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BY THE U.S. GENERAL ACCOUNTING OFFICE

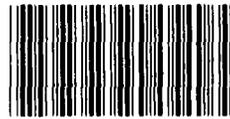
Report To The Secretary Of State

Management And Control Of Personal Property Is Poor And Procurement Controls Should Be Strengthened At U.S. Embassies In Latin America

Problems similar to those previously reported by GAO continue to exist in personal property management at U.S. Embassies in Latin America. For example, periodic inventories and reconciliations were not performed, property records were incomplete and inaccurate, and property requirements standards were not established.

Procurement regulations and prudent management practices were also not followed to the degree necessary to insure against fraud and abuse. For example, competition was inadequate, purchases exceeded authority, files were not documented, and personal service contracts were awarded.

This report discusses the conditions found at the posts and identifies factors that contribute to them.



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

INTERNATIONAL DIVISION

B-197461

The Honorable Cyrus R. Vance
The Secretary of State

DC 602866

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Dear Mr. Secretary:

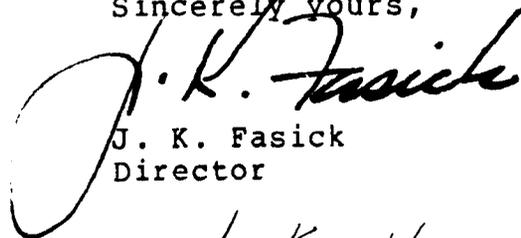
This report discusses the Department's administration of personal property and procurement at U.S. Embassies in Latin America.

In previous reports, we identified problems in the management and control of nonexpendable personal property at U.S. Embassies overseas. This review was made to evaluate the extent to which improvements had been made and to identify any existing weaknesses.

This report contains recommendations to you on pages 24 and 25. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the above-named committees; the House Committee on Foreign Affairs; the Senate Committee on Foreign Relations; and the Director, Office of Management and Budget.

Sincerely yours,


J. K. Fasick
Director

J. Kenneth

Embassies

Americans employed abroad

Personal property

Consulates

Procurement practices

Property and supply management

Inventories

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARY
OF STATE

MANAGEMENT AND CONTROL OF
PERSONAL PROPERTY IS POOR AND
PROCUREMENT CONTROLS SHOULD
BE STRENGTHENED AT U.S.
EMBASSIES IN LATIN AMERICA

D I C E S T

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In 1969 and 1975, GAC reported on problems in the management of nonexpendable personal property at U.S. Embassies overseas. This review of administrative practices was performed at U.S. embassies in Brazil, Chile, and the Dominican Republic, as well as the Consulate General in Rio de Janeiro, Brazil; to evaluate the extent to which improvements had been made and to identify any existing weaknesses.

Although the State Department agreed with GAC's findings and reported steps taken to correct the problems, many continue to exist in the personal property area. In addition, improper procurement practices and noncompliance with regulations also reduce procurement efficiency and increases the risk of fraud and abuse.

Many of the current problems, identified by GAC, have also been reported by the Department's Inspector General as the result of inspections at the posts.

DEFICIENCIES STILL EXIST IN MANAGEMENT
AND CONTROL OF PERSONAL PROPERTY

Although the Department's Inspector General had reported deficiencies as recently as 1977, GAC still found that personal property was not well managed. Excess property and the potential for loss of property existed at all four posts. Specifically:

- The posts did not take periodic physical inventories. Some posts had no evidence of inventories and reconciliation before 1978. Reconciliations performed were not timely or accurate. (See p. 6.)
- Property records were incomplete and unreliable. (See p. 7.)

- All the posts loaned personal property to employees or other U.S. Government agencies but none followed Department regulations concerning related documentation or length of the loans. (See p. 11.)
- Written receiving guidelines were either not prepared or not followed and separation of duties was inadequate. (See p. 8.)
- All property was disposed of by public sale regardless of Department regulations concerning redistribution within the parent agency or to other U.S. Government agencies. (See p. 12.)
- Planning for property replacement was inadequate resulting in excess property. (See p. 12.)

PROCUREMENT REGULATIONS AND
PRUDENT MANAGEMENT PRACTICES
WERE NOT FOLLOWED

Procurement regulations and prudent management practices were not followed to the degree necessary to protect the best interests of the U.S. Government. GAC found that:

- Contracts were not always awarded competitively nor bids solicited for major purchase orders. (See p. 16.)
- Personal service contracts were awarded (See p. 17.)
- Procurement files did not contain essential data. (See p. 19.)
- Purchase orders were issued for amounts greater than allowed by procurement regulations or were split to stay within limits. (See p. 20.)
- Separation of duties was not optimum due to availability of personnel. (See p. 21.)

UNDERLYING CAUSES OF
WEAKNESSES IDENTIFIED

GAC believes that a major reason for the weaknesses is failure of post personnel to follow Department regulations. Also, factors which contribute to noncompliance include:

- The lack of documented management systems at the posts to provide written procedures and guidelines.
- The failure of U.S. administrative officials to actively participate in day-to-day operations, relying extensively upon local employees without actually verifying performance.

Discussion of deficiencies with key personnel at the posts and in Washington identified additional factors which are believed to contribute to administrative weaknesses. There was general agreement that:

- More comprehensive training is needed for administrative personnel, including those hired locally.
- Frequent turnover of personnel under the Department's rotation program inhibits problem-solving processes and needed continuity, as well as compliance with Inspector General recommendations.
- Personnel reductions have encouraged the use of personal service contracts and, in some cases, prevented adequate separation of duties.
- Conditions peculiar to overseas locations (e.g., language barriers and shortage of qualified contractors and adequate supply sources), often prevent strict compliance.

RECOMMENDATIONS

GAC recommends that the Secretary of State:

- Ensure that written procedures and guidelines are implemented at the posts for critical administrative functions to facilitate compliance with regulations.
- Reemphasize the importance of the administrative function and the need for Principal Officers and administrative officials at the posts to ensure that regulations are followed and management procedures and controls are properly implemented.
- Ensure that administrative personnel participate in the Department's training programs, especially at the entry level.
- Ensure that efforts are made to identify existing personal service contracts and, to the extent possible, discontinue them and avoid future contracts of this nature. Specific instructions establishing criteria for identifying such contracts and establishing alternative measures should be issued to the posts.
- Emphasize the need for post officials to ensure that actions promised in response to Inspector General recommendations are completed.

This report was discussed with key State Department officials who did not indicate any major disagreement with the report and were receptive to the intent of the recommendations.

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CHAPTER 1

INTRODUCTION

In the past, we have reviewed administrative functions at the Department of State's overseas posts to evaluate management practices and controls, including those pertaining to personal property. These reviews disclosed deficiencies that the Department generally concurred with and stated that corrective action would be taken.

This review of administrative practices at overseas posts was performed to evaluate the extent to which improvements have been made and to identify any existing weaknesses. Work was performed at three U.S. embassies and one consulate in Latin American.

THE ADMINISTRATIVE FUNCTION IS AN IMPORTANT PART OF EMBASSY OPERATIONS

The embassies' administrative sections are responsible for critical support functions pertaining to personnel, budget and fiscal, and general services such as travel and transportation, housing procurement, and building-maintenance operations.

The importance of the administrative function is emphasized in Inspector General guidelines for the evaluation of administrative affairs at overseas posts which state, in part, that:

"The importance of thorough evaluation of administrative affairs at overseas posts is evident from the high percentage of Department resources allocated to that function. In many posts, over half of the total State resources and often resources of other agencies are under the control of the Administrative Section * * *."

We examined the following aspects of administrative responsibility: (1) the large inventories of personal property, and (2) the contracting and procurement functions under which large sums of money are spent for goods and services.

Nonexpendable personal property

In addition to expendable property items, such as office supplies and spare parts, the posts have large inventories of nonexpendable personal property which is defined as:

"* * *property which (1) is complete in itself; (2) does not lose its identity or become a component part of another item when used; (3) is of a durable nature with anticipated useful life of over 1 year; and (4) the original or replacement value is \$220 or more."

This includes vehicles, furniture, equipment, and appliances.

As of December 1978, the Department estimated nonexpendable property for overseas posts at over \$83 million. 1/ For Latin America (South America, Central America, and the Caribbean) the estimated value reported was over \$14 million.

The amounts reported for the embassies included in this review was:

Brasilia, Brazil	\$1,500,895 <u>2/</u>
Santiago, Chile	376,822
Santo Domingo, D.R.	not reported

Procurement

A significant amount is spent by overseas posts for goods and services on the local economy and in the United States through contract, purchase orders, and petty cash. For example, during fiscal year 1978, \$48.7 million was obligated for procurement of property at overseas posts; with \$2.3 million allocated to the posts visited in Latin America. At the posts reviewed, there were 98 active contracts for purposes that included maintenance, cleaning, repair and security services.

MANAGEMENT AND INTERNAL REVIEW

The Department's Foreign Affairs Manual sets forth the regulations governing administrative functions. An Administrative Officer is responsible for conducting administrative

1/Cf the 169 posts listed, 36 were not included in the source report. Therefore, this is an understated value of total nonexpendable property overseas.

2/Includes Rio de Janeiro and other constituent posts in Brazil.

operations at each post in accordance with governing regulations. Management tasks are further delineated by designating key U.S. and local personnel for specific responsibilities, such as accountable property officer, property management officer, and contracting officer.

Internal review is the responsibility of the Department's Inspector General and is accomplished by inspection teams which visit each overseas post on a 2-year cyclical basis. Inspections are aided by Post Memorandums and Functional Questionnaires completed prior to the inspection by post personnel.

Followup procedures include the requirement for the posts and the responsible Country Directorates and other action offices to prepare compliance replies within 6 to 8 months following distribution of the inspection reports.

SCOPE OF REVIEW

Work was performed at the Department of State in Washington, D.C., and at Embassies in Brasilia, Brazil; Santo Domingo, Dominican Republic; Santiago, Chile; and the Consulate General in Rio de Janeiro, Brazil. In Washington, we met with agency officials and reviewed records and documents pertaining to: (1) background data on Latin American posts; (2) laws, policies, and regulations; (3) results of Inspector General work at the selected posts; (4) minicomputer systems scheduled for installation at overseas posts; and (5) training and rotation policies of Department personnel.

At the posts, our review concentrated on management and control of personal property and procurement and contracting practices and procedures. The review work included

- examination of property records and tests of transactions and stock levels, observations of residential inventories and property disposal, and inspection of property storage facilities; and
- examination of contract and purchase order files and tests of selected procurement transactions.

In selecting certain property items and property and procurement transactions for review, those pertaining to property were selected at random from the files and the items in stock. We reviewed all current active contracts and all purchase orders for fiscal year 1979.

At each post, written summaries pertaining to the results of the review were provided to and discussed with the Principal Officer and administrative officials. These officers were very receptive and generally concurred with our findings and observations. Corrective measures were promised and in some cases initiated before our departure.

CHAPTER 2

DEFICIENCIES STILL EXIST IN MANAGEMENT AND

CONTRCL OF PERSONAL PROPERTY

In 1969 1/ and again in 1975, 2/ we reported on problems in the management of nonexpendable personal property at U.S. Embassies overseas. Although the State Department agreed with our findings and promised corrective action, many of the problems continue to exist.

For example, we concluded in our 1975 report that

- the Department had not issued guidelines for implementing a monetary property accounting system;
- data on property records was generally incomplete and sometimes inaccurate;
- property inventories were not taken consistently and reconciliations, when done, were of questionable accuracy and value;
- the posts were not reporting excess property for possible redistribution, and the lack of (1) accurate inventories, (2) established criteria for authorized levels of property items, and (3) utilization reviews generally precluded such identification; and
- procurement practices had improved; however, procurement planning was still weak and not based on accurate, reliable data.

The Department reported that the following steps had been taken:

- Communications containing complete guidelines were sent to all posts in order to clarify recordkeeping requirements.

1/"Improvements Made or to be Made in the Acquisition and Management of Nonexpendable Personal Property Overseas" (E-165867, Mar. 12, 1969).

2/"Acquiring and Managing Nonexpendable Personal Property Overseas: a Followup Review" (ID-75-66, June 9, 1975).

- Steps were taken by the Inspector General to strengthen review and followup procedures.
- An automated system was being developed to effectively control monetarily the nonexpendable personal property.

Despite these efforts by the Department, we again found that the situation is essentially the same. Personal property was not well managed at the four Latin American posts visited. Excess property and the potential for loss of property existed at those posts. We found that

- annual inventories and reconciliations were not performed at the posts;
- property record cards were not in agreement with physical counts of property and did not contain prescribed information;
- management procedures and guidelines for managing and controlling property were not documented;
- planning of property requirements was inadequate; and
- posts possessed property in excess to their requirements.

PERIODIC INVENTORIES AND RECONCILIATIONS WERE NOT DONE

Department regulations require an annual physical inventory of all personal property, except items covered by custody receipts and most household furnishings and appliances which are inventoried at each change of occupant. Inventories are required to be taken by a team which includes one U.S. citizen employee. During the inventory (1) serial numbers should be recorded, (2) prepared inventory listings should not be used, and (3) the resident should participate in residential inventories. Reconciliations and adjustments are to be made after the physical inventory has been taken.

None of the posts were taking accurate and timely physical inventories. In addition, none were adequately reconciling the differences between the property record cards and the physical count.

In Brasilia and Santiago we found no records of inventories being conducted earlier than 1978 and no evidence of inventory reconciliations being made. The two other posts

had taken inventories before our visit but they were not effective because of delays and inadequate reconciliations. Rio did not document the reconciliation of its inventory although it submitted a certificate stating that the inventory was taken and reconciled.

Personnel at Santo Domingo stated that the last previous inventory was taken in 1972. The current one started in November 1978, but by August 1979, 9 months later, the reconciliation was still in process. Large differences appeared on the reconciliation because property records were not adequately maintained during the inventory period. For example:

<u>Item</u>	<u>Quantity difference</u>	<u>Value difference</u>
Eedsprings	99 over	\$ 2,508.00
Mattress	149 over	1,222.00
Generators	32 short	209,760.00

The total value of maintenance supplies totaled \$83,910.96 of which there were overages of \$60,534.46 and shortages of \$17,123.74. Embassy personnel stated that the differences will be written off because discrepancies would be difficult to trace through the property records.

Embassy personnel in Santiago began a complete physical inventory in July 1978, but it was still not completed in September 1979. No U.S. citizen had participated in that inventory. The General Services Officer told us that Santiago was understaffed and no U.S. personnel were available to participate in the inventory.

Periodic physical inventories are needed to ensure accounting control over property and to provide accurate information about changes of investments in property. Such information is needed by property managers in determining requirements, planning procurements and disposals, and evaluating use.

PROPERTY RECORDS WERE INCOMPLETE AND UNRELIABLE

The Department's objectives for maintaining property records are (1) property accountability and inventory, and (2) establishing custodial responsibility. Department regulations specify the type of records required and the recording method to be used. These records are the primary source of data for quantities and values of personal property held by overseas

posts. Therefore, complete and accurate records are required for properly planning disposals and procurements, monitoring use, and preventing accumulation of excesses.

Inspector General reports of visits to two of the four posts noted that property records were inadequate, inaccurate, and incomplete as recently as 1977. The Inspector General recommended changes to improve recordkeeping and property control. The posts responded in 1978 that they had or were implementing such changes. But during our 1979 review we found that posts still did not have complete and accurate property records.

Proper recordkeeping starts with the receiving function. Unless proper procedures are followed and items received are recorded properly, an immediate breakdown in the accuracy and reliability of property records occurs.

Receiving needs improvement

Department regulations require

- the property management officer to issue detailed written procedures for receipt and inspection of personal property;
- to the extent possible, establishing central receiving activities; and
- designation of an employee responsible for receipt, inspection, and reporting to appropriate officials (the designated employee should not be responsible for procurement or payment of the property).

Three of the four posts we visited had not issued any written procedures for receipt and inspection of personal property. The post at Santo Domingo had written procedures, but they were issued in 1976 and the accountable property officer told us that he doubted if they were followed.

Receiving activities appeared to be centralized, to the extent feasible. Because of the physical limitations of space at all of the embassies, warehouse and receiving activities were performed both at the embassies and at warehouses apart from the embassies.

Three of the four posts prepared receiving reports, but one, Rio de Janeiro, did not. At the three posts which prepared receiving reports, we observed inadequate separation of duties. Brasilia's and Santo Domingo's receiving was

performed by the employees who ordered the property and maintained the property records. Santiago's receiving was performed by the employees who maintained the property records and who had physical custody of the property in one of the warehouses. The employee designated as responsible for Receipt and Inspection had not signed any of the receiving reports we reviewed.

Property record cards were inaccurate

Department regulations require preparation of composite property record cards and individual property record cards for nonexpendable property and preparation of stock control cards for property in stock. Composite property record cards were incomplete and not in balance with their supporting individual property record cards. For example, Santiago's records showed:

- electric typewriters onhand, from the composite card: 142, but from the individual cards: 150, and
- refrigerators onhand, from the composite card: 101, but from the individual cards: 99.

Rio de Janeiro did not have any composite cards for residential appliances

Generally, composite property record cards did not contain average unit costs or Federal stock numbers. As a result the values of disposals was a value other than the prescribed average unit cost.

Individual property cards also were subject to inaccuracies and omissions of various information at all the posts. For example:

- Rio de Janeiro's and Santo Domingo's cards did not contain the dates of receipt for their items and Rio did not have any cards for residential appliances.
- Brasilia did not have cards for four typewriters received in 1978.
- Property locations were often not recorded or were inaccurate. In Santiago, the location was not recorded on 27 of 542 cards reviewed.

Some repair costs were recorded at all posts, but such recording did not appear to be systematic or routine. One supervisory employee at Santiago told us repair information was not necessary for managing property and it took a great deal of time and effort to record.

Stock control cards generally lacked information, such as maximum and minimum levels and the stock's location. Further, these cards were not generally in agreement with the balances we observed. Two posts, Rio and Santiago, did not maintain cards for nonexpendable property located in their warehouses. Department-required spot checks of stock cards were not routinely performed by any of the accountable property officers.

Only Santo Domingo had minimum and maximum stock levels recorded on its stock control cards. Most of Santiago's stock control cards showed the physical locations of the property, but Brasilia's, Rio de Janeiro's and Santo Domingo's stock control cards did not.

Most of the posts' stock control cards balances did not agree with the number of items on the shelf. Of the 16 items we selected at Santiago, 14 had overages or shortages between our physical counts and the balances on the stock control cards. An embassy official told us that the employee responsible for maintaining the stock control cards and the warehouse had no formal training or instruction for his position. Another employee told us that an inventory had never been done and, if it were done, the difference between the stock control cards and the physical counts could be adjusted for past errors.

We compared the stock control card balance with the shelf-counts for other posts and found,

--of 11 items selected at Rio de Janeiro, 8 had overages or shortages;

--of 11 items selected at Santo Domingo, 3 had overages or shortages; and

--of 6 items selected at Brasilia, 2 had overages or shortages.

The items we selected for these tests included washing machines, paper, forms, pens, batteries, film, and pencil sharpeners.

Loaned property records were not in compliance with Department regulations

All of the posts were loaning property to employees and other U.S. Government agencies. One post was not complying with the part of the regulation that generally restricts property loans to 90 days, while records maintained at two other posts were insufficient to provide adequate control of the loaned items.

Three items at Brasilia had been loaned to personnel and other agencies from 6 months to a year. The post has also loaned some maintenance supply tools but had not obtained signatures of the borrowers.

The post at Santiago did not maintain any records of loaned items. Because of this lack of documentation the posts cannot readily determine which items were loaned and the loaned property may either exceed the 90-day limit or be lost from the property records.

Disposal records not always complete

The posts at Brasilia and Rio de Janeiro were not following Department regulations (their forms were not always complete, lacking such information as the type of disposal and appropriate signatures); however, the post at Santiago appeared to follow regulations.

POST DISPOSAL PRACTICES AND IDENTIFICATION OF EXCESS PROPERTY NEED IMPROVEMENT

Department regulations distinguish between the disposal of property as replacement property versus excess property. The intent being that one may generate funds to be used for acquiring like items while the other may not. The regulations also cite redistribution within the parent agency or transfer to other U.S. Government agencies as the preferable method of property disposition.

We found that all four posts disposed of their property through public sale under the replacement property criteria although similar property excess to requirements appeared to be on hand. Some of the property was sold well within its useful life expectancy. None was offered for redistribution.

Disposal practices not adequately documented

All of the posts we visited disposed of personal property through public sales. None could provide documentation showing the reasons disposals were not made through redistribution within the parent agency or transfer to other U.S. Government agencies within the area. Some stated that because of the distances between posts and high transportation costs, it was impractical to redistribute the property. Also, because of the high prices the property brings on the local markets, some of the posts prefer to sell it and buy new items.

Although these may be valid assumptions, we believe that utilization reviews should be made to identify property that is clearly excess to requirements and that the Department's redistribution criteria should be followed so that other establishments may have the opportunity to acquire property through this process.

The sealed bid sale was used at the posts in Santo Domingo and Rio de Janeiro and the auction sale was used by the posts at Brasilia and Santiago. We observed one disposal sale at Santiago where the actual disposal and collection proceeds was performed by a local public auctioneer. The property had been grouped into lots by the auctioneer for sale to the public. An embassy employee was present before and during the auction. His duties were to record the lot numbers of embassy property before the auction and to record the highest bids received during the auction so he could compare those bids with the itemized statement and proceeds later sent to the embassy by the auctioneer.

Santiago had no written procedures or guidelines for control of disposal property as it was released by the post to the auctioneer, but post employees had implemented accounting controls. Based on our observations of the auction and review of the associated documents, we believe that the accounting controls in use were adequate to safeguard U.S. property, but the controls should be written to document accountability and for use by future property managers and employees.

Planning for property replacement was inadequate

None of the posts we visited had written minimum replacement standards. All of the posts disposed of some property sooner than the criteria contained in the Department's Estimated Life Span of Equipment, but none of the posts had documented reasons for that early disposal. Decisions for disposal seemed to be on the market prices at some posts instead

of economic usefulness. One official in Santiago told us that the post could sell 2-year-old calculators and receive enough money to purchase new ones. An employee in Santo Domingo told us some items were sold before the end of their estimated useful lives because the post could obtain enough money to replace them with new items.

The General Services Officer in Brasilia told us his post did not notify other posts of property scheduled for disposal because he believed he could get more money for the property by selling it locally. He also told us the proceeds from local property disposal in fiscal year 1979 were used to purchase residential furniture because Department Headquarters did not appropriate all the money he needed to buy that property.

We found that the proceeds from disposal sales generally did not exceed acquisition costs. In fiscal year 1979, Santiago received about \$16,700 in proceeds for property it acquired for about \$28,800. In a March 1979 disposal sale Santo Domingo received about \$12,200 for property it acquired for about \$29,500.

Posts possessed property excess to their requirements

Two post officials told us they believe their posts have excess property. The General Services Officer at Santiago stated that the post probably has excess residential appliances, but did not know how much excess existed. Santiago's nonexpendable property inventory included:

<u>Item</u>	<u>Number in inventory</u>	<u>Number unassigned</u>	<u>Percent unassigned</u>
Clothes dryers	61	16	26
Refrigerators	99	31	31
Gas cooking ranges	84	32	38
Washing machines	80	29	36

The General Services Officer said some of the unassigned appliances were required to be onhand in case assigned appliances became unserviceable. A reserve stock of appliances was required because (1) it was not beneficial to procure appliances locally and (2) the time between the post's order

and receipt of appliances was 4 to 6 months. The officer said no requirements studies had been done, but estimated that the posts reserve stock should be about 10 percent of the assigned appliances.

The Acting General Services Officer in Santo Domingo said that he believed the post had excess residential property because all eligible employees had their allowances and the warehouse still contained 53 washing machines, 36 air-conditioners, 34 refrigerators, and various amounts and types of residential furniture. (Some of this property was received from the post in Nicaragua.) The post at Santo Domingo had arranged to dispose of some of that property, but the disposals were classified as replacement, not foreign excess property.

Other indications of excess property included the numbers of typewriters onhand, in relation to the number of employees and other transferred property later sold as replacement property. The table below shows the ratio of typewriters-to-employees at the posts we visited.

<u>Post</u>	<u>Number of typewriters</u>	<u>Number of employees</u>	<u>Ratio of typewriters-to-employees</u>
Santo Domingo	144	148	.97
Erasilia	115	118	.97
Fio	126	97	1.3
Santiago	218	176	1.2

The post in Erasilia purchased office and residential property from the Agency for International Development mission that was ceasing operation in the country. Some of the property was new or in good condition when the post acquired it, but the property was never used by Erasilia. The property was stored in a warehouse until it was sold, some 4 to 18 months later--the post sold it as replacement property.

CHAPTER 3

PROCUREMENT REGULATIONS AND PRUDENT MANAGEMENT PRACTICES WERE NOT FOLLOWED

Procurement regulations and prudent management practices were not followed to the degree necessary to insure procurement efficiency and protection of the best interests of the U.S. Government. Management controls should insure that goods and services are procured from the most economical source and that the duties of personnel responsible for purchasing, receiving, and accounting for goods and services are properly separated to reduce the potential for collusion and misappropriation of funds.

The Department's Foreign Affairs Manual specifies regulations pertaining to procurement practices and limitations and emphasizes the need for essential documentation. Notwithstanding the procurement regulations and management procedures, we found that:

- Contracts are not being awarded on a competitive basis.
- Bids are not being solicited for major purchase orders.
- Personal service contracts are being awarded.
- Procurement files do not contain all the essential data relating to each transaction.
- Purchase orders are being issued for amounts greater than allowed by procurement regulations, or are being split to stay within the maximum limits.
- Separation of procurement duties is not optimum because of availability of personnel.

Deficiencies similar to these have been identified and reported by the Department of State's Inspector General. Even though corrective actions were reported, some of them continued to exist. For example, following an inspection at the embassy in Brasilia, Brazil, the Inspector General reported in July 1977:

"Competition is not always obtained or, if obtained, the required written record is not made * * *.

More extensive competitive solicitation should be undertaken and recorded as required by the regulations."

In December 1977, the embassy replied:

"Action completed. The Embassy's Procurement Section has been issued written instructions covering competitive solicitation of suppliers. Written evidence is being recorded."

During our review at the Brasilia Embassy in June 1978, we found little documentary evidence of bid solicitation. Similar situations were found at other posts visited, i.e., the Inspector General's recommendation had not been complied with even though corrective actions had been reported.

CONTRACTS AND MAJOR PURCHASE ORDERS ARE NOT
BEING AWARDED ON A COMPETITIVE BASIS

The Foreign Affairs Manual states that all purchases and contracts must be made on a competitive basis to the maximum practicable extent. Formal advertising for bids involving preparation of an invitation for bids, soliciting bids, submission of bids, and awarding a contract is not required at overseas posts, rather negotiation is the procedure for making contracts. The negotiation process for contracts and purchase orders greater than \$500, requires selection of potential bidders under formal advertising procedures. The procurement officer must determine whether written or oral bids will be solicited. This decision is based on the dollar amount and the items or services to be purchased.

Of the 98 active contracts reviewed at four posts, we identified only 11 contracts where bids were solicited. We also reviewed 139 purchase orders for amounts greater than \$500 and found only 44 had been open for competitive bidding. For example, we found that:

- The Embassy in Brasilia had solicited bids for only 3 of 47 contracts active at the time of our review. Many of the contracts had been continuously renewed automatically over several years without any consideration to soliciting competitive bids. The Embassy in Santo Domingo had 20 active contracts, but had solicited bids for only 3. Individuals at both posts acknowledged that competitive bids should have been solicited on more contracts, but stated the following reasons for not doing so

- lack of availability of competitors,
- past experience with vendors, and
- reliability and dependability of vendors.

--At two posts, the Embassy in Brasilia and the Embassy in Santiago, procurement officials stated that as a rule they do not solicit bids on purchase orders for amounts greater than \$500. Despite the statement of an official at the Embassy in Santo Domingo that it was their policy to solicit bids for major purchase orders, only 2 of the 23 purchase orders reviewed had been open to competition. Officials stated the same reasons given under contracts above for not soliciting bids on purchase orders.

We recognize that conditions locally, and overseas in general, often limit the degree to which negotiation and bid requirements can be satisfactorily addressed. However, although we did not verify the extent to which alternative sources were available, we believe that adequate efforts were not being made in this regard by responsible personnel, i.e., contracts were renewed and the same vendors used as a matter of routine simply because, as stated by personnel, of past experience and reliability. We do not believe that this practice necessarily produces the best results for the Government.

PERSONAL SERVICES CONTRACTS ARE BEING AWARDED

Department of State Procurement Regulations state that overseas posts have not been delegated the authority to award contracts for personal services. This authority was withdrawn in 1967.

Personal service contracts are, in reality, contracts of employment; arrangements where an employer-employee relationship is established. This has led to serious questions regarding the rights and benefits accruing to individuals who have been awarded such contracts. For example, we were told by an official at the Consulate General in Rio of litigation involving an earlier contract of this nature for maintenance services. Former locally hired contract personnel were demanding severance pay from the U.S. Government for amounts they perceived to be due to them as employees of the Government.

The following critical conditions or elements which, if present, might result in an improper personal service contract are:

- a contract that does not call for an end product or service,
- a contract price based on the time actually worked rather than the results to be accomplished,
- a contract for services usually performed by Government employees that is under direct supervision of a Government official, and
- a contract with individuals rather than a contractor or business entity.

All of these elements need not be present to create a personal services arrangement. In fact, the existence of only one may result in a personal service contract. Whether the contract is with an individual or organization, it is important to recognize the independence of the contractor. This is why the so-called "dummy contract," wherein the ostensibly non-personal services contractor acts merely as an agent of the Government, often creates an employer-employee relationship between the Government and the employees of the contractor.

Because the Department of State has not developed specific criteria to determine the difference between personal and nonpersonal service contracts, it is difficult to definitely determine that a contract is personal service. But at the four posts visited, we identified 10 contracts which appeared to have personal service contract characteristics. Some examples were:

- At the embassy in Brasilia, two contracts directly hired individuals to perform services normally performed by Government employees. Both required direct supervision by an embassy employee. An embassy official agreed that these were personal service contracts which should be terminated. But he added that it is very difficult to avoid them. The General Services Office must first provide a certain level of services to the embassy and its staff, but the current personnel ceiling does not allow them to maintain that level unless they contract for labor to supplement the permanent staff. Since there are few and sometimes no

contractors available, they must resort to contracting with individuals for services.

--Three contracts at the Consulate General in Rio de Janeiro were with individuals for services that used to be performed by Government employees. When the permanent positions were abolished, individuals were rehired under contracts. The contracting officer agreed that these were personal services contracts, but did not know of any other way to provide the services because of the post's current personnel ceiling.

--The Santiago Embassy's contracting officials stated that two contractors were created from former employees to handle their cleaning force and maintenance contracts. The Embassy has, in essence, entered into the so-called "dummy contract" described above, and created, at the very least, the perception of an employer-employee relationship between the Government and the contractors' employees. Embassy officials in Santiago also stated that despite personnel reductions they are still expected to provide the same level of services, forcing the use of contract labor. The problem is compounded by an absence of contractors in Santiago for these types of services, therefore, the Embassy must create contractors to fit their needs.

PROCUREMENT FILES DO NOT
CONTAIN ESSENTIAL DATA

The Foreign Affairs Manual specifies that regardless of the method of procurement used, the procurement files must contain all essential data relating to each transaction made. It emphasizes that special care should be taken to establish a complete file for each negotiated transaction since most of the negotiations are oral. In addition, any special or unusual aspects of the transaction should be included in the record.

At all four posts visited, we generally found that both contract and purchase order files did not contain essential data relating to the transaction. The following types of documentation were normally not found

- copies of competitive bids submitted in writing for a contract or purchase order,
- writeups of oral bids solicited and quotations received,
- explanations as to why bids were not or could not be solicited, and
- records of contract negotiations, the basis for vendor/contractor selection, and how the prices were determined.

As stated above, out of 98 active contracts at all four posts only 11 were open to competitive bidding. Although post officials had explanations for not requesting bids, they were all verbal. There was very little and sometimes no written documentation of the circumstances surrounding each transaction in the files. The same was true for the purchase order files.

Some post officials said they did not realize such documentation was required, but after our discussions with them they understood the need and advantage of having a good written history of procurement transactions.

PURCHASE ORDERS ARE BEING ISSUED FOR AMOUNTS GREATER THAN ALLOWED BY REGULATIONS

Department of State Procurement Regulations state that overseas posts are not authorized to issue purchase orders for amounts greater than \$10,000 for local purchases and \$5,000 for U.S. purchases. At three of the four posts, we found several examples of purchase orders both exceeding the maximums and being split to stay within the ceilings. For example:

- Out of 36 purchase orders examined at the Santiago Embassy, 7 were either split to stay within the ceilings or exceeded the ceilings. Some of these purchase orders were part of a yearend crash procurement program which occurred at the end of fiscal year 1978. The post received approximately \$200,000 at the end of August and was told by the Department of State to spend it. The procurement officer explained that to spend this much money in such a short time period, they had to split purchase orders and sometimes exceed the ceilings.

--At two posts, the Consulate General in Rio de Janeiro and the Santiago Embassy, procurement officials stated that they knowingly split purchase orders and exceeded ceilings because the money must be spent when received. They explained that very little money is received during the first 2-1/2 quarters, while most of their appropriations come during the last quarter. To buy the things the Embassy needs, they normally must split purchase orders or exceed the limits during this 3-month period.

Conditions similar to these were identified in our 1975 report. We stated that although the Department has provided policy guidance concerning yearend procurements, the practice of allotting large sums of money in the latter part of the fiscal year encouraged the purchase of excess items and increased inventories beyond normal levels. It is evident that more emphasis is still needed to ensure that procurement is more evenly distributed in accordance with legitimate needs.

SEPARATION OF PROCUREMENT DUTIES WAS NOT
OPTIMUM BECAUSE OF AVAILABILITY OF PERSONNEL

Good procurement management controls dictate that the duties of personnel responsible for purchasing, receiving, and accounting for goods and services be properly separated to reduce the potential for collusion and misappropriation of Government funds. For overseas posts, personnel should be properly designated as Contracting Officer, Procurement Officer, Receiving Officer, and Certifying Officer. The appropriate authority should be delegated to these individuals and specific actions, such as procurement or contracting actions, should be taken only by the designated officer.

At two of the four posts, the separation of duties was not at a level to provide a satisfactory degree of assurance that the Government's interests were being protected. This, however, was inherent in the posts' staffing pattern which is limited by personnel ceilings. Due to reduction in forces at the posts, there were simply not enough personnel available to adequately separate duties.

CHAPTER 4

UNDERLYING CAUSES OF WEAKNESSES IDENTIFIED

Numerous deficiencies persist in the personal property and procurement functions. When considered individually, many of the problems are relatively minor. Collectively, however, they represent a significant breakdown in management control and thus increase the risk of fraud and abuse.

REASONS FOR DEFICIENCIES

We believe that a major reason for the deficiencies is failure of post personnel to follow regulations set forth in the Department's Foreign Affairs Manual. Factors which in our opinion contribute to noncompliance include the following:

- Documented management systems do not exist at the posts to provide written procedures and guidelines. These are needed to establish and clearly define duties and responsibilities in order to better comply with requirements.
- U.S. administrative officials sometimes fail to actively participate in day-to-day activities, relying extensively upon local employees. Documents are often "rubber stamped" without actually verifying performance. This, in itself, is a breakdown in management control that should be exercised to ensure that regulations are followed.

In discussing the deficiencies with the Principal Officers and administrative personnel at the posts, as well as officials in Washington, additional factors were identified which contribute to administrative weaknesses. There was general agreement that:

- More comprehensive training is needed for administrative personnel, including those hired locally.
- Frequent turnover of personnel under the Department's rotation program inhibits problem-solving processes and needed continuity. It also restricts the follow-up process necessary to ensure compliance with Inspector General recommendations as inspectors may often be dealing with different personnel at the time of inspections 2 years later.
- Personnel reductions have encouraged the use of personal service contracts to continue to fulfill necessary or desired functions. They have also, in some cases, prevented adequate separation of duties.

--Conditions peculiar to specific locations, and overseas in general, e.g., language barriers and the shortage of qualified contractors and adequate supply sources, often prevent strict compliance--especially in the procurement area.

Some of these factors are undoubtedly more difficult to control than others. For example, the Department's rotation policy is considered necessary to provide adequate experience and opportunity as well as for employee morale. In addition, the vast distances, large number of posts, and limited number of inspection personnel generally limit inspections to the 2-year cycles currently established. We do believe, however, that in planning corrective actions, all contributing factors should be identified and considered.

It is our opinion that the conditions cited as being peculiar to overseas posts have led to some complacency on the part of post personnel to accept the status quo. For example, contracts are renewed and supply sources continued as a matter of routine on the basis of reliable performance. We believe the need exists for personnel to more actively seek alternative means and sources and, in all cases, to document the results of such efforts.

EFFORTS ARE UNDERWAY WHICH COULD IMPROVE ADMINISTRATIVE MANAGEMENT AND CONTROL

Efforts are underway which may help to improve administrative operations and the capability of administrative personnel. The Department is in the process of installing automated systems at overseas posts and upgrading training available to administrative staff. In our opinion, the success of these ventures will depend greatly on attaining compliance with existing regulations and employee participation.

Automated systems are being installed at overseas posts

The Department is installing standard minicomputer systems at overseas posts which are planned to handle many operations, including property management. While Department officials do not see the systems as a "cure all" they do believe they will provide the following benefits,

- an overall standardized structure or system for administrative operations;
- a Systems Manager who is responsible for scheduling operations and monitoring the use of the minicomputer;

- more current feedback to Washington management on the status of posts' operations; and
- a comprehensive property control system, from creation of the purchase order to property disposal, with edited inputs and current outputs.

We believe, however, that deficiencies such as those identified in this report must be satisfactorily addressed before these systems can function properly. The system will provide no better data than that now available until Department regulations are followed and transactions are properly recorded.

Training program for administrative personnel is being restructured

The Department is emphasizing the need for training of administrative personnel. Existing courses are being restructured to provide more comprehensive training of longer duration.

The training, however, will not be mandatory and will, therefore, depend upon the initiative and desire of individuals to participate. We believe that training should be required, especially for entry level officers, to insure more effective administrative management and control.

CONCLUSIONS

The continuing nature of many of the deficiencies identified indicates the need for greater concern and attention at the Department level for administrative matters at the overseas posts. The need exists for increased emphasis on the importance of the administrative function and the associated responsibilities for management and control of the great amount of property and resources involved.

We believe that the problems identified at the four posts in Latin America probably exist at most other posts worldwide. Therefore, corrective actions emphasized by the Department should be directed to all posts.

RECOMMENDATIONS

We recommend that the Secretary of State:

- Ensure that written procedures and guidelines are implemented at the posts for critical administrative functions to facilitate compliance with regulations.

- Reemphasize the importance of the administrative function and the need for Principal Officers and administrative officers at the posts to ensure that regulations are followed and management procedures and controls are properly implemented.
- Ensure that administrative personnel participate in the Department's training programs, especially at the entry level.
- Ensure that efforts are made to identify existing personal service contracts and, to the extent possible, discontinue them and avoid future contracts of this nature. Specific instructions establishing criteria for identifying such contracts and establishing alternative measures should be issued to the posts.
- Emphasize the need for post officials to ensure that actions promised in response to Inspector General recommendations are completed.



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