

GAO

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REPRESENTATIONAL FUNDS

State Department Expenditures at Selected Posts



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National Security and
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The Honorable Daniel A. Mica
Chairman, Subcommittee on
International Operations
Committee on Foreign Affairs
House of Representatives

The Honorable Olympia J. Snowe
Vice Chairman, Subcommittee on
International Operations
Committee on Foreign Affairs
House of Representatives

In response to your September 30, 1986, request, this fact sheet provides information on the use of representation, official residence, and gift funds at selected U.S. diplomatic posts. We provided preliminary information on our work during briefings of Subcommittee staff on October 27 and 31, 1986.

All U.S. diplomatic posts receive appropriated representation funds, which are to be used for such things as entertainment of foreign officials, and official residence funds, which are to be used to defray unusual expenses such as hiring servants in connection with entertaining foreign officials. In addition to these appropriated funds, at least nine U.S. diplomatic posts¹ have received monetary gifts from private donors during the past several years. There are no specific State Department regulations governing the use of monetary gifts. However, State Department correspondence indicates that these funds should be used for the same purposes as funds appropriated for representation and official residence expenses.

You requested that we review the use of representation, official residence, and gift funds at eight of the nine posts that had received monetary gifts. (Bern was excluded

¹Bern and Geneva, Switzerland; Dublin, Ireland; Lagos, Nigeria; Mexico City, Mexico; Moscow, Soviet Union; Paris, France; Prague, Czechoslovakia; and Vienna, Austria.

because of an ongoing investigation involving monetary gifts at that post.) As agreed with your office, we limited our work to an examination of vouchers and supporting documentation maintained at State's Regional Administrative Management Center (RAMC) in Paris. Our objectives were to (1) obtain information on the extent to which each of the posts was using representation, official residence, and gift funds and (2) identify the purposes for which the funds were used. Due to time constraints, incomplete documentation at the RAMC in Paris, and the absence of specific guidance concerning the use of gift funds, we did not attempt to determine whether the expenditures of these funds were appropriate. Additionally, because the vouchers for Mexico City are not maintained at the RAMC in Paris, it was agreed that we would delete Mexico City from our review.

For the seven posts we examined, RAMC data indicated that:

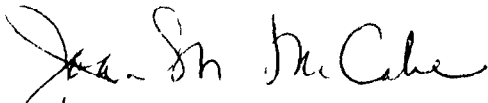
- All of the posts used representation funds, primarily for luncheons, dinners, receptions, or similar functions hosted by ambassadors, chiefs and deputy chiefs of missions, and other foreign service officers.
- All posts except Prague used official residence expense funds, generally for servants' wages and benefits and customary household expenses.
- All but Dublin and Prague used gift funds, but the purposes for which the funds were used varied among the posts. The single largest gift fund expenditure, which represented over one-half of all gift fund disbursements by the five posts, was for an education grant to the American International School in Lagos. The primary uses of gift funds reported by Geneva and Vienna were for luncheons, dinners, and entertainment associated with representational functions. Paris spent its gift funds to improve the Ambassador's official residence. The Moscow post spent a relatively small amount of gift funds, but the specific uses were not identifiable through our work at the RAMC in Paris because the vouchers are retained at the Moscow post.

Appendixes I through IV provide details on the specific amounts and uses of these funds at each of the posts included in our review.

On January 6, 1987, the State Department advised all U.S. embassies that the practice of accepting privately contributed monetary gifts for entertainment purposes was discontinued. However, State also advised that private funds will continue to be accepted for specific projects

deemed to be in the public interest and when no benefits can accrue to the donor. State's examples of projects for which gift funds will be accepted included such things as the renovation of the Department's diplomatic reception rooms, and remodeling, maintaining, and decorating embassies overseas.

Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time, we will send copies to the Department of State and the Office of Management and Budget and make it available to other interested parties. If we can be of any further assistance, please call me on 275-4128.

A handwritten signature in cursive script, appearing to read "Joan M. McCabe".

Joan M. McCabe
Associate Director

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ABBREVIATIONS

| | |
|------|---|
| FY | Fiscal Year |
| RAMC | Regional Administrative Management Center |

STATE DEPARTMENT USE OF REPRESENTATION,
OFFICIAL RESIDENCE, AND GIFT FUNDS

Foreign service officers stationed abroad are expected to establish and maintain relationships of value to the United States. To achieve this goal, funds are appropriated to defray representation and official residence expenses. In addition to the appropriated funds, which all foreign posts receive, the State Department identified at least nine posts that have received monetary gifts from private donors.

News articles in September and October 1986 contained allegations that the U.S. Ambassador to Switzerland misspent money from funds raised through private donations. On September 30, 1986, the Chairman and Ranking Minority Member of the Subcommittee on International Operations, House Committee on Foreign Affairs, requested that we examine the use of representation, official residence expense, and gift funds at eight selected diplomatic posts.¹ Each of these posts was among the nine that State indicated were receiving gift funds. We were not asked to include Bern, Switzerland, because at the time of the request there was an ongoing investigation of the use of gift funds at that post.

As arranged with the Subcommittee staff, our work consisted primarily of reviewing the financial transactions involving these funds as reflected in records at the Department of State's Regional Administrative Management Center (RAMC) in Paris. Because the Mexico City records are maintained at the RAMC in Mexico City, it was agreed that we would not include that post in our review. The following table shows the number of representation, official residence expense, and gift fund vouchers listed by the RAMC in Paris and the amount of disbursements in fiscal year (FY) 1986.

Table I.1: FY 1986 Expenses for Seven Selected U.S. Diplomatic Posts

| <u>Fund category</u> | <u>Number of expense vouchers</u> | <u>Percent of total</u> | <u>Total amount paid by RAMC (thousands)</u> | <u>Percent of total</u> |
|----------------------|---------------------------------------|-----------------------------|--|-----------------------------|
| Representation | 1,162 | 66.9 | \$ 341.8 | 26.8 |
| Official | | | | |
| Residence Expense | 464 | 26.7 | 532.0 | 41.7 |
| Gift | <u>111</u> | <u>6.4</u> | <u>402.4</u> | <u>31.5</u> |
| Total | <u>1,737</u> | <u>100.0</u> | <u>\$1,276.2</u> | <u>100.0</u> |

¹Dublin, Ireland; Geneva, Switzerland; Lagos, Nigeria; Mexico City, Mexico; Moscow, Soviet Union; Paris, France; Prague, Czechoslovakia; and Vienna, Austria.

All of the posts except Moscow submitted certified expense vouchers to RAMC. According to a RAMC official, for security reasons, the post telegraphed only the amount of its expenditures. We reviewed 288 vouchers submitted to RAMC by the remaining six posts, of which 81 covered gift fund expenditures. These 81 comprised all gift fund vouchers available for Geneva, Paris, and Vienna plus a judgmental selection of 13 of 26 gift fund vouchers submitted by Lagos. In addition, we judgmentally selected 183 representation and 24 residence expense fund vouchers for review. According to RAMC's records, in FY 1986 Dublin had no gift fund expenditures, and Prague had no gift or official residence expense fund expenditures. According to a RAMC official, posts are not required to submit all supporting documentation, such as guest lists or receipts, although many do. As a result, we did not examine all documentation relating to all expenditures.

We also reviewed foreign service regulations and policies on the use of representation, official residence expense, and gift funds. We discussed the use of these funds with RAMC officials in Paris. The following sections contain the results of our review.

REPRESENTATION FUNDS

Representation funds are appropriated to the Department for use by its officers and employees to further U.S. foreign policy objectives. The Department delegates to the chief of each diplomatic mission responsibility for overseeing representation activities since it expects to obtain optimum promotional benefit from the use of these funds.

Government regulations authorize the funds to be used for entertainment activities, tips and gratuities, flowers or other items for presentation in accordance with local customs, hiring extra help to serve at official functions, and any other expenses approved by the Secretary of State. Regulations prohibit officials from spending the funds for the hire of motorized vehicles, membership fees in clubs or associations, printing expenses except for invitations to official functions, and activities conducted solely for employees of the executive branch of the U.S. government or their families.

Appendix II summarizes the amounts of representation funds and their use by the seven posts during FY 1986. As shown, on the basis of our review of 183 expense vouchers, the posts spent representation funds generally on luncheons, dinners, receptions, or similar functions hosted by ambassadors, chiefs and deputy chiefs of missions, and other foreign service officers.

Representation funds spent at Geneva and Lagos covered official dinners or like activities. The four other posts with vouchers on file at RAMC had, in addition to such costs, other incidental representation expenses. For example, officials at Dublin used the

funds for invitations, additional servants to help prepare and serve dinners, presentations of diplomatic credentials, a taxi fare, and rental of a morning coat. In Paris, officials spent representation funds on flowers, additional servants, and printing. At Prague, the funds were spent on gifts for foreign ambassadors, a concert, and film showings, while in Vienna, officials paid for invitations and opera tickets and held a Christmas party.

Thirty-three percent of the representation fund vouchers we reviewed did not have guest lists or receipts with which to assess the propriety of the expenses. When such documents were available, they showed that expenses covered functions and benefits that included both U.S. and non-U.S. government employees.

OFFICIAL RESIDENCE EXPENSE FUNDS

Principal U.S. officials overseas are expected to use their residences to represent U.S. interests by extending hospitality to foreign officials and holding required ceremonies. These officials generally pay 5 percent of their salary for usual household expenses. Unusual expenses incurred during the operation of official residences are covered by a congressional appropriation. Allowable expenses include servants' salaries and benefits, customary household expenses, and limited transportation of servants. Residence expense funds cannot be used for expenses covered by any other appropriated fund or for any object when the expenditure is prohibited by law.

Appendix III summarizes the amounts of official residence expense funds and their use during FY 1986. As shown, the 24 official residence expense fund vouchers we reviewed generally were for expenses related to servants' wages and benefits and customary household expenses. For example, Paris vouchers showed expenses for employee wages, subsistence, social security, and annual medical physicals, plus cleaning and gardening supplies. Although the other posts had similar charges, the U.S. Mission at Geneva reported some additional residence expenses. This Mission paid to rent a piano for 2 months for the Ambassador's residence, and the Deputy Chief of Mission, who subsequently became Charge d'Affaires, spent residence expense funds for preparation and service of three dinners at his residence. We did not attempt to determine whether the expenditure of these funds was appropriate.

GIFT FUNDS

There were no specific State Department regulations on the use of gift funds. However, a 1979 State Department telegram to all diplomatic posts states that acceptance of monetary gifts is permissible and that gifts should be used for the same purposes that appropriated funds can be used. According to the telegram, prior Department approval is required when (1) acceptance would result in government expenditures, such as payment of gift taxes;

(2) the funds are given to alter or improve real property; or (3) the donor specifies that the gift be used for purposes for which appropriated funds cannot be used.

In late 1985 and early 1986, Department cables to two U.S. embassies outlined procedures for accepting gifts and cited possible uses. Both cables stated that the Department's legal office was required to approve acceptance. The first cable indicated that, if possible, the donation should be used to increase the post's representation allotment. The second cable added that the request for approval should include any specific purpose for which the donor would like the funds to be used. According to the cable, uses could include, among others, representation, official ambassadorial travel, and furnishings for the official residence. After State's legal office approves acceptance of a monetary gift, the Comptroller's office deposits the funds in a special Department gift fund account. The post is advised of its amount in the account and any specific purpose associated with the gift. All expenses charged to the special account are vouchered and paid in the same way as expenses paid with appropriated funds.

Appendix IV summarizes the extent and purposes for which gift funds were used during FY 1986. As shown, the use of gift funds varied among the posts. Data were available at RAMC on the uses of these funds at four posts: Geneva, Lagos, Paris, and Vienna. According to RAMC data, Prague and Dublin had no gift fund expenditures in FY 1986. Additionally, although the Moscow post used some gift funds, the vouchers are retained at the post. Therefore, we could not determine the purpose for which the funds were used through our work at the Paris RAMC.

Primary uses reported by Geneva and Vienna involved food, beverages, and entertainment associated with representational functions. Lagos and Paris spent gift funds on real property renovations and furnishings for an official residence, respectively. Additional details on the use of the funds follow.

Geneva, Switzerland

The U.S. Mission to Geneva reported seven gift fund expenditures totaling \$1,500. All seven vouchers covered food and beverage expenses during office calls, meetings, luncheons, and dinners. Only one of the seven vouchers included information that clearly indicated the presence of foreign officials or non-U.S. government employees.

Lagos, Nigeria

The U.S. Embassy, Lagos, had gift fund expenditures that exceeded \$338,000. Three of the 13 vouchers we examined involved an education grant totaling over \$223,000, donated specifically for

the American International School in Lagos. Of the remaining 10 vouchers, 9 covered about \$56,000 in real property development and renovations, such as retaining walls, fences, and gates at the American Consulate, Kaduna, Nigeria; and one corrected a previous accounting error.

Paris, France

U.S. Embassy, Paris, submitted 15 vouchers totaling almost \$28,000 in gift fund expenditures to improve the Ambassador's official residence. Besides the purchase of a piano, the funds covered labor and materials to re-upholster furniture, make and install draperies, and paint light fixtures.

Vienna, Austria

We examined 46 gift fund vouchers submitted by the U.S. Embassy in Vienna and paid by RAMC through March 27, 1986. In March 1986, the Embassy became a Financial Management Center, after which it retained the vouchers in Vienna. The 46 vouchers totaled \$30,900, and over half (25) covered expenses for luncheons, dinners, and receptions. In most cases, available documentation for these 25 vouchers did not show who was being entertained. Vienna also spent gift funds on invitations, pewter bowls costing \$1,023, gifts for foreign and U.S. government representatives, opera tickets for the U.S. Attorney General and his party, and a boat cruise for 435 foreign and U.S. guests. The cruise, costing in excess of \$13,000, constituted the single largest expense.

REPRESENTATION FUND EXPENDITURES IN FY 1986

| <u>Post</u> | <u>Total number of vouchers</u> | <u>Total spent in FY 1986 (thousands)</u> | <u>Number of vouchers reviewed</u> | <u>Dollar value of vouchers reviewed (thousands)</u> | <u>Primary use of the funds</u> | <u>Secondary or incidental use of the funds</u> |
|---------------------|---------------------------------|---|------------------------------------|--|---------------------------------|---|
| Dublin | 99 | \$ 30.3 | 26 | \$ 9.3 | Lunches and dinners | Additional servants, invitations, presentation of credentials, taxi fare, and coat rental |
| Geneva | 105 | 17.9 | 30 | 6.3 | Lunches and dinners | - |
| Lagos | 129 | 19.1 | 6 | 1.4 | Lunches and dinners | - |
| Moscow ^a | 235 | 48.0 | - | - | - | - |
| Paris | 407 | 164.5 | 56 | 13.1 | Lunches and dinners | Flowers, additional servants, and printing |
| Prague | 93 | 21.8 | 25 | 9.3 | Lunches and dinners | Gifts, concerts, film showing |
| Vienna ^b | <u>94</u> | <u>40.2</u> | <u>40</u> | <u>6.9</u> | Lunches and dinners | Invitations, opera tickets, Christmas party |
| Total | <u>1,162</u> | <u>\$341.8</u> | <u>183</u> | <u>\$46.3</u> | | |

^aAccording to RAMC officials, Moscow retains its vouchers at post.

^bVienna became a Financial Management Center in March 1986 after which it retained expense vouchers at post.

Source: RAMC printout of representation, official residence expense, and gift fund expenditures in FY 1986 by seven U.S. diplomatic posts plus expense vouchers on file at RAMC.

OFFICIAL RESIDENCE EXPENSE FUND EXPENDITURES
IN FY 1986

| <u>Post</u> | <u>Total number of vouchers</u> | <u>Total spent in FY 1986 (thousands)</u> | <u>Number of vouchers reviewed</u> | <u>Dollar value of vouchers reviewed (thousands)</u> | <u>Primary use of the funds</u> | <u>Secondary or incidental use of the funds</u> |
|---------------------|---------------------------------|---|------------------------------------|--|---------------------------------|---|
| Dublin | 52 | \$ 89.8 | 1 | \$ 6.6 | Salaries and supplies | - |
| Geneva | 50 | 61.3 | 9 | 11.3 | Salary and supplies | Prepare and serve dinner and piano rental |
| Lagos | 52 | 21.3 | 5 | 1.8 | Salary and expenses | - |
| Moscow ^a | 241 | 176.1 | - | - | - | - |
| Paris ^b | 28 | 32.4 | 8 | 12.8 | Salary and expenses | - |
| Prague | - | - | - | - | - | - |
| Vienna ^c | <u>41</u> | <u>151.1</u> | <u>1</u> | <u>3.0</u> | Salary and expenses | - |
| Total | <u>464</u> | <u>\$532.0</u> | <u>24</u> | <u>\$35.5</u> | | |

^aAccording to RAMC officials, Moscow retains its vouchers at post.

^bSome of Paris' residence expense vouchers had improper fiscal coding and did not appear on RAMC's printout. Totals shown are from RAMC printout. We reviewed 100 percent of Ambassador's and Deputy Chief of Mission's FY 1986 vouchers.

^cLike Paris, many Vienna residence expense vouchers had improper fiscal coding and did not appear on RAMC's printout. In addition, 40 of the 41 vouchers appearing on the printout were processed after Vienna became a Financial Management Center and were not available for examination at RAMC Paris.

Source: RAMC printout of representation, official residence expense, and gift fund expenditures in FY 1986 by seven U.S. diplomatic posts plus expense vouchers on file at RAMC.

GIFT FUND EXPENDITURES IN FY 1986

| <u>Post</u> | <u>Total number of vouchers</u> | <u>Total spent in FY 1986 (thousands)</u> | <u>Number of vouchers reviewed</u> | <u>Dollar value of vouchers reviewed (thousands)</u> | <u>Primary use of the funds</u> | <u>Secondary or incidental use of the funds</u> |
|---------------------|-------------------------------------|---|--|--|---|---|
| Dublin | - | - | - | - | - | - |
| Geneva | 7 | \$ 1.5 | 7 | 1.5 | Lunches and dinners | - |
| Lagos | 26 | 338.3 | 13 | 279.4 | Renovations of real property | - |
| Moscow ^a | 2 | 1.0 | - | - | - | - |
| Paris | 15 | 27.8 | 15 | 27.8 | Labor and materials to improve Ambassador's residence | - |
| Prague | - | - | - | - | - | - |
| Vienna | <u>61</u> | <u>33.8</u> | <u>46</u> | <u>30.9</u> | Lunches, dinners, and gifts | Invitations, pewter bowls, opera tickets, and boat party |
| Total | <u>111</u> | <u>\$402.4</u> | <u>81</u> | <u>\$339.6</u> | | |

^aAccording to RAMC officials, Moscow retains its vouchers at post.

Source: RAMC printout of representation, official residence expense, and gift fund expenditures in FY 1986 by seven U.S. diplomatic posts plus expense vouchers on file at RAMC.

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