Audit of USAID/Honduras' Executive Office Operations

Audit Report No. 1-522-02-013-P

September 12, 2002

San Salvador, El Salvador

RIG/San Salvador

September 12, 2002

MEMORANDUM

FOR: USAID/Honduras Director, Paul Tuebner

FROM: Regional Inspector General, Timothy E. Cox

SUBJECT: Audit of USAID/Honduras' Executive Office Operations (Report No. 1-522-02-013-P)

This memorandum is our draft on the subject audit.

Management's comments on the draft report were considered in preparing this report. They are included for your reference in Appendix II.

This report contains 11 recommendations. A management decision has been made for Recommendation Nos. 1, 2, and 4 through 11. The Office of Management Planning and Innovation will make a determination of final action regarding Recommendation Nos. 1, 2, 7, 9, and 11 after they have been completely implemented. Final action has been taken on Recommendation Nos. 4, 5, 6, 8 and 10 and they will be closed upon issuance of the report. Recommendation Nos. 3 remains open.

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

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Summary of Results

The Regional Inspector General/San Salvador added this audit to its fiscal year 2002 audit plan at the request of USAID/Honduras management. RIG/San Salvador performed this audit to determine whether USAID/Honduras performed its Executive Office (EXO) operations in accordance with USAID policies and applicable laws and regulations (see page 6). The audit covered EXO operations in the areas of (1) procurement, (2) lease management, (3) warehouse and supply room management, (4) motor pool, and (5) personnel. The audit found that the mission performed many Executive Office functions in accordance with USAID policies and applicable laws and regulations:

- In the area of procurement, the audit found that: there were appropriate procurement specifications and competition, as required.

- For the mission's management of leases, the audit found that basic requirements for leases were met regarding (a) residency of landlords, (b) security inspections of prospective leased properties, (c) landlord-paid security upgrades, (d) periods of leases, and (e) housing assignments.

- With respect to the warehouse, in general, the warehouse was secure, good storage practices were followed, physical counts showed that inventory records and bin cards were accurate. Also, with respect to the supply room, the supply room was secure and good storage practices were generally followed.

- In the motor pool, trip reports were filed and vehicle maintenance was regularly performed.

- Regarding personnel management, the mission was revising and updating its hiring and personnel policies and procedures (see pages 6 and 7).

However, the audit also found that:

- Procurement planning for expendable property needed improvement.

- The possibility of purchasing (versus leasing) office space should be evaluated.

- Utility expenses were not being effectively monitored.

- There was inadequate separation of duties for the supply room and leases.

- Auction proceeds should be immediately deposited in a bank account.

- An annual supply room inventory was needed.

- Motor pool management needed improvement.

- Personnel hiring boards only included Foreign Service National (FSN) personnel.

- Better monitoring of personal usage of office phones was needed.

- Cellular phone policy needed review.

- Long distance calling card usage needed review (see pages 8 through 14).

The overall cause of these problems was an absence of adequate supervision. This resulted in normal USAID procurement and management policies and procedures not being followed.

The report contains recommendations that USAID/Honduras establish mission policies which will establish adequate management controls, and establish appropriate separation of duties where needed.

USAID/Honduras agreed with all the report's findings. The mission's comments are included in their entirety as Appendix II.

Background

USAID/Honduras' Executive Office (EXO) is the focal point for administrative operations at the mission. The EXO staff includes an Executive Officer, and individual specialists that supervise personnel, procurement, leases and maintenance, warehouse and supply room, and motor pool.

This report focuses on USAID/Honduras' performance of EXO operations for the period from April 1, 2001 through March 31, 2002. During this period, the EXO managed (1) procurements valued at $1.1 million,[1] (2) leases and maintenance for 23 homes, (3) assets in the warehouse valued at $5.8 million, (4) a mission workforce of 101 personnel, and (5) a motor pool fleet of 22 cars.

USAID/Honduras has been without a permanent Executive Officer for the last two years. During this period, these responsibilities were performed by three personal service contractors that served as acting Executive Officer, and by other mission officers substituting as Executive Officer. In light of the changes in management during this period, the mission requested that RIG/San Salvador conduct an audit to determine if proper procedures were being followed for EXO operations. The audit covered EXO operations in (1) procurement, (2) lease management, (3) warehouse and supply room property management, (4) motor pool, and (5) personnel.

[1] This includes $142,200 in procurements funded by trust funds (trust funds are local currency accounts owned by the host country, and used to support USAID operations). These funds were converted at the rate of 16 lempiras per U.S dollar for audit purposes.

Audit Objective

The Regional Inspector General/San Salvador added this audit to its fiscal year 2002 audit plan at the request of USAID/Honduras. The audit was performed to answer the following audit objective:

- Are USAID/Honduras' Executive Office operations performed in accordance with USAID policies and procedures and applicable laws and regulations?

Appendix I describes the audit scope and methodology.

Audit Findings

Are USAID/Honduras' Executive Office operations performed in accordance with USAID policies and procedures and applicable laws and regulations?

USAID/Honduras' Executive Office (EXO) operations were performed in accordance with USAID policies and procedures and applicable laws and regulations except for the problem areas noted in the following sections of the report.

The audit covered EXO operations in (1) procurement, (2) lease management, (3) warehouse and supply room management, (4) motor pool, and (5) personnel. The audit showed that many EXO functions were performed correctly:

- In the area of procurement, the audit found that (a) appropriate specifications were provided for procurements, (b) required competition in the procurement process was obtained, (c) documentation to support the use of simplified acquisition was provided, (d) the purchase order forms were correctly prepared and approved, and (e) there was evidence of receipt of items procured.

- For the mission's management of leases, the audit found that (a) landlords were host country residents and no off-shore lease payments were made, (b) each prospective leased property underwent an inspection by the Regional Security Office prior to the execution of the lease, (c) required security upgrades were paid by the landlord and a condition of the execution of leases, (d) period of the leases were for five-year terms, and (e) employees were assigned housing according to their rank and family size.

- With respect to the warehouse: (a) inventory records were in agreement with the physical inventory count, (b) the warehouse was secure, (c) good storage practices were generally followed, and (d) bin cards were used and were accurate. Also, with respect to the supply room: (a) the supply room was secure and (b) good storage practices were generally followed.

- In the motor pool, trip reports were filed and vehicle maintenance was regularly performed.

- With respect to the mission's personnel management, the mission was revising and updating its hiring and personnel policies and procedures.

However, improvements were needed in several areas, as explained in the following sections of the report.

- Procurement planning for expendable property needed improvement.

- The mission needed to determine whether purchasing office space would be more economical than leasing.

- The mission has not determined acceptable residential utility usage rates and does not have a policy of notifying employees when there are unreasonably large increases in utility usage.

- There was not an appropriate separation of duties for the supply room and leases.

- Auction proceeds needed to be immediately deposited into bank accounts.

- In the supply room for expendable property there were disparities between the physical stock on hand and inventory records, and a physical inventory was needed.

- Required motor pool vehicle reports were not being prepared.

- Approximately half of personnel hiring boards during the audited period only included Foreign Service National (FSN) personnel.

- Personal use of office phones needed better monitoring.

- Cellular phone policy needed review.

- Changes were needed in long distance phone services.

Improved Procurement Planning
Is Needed for Expendable Property

The Supply Room Supervisor stated that he makes expendable property orders every six months, based upon his observation of inventory levels. However, two of the 21 categories that were judgmentally selected showed the need for improved procurement planning. Excess property auction records showed that the mission purchased 31 tires that were later sold at auction for a total of $1,181, an average of $38 each, while purchase prices for tires ranged from $74 to $119. In addition, 50 printer cartridges were purchased from a local supplier in Honduras in September 2001 at a cost of $4,625. But, at the time of the audit (seven months later in April 2002) a physical inventory showed that 67 printer cartridges were still in inventory. This shows that this order exceeded six months' needs. The work order used to request this procurement did not show mission usage rates to justify this procurement quantity. This occurred because mission purchases were not based upon an assessment of usage rates. As a result, mission funds were used to purchase items that were not immediately needed and subsequently sold at a loss, an inefficient usage of USAID resources.

Recommendation No. 1: We recommend that USAID/Honduras use mission usage rates to establish inventory threshold levels for making orders of expendable property.

Mission Should Evaluate Whether Purchased Office Space Would Be More Economical

The *Federal Manager's Financial Integrity Act* states that management must ensure that funds, property, and other assets are safeguarded against waste. The mission currently leases a 55,159 square foot building that it has occupied since 1982. The current lease is for nine years from September 1, 2000 to August 31, 2009, and the lease terms permit the mission to terminate the lease at any time with 30 days' notice. Total payments for the entire nine-year term of the lease will equal $3,834,736, not including an optional nine-year extension which, if exercised, would bring total payments under the lease to $8,417,599. The lease makes the mission responsible for all regular maintenance, excluding elevator maintenance, thus imposing responsibilities similar to those that the mission would have if it owned the building.

The mission is currently downsizing due to the completion of the Hurricane Mitch Reconstruction program and, therefore, must reevaluate its space requirements in light of these changes. The mission has not explicitly examined the relative costs and benefits of alternative office space that could be constructed, purchased, or leased in Tegucigalpa. As a result, USAID may be paying more than necessary for the office space that it needs.

Recommendation No. 2: We recommend that USAID/Honduras perform a cost analysis regarding the alternative costs of constructing, purchasing, or leasing office space in Tegucigalpa, Honduras based upon its projected space requirements after downsizing, and determine if moving to alternative space would be more cost effective than remaining in its present space.

Acceptable Utility Usage Rates for Residences Should Be Established

Foreign Affairs Manual (FAM) section 6 FAM 717.9-2 *Residential Cost Controls for Utilities* states that the Executive Officer for USAID is responsible for ensuring that costs of utilities for U.S. Government-held residences are carefully controlled and held to reasonable levels. Although the mission kept a record of utility costs for each residence, usage rates by household were not tracked for highs and lows to track variances and establish acceptable use rates. Also, the mission did not have a policy for notifying employees in the event of large increases in utility usage. This occurred because mission employees were not aware that this should be done. As a result, excess utility usage, which could be adjusted by changes in employee habits, or which could be the result of problems with the house or utility theft, may not be corrected.

> **Recommendation No. 3: We recommend that USAID/Honduras track employee utility usage, establish normal usage rates, and notify employees when usage exceeds the established normal range.**

Separation of Duties Needed for Supply Room and Leases

The Foreign Affairs Manual section 6 FAM 221.2 *Personal Property Management for Posts Abroad – Delegated Responsibilities – Separation of Duties* – states " A sound management control system must ensure that no one individual is in the position to control all aspects of any transaction affecting the receipt, storage, or disposition of expendable or non-expendable personal property. In the absence of a desired separation of duties, the accountable property officer shall conduct a management review at least twice a year. Duties which are to be separated whenever possible are procurement, receiving, payment, property record keeping, and conducting an annual physical inventory." In USAID/Honduras, the supply room manager works alone, with no support staff. When he is absent, there is no substitute for this employee, and supply room tasks are not performed. This occurred because mission management did not ensure that another employee was trained to substitute in this position. This situation violates the internal control principles outlined in the above criteria. Having one employee with complete control of assets makes it more difficult to detect any possible irregularities in the accounting for the property maintained by that employee. Another individual should be trained to substitute when the supply room manager is absent.

Additional criteria regarding the area of separation of duties is provided in the General Accounting Office's *Standards for Internal Control in the Federal Government,* which states that no one individual should be allowed to control all key aspects of a transaction or event. With respect to leases, the employee responsible for selecting houses to become part of the mission's housing pool is also responsible for negotiating rental amounts and leases for these houses. This absence of separation of duties occurred due to an absence of mission management oversight in this area. The conflicting responsibilities described above create an unnecessary vulnerability to potential irregularities.

Recommendation No. 4: We recommend that USAID/Honduras implement appropriate separation of duties for personnel in property management positions, and train alternate personnel to fulfill their duties.

Auction Proceeds Should Be Immediately Deposited in Bank Accounts

The General Accounting Office's *Standards for Internal Control in the Federal Government* states that organizations should limit access to assets such as cash which might be vulnerable to risk of loss or unauthorized use. In our opinion, compliance with this guidance would require that cash receipts from auctions be immediately deposited into a bank account to minimize the risk of loss or theft. However, net proceeds from mission excess property auctions were not being deposited immediately to the mission's local bank account. Instead, net proceeds from the auctions held during the audit period were being stored in the mission safe. In April 2002, the local currency equivalent of approximately $36,000 from the February 2002 auction was being held in the mission safe. This occurred due to the absence of mission management oversight in this area. The mission employee responsible for custody of these funds stated that auction proceeds were left in the mission safe until auction expenses are paid from the proceeds, and that these expenses are to be paid in cash. As a result, the funds held at the mission were subject to loss or theft, and interest that could offset the local currency's devaluation against the U.S. dollar was lost. The mission should deposit auction proceeds into its local bank account immediately after an auction.

Recommendation No. 5: We recommend that USAID/Honduras establish excess property policies and procedures to (1) require the immediate deposit of auction proceeds into the mission's local bank account, and (2) pay auction expenses from this account.

Annual Physical Inventory of Supply Room Should Be Done

Foreign Affairs Manual section 6 FAM 226.1 (a) *Physical Inventory and Reconciliation* requires physical inventories of all property once per year. Section 6 FAM 226.2 (c) further states that if possible, the individual responsible for property records maintenance, generally, shall not participate in the physical inventory count, to maintain adequate separation of duties. However, an annual physical inventory of the supply room (expendable property) had not been performed since 1999. Such an inventory would involve reconciliation between the physical inventory count and property record balances. The extra workload resulting from Hurricane Mitch activities was stated to have prevented the inventory from being performed. However, in our opinion, this is not a reasonable explanation. It appears that the absence of mission management oversight in this area permitted inventories to not be performed. The lack of physical inventories allows missing items, and those improperly accounted for, to go undetected. In our physical inventory of 104 categories of supply room items, 18 percent were not within plus or minus 5 percent of the quantity listed on the inventory report. A physical inventory should be done this fiscal year.

> **Recommendation No. 6: We recommend that USAID/Honduras conduct a supply room physical inventory this fiscal year, and annually thereafter. These inventories should be performed by someone other than the supply room manager.**

Motor Pool Operations Need More Effective Management

ADS 536.3.14.1 (c) and (d) *Use and Control of Official Vehicles – Mission Records and Reports* requires that the motor pool prepare monthly reports on Automobile Operating Expenses (Form AID 5-237) and periodic reports on Dispatch Analysis (AID 540-3). These reports give information on vehicle usage and maintenance expenses. The motor pool supervisor stated that these reports are not being prepared. Some alternative reports on vehicle usage and expenses were being prepared but were not considered by the acting Executive Officer to be useful as management tools. As a result, the mission does not have the required information to manage the efficiency of its fleet of motor pool vehicles. To illustrate, our analysis of fuel usage rates for a judgmentally selected sample of six vehicles for the month of February 2002 showed that the vehicles had fuel usage rates ranging 7 to 10 miles per gallon, primarily in city driving. However, gas mileage information obtained from a publicly available source on the particular models used by the mission showed that city gas mileage should be from 12 to 17 miles per gallon. Though there are many possible explanations, this variance helps show why monitoring of fuel efficiency is needed. Preparation of the required reports by the motor pool supervisor would facilitate the regular performance of such monitoring.

> **Recommendation No. 7: We recommend that USAID/Honduras comply with USAID regulations regarding the preparation of motor pool reporting and monitor the efficiency of its motor pool operations.**

Mission Employment
Panels Were Not Representative

USAID Acquisition Regulation (AIDAR) Appendix J, section 4. (b) *Limitations on Personal Service Contracts* regarding Foreign Service National employees, states that they may participate in personnel selection matters but may not be delegated authority to make a final decision on personnel selection. However, mission managers stated that, in the past, many review panels to hire new Foreign Service National (FSN) personnel did not include any U.S. Direct Hire (USDH) personnel. Our review of available records for new personnel hired during the audit period showed that half of the review panels for new FSN personnel were made up entirely of FSN personnel. This was caused by an absence of mission management oversight. As a result, in these cases, no USDH personnel were involved in the hiring of personnel, one of the most critical management functions in the mission. During our audit the mission drafted, but had not finalized, a new policy regarding the composition of employment review panels. They stated that the new policy will require that USDH personnel be members of all future employment review panels.

> **Recommendation No. 8: We recommend that USAID/Honduras implement policies and procedures to include U.S. Direct Hire personnel on all personnel hiring boards.**

Better Monitoring
Needed for Personal Phone Usage

Foreign Affairs Manual section 5 FAM 513.1 *Local Calls* specifically limits the nature of phone calls which can be made from an office phone and generally states that all personal calls should be brief. An analysis was performed regarding personal calls made by mission employees from office phones. Mission phone records for the month of February 2002 were obtained and it was determined that there were 101 employees, each of whom had an individually identifiable record of phone usage. For audit purposes, we interpreted a brief call to be 10 minutes or less. The analysis showed that 65 employees made no personal phone calls in excess of 10 minutes, and 26 employees made 5 or less phone calls exceeding 10 minutes during this period. However, 9 employees made more than 5 personal calls in excess of 10 minutes. The highest total of personal calls was 14 phone calls, and 65 minutes was the longest duration phone call. In summary, the majority of personnel do not abuse the use of office telephones. However, several employees used a material amount of work hours making personal phone calls, which is a misuse of government resources. This resulted from an absence of management oversight in this area.

Recommendation No. 9: We recommend that USAID/Honduras notify employees of the regulatory limitations on the acceptable use of office telephones.

Cellular Phone Policy Should Be Reviewed

Foreign Affairs Manual section 5 FAM 513.6-2 *Cellular Telephones at Post* states that the use of cellular phones is acceptable, but also states that the cost of cellular phone service must be evaluated when implementing their use. We reviewed the mission's cellular phone billings for the period November 29, 2001 to February 28, 2002. This analysis showed that many USDH personnel and supervisory-level FSN staff were provided cellular phones. However, we did not find evidence that the mission conducted an evaluation to determine those employees that needed a cellular phone. As a result, there may not be a valid business purpose for providing cellular phones to all these personnel. The basic fees for providing cellular phone service for these staff was approximately $3,006 for the four-month period reviewed, resulting in an annualized rate of approximately $9,000, excluding call charges. If cell phones were provided only to the mission's seven motor pool drivers, basic fees on an annual basis would be limited to approximately $2,200, resulting in an annual savings of about $6,800.

Recommendation No. 10: We recommend that USAID/Honduras conduct an analysis to determine those personnel requiring cellular phones for their work duties and limit mission-provided cellular phones to those employees.

Policy for Calling Card Usage Should Be Established

Automated Directives System 633 *Long Distance Calling Policy and Telephone System Information* applies to USAID/Washington and states that missions are encouraged to develop policy and guidelines for their staff. We did not find a mission policy in this area. The mission's long distance records for two months were analyzed. This analysis showed that the mission has one direct phone line through the U.S. Embassy. This direct line enables the mission to make calls to the Washington, D.C. metropolitan area as U.S. local calls, and make long distance calls using calling cards as if they were made from the U.S. However, the audit showed that the mission did not always use this service. This occurred because mission personnel stated that this line was not always available when needed, and that calls were urgent and could not wait until the line was available. Due to its low expense, our opinion is that the mission should use this direct line whenever feasible. The mission uses AT&T calling cards for making long distance calls outside of the Washington, D.C. area using the direct U.S. Embassy line, and for making calls to the U.S. directly from Honduras. A judgmental sample of calls showed that calls made through the U.S. Embassy line using the AT&T calling card were billed at an average rate of $1.28 per minute (at rates ranging from $0.92 to $2.14 per minute), while calls made from Honduras with this card averaged $5.09 per minute (at rates ranging from $2.44 to $5.29 per minute). Publicly available information showed that calling cards are available with U.S. calling rates from $0.04 to $0.08 per minute. Using a rate of $0.15 per minute, our calculations showed that the mission could save approximately $24,000 per year by limiting all calls to the U.S. Embassy direct line. These savings could be achieved by either negotiating a more competitive rate with AT&T or switching to a more economical calling card provider. In addition, this analysis showed that AT&T billed the mission in whole minutes instead of the actual times of the calls. Fractional minutes can add substantial time to the bill.

Recommendation No. 11: We recommend that USAID/Honduras establish a mission policy regarding long distance telephone calls, to include a requirement that the U.S. Embassy direct line be used for calls to the U.S., except in extraordinary circumstances.

Management Comments and Our Evaluation

USAID/Honduras agreed with the recommendations in this report, and management decisions have been made for Recommendation Nos. 1 and 2, and 4 through 11. The Office of Management Planning and Innovation will determine final action after Recommendation Nos. 1, 2, 7, 9, and 11 have been implemented. Final actions have been taken on Recommendation Nos. 4, 5, 6, 8 and 10. Those recommendations are closed upon issuance of this report. Recommendation Nos. 3 remains open.

Management comments were included in their entirety in Appendix II.

Scope and Methodology

Scope

The Regional Inspector General/San Salvador conducted an audit of USAID/Honduras' Executive Office (EXO) operations. The audit was performed in accordance with generally accepted government auditing standards at USAID/Honduras from April 1 to 26, 2002.

The audit examined USAID/Honduras' EXO operations in procurement, leases and maintenance, warehouse and supply room, motor pool and personnel for the period April 1, 2001 to March 31, 2002. It did not cover any other USAID/Honduras EXO operations.

We used statistical sampling techniques to draw most of the samples used in this audit. A 95 percent confidence level with plus or minus 4 percent precision limit and expected occurrence rate of 5 percent was used for all samples, except for a 5 percent precision limit used for the warehouse sample. In addition, we judgmentally selected some items based upon their value. In these instances, the items selected judgmentally were excluded from the respective populations of transactions prior to determining sample sizes.

For procurements, this resulted in a sample of 50 vendors, in addition to 15 judgmentally selected vendors. The sample of warehouse items was 60 categories of property. In the mission's supply room 75 property categories made up the sample, in addition to the 21 categories that were judgmentally selected. One hundred percent reviews were performed for leases and motor pool.

We assessed the mission's risk exposure and control effectiveness over EXO processes in procurement, leases and maintenance, warehouse and supply room, motor pool and personnel. We interviewed USAID/Honduras officials and reviewed the mission's October 2001self-assessment of its compliance with the Federal Manager's Financial Integrity Act of 1982. The following mission controls over procurement, leases and maintenance, warehouse and supply room, motor pool and personnel were then assessed:

<u>Procurements</u>:

- Requests were documented by requisitions.
- Work orders were approved by the Executive Officer prior to preparation of purchase orders.
- The Executive Officer approved all purchase orders.

<u>Leases and maintenance</u>:

- All housing was approved by the Regional Security Officer.

- Housing was approved by the interagency housing board.

Warehouse and Supply Room:

- Annual physical inventory was performed.

- Property movements were controlled through the use of work orders, purchase orders, receiving reports, and disposal reports.

Motor pool:

- Requisitions were used of for the purchase of gas.

- Vehicle mileage was monitored for trips.

- Vehicle field trip logs were used for trips outside Tegucigalpa.

- Official forms were used to reserve a vehicle.

- A maintenance and a permanent file was maintained for each vehicle in the motor pool.

Methodology

The audit objective was to determine if USAID/Honduras' Executive Office operations were performed in accordance with USAID policies and applicable laws and regulations. Specifically we reviewed EXO operations in procurement, leasing, warehouse and supply room, motor pool and personnel.

In examining procurement, we used queries developed by USAID/Honduras' Chief Accountant to obtain from the Mission Accounting and Control System (MACS) a list of all procurement actions initiated by USAID/Honduras during the period April 1, 2001 to March 31, 2002 and sorted this list by agent code to determine all procurements made by vendor for the period under audit.

In examining procurements, we reviewed a random sample of procurements for 50 vendors during the period under audit. In addition, we reviewed a judgmental sample of 15 vendors that had received blanket purchase agreements (BPAs) based upon a specific request by mission management that these procurements be reviewed. The population of all vendors receiving procurements during the audit period and the sample of vendors and vendors receiving BPAs we reviewed are compared in the following table:

Population	Number	Amount (millions)
Vendors	97	$1.1
Total	97	$1.1

Sample	Number	Amount (millions)
Vendors	50	$0.45
Vendors with BPAs	15	$0.11
Total	65	$0.56

For each sample item, we reviewed documentation and interviewed USAID/Honduras personnel to determine:

- Were there appropriate procurement specifications?
- Was there competition in the procurement process, as required?
- Was there documentation to support the use of simplified acquisition procedures?
- Were purchase order forms correctly prepared and approved?
- Was there evidence of the receipt of the items procured?

In examining leases, we obtained a list of all active leases in force during the period under audit and compared this list against the physical files of leases in the Executive Office. We determined that there was a total of 22 active leases in force for the period under audit. We reviewed 100 percent of the lease files. We reviewed each file to determine:

- If there was a record of the procurement process for each lease.
- Whether the lessor was a resident of the host country and that no off-shore lease payments were made.
- Whether each prospective leased property underwent an inspection by the Regional Security Office prior to the execution of the lease.
- If required security upgrades were lessor-paid and a condition of the execution of the lease.
- Whether periods of the lease were for five-year terms.

- If employees were assigned housing corresponding to their rank and family size.

For the warehouse and supply room we obtained separate samples. For the warehouse, we obtained a list of all non-expendable property from the warehouse supervisor that included items purchased with operating expense and trust funds. From this list we excluded those items that were not physically located in the warehouse. The items excluded were those in use at the mission or in leased residences. The resultant list was comprised of 203 inventory categories, valued at $5.9 million, which was our audit population. The sample size for this population was determined to be 60 categories, valued at $629,438. We reviewed each sample category to determine:

- Whether mission inventory records were in agreement with the physical inventory count.

- If the warehouse was secure.

- Whether good storage practices were generally followed.

- If bin cards were used, and if they were accurate.

We obtained a list of expendable property, which the mission stores and maintains in the supply room. From this list we selected 21 categories of property (valued at $27,531), primarily based on their high value, as a judgmental sample. After judgmentally selecting these 21 categories, the audit population consisted of 967 inventory categories, valued at $168,109. A random sample of 75 categories, valued at $48,159, was drawn from this population. Each category in this sample and the judgmental sample were reviewed to determine:

- Whether mission inventory records were in agreement with the physical inventory count.

- If the supply room was secure.

- Whether good storage practices were generally followed.

- If bin cards were used, and if they were accurate.

Motor pool operations included 22 vehicles and seven drivers, in addition to the motor pool supervisor and the driver for the Mission Director. This total reflects staff on-board at the time of the audit because in February 2002 four drivers were released. We obtained the permanent and maintenance files for each vehicle, and conducted a 100 percent review of these records. We reviewed each vehicle file for the following documentation:

- Work order forms for vehicle maintenance.

- USAID Form 5-197 Motor Vehicle Record, which contains acquisition and disposition data on each vehicle.

- Purchase orders, receiving reports, and purchase invoices.

- Import/customs documentation, vehicle registration, and accident reports.

Regarding the drivers, we reviewed 100 percent of the driver payroll records and travel vouchers for the approximate six-month period prior to fieldwork. We looked for the following:

- Fair distribution of overtime duty among the drivers.

- Fair distribution of temporary duty (TDY) among the drivers to locations outside Tegucigalpa.

Personnel operations were also reviewed. We interviewed the Acting Executive Officer, outgoing EXO Administrative Assistant (Acting Deputy Executive Officer), and a newly hired EXO Personnel Specialist. Mission managers of departments with personnel awaiting employment termination were also interviewed. We obtained a list of all personnel changes made during the audit period. Our aim was to determine:

- Past and present mission hiring and personnel policies and procedures.

- Mission documentation of its hiring and personnel policies and procedures.

- If departing mission employees were sufficiently tasked with work duties.

- If departing mission employees posed a risk to mission operations.

In performing the audit tests described above, we considered non-compliance exceeding 5 percent of the cases reviewed (by number) to represent material non-compliance.

Management Comments

DATE: August 30, 2002

TO: Steven Bernstein, RIG/A – San Salvador

FROM: Paul Tuebner, Mission Director

SUBJECT: DRAFT AUDIT REPORT
USAID/Honduras Executive Office Functions

This memorandum represents USAID/Honduras (USAID/H) comments to the subject draft audit report and on actions taken to implement the recommendations contained therein.

Personnel from RIG/San Salvador debriefed the Mission Director of USAID/Honduras on a draft of this audit on July 31, 2002. Also present at the debriefing were the USAID/Honduras Deputy Director, the USAID/Honduras Acting Controller, and the new, permanently assigned Executive Officer.

The Mission accepts all the audit recommendations as valid [WITH TWO FACTUAL EXCEPTIONS SHOWN IN CAPS AND BRACKETS BELOW], and manifests its intent to resolve all of the recommendations. USAID/Honduras considers that five of the eleven recommendations have already been resolved, and recommends them below for closure. The Mission will endeavor to close the remaining six recommendations no later than January 31, 2003.

Recommendation No. 1.: USAID accepts the principle that ordering levels for restocking expendable property be established. The Mission operates an automated Expendable Supply system which contains an electronic field for normative minimum levels. However the database program is not refined enough to issue periodic reports of stocks which have reached the minimum level. The supply room supervisor states that he stays abreast of the inventory level as he posts the decreases in stock into the system, and transfers this information from his memory into periodic stock orders. However, the stock levels which fall below minimum levels are not automatically accumulated in an organized summary report in the program as ideally would be the case. EXO will work to enhance or replace the expendable supply program to automate periodic requests for EXP orders. Estimated resolution date is January 31, 2002.

Recommendation No. 2: [THE DRAFT GIVES THE SIZE OF LEASED USAID BUILDING AS 55,159 SQUARE FEET. THIS FIGURE CORRECTLY DESCRIBES

THE BUILDING'S NET SQUARE FOOTAGE ONLY. THE GROSS SQUARE FOOTAGE OF THE LEASED OFFICE BUILDING IS 74,293 SQUARE FEET] The RIG/A recommendation to consider alternative office space coincides with a verbal recommendation from O/SEC that the mission consider relocating from its Avenida La Paz location across from the U.S. Embassy in Tegucigalpa, in order to achieve a greater setback from the street. Factors to be considered in evaluating relocation include: price, actual setback versus security standards and relative risk levels, distance from the U.S. Embassy, the U.S. Ambassador's outlook on waiver of collocation from the Chancery of a future USAID location, and the effect on U.S. interests of USAID vacating a building immediately across from the Embassy. USAID has initiated a market survey for leased office property in Tegucigalpa. Results indicate that price per square foot for the Avenida La Paz location is low in relation to survey averages. However, USAID recognizes that, in the post-reconstruction period, its current Tegucigalpa facility is as much as 30 percent underutilized. USAID is considering savings which could result by inviting other USG or USAID-funded entities to share the current Avenida La Paz location. Though potential vacant land is thought to be available, funding for acquisition of land and construction of a building for USAID in Honduras has not been identified. With the arrival of the new U.S. Ambassador to Honduras in September, USAID will continue consultations on the relocation question. The mission intends to have completed these consultations and its market survey by the end of December, 2002.

Recommendation No. 3: The information to track utility usage rates and establish normal usage rates is available. The EXO intends to develop normal usage rates, publish them to residential occupants , and notify individual residents of their actual consumption by October 31, 2002. EXO will then follow up by consulting on possible changes in employee utility consumption habits, and investigating any suspected cases of utility theft, or problems with the houses.

Recommendation No. 4. Proper separation of duties has been implemented in the property management sections. An expendable supplies inventory was conducted by the Accountable Property Officer in June 2002, i.e. by an individual other-than the storekeeper of expendable supplies. EXO has identified two qualified individuals who would be available to substitute for the supply room storekeeper during future periods of absence from work. With regard to leased properties, the EXO, the Deputy Mission Director, and the Interagency Housing Board will play an active role in selecting houses to become part of the mission's housing pool. These vulnerabilities being addressed, this recommendation should be closed.

Recommendation No. 5: USAID has established a policy to require immediate deposit of auction proceeds to the mission's local bank account, and to pay sales expenses from this account. This policy has been communicated to the USAID/Controller Cashier. This action is facilitated by the recent policy change whereby proceeds of OE property sale are to be retained at the mission, and no longer must be deposited to a USAID/Washington account. This recommendation should thus be closed.

Recommendation No. 6: The first physical inventory of the USAID/Tegucigalpa supply room since 1999 was conducted in June, 2002. The inventory was conducted by the Accountable Property Officer from the Warehouse, and not by the storekeeper. The inventory resulted in an net overage of approximately one-half of one percent in dollar value. The new EXO also has conducted a spot check, and plans to institute spot checks as a regular means of supplementing EXP inventory control. With the inventory finalized and a follow-on inventory planned for September 30, 2002, this recommendation should be closed.

Recommendation No. 7: [COMMENT: RECORDS AVAILABLE TO THE USPSC EMPLOYEE CURRENTLY ACTING AS MOTOR POOL SUPERVISOR INDICATE FUEL ECONOMY IN THE PASSENGER MOTOR POOL TO RANGE BETWEEN 9.5 AND 18.4 MPG FOR THE PERIOD OCTOBER, 2001 – APRIL, 2002, SIGNIFICANTLY BETTER THAN THE 7 TO 10 MPG FOUND BY RIG/A IN THE FEBRUARY SAMPLE.] To provide context for the Mission's response to this audit recommendation, it is noted that the mission found it necessary to terminate the employment of the FSN motor pool supervisor who had been employed at the time of the audit, for reasons independent of the audit. Nonetheless, USAID/Honduras is undertaking measures to insure compliance with the regulations on reporting and monitoring of its vehicle fleet. Three annual motor vehicle reports required by USAID/Washington are currently being prepared. Daily trip tickets are kept. The mission has made plans for on-the-job training of the acting USPSC Motor Pool supervisor (to include the Operating Expense Report, and Dispatch Analysis) in a regional mission, while simultaneously taking action to hire a new motor pool supervisor. It is anticipated that the skills for preparation of Dispatch Analysis can be conveyed to a new Motor Pool Supervisor in time for preparation of an analysis by December, 31, 2002.

Recommendation No. 8: On July 16, 2002, the USAID/Honduras Mission Director made effective a new Mission Order requiring participation by the USDH Office Chief on each selection panel for locally engaged staff. Under the policy, there shall be three voting members on each selection panel. The panels may also include other USDH, USPSC and FSN employees. This recommendation should be closed.

Recommendation No. 9: USAID Honduras will seize this opportunity to encourage employees and supervisors to monitor and regulate personal use of office telephones. The Mission intends to issue a Mission Notice citing the RIG/A findings of this audit report to illustrate that some employees, although a minority, have been observed to be using a material amount of work hours making personal phone calls. It is anticipated that the recommendation can be closed by September 15, 2002.

Recommendation No. 10: The USAID Mission has conducted an analysis of personnel requiring cellular telephones for the their work duties, and has reduced the number of activated cell phones in the mission from 31 at the time of the audit to 22. Thus, the recommendation should be closed. It is also noted that USAID/Honduras is taking further steps to analyze alternative cellular telephone calling plans and payment modes with the goal of achieving further cost savings.

Recommendation No. 11: A Mission Notice has been issued to illustrate to staff the potential cost savings available by greater use of the International Voice Gateway (IVG) line on the U.S. Embassy Switchboard for calls to the Washington, DC area and other areas in the United States. The Mission also plans to raise awareness of cost-savings potential of dialing Embassy to Embassy using IVG. Account is taken, however, of the fact that the IVG line is not always available. In order to reduce the unacceptably high per minute charges incurred by using the current AT&T post-paid calling cards, the Mission has taken the decision to purchase and issue (to individual employees for official calls only) prepaid calling cards currently available to the public. The mission is expected to see a drop of as much as 90 percent in the cost of calls to the U.S. when such cards are used in conjunction with the IVG line to call U.S. locations outside the Washington, DC dialing area. The cards to be ordered may also be used with the AT&T USA Direct Service available in Honduras. Though such uses will not result in as great a cost savings, this method will provide a backup mode of calling when the IVG circuits are fully loaded, still lower in cost than the current AT&T post paid calling cards. The new pre-paid cards will be purchased by the end of September, 2002.