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UNITED STATES GENERAL ACCOUNTING OFFICE
INTERNATIONAL DIVISION
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AUG 26 1977

The Honorable Leonard Unger
American Ambassador
U.S. Embassy
Taipei, Taiwan

Dear Mr. Ambassador:

We have completed a survey of the merchandise control system administered by the U.S. Embassy in Taipei, Taiwan. The system is designed to control the importation, use, and disposal of duty-free commodities (personal vehicles, other personal property, and liquor) by U.S. Embassy and attached agency personnel in Taiwan. We found that the Embassy's management controls on vehicle and other personal property sales and on gifts and liquor sales could be improved. Taipei Embassy officials were briefed on our observations and they generally agreed that the controls should be improved.

The sale of personal property, particularly motor vehicles, abroad by American employees has been criticized by members of Congress and the General Accounting Office because of profits that sellers have realized on the transactions. Profit-taking on sales of this kind is viewed as diminishing the stature of the American mission, damaging the United States image abroad, and resulting in undue personal advantage under circumstances created in substantial part by reason of official Government service to which special customs and import privileges are attached.

In a September 3, 1974, letter to Representative H. R. Gross we reported on the administrative procedures of the U.S. Embassy, Lima, Peru, relating to sales of personal property where profits on such sales by U.S. Government employees were permitted. Some of the same weaknesses we noted there exist at the U.S. Embassy, Taipei, Taiwan.

ACCURATE REPORTING OF PERSONAL
PROPERTY SALES IS NOT ASSURED

The U.S. Embassy, Taipei, Taiwan, did not have a system for verifying or following up sales of personal property and the disposition of profits on such sales to assure that they were accurately reported and the profits properly distributed.

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Department of State regulations, as set forth in Foreign Affairs Manual Circular 378, prohibit the sale of personal automobiles and other personal property by U.S. Government employees abroad at prices producing profits to them which result primarily from import privileges derived from their official status. The regulations provide, however, that under local regulations approved by the Ambassador, sales may be made at profit but in no event shall any profits be retained by the employee.

In accordance with Circular 378, the U.S. Embassy, Taipei, Taiwan, issued regulations on vehicle disposal (Circular 30/75) and on property disposal (Circular 31/75). The provisions of these regulations apply to all Embassy personnel and dependents which includes the Embassy, the Military Assistance and Advisory Group, the U.S. Army Technical Group, other attached agencies of the U.S. Embassy and associated contractors, and their nonappropriated fund activities. Under these procedures written approval of the Unit Administrative Officer and the General Services Officer are required before sales of personal property, including vehicles, can be accomplished.

Sales of personal vehicles

Circular 30/75 allows a person to sell one vehicle outside the duty-free community per tour providing it has been in the owner's possession on Taiwan for at least 2 years or it has been in the seller's possession on Taiwan for at least a year and the seller has either transfer or retirement orders having an effective date within 90 days of sale. Also, sellers may not retain an amount in excess of acquisition costs.

We tested the Embassy's system for monitoring these sales and concluded that reported sales and acquisition costs are questionable and the Embassy's system did not assure that the profits on sales of personal vehicles were properly reported and distributed. We identified as many as 16 possible cases where reported acquisition and sales prices should have raised a question of whether profits were being accurately reported. According to the Administrative Counselor and the General Services Officer, sales are not followed up to insure that correct sales and purchase prices are reported.

At the time of our survey, profitmaking was allowed for vehicle sales by military and civilian U.S. Government personnel not assigned to the Embassy. To determine whether Embassy assigned or attached personnel might have made a profit on vehicle sales, we reviewed the sales of 60 vehicles. We compared the sales of 15 late model vehicles with similar sales at a profit by U.S. military personnel in Taiwan during January and February 1977. Sales prices reported in 14 of the 15 Embassy cases were lower than for similar sales in a profit environment. For example, one of the 14 sellers reported a sales price of \$4,905 for a 1975 Ford Granada. Three similar sales by military personnel who may retain profits on such sales were made at reported sales prices of \$7,000, \$10,000, and \$11,300. See enclosure 1 for additional examples.

We also reviewed the 60 sales for overstating purchase prices. In one sale the reported purchase price for a 1974 Mercedes Benz 230 sedan was \$9,820. However, a check of the vehicle's Taiwan registration documents disclosed a purchase price of \$8,620. We reviewed available files and were unable to identify any other costs that the seller could report as acquisition costs. The seller reported only a \$5,200 profit on a \$15,020 sales price. Because the reported purchase prices differed, Embassy officials to whom the figures were available should have questioned whether the reported profit was understated by \$1,200. The reported purchase price--\$10,000--of another Mercedes appears high and also should have been questioned.

Sales of other personal property

Circular 31/75 governs the sale of personal property outside the duty-free community by Embassy personnel. Limits on these sales are based on type of item (accountable restricted and accountable) and time on island of the item and the seller. Accountable restricted items are air-conditioners, dehumidifiers, TVs, hot water heaters, refrigerators, freezers, pianos, and organs. Each sponsor is allowed to sell a specific number of each item outside the duty-free community providing the seller has some form of permanent change-of-station orders and the item has been in the owner's possession at least 6 months prior to the date of application for disposal.

Accountable items are stoves, washing machines, dryers, kerosene heaters, electric cooking appliances, camera equipment, stereo equipment, golf equipment, luggage, and other electrical appliances. Each sponsor is allowed to sell a specific number of each item outside the duty-free community providing the item has been in the owner's possession on island for at least 12 months.

We examined the sales of personal property during 1976 by Embassy and attached agency personnel. For a majority of the sales it appeared that the items sold had been bought for bona fide personal use and not with the intent of making a profit. However, in all the sales we reviewed no profits were reported and the General Services Officer stated that he knew of no profits ever being reported.

We obtained from a local buying agent in the private sector the current resale prices of items sold in these transactions. The following prices of items highly desired by the local community indicate that profits could have been made on the sale of these items.

| | Purchase price (note 1) | Sales price | |
|---------------------------|----------------------------|---------------|-------------------------|
| | | New in box | 2 years old (note 2) |
| Sony 19" Color TV | \$430 | \$800+ | \$600 |
| Whirlpool AC (21,000 BTU) | | | |
| Summer Sale | 354 | 700-800 | 600 |
| Winter Sale | 354 | 650 | 500 |
| Whirlpool Refrigerator | | | |
| Side by side | 429 | <u>3/</u> 858 | <u>3/</u> 722 |
| Top and bottom | 360 | <u>3/</u> 720 | <u>3/</u> 598 |
| Freezer (chest) | 258 | <u>3/</u> 516 | <u>3/</u> 414 |
| Stove | | | |
| Small | 218 | <u>3/</u> 436 | <u>3/</u> 342 |
| Large | 299 | <u>3/</u> 598 | <u>3/</u> 382 |
| Washer/dryer | 446 | 868 | 476 |

1/Navy Exchange, Taipei prices.

2/Add \$50 if original box is included in the sale.

3/Estimated sales price based on buying agent's formula.

Present control procedures only require the seller to list the items for sale, their purchase price, date of purchase, and to certify whether a total profit was or was not made from the sale. No verification is made by the General Services Officer of the purchase or sales price of individual items nor are complete reviews made of the sales application to insure only bona fide personal use items that have been held for the proper time are offered for sale.

We believe this to be a serious weakness in the system which allowed to go unquestioned the reporting by one individual of sale of accountable restricted items having an acquisition cost of over \$2,300 at no profit when the market price for the items was over \$3,100. The individual used home leave orders as the authorization for the sale rather than permanent change-of-station orders as required. Other individuals were identified as having sold items without holding them for the required time period.

Declaring and donating profits to charity

Both State Department and Embassy regulations require that profits from vehicle sales be donated to a U.S. charity, a local charity approved by the Ambassador, the U.S. Government, or an authorized agency of the U.S. Government. Circular 378 also provides income tax guidance and an example for Embassy personnel outlining the financial advantages of declaring the profit as a capital gain and deducting the charitable contribution.

Procedures for insuring that reported profits are donated to charities were inadequate. For example, the written certification of the disposal of profits on the sale of the 1974 Mercedes Benz noted above showed only that the seller planned to contribute unspecified amounts to nine specified charities and to "other charities that may solicit my assistance." According to the Administrative Counselor and the General Services Officer, no followups are done to insure that donations are actually made.

The degree to which the system can be abused under present conditions is exemplified by one case we reviewed. An employee reported a profit on the sale of a personal car which on the basis of available data should have been questioned for understatement. Additionally, he sold accountable restricted items at much less than market value without proper orders and also violated the Embassy's gift regulations (see pp. 3, 6, and 7). Despite these apparent violations, his actions were not detected by the Embassy system but by the military merchandise control system when a check of his exchange purchases disclosed several positive indications of black-marketing and an expanded investigation was undertaken.

Conclusions and recommendations

The Unit Administrative Officers and General Services Officer were not performing sufficient review and verification of vehicle and restricted accountable item sales transactions to insure the accuracy of purchase and sales prices. They were also not requiring sufficient documentation to determine whether profits actually were donated to approved charitable institutions. Control was solely dependent on an individual's honesty.

We recommend that you require Embassy officials to request documentation to support acquisition costs and sales prices and that employees be required to furnish proof that excess proceeds from sales of personal property including vehicles were donated to approved charities. Where cost or sales price data furnished by employees is out of line with current market prices and other data, as a minimum, special explanations should be required.

BETTER CONTROL NEEDED OVER GIFTS

Circular 31/75 requires that bona fide, duty-free gifts, whether imported or transported into Taiwan or acquired in Taiwan, given to persons outside the duty-free community must meet the following criteria:

1. No gift over \$25 in value may be given without written approval by appropriate authorities.
2. All gifts given to any one recipient in any 12-month period may not exceed \$75.00 in value.
3. All gifts given in any 1 year by one member of the duty-free community shall not exceed \$300 in value.

Despite these restrictions, one sponsor and his dependents had purchased items to be given as gifts totaling \$319 in 1976; \$1,618 in 1975; and \$589 in 1974. In 1975, the sponsor had spent \$490 for gifts and his wife had spent \$1,035. Both were over the \$300 limit and among the gifts were a variety of accountable items (luggage and electric blankets) and black-market items (cosmetics, baby clothing, bedding, and dinnerware). For a complete listing of the gift purchases, see enclosure II.

We recommend that you establish a review process to periodically insure people are complying with Circular 31/75's limit on gifts.

LIQUOR SALES CONTROLS CAN BE IMPROVED

The Embassy operates all U.S. Government liquor stores on Taiwan. According to the Administrative Counselor, about 95 percent of the sales are to non-Embassy military and civilian employees and their dependents. This situation results from the Embassy originally having liquor stores under diplomatic conditions and expanding the stores when military activities on Taiwan increased.

Embassy control of liquor

Although the Embassy is a minority user of the liquor stores, it operates the control system. About 2,000 military and Government contract and 400 other personnel have ration cards that permit them to purchase liquor and wine at the stores. The cards are issued annually and have monthly unit limits. Embassy shop personnel mark each person's card at the time of purchase to show how much of the monthly ration has been used. Waivers to increase the monthly limit can be obtained from the Administrative Counselor if the requestor has a valid reason.

About 2 years ago the Embassy and the military had discussions on methods to reduce drug and alcohol abuse on Taiwan. As a result, the limits were reduced to the following monthly levels.

| <u>Category</u> | <u>Liquor</u> (bottles) | or | <u>Wine</u> (bottles) |
|---------------------|----------------------------|----|--------------------------|
| Military - 1 person | 8 | | 32 |
| 2 people | 16 | | 64 |
| Embassy - 1 person | 10 | | 40 |
| 2 people | 20 | | 80 |

We discussed these limits with Embassy and military personnel. All agreed that few people could use their complete ration on an extended basis and that the limits could be reduced without restricting legitimate buyers. Law enforcement and investigative officials added that reducing the limits would result in fewer items reaching the black market.

Inadequate review of liquor purchases

The Embassy controls the issuing and monitoring of liquor ration cards. The Embassy shop does not make periodic reviews of individual cardholder purchases. The only checks made are individual ones and at the specific request of the Provost Marshal Office. As a result, the majority of liquor purchases are not reviewed for potential black-marketing activities of a product that has probably the highest profit to cost ratio of any item being black-marketed.

We recommend that you reduce liquor limits and introduce a procedure to periodically review purchases by all cardholders to detect potential abusers.

- - - -

Please advise us as soon as possible on what action you plan to take to improve controls over gifts and sales of liquor and personal property.

We are sending copies of this report to the Assistant Secretary of State for Administration and the Inspector General for their information.

We appreciate the courtesies and cooperation extended to our representatives during our survey.

Sincerely yours,


W. H. Sheley, Jr.
Director

Enclosures - 2

cc: Assistant Secretary of State
for Administration
Inspector General

ENCLOSURE I

ENCLOSURE I

COMPARISON OF SALES PRICES OF VEHICLES SOLD OUTSIDE THE
 U.S. COMMUNITY BY EMBASSY AND NON-EMBASSY PERSONNEL--
 (SELECTED TRANSACTIONS)

| <u>Embassy sales</u> | | | | <u>Non-Embassy sales^{1/}</u> | |
|-----------------------|---------------------|-----------------------|--------------------|---|----------|
| <u>Vehicle</u> | <u>Date of sale</u> | <u>Purchase price</u> | <u>Sales price</u> | <u>Jan./Feb. 1977 Sales prices of same/similar vehicles</u> | |
| 1974 Ford Mustang | 1/ 7/76 | \$4,100 | \$3,605 | 1974 Ford Mustang | \$ 5,000 |
| | | | | 1974 Ford Mustang | 6,000 |
| | | | | 1974 Ford Mustang | 6,000 |
| 1974 Ford Gran Torino | 4/16/76 | 5,600 | 5,013 | 1973 Gran Torino | 4,500 |
| | | | | 1975 Gran Torino | 10,000 |
| | | | | 1974 Pontiac Lemans | 6,483 |
| 1974 Ford LTD | 5/11/76 | 5,414 | 5,407 | 1973 Ford LTD | 5,227 |
| | | | | 1975 Ford LTD | 15,000 |
| | | | | 1974 Pontiac Lemans | 6,483 |
| 1974 Olds Cutlass | 5/18/76 | 5,800 | 5,797 | 1975 Olds Cutlass | 13,000 |
| | | | | 1974 Pontiac Lemans | 6,483 |
| 1975 Chevrolet | 6/16/76 | 5,402 | 5,402 | 1975 Monte Carlo | 13,600 |
| | | | | 1975 Olds Cutlass | 13,000 |
| | | | | 1975 Ford Granada | 10,100 |
| | | | | 1975 Ford Granada | 11,000 |
| | | | | 1975 Ford Granada | 7,000 |
| 1975 Ford Granada | 11/23/76 | 4,905 | 4,905 | 1975 Ford Granada | 7,000 |
| | | | | 1975 Ford Granada | 10,000 |
| | | | | 1975 Ford Granada | 11,300 |
| 1974 Toyota Corolla | 1/26/76 | 2,315 | 2,312 | 1974 Toyota Corolla | 4,500 |
| | | | | 1974 Toyota Corolla | 5,500 |
| | | | | 1974 Toyota Corolla | 6,000 |
| 1974 Chevrolet Impala | 5/27/76 | 4,024 | 4,024 | 1974 Chevrolet Nova | 5,395 |
| | | | | 1974 Pontiac Lemans | 6.483 |

ENCLOSURE I

| Embassy sales | | | |
|----------------------|---------------------|-----------------------|--------------------|
| <u>Vehicle</u> | <u>Date of sale</u> | <u>Purchase price</u> | <u>Sales price</u> |
| 1974 Toyota Corolla | 6/ 9/76 | \$2,800 | \$2,899 |
| 1974 Ford Mustang | 8/18/76 | 4,000 | 4,000 |
| 1974 Dodge Dart | 9/ 7/76 | 3,765 | 3,557 |
| 1975 Mercury Monarch | 7/ 6/76 | 7,271 | 7,209 |
| 1974 Mercury Comet | 7/12/76 | 5,700 | 5,700 |
| 1974 Chevrolet Vega | 8/ 6/76 | 3,800 | 3,795 |

ENCLOSURE I

| Non-Embassy sales | |
|--|---------------------------------|
| <u>Jan./Feb. 1977 Sales prices</u> | <u>of same/similar vehicles</u> |
| 1974 Toyota Corolla | \$ 4,500 |
| 1974 Toyota Corolla | 5,500 |
| 1974 Toyota Corolla | 6,000 |
| 1974 Ford Mustang | 5,000 |
| 1974 Ford Mustang | 6,000 |
| 1974 Ford Mustang | 6,000 |
| 1974 Dodge Dart | 6,850 |
| 1975 Ford Granada | 7,000 |
| 1975 Ford Granada | 10,100 |
| 1975 Ford Granada | 13,000 |
| 1975 Olds Cutlass | 13,000 |
| 1974 Mercury Comet (sale occurred 1/8/76) | 9,158 |
| 1974 Chevrolet Vega | 4,000 |
| 1974 Chevrolet Vega | 3,650 |
| 1974 Chevrolet Vega | 5,200 |
| 1974 Chevrolet Vega | 5,000 |

1/All sales transaction of the same model and year vehicle as the Embassy vehicle sold are included.

ENCLOSURE II

ENCLOSURE II

NAVY EXCHANGE PURCHASES
BY ONE INDIVIDUAL (AND DEPENDENTS)
FOR GIFTS

| | 1976 | | 1975 | | 1974 | |
|----------------|-------------------|------------------|-------------------|----------|-------------------|----------|
| | Number of items | Price | Number of items | Price | Number of items | Price |
| Clothing | | | Jacket | \$ 39.00 | Jacket | \$ 35.60 |
| | | | Jacket | 13.50 | Jacket | 35.00 |
| | | | | | Jacket | 16.00 |
| | | | | | Jacket | 35.00 |
| | | | Jacket, Suede | 20.00 | | |
| | Slacks | \$ 16.70 | Slacks | 16.80 | 3 Slacks | 33.00 |
| | Slacks | 16.00 | Slacks | 26.00 | | |
| | | | Slacks | 31.00 | | |
| | | | Slacks | 26.00 | | |
| | | | Slacks set | 24.00 | | |
| | | | 2 Jeans | 15.00 | | |
| | | | Sweater | 11.00 | | |
| | Shirt | 11.00 | | | 6 Shirts, sports | 30.00 |
| | | | Top | 39.00 | | |
| | | | Robe | 20.00 | 2 Robes | 20.00 |
| | | Gown | 6.75 | Gown set | 6.75 | |
| | | Various clothing | 79.50 | | | |
| | | Shoes | 17.50 | | | |
| | | Shoes | 18.00 | | | |
| | | Shoes | 29.00 | | | |
| Personal items | 2 Wallets, ladies | 11.00 | 3 Wallets, ladies | 16.50 | 3 Wallets, ladies | 25.00 |
| | | | Man's watch | 40.00 | Man's watch | 40.00 |
| | | | Ladies watch | 54.00 | | |
| | | | Cuff links | 29.00 | | |
| | | | Ring | 104.00 | | |
| | | | Diamond ring | 135.00 | | |
| | | | Men's cologne | 3.70 | | |

| | <u>1976</u> | | <u>1975</u> | | <u>1974</u> | |
|---------------------------|------------------------|--------------|--|--------------|------------------------|--------------|
| | <u>Number of items</u> | <u>Price</u> | <u>Number of items</u> | <u>Price</u> | <u>Number of items</u> | <u>Price</u> |
| Personal items (con't) | | | Men's gift set\$ | 5.50 | | |
| | | | Various | | | |
| | | | cosmetics | 39.00 | | |
| | | | Various | | | |
| | | | cosmetics | 35.45 | | |
| | | | 3 Bubble baths | 35.50 | | |
| Baby goods | | | 2 Nurser sets | 17.00 | | |
| | | | Nurser sets | 7.00 | | |
| | | | Baby crib | 60.00 | | |
| | | | Baby mattress | 21.00 | | |
| | | | 2 Diapers | 10.00 | | |
| | Stroller | \$ 26.50 | | | | |
| Bedding | 2 Sheets | 21.00 | Blanket, bed- spread and 2 pillowcases | 48.00 | | |
| | | | 5 Blankets | 57.00 | | |
| | | | Blanket | 9.00 | Blanket | \$ 12.00 |
| | | | Electric blanket | 18.50 | | |
| | | | Bedspread | 22.50 | Bedspread | 22.50 |
| | | | Bedspread | 23.50 | Bedspread | 24.00 |
| | | | Bedspread | 15.00 | | |
| | | | Pillowcase | 2.95 | Pillowcase | 2.95 |
| | | | | | 2 Pillowcases | 6.00 |
| | | | | | Pillowcase | 3.00 |
| | | | 2 Sheets | 7.00 | 2 Sheets | 6.00 |
| | | | | | 4 Sheets | 42.00 |
| Dinnerware | Wine decanter | 20.50 | Wine decanter | 12.00 | | |
| | Wine decanter | 13.00 | Wine decanter | 11.50 | | |
| | | | Dinner set | 60.00 | | |
| | | | Dinner set | 58.00 | | |
| | | | Dinner set | 39.00 | | |
| | | | Dinner set | 15.00 | Dinner set | 15.00 |
| | | | Dish set | 17.00 | | |
| | | | Dish set | 15.00 | | |

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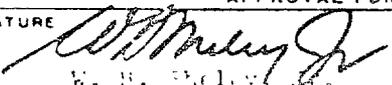
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