washington. The guidance being used had not been updated to reflect organizational changes and responsibilities since 1972. In contrast, personnel overseas were provided very detailed written instructions for managing and controlling personal property. Without similar formal guidelines for Washington, misunderstandings and improper or inconsistent interpretations of AID policies will continue.

We believe these deficiencies raise serious questions regarding AID's management and control of nonexpendable property in Washington. Until better controls and physical inventories are made, there is little assurance that AID's property is being adequately accounted for or properly safeguarded.

Property management overseas

A number of problems were also identified in AID's nonexpendable property management overseas. In some missions, we found that

- property records were incomplete,
- authorized types and quantities of property items had not been established, and
- utilization reviews had not been made.

Many of these problems were attributed to AID's failure to follow established policies and procedures. Overseas personnel were generally not posting maintenance and repair data to property record cards. Furthermore, many property records failed to show the physical locations of the property and serial numbers for such items as freezers, refrigerators, stoves, and washers and dryers. Without this data, it is difficult, if not impossible, for AID to properly plan for replacement or adequately safeguard property against unwarranted use or loss.

Many overseas missions had neither developed formal guidelines as to the type and quantities of household and office furnishings and equipment that would be provided nor implemented AID's property replacement program guidelines. AID regulations require missions to establish a planned replacement program for both office and residential furnishings.

Our review showed that the AID mission in Kenya had no systematic program for replacing household furnishings. The mission replaces furnishings when it feels that the furnishings are past their useful life. To illustrate, the Kenya mission director said that when he arrived in Kenya in 1976, he decided that all household furniture at the post had exceeded its useful life and began replacing all furniture and appliances.

Because of this recent large-scale furniture replacement program, the Kenya mission disposed of large amounts of home furnishings, not necessarily because of its poor condition, but because it had become excess to their needs. We were told that two sets of furniture were moved to other AID posts, and that some employees were allowed to retain some of their old furniture.

AID regulations also require the mission property management officer to establish and maintain a property utilization program to obtain maximum use of property at overseas missions. This program involves periodic joint inspections with other mission representatives to locate idle property which, if found, is to be redistributed or disposed of.

The Latin American missions we visited were not making utilization reviews and excess property was not being identified or reported for redistribution. The following examples illustrate the conditions we encountered:

--In Bolivia the AID mission still had the following items in their warehouse after furnishing all 40 leased residences:

- 13 hot water heaters.
- 21 refrigerators.
- 25 cooking stoves.

--In Honduras there were 53 typewriters even though there were only 17 personnel positions classified as administrative/secretarial.

--In Guatemala there were 113 typewriters and mission officials agreed that only 40 to 50 personnel had job descriptions justifying the need. We were advised that some classes are scheduled for orderly reduction in 1978.

--Also in Guatemala, there were 24 automobile tires in the warehouse that were over 5 years old and did not fit any of the vehicles in the mission's fleet. Mission officials advised us that the surplus tires will be included in the next disposal sale.

AGENCY EFFORTS TO IMPROVE CONTROL OF NONEXPENDABLE PROPERTY

In early 1974 AID began developing three automated management information systems to better control its overseas resources: (1) motor vehicles, (2) real property, and (3) personal property.

AID began using the motor vehicle system in October 1975. The system provides analytical data on overseas vehicles such as types, quantities, and physical locations. In July 1977 guidance was issued to the overseas missions requiring them to submit data on AID's real property. In December 1976 AID began using the personal property system which provides data on overseas office and residential furniture and equipment. This was the first attempt to computerize the worldwide inventory. AID plans to use this information system to analyze mission inventory requirements. When the system is completely operational, receiving and disposal documents submitted by the missions will be used to maintain inventory data on a perpetual basis.

As of December 1977, 16 missions had not provided their September 30, 1977, inventories for incorporation into the system. Also during our review, we identified instances where data was incorrectly entered into the system. We believe the system would be more useful to AID management if it also included property located in Washington.

RECOMMENDATIONS

It is incumbent on AID to improve the management and control of its nonexpendable property. We believe the problems noted are avoidable and indicate that existing

practices in Washington and at overseas missions must be changed. We therefore recommend that the Administrator of AID insist that

- its personnel make regular physical inventories of Washington property and make reconciliations with the property records;
- written guidelines, similar to those for overseas operations, be established for managing and controlling Washington property;
- AID regulations requiring establishment of replacement programs and utilization reviews be followed; and
- standards be established for issuing office furniture and equipment.

AGENCY COMMENTS

AID shares our concerns over the problems in managing its nonexpendable personal property. An inventory of Washington property has been taken and will be reconciled with property records. Afterward, Washington property inventories will be added to the overseas automated inventory system. We were assured that missions' compliance with AID and Federal regulations covering acquisition, issue, use, and disposal of property will be carefully reviewed.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Auditor General

January 11, 1978


Mr. James A. Duff, Associate Director
International Division
U. S. General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Duff:

Thank you for providing the draft General Accounting Office report, "Improved Management Needed Over AID's Operating Costs," for Agency comment. The report has been of considerable interest to the Administrator and other AID management officials. AID has already taken steps to improve its management of operating expense funds and will continue to make further improvements. Attached are our comments on the areas covered by your draft report for consideration in preparing the final report.

If we can be of any further assistance in this matter, please call on us.

Sincerely,


Joseph R. Raymond
Acting

Enclosure

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Agency for International Development Comments on the GAO
Draft Report, "Improved Management Needed Over AID's
Operating Costs," Dated December 23, 1977

A.I.D. has reviewed the subject draft, and our general and specific comments follow, including Agency actions taken or proposed in regard to the report's recommendations.

In addition to a wide variety of steps taken by A.I.D. over the past months to improve its management of operating expense funds and property, the Administrator has specifically directed the Auditor General to closely examine specific cases of non-compliance cited in the report, including apparent excessive expenditures on leased property, and to identify corrective action. In addition, a program of management audits of overseas missions is now underway to ensure that operating expense funds and U.S. government property are appropriately controlled and administered. These audits will constitute a management technique additional to the more intensive budget justification and review processes which are also being instituted.

Regarding the three summary topics of the GAO report and related recommendations, we have the following comments:

1. Budget Review

The operating expense budget concept where all administrative costs are lodged in a single account is relatively new to A.I.D. As a result A.I.D. did not assign the amount of staff time needed to develop criteria and procedures for a systematic analysis of operating expense items at all levels - mission, regional, and central. A major A.I.D. effort to identify and correct operating expense deficiencies has been assisted by the recent Coopers & Lybrand Study of A.I.D.'s Bureau for Program and Management Services.

A.I.D. has now significantly expanded the informational content of budget submissions together with other steps to permit more effective review in Washington, commencing with the Congressional Presentation. We have increased budget management staffing and are continuing to examine staff resources in AID/W to identify a level of personnel numbers and competence which will continue to adequately provide for this review of proposed expenditures and levels of budget requirements. We also intend to take steps to insure greater staff continuity.

2. Use of Operating Expense Funds

While we are investigating specific cases of apparently questionable or unauthorized uses of funds, the Administrator has directed audit and review in the coming months of field Missions to determine current practices and effect improvements as required. In addition, Washington overview is being strengthened, in terms of policy and refinement of instructions, and examination of more detailed expenditure proposals during the fiscal year, following budget approvals. Particular attention is being given to control over capital acquisitions, to assure ourselves of their appropriateness.

3. Non-Expendable Property Management

We share GAO's concern over the problems in this area, both overseas and in Washington. A current inventory of Washington property has now been completed and reconciliation with accountable property records is being undertaken. We are also developing better guidelines for domestic property management.

The previously cited reviews of overseas posts will include careful attention to Mission compliance with Agency and Federal regulations, and to the establishment of adequate local policies and procedures regarding acquisition, issue, use and disposal.

A.I.D. generally concurs in the recommendations contained in the draft report. Specific comments on the swimming pool recommendation and other details of the GAO report are attached.

Attachment:

Agency comments on GAO Draft Report

ATTACHMENT TO AID RESPONSE TO GAO DRAFT REPORT ON OPERATING COSTSSpecific Comments on Findings and Recommendations--Honduras Aircraft Lease (page 9)

As a general matter, we agree that such large investments in capital items should be included in AID/Washington oversight of field procurement.

With respect to the aircraft in Honduras, funds for operation and maintenance of the plane over the two-year period cited by the report came from the operating expense account. However, the actual lease of the plane was executed by the Mission in 1965 with "technical support" funds, a category of program funds historically used for multiple-project costs. The appropriation available at that time for "administrative" costs was not utilized pursuant to the criteria then governing the use of such funds. The "operating expense" funding category has been used only since 1976 and is much broader than the previously used "administrative" category in that it includes costs previously attributed to "technical support".

--Bolivia Mission Gas Cooking Grill (page 19)

We agree that this purchase for the use of the Mission Director was contrary to published Agency regulations, and AID is taking action to remedy this inappropriate use of operating expense funds.

--Swimming Pools in U.S. Government Leased Residences (page 23)

The Auditor General's review of the Mali Mission (Cable Nairobi 16697) found that housing units available to rent which included adequate plumbing and other reasonable facilities also generally are built with swimming pools, and elimination would severely hamper the leasing of adequate housing comparable to that occupied by other donors. Ambassador Byrne's statement for the record is as follows:

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without pools, (a) we would limit severely the number of potential houses we could consider for rental, (b) we would be unlikely to find suitable housing at all, since houses without pools would probably have major defects or unacceptable living conditions, and (c) we would discriminate against AID personnel vis-a-vis other U.S. government personnel at post."

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--Non-Expendable Property Value (page 32)

The GAO report refers to delinquent reporting of property value to Washington by 16 Missions. In 14 of these Missions there are Joint Administrative Offices under control of Embassies in which AID property records, required to be separate by the Federal Property Management Regulations, are nonetheless expected to be maintained by State Department support operations. This specific shortcoming in maintenance of accurate worldwide inventories has been a perennial one, and is now being taken up with State Department management officials in Washington.

--Automation of Washington Inventory (page 32)

Records of domestic property inventories will be added to the existing overseas system following reconciliation of the current physical inventory, which is currently in process.

PRINCIPAL OFFICIALS RESPONSIBLE FOR
ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF STATE

SECRETARY OF STATE:

Cyrus R. Vance	Jan. 1977	Present
Henry A. Kissinger	Sept. 1973	Jan. 1977

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR:

John J. Gilligan	Mar. 1977	Present
John E. Murphy (acting)	Jan. 1977	Mar. 1977
Daniel S. Parker	Oct. 1973	Jan. 1977

ASSISTANT ADMINISTRATOR, BUREAU
FOR PROGRAM AND MANAGEMENT
SERVICES:

Donald S. McDonald	July 1977	Present
Charles A. Mann	May 1975	July 1977

(47147)