OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/IRAQ'S NONEXPENDABLE PROPERTY

AUDIT REPORT NO. E-267-06-002-P
February 16, 2006

BAGHDAD, IRAQ

Office of Inspector General

February 16, 2006

MEMORANDUM

TO: Acting USAID/Iraq Mission Director, John P. Groarke

FROM: Regional Inspector General, Baghdad, Nancy J. Lawton /s/

SUBJECT: Audit of USAID/Iraq's Nonexpendable Property (Report No. E-267-06-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the draft report and have included them in their entirety as Appendix II.

The report contains seven recommendations for corrective action. In your written comments, you concurred with the recommendations and described actions the Mission plans to take to address the auditors' concerns. Based on your comments, we consider that management decisions have been reached on these recommendations. Please coordinate final action with USAID's Audit, Performance and Compliance Division.

I want to express my sincere appreciation for the cooperation and courtesies extended to my staff during this audit.

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SUMMARY OF RESULTS

The Regional Inspector General in Baghdad, Iraq conducted this audit to determine if USAID/Iraq managed its nonexpendable property in accordance with USAID guidance. (See page 3.)

USAID/Iraq property valued at $23.5 million in its nonexpendable property database was not managed in accordance with USAID guidance. (See page 4.) Of this amount, we could not verify that a projected $21.3 million was correctly valued in the database because amounts were not supported by documentation. Additionally, we could not verify the existence of a projected $2.9 million in nonexpendable property included in the database. (See pages 5 through 8.) Furthermore, Mission vehicles valued at $2.3 million were not properly safeguarded, and questions of ownership existed regarding nonexpendable property shared with another U.S. government agency. (See pages 8 through 11.)

This report contains recommendations to improve USAID/Iraq's management of its nonexpendable property. (See pages 8, 9, and 11.) Mission management concurred with the recommendations, and management decisions have been reached based on information provided by the Mission. (See page 12.)

Management comments are included in their entirety in Appendix II.

BACKGROUND

USAID/Iraq was established on July 27, 2003 to manage USAID's reconstruction and humanitarian relief assistance, which was delivered through 45 grants and contracts to American nonprofit organizations and corporations. As of September 30, 2005, the Iraq Mission received approximately $5 billion. In order to operate in the country, USAID/Iraq constructed extensive facilities consisting of an office building,[1] housing for personnel, and a warehouse. In addition, USAID supported regional offices in Hillah, Basrah, and Erbil.

USAID/Iraq operated under an unusual environment with a large turnover of staff, including three Executive Officers in the first year of operation. In addition to the large staff turnover, the Mission also experienced a staff shortage. Because of this shortage, USAID/Iraq contracted with the International Resources Group for one year, effective in May 2003, for procurement and management of nonexpendable property,[2] with oversight provided by the Executive Office of the Mission.

After the International Resources Group contract ended in June 2004, USAID/Iraq's Executive Office took over direct responsibility for the procurement, maintenance, management and accountability of expendable and nonexpendable property. Property management consisted of purchasing, receiving, inventorying, warehousing, issuing, and disposing of expendable and nonexpendable office and residential property in accordance with USAID and Federal regulations and policies.

This audit covered nonexpendable property included in the Mission's inventory from its inception in fiscal year 2003 through September 30, 2005. The Mission's database showed the acquisition value of nonexpendable property at $23.5 million as of September 30, 2005. The Mission's accounting system showed expenditures of $15.2 million,[3] of which $5.8 million was from Iraq Relief and Reconstruction Funds, with the remaining funding provided through USAID's operating expense account.

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[1] The Mission worked in two locations prior to the completion of the office building.
[2] Nonexpendable property is defined as any item such as furniture, office machines, information technology equipment, and communications equipment that (1) is complete in itself; (2) does not lose its identity or become a component part of another item when used; and (3) is of a durable nature with an anticipated useful life of over two years.
[3] Due to the different reporting formats used by the accounting and accountability systems and the methodology used to create them, we could not reconcile the difference between the two reports. This discrepancy can be partially explained by examining how the Mission acquired its nonexpendable property. According to Mission personnel, many assets were transferred to Iraq from other offices and were therefore not purchased by USAID/Iraq.

AUDIT OBJECTIVE

As a part of its fiscal year 2005 audit plan and because of the large dollar value of nonexpendable property involved, the Regional Inspector General in Baghdad conducted this audit to answer the following objective:

- Did USAID/Iraq manage its nonexpendable property in accordance with Agency guidance?

Appendix I contains a complete discussion of the scope and methodology.

AUDIT FINDINGS

USAID/Iraq did not manage its nonexpendable property in accordance with Agency guidance. The nonexpendable property database was inaccurate as the recorded purchase value of a projected $21.3 million out of $23.5 million of nonexpendable property could not be verified, and the Mission was unable to account for a projected $2.9 million of nonexpendable property. In addition, Mission vehicles valued at $2.3 million were not properly safeguarded, and questions of ownership existed regarding nonexpendable property shared with another U.S. government agency.

The Mission did take steps to manage its nonexpendable property, including construction of a warehouse to store the nonexpendable property. In addition, USAID/Iraq had performed an assessment of its vehicle fleet and was determining how to reduce excess vehicles. The Mission was in the process of building covered parking for its vehicles; given the harsh environment, covering the cars will help keep them in better condition.

Photographs of vehicles stored uncovered on the USAID/Iraq compound in Baghdad. (Baghdad, Iraq; September 2005)

Mission management was exploring options to bring in USAID personnel on a short-term basis to work with the Mission staff on the management of its nonexpendable property. The Mission had identified a USAID employee from another mission for a 3-month assignment in Iraq and was in the process of finalizing the details. An experienced person providing guidance on following regulations and policies would provide effective on-the-job training to current USAID/Iraq staff.

However, even though the Mission had taken the actions detailed above, it was not properly managing its nonexpendable property.

$23.5 Million Nonexpendable Property Database Was Inaccurate and Unsupported

Summary: The USAID/Iraq database used to manage its nonexpendable property had significant errors, contrary to the Government Accountability Office's *Standards for Internal Control in the Federal Government,* the Foreign Affairs Manual, and USAID guidance. Results of statistical sampling projected that, of the $23.5 million in the database, the Mission could not verify the accuracy of the recorded purchase value for $21.3 million (91 percent). In addition, statistical tests projected that of the $23.5 million, $2.9 million of nonexpendable property (12 percent) could not be located. Further non-statistical tests showed particular examples where nonexpendable property was either 1) included in the database but not located, 2) located, but not included in the database, and/or 3) included in the database but with inaccurate descriptions or locations. Although contributing factors existed, inaccuracies occurred because the Mission lacked written policies and procedures regarding the management of its nonexpendable property. As a result, the Mission did not have proper accountability over its nonexpendable property, which could lead to misreporting or the increased likelihood of theft occurring.

USAID/Iraq implemented a database system to manage its nonexpendable property. Pursuant to 14 Foreign Affairs Manual (FAM) 414.2-1, USAID missions are required to use BarScan, USAID's approved property management system. The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that transactions need to be completely and accurately recorded in order to maintain their relevance. It also states that all transactions need to be clearly documented and the documentation should be available for examination. USAID's Automated Directives System (ADS) 502.5.1(b) states that official records must be preserved.[4]

Statistical Test Results – In order to verify the accuracy of the information included in the database, including the purchase price and the location of the property, 141 items (valued at $524,000) were selected. Tests revealed that purchases of 91 items (valued at $474,000) were not documented; based on this sample, it is projected that $21.3 million in purchases of nonexpendable property items are not supported. For example, the Mission was not able to provide documentation including procurement requests, purchase orders/contracts, memorandums of negotiation, payment vouchers, and receiving reports for purchases of selected computer equipment, residential furniture, and electrical equipment. Therefore, the Mission cannot be assured that property costing $21.3 million was purchased in accordance with USAID policies nor can the Mission verify the actual cost of the property.

Further, 75 items (with an acquisition value of $65,000) of the 141 randomly selected items could not be located. Based on these sample test results, a projected value of approximately $2.9 million of nonexpendable property cannot be found and, therefore, may be missing.

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[4] While ADS and FAM provide general guidance to Missions, they do not provide procedure steps to be followed for actual implementation.

Photograph of auditor checking barcodes in USAID/Iraq's warehouse. (Baghdad, Iraq; November 2005)

Non-Statistical Test Results – The audit team conducted three non-statistical tests – to determine if the database was complete; to determine if vehicles were accurately included in the database; and to determine if disposed-of nonexpendable property items were removed from the database following applicable policies and procedures.

<u>Completeness Test Results:</u> Nonexpendable property items were judgmentally selected from USAID compounds in Baghdad, Erbil, and Hillah to determine if the items were properly included in the database. As shown in Table 1, 42 out of 103 selected items were not included in the database. Further, 18 items were included in the database, but were not accurately recorded, that is, the database did not have the correct location or description for an item.

Table 1: Completeness Testing Results

Location (a)	Total Items Selected (b)	Items Not in Database (c)	Items Not Recorded Accurately (d)	Total Exceptions	
				No. (c + d)	Percent (c +d) / b
Baghdad	57	28	6	34	60%
Erbil	25	10	9	19	76%
Hillah	21	4	3	7	33%
TOTAL	103	42	18	60	58%

For the USAID compound in Basrah, with the exception of vehicles, none of USAID's nonexpendable property was included in the database. Since an inventory was not performed, the Mission was unable to provide the audit team an estimated value of the Basrah items.

<u>Vehicle Test Results:</u> Since the relative value of vehicles was so high ($17.1 million out of the $23.5 million in the database), additional non-statistical tests were performed. Of the 31 vehicles judgmentally selected for testing (with a purchase value of $3.5 million), seven vehicles had locations incorrectly recorded in the database; as a result, the audit team was not able to physically inspect them to verify their existence. For example, one of these seven vehicles was sent to Kuwait for repair, but the Mission could not determine the current location. An eighth vehicle related to a duplicate entry in the database for a Toyota Land Cruiser. The total value of these eight cars was $1.2 million. Further, Mission officials informed the audit team that they could not locate an additional four vehicles, valued at $585,000 in the database. The Mission stated that one of these vehicles was sent to Kuwait for repairs but was also missing, and two were hijacked
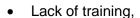
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during transit for repair. One was transferred to a third party, but the Mission still had the vehicle in its records. These situations occurred prior to the arrival of current Mission management, and no supporting documentation was in the files.

Disposed-of Items Test Results: Lastly, the audit team performed a non-statistical test to determine if disposed-of items were properly disposed of and removed from the nonexpendable property database. USAID/Iraq maintained a spreadsheet that contained 439 disposed-of items with an acquisition value of $228,000. However, the spreadsheet did not contain enough information to allow the audit team to verify that the Mission followed the FAM or ADS. For example, the list did not allow the audit team to:

- Verify that assets were disposed of in one of the six authorized methods[5] (14 FAM 417.3),

- Determine if there were any proceeds from the disposal that should have been returned to USAID's Budget and Clearing Account (14 FAM 417.3-3), and

- Determine if the assets were removed from the financial report sent to Washington, largely because the report did not include the disposal date (14 FAM 419.3-2).

Overall, the Mission was unable to provide any records supporting that appropriate procedures were followed for the 439 disposed-of items. The Mission relied upon one employee to manage these documents, and when she resigned, the Mission could not locate the documents used to support these disposals.   As a result of the missing documentation related to disposed-of items and previously discussed inaccuracies with the database, the audit team was unable to verify that disposed-of items were deleted from the database.

Photograph of auditor looking through the disposal pile to verify that barcodes were properly removed. (Baghdad, Iraq; October 2005)

Current Mission management stated, and we concurred, that the inaccurate and unsupported information in the database was caused by several factors:

- Lack of training,

- Lack of Mission-specific written policies and procedures, and

- USAID/Iraq's unusual operating environment. (Since inception USAID/Iraq has experienced shortages of direct-hire staff and a large, continuing turnover

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[5] The six acceptable methods of property disposal are: (1) redistribution to establishments within the parent agency, (2) transfer to another agency or commission/mess/recreational facility, (3) sale or exchange, (4) grant-in-aid or project contribution, (5) donation, and (6) abandonment or destruction.

of staff, resulting in large workloads, inconsistency, and misfiling of the appropriate records.)

The Mission was not able to identify a reason for the lack of documentation relating to the missing and stolen vehicles.

As a result of the above, USAID/Iraq cannot use its current database to effectively manage nonexpendable property, which increases the potential for fraud, waste, and abuse.

In order to correct the database and to prevent inaccuracies from occurring in the future, we recommend the following:

Recommendation No. 1: We recommend that USAID/Iraq perform a full inventory of all USAID/Iraq locations, tagging and recording each nonexpendable property item, to create a complete database.

Recommendation No. 2: We recommend that USAID/Iraq perform a detailed reconciliation between the database as of October 31, 2005 and the new database to be created in order to account for the identified exceptions.

Recommendation No. 3: We recommend that USAID/Iraq develop Mission-specific written policies and procedures for its management of nonexpendable property.

Recommendation No. 4: We recommend that USAID/Iraq provide training to employees responsible for the management of its nonexpendable property.

Recommendation No. 5: We recommend that USAID/Iraq conduct a review to determine the status of the missing vehicles and refer the matter for investigation if appropriate.

Vehicles Valued at $2.3 Million Were Not Properly Safeguarded

Summary: USAID/Iraq did not properly safeguard vehicles valued at $2.3 million. Of the 35 vehicles examined by the audit team, 16 were unlocked, and 2 of the unlocked cars had their keys hanging from the driver-side door. Chapter 14, Section 413.7 of the FAM requires that the Mission create secure and controlled areas for expensive equipment subject to theft, and the Government Accountability Office's Standards for Internal Control in the Federal Government states that physical controls must be established to safeguard vulnerable assets. Mission personnel failed to lock these vehicles after they had performed routine service work on them. Until USAID/Iraq improves the physical security over its vehicles, there is an increased risk that its vehicles could be stolen or used for unauthorized purposes.

USAID/Iraq managed a motor pool of 105 vehicles in Baghdad, Iraq. The audit team tested the physical security of 35 vehicles and found 16 that were unlocked (with an approximate value of $2.3 million[6]). The keys to two vehicles were in the driver's doors; one of those two cars was in working condition and was started using the key found in the driver's door. Given the location of that vehicle, it would have been possible to use it for an unauthorized purpose or to steal it.

Photograph of unattended USAID/Iraq vehicle with its keys in the driver-side door. (Baghdad, Iraq; November 2005)

The Government Accountability Office's *Standards for Internal Control in the Federal Government* states that physical controls must be established to safeguard vulnerable assets. Similarly, pursuant to 14 FAM 411.4, property accountability includes creating appropriate security controls. Moreover, 14 FAM 413.7 specifically states that the mission must create secure and controlled areas for expensive equipment subject to theft.

Motor pool personnel stated that vehicles are often left unlocked so personnel can easily enter the vehicle and start the engine to keep the battery from failing. Although the Mission may need to access its cars on a regular basis, leaving the cars unlocked and failing to keep every key for the motor pool fleet in a secure location significantly increased the risk of theft or use of a vehicle in an unauthorized manner. We are therefore making the following recommendation:

> *Recommendation No. 6: We recommend that USAID/Iraq adopt policies and procedures directing Mission personnel to keep all unattended vehicles locked and to store unused keys in a secure location.*

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[6] The average acquisition cost per vehicle located on USAID/Iraq's Baghdad compound was approximately $145,000.

Ownership Questions Existed for Shared Nonexpendable Property

Summary: USAID/Iraq employees were unable to readily identify the ownership of commingled nonexpendable property. Mission personnel could not readily determine who had purchased assets that were commingled with the U.S. Army Corps of Engineers because they had not been inventoried by USAID/Iraq and certain assets were tagged by both USAID/Iraq and the U.S. Army Corps of Engineers. Chapter 14, Section 413.7 of the FAM states that commingled property must be appropriately identified to show who owns the property. Until the ownership of all property under USAID/Iraq's control is verified and the assets are properly tagged, USAID/Iraq cannot ensure that it maintains control over its nonexpendable property.

USAID/Iraq shared office space with U.S. Army Corps of Engineers (USACE) employees, which resulted in USAID/Iraq commingling its assets. However, the Mission failed to properly track the ownership of these assets.

No Tagging – The audit team identified 13 flat-screen monitors used by USACE personnel in Baghdad that were not tagged with barcodes. USAID/Iraq's Warehouse Division personnel believed that these assets were owned by USACE. However, USAID/Iraq's Information Technology Division, the USACE property accountability officer, and the USACE deputy commander at USAID/Iraq all agreed that USAID/Iraq owned these monitors.

Dual Tagging – Two Panasonic laptops owned by USACE were marked with USAID/Iraq "old style" property barcodes. These old style barcodes were used by the Mission before it switched to the database. The Mission's Warehouse Division, its Information Technology Division, and USACE agreed that USAID did not own the two laptops. According to

Photograph of the old style and new style barcodes used by the Mission to tag its nonexpendable property. (Baghdad, Iraq; November 2005)

Photograph of the old style barcode with the USACE barcode underneath it. These barcodes were found on a Panasonic laptop located inside USAID/Iraq's Baghdad compound. USAID/Iraq had placed an old-style property barcode on the laptop even though USAID did not own it. (Baghdad, Iraq; November 2005)

Warehouse Division personnel, when the Mission started its property accountability system, it placed barcodes on every item it found on the compound, regardless of who owned the asset. When the Mission transitioned to the current database, the Mission retagged everything using a new style of barcode and excluded items that were not owned by USAID; it did not, however, remove the old barcodes. The Mission's failure to remove the old tags from the laptops increased the risk that there may be disagreements

in the future regarding who owns certain items within USAID/Iraq's Baghdad compound and its regional offices.

Similarly, USACE had placed its barcodes on two flat-screen monitors at USAID/Iraq's Baghdad compound. The monitors also had USAID/Iraq's old style barcode, but they did not have the new style barcodes which would indicate that they were tracked by the Mission in its database. Both the USACE property accountability officer and the USACE deputy commander at USAID/Iraq said that USAID/Iraq was the actual owner of these assets; USACE barcodes were added simply to ensure that the USACE did not lose the assets assigned to it.

Pursuant to 14 FAM 413.7, "in all cases, commingled property must be appropriately identified to show agency ownership of the property." However, Mission personnel and other organizations did not agree on who owned various assets. Further confusion would likely ensue as personnel rotate out of Iraq at the end of their tours and institutional memory as to ownership of assets would be lost.

Until the ownership of all property under USAID/Iraq's control is verified and the assets are properly tagged, USAID/Iraq cannot ensure that it maintains control over its nonexpendable property. According to Mission personnel, USAID/Iraq had encountered similar ownership questions in its regional office in Erbil, but the Mission worked with the other organizations that had commingled property at the office to inventory all the assets and resolve the problem. A similarly conducted inventory at other USAID/Iraq offices would have likewise verified the ownership of all commingled nonexpendable property at USAID/Iraq's compounds and resulted in Mission personnel entering the assets owned by USAID/Iraq into the database. To address this issue, we are making the following recommendation:

> *Recommendation No. 7: We recommend that USAID/Iraq verify the ownership of commingled property and remove its property tags from all nonexpendable property that it does not own.*

EVALUATION OF MANAGEMENT COMMENTS

In response to our draft report, USAID/Iraq concurred with the audit recommendations and described actions it was taking to address the auditors' concerns.

In response to Recommendation No. 1, Mission management stated that they had recruited a USAID employee from another mission to perform a full inventory and establish a database.

In response to Recommendation No. 2, USAID/Iraq stated that they would perform a reconciliation and have a validated inventory by March 15, 2006.

In response to Recommendation No. 3, the Mission is developing Mission Orders regarding the management of nonexpendable property.

In response to Recommendation No. 4, training will be provided to local staff involved in the management of nonexpendable property.

In response to Recommendation No. 5, USAID/Iraq located the missing vehicles.

In response to Recommendation No. 6, the Mission will issue a new Mission Order on official vehicles.

In response to Recommendation No. 7, identifying commingled property will be the responsibility of the Property Management Supervisor, and this will be done through conducting a comprehensive inventory.

Based on the above response by the Mission to address the auditors' concerns, we consider the recommendations to have received management decisions. Management's comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General in Baghdad audited USAID/Iraq's nonexpendable property in accordance with generally accepted government auditing standards. The purpose of the audit was to determine if USAID/Iraq managed its nonexpendable property in accordance with USAID regulations.

The audit reviewed USAID/Iraq's management of its nonexpendable property, which, according to the Mission's records, consisted of 6,362 items with a total acquisition value of $23.5 million. The audit sample, which we used to conduct detailed tests, included 141 items with a purchase value of $524,000. In addition, the audit team judgmentally selected 103 items for completeness testing. The audit included reviewing 439 disposals, with a reported net depreciated value of $822,000 incurred by the Mission from its inception in July 2003 until September 30, 2005.

The audit team interviewed Mission personnel and individuals from the U.S. Army Corps of Engineers. The audit examined the Mission's database, procurement records, disposal records, vehicle listings, and inventory listings maintained by the Mission's regional offices.

The audit team conducted a risk assessment and an initial assessment of the Mission's policies and procedures. During the course of the audit, we tested the following internal controls: retention of documentation to support key transactions; adherence to the approval process for the acquisition of property; and the procedures for warehousing, safeguarding, and issuing nonexpendable property.

Audit fieldwork was conducted from September 29 to December 12, 2005, at USAID/Iraq's offices in Baghdad, Hillah, and Erbil. The audit did not visit the Mission's regional office in Basrah because Mission personnel stated that they had not conducted a proper inventory of the office's nonexpendable property, which made it impossible to conduct existence or completeness testing in Basrah.

Prior audit findings affecting nonexpendable property in Iraq were reviewed and considered.

Photograph of auditor and Regional Representative in Erbil verifying barcodes (Erbil, Iraq; October 2005)

Methodology

To answer the audit objective, we tested for existence of assets, completeness of the database, and proper adherence to acquisition and disposal guidance. We interviewed Mission and U.S. Army Corps of Engineer personnel, analyzed the database, physically inspected nonexpendable property, and examined supporting documentation.

Statistical Testing – We attempted to determine if acquisition methods were in compliance with regulations by requesting supporting documentation of the transactions for all randomly chosen items. Existence of assets was tested through physical observation of the random sample of items.

The auditors coordinated with the Office of Inspector General statistician to develop and analyze a statistical sample to determine the accuracy of USAID/Iraq's database. Through random sampling, the audit team selected an initial sample of 80 transactions valued at almost $294,000 for examination, using 90 percent confidence in two-sided testing with a precision of plus or minus 5 percent. The sample was approximately 1.3 percent of the universe of 6,362 items valued at $23.5 million. Based on the initial findings of a 59 percent error rate, an additional 61 items with a value of over $230,000 were selected for testing. The statistician projected the results to the population and determined that the population had an error rate of about 53.2 percent for existence testing (a projected 3,348 exceptions out of the 6,362 items) and 64.5 percent for testing of acquisition documentation (a projected 4,042 exceptions out of the 6,362 items). Also, based on the same tests, the statistician projected that out of the value of the exceptions: there was an error rate totaling $2.9 million for existence testing and an error rate totaling $21.3 million for acquisition testing out of the total value of the population, $23.5 million.

Non-Statistical Testing – Testing for completeness of the database consisted of judgmentally selecting items from the USAID compounds in Baghdad, Erbil, and Hillah and tracing them back to the database. With regards to the vehicle testing, the auditors created a listing from the database of vehicles that had "motor pool" or a car description listed in the "type" or "description fields." From the list of 135 items with a purchase value of $17.1 million, 31 vehicles with a purchase value of $3.5 million were judgmentally selected for testing. All items on the disposal list were reviewed to determine if the Mission complied with regulations.

The audit team did not set a materiality threshold for exceptions. We considered an item to be an existence exception if USAID/Iraq personnel could not readily locate the item within seven days or if the database did not contain an accurate description of where the item was located. Any nonexpendable property item that met the definition of accountable property as defined in the Foreign Affairs Manual that was not included in the database was treated as a completeness exception.

The audit team used the following guidance to evaluate potential exceptions: the Government Accountability Office's *Standards for Internal Control in the Federal Government*; Automated Directives System (ADS) Chapter 534, "Personal Property Management Overseas;" ADS Chapter 536, "Use and Control of Official Vehicles;" ADS Chapter 629, "Accounting for USAID-Owned Property and Internal Use Software;" and Chapter 6, Section 400 of the Foreign Affairs Manual.

MANAGEMENT COMMENTS

To: Nancy Lawton, Regional Inspector General, Baghdad

From: Dawn Liberi, USAID/Iraq Mission Director /s/

Subject: Audit of USAID/Iraq's Nonexpendable Property

Date: February 8, 2006

USAID/Iraq thanks the Office of Inspector General for its audit of the Mission's nonexpendable property. The Mission realizes this was a huge undertaking and appreciates the effort and time involved to complete the audit. USAID/Iraq agrees with the recommendations and understands that the implementation of the audit recommendations will help ensure that USAID/Iraq's nonexpendable property is accounted for in accordance with USAID procedures.

During the last 2 plus years, Mission staff spent a great deal of time identifying a location for a new USAID Compound, developing plans for the compound, and constructing new housing and offices. The construction of this compound was an outstanding accomplishment in this difficult environment. Indeed, this compound is heralded as the best USG facility in the International Zone. The completion of this high-profile construction project in a timely manner was, however, at the expense of the mission's normal day to day operations, leaving the Mission with management vulnerabilities, particularly in property management, warehousing, OE procurement, travel, and local procurement. Further, the constant changes in supervisory personnel and a fast-paced work environment contributed to the vulnerabilities. Unlike other USAID missions, USAID/Iraq relied on institutional contractors like International Resources Group and Crown Agents who did not have a clear understanding of USAID procedures. Their lack of knowledge and experience and the inexperience off FSN staff hindered the mission's ability to establish adequate controls. The Mission is now addressing these issues by putting systems in place, recruiting experienced Third Country Nationals in areas such as procurement, travel, property management, General Services, human resources, and computer systems and training FSN staff.

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Recommendation No. 1   We recommend that USAID/Iraq perform a full inventory of all USAID/Iraq locations, tagging and recording each nonexpendable property item, to create a complete database.

USAID/Iraq has recruited an experienced Third Country National Property Management Supervisor to work on all non-expendable property issues, including performing a full inventory and tagging and recording each nonexpendable property item.   A data base is also being established. This process has begun and should be completed by March 15, 2006.

Recommendation No. 2 We recommend that USAID/Iraq perform a detailed reconciliation between the database as of October 31, 2005 and the new database to be created in order to account for the identified exceptions.

As part of the Property Management Supervisor's responsibilities, he will reconcile the two databases in order to come up with a validated inventory. A validated inventory will be completed by March 15, 2006.

Recommendation No. 3 We recommend that USAID/Iraq develop Mission- specific written policies and procedures for its management of nonexpendable property.

The Mission is addressing all management issues by recruiting experienced Third Country National Personal Service Contractors in areas such as procurement, travel, property management, general services, human resources, and information technology. EXO has implemented 12 new policies and procedures through new Mission Orders (MOs). There are still more MOs that need to be issued, including management of nonexpendable property. The relevant Mission Orders will be completed by March 15, 2006.

Recommendation No. 4 We recommend that USAID/Iraq provide training to employees responsible for the management of its nonexpendable property.

Another responsibility of the property management supervisor is to provide training to local staff to avoid a reduced level of accountability when the property management supervisor departs post. To fully ensure FSNs receive adequate training and oversight, the Mission is recruiting a replacement property management supervisor who will focus on monitoring property standards.

Recommendation No. 5 We recommend that USAID/Iraq conduct a review to determine the status of the missing vehicles and refer the matter for investigation if possible.

A thorough review of the vehicle fleet is in progress.   The missing vehicles were located in Kuwait, where they were sent for repairs. The documentation validating this is being sent to the Mission.

Recommendation No. 6 We recommend that USAID/Iraq adopt policies and procedures directing Mission personnel to keep all unattended vehicles locked and to store unused keys in a secure location.

Mission agrees and this recommendation will be addressed fully by February 15, 2006. In addition, the Mission will issue a new Mission Order on Official Vehicles.

Recommendation No. 7 We recommend that USAID/Iraq verify the ownership of commingled property and remove its property from all nonexpendable property that it does not own.

The Property Management Supervisor's responsibilities include identifying commingled property and verify ownership. This exercise includes conducting a comprehensive inventory to determine the correct ownership of vehicles. Given the Mission's physical move to three different locations, official records will take time to be located.

We thank the Regional Inspector General for its professionalism and willingness to work closely with the Mission.