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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

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BEST DOCUMENT AVAILABLE

Dear Mr. Meyer:

We recently completed a survey of activities at the Regional Finance and Data Processing Center in Paris, France, to obtain information needed for planning and performing future reviews. As a result of that work, we want to call your attention to several matters that we believe should be considered at this time.

We identified three possibilities for improving the activities that were being performed at the Paris Center at the time of our survey. They consist of (1) making a current appraisal of ADP equipment requirements at the Center so that excess equipment capacity can be eliminated, (2) tightening controls over the issuance of checks by the Center so that the issuance of erroneous checks can be prevented, and (3) modifying the Center's practices in the management of foreign currency bank accounts so that exchange rate losses can be reduced.

Our views in each of these areas are included in the attachment to this letter entitled GAO Views on Internal Activities of the Regional Finance and Data Processing Center in Paris, France, dated March 22, 1971. As indicated in the attachment, the suggested appraisal of ADP equipment requirements will require consideration of future activities to be performed at the Center.

We were informed by responsible officials at the Center that they recognized the existence of excess ADP equipment capacity, but they thought that additional applications would be developed to achieve full utilization. We believe, however, that changing financial management practices, as well as contemplated changes in the foreign assistance program, call for a reevaluation of the need to perform functions now performed at the Center.

We have noted that the Department recently sent a special study group to Paris to make a current review of operations at the Center. Although we understand that the review was intended to be limited to the consideration of ideal data processing programs for Finance Centers, particularly the Washington Finance Center, we believe that the scope of the review should be expanded to take into account the possibilities for removing or modifying functions now performed at the Paris Center.

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To us, the most evident prospect for eventually removing functions now performed at the Paris Center is provided by the planned installation at Washington of a common data processing facility for the foreign affairs community. We have advocated the establishment of that facility and have expressed the view that, to fully realize the benefits that are possible, emphasis should be placed on developing, to the maximum extent practicable, common systems for the foreign affairs agencies.

One of the recognized opportunities for utilizing the facility as a part of a common system is in the centralized processing of payrolls--an activity now conducted on a regional basis by the Paris Center. We believe that the continued processing of payroll on a regional basis cannot be expected to eventually lead to a common payroll system for the foreign affairs community unless there is a strong coordinated effort among the agencies to develop such a system. We believe also that to provide for adequate internal control the payroll system should be appropriately interfaced with the personnel system. However, we understand that the Department is centralizing its personnel system in Washington.

Accordingly, we suggest that the Department give consideration to the development of a centralized payroll system that is compatible with systems to be utilized by the other foreign affairs agencies, and is appropriately interfaced with the personnel system. We believe that immediate benefits would result from the installation of such a centralized system as a replacement for the regional concept now governing the payroll operation at the Paris Center, and that this change could then facilitate the eventual processing of all payrolls for the foreign affairs community under a common payroll system.

The utilization by overseas organizations of the services of disbursing officers is another area where changing conditions are creating opportunities for improved financial management practices. For some time now, the Department has provided most of the overseas disbursing services for the other agencies, and the disbursing operation at the Paris Center has represented an advancement under that concept. Now, however, Treasury is performing the disbursing function for Latin American locations from Washington, not only for the other agencies but also for the Department.

In our opinion, the Department could substantially improve its internal controls over financial transactions by expanding its use of disbursing services provided by Treasury. We believe that a transfer of the Center's disbursing function to Treasury would be especially appropriate because the Center performs a fund accounting as well as a disbursing function, both of which are under the supervision of the Paris Center disbursing officer. A transfer of the disbursing function, therefore, would completely segregate these two functions, which would have the desirable result of establishing independently maintained controls over the validity of disbursements.

Because Treasury now performs the disbursing function for Latin American locations from Washington, we suggest that the Department consider the feasibility of having the Center's disbursing function performed by Treasury from Washington. It appears to us that a satisfactory solution of the time factor should eliminate the Department's need for maintaining a disbursing office at Paris.

Any effort to segregate the disbursing and the fund accounting functions now performed at the Center would seem to call for revisions in procedures followed by Posts serviced by the Center. Because it would no longer be necessary for the Posts to deal with the Center in connection with disbursing services, such revisions would seem to be desirable in both the disbursing and the accounting for Posts' allotments.

In this connection, we believe that immediate consideration should be given to the desirability of eventually controlling overseas financial transactions under a common system for all the foreign affairs agencies, utilizing the planned common data processing facility at Washington for any processing to be performed centrally under the system. Accordingly, we suggest that the Department begin now to formulate the concepts that will best serve all the agencies under a common system, so that procedures within the Paris region can be revised on a basis consistent with those concepts.

Copies of this letter with attachment are being sent to the Director, Office of Management and Budget, Commissioner, Bureau of Accounts, Department of the Treasury, and the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations.

We will appreciate receiving your views on the matters discussed above, including advice of actions taken or to be taken on the suggestions incorporated in the attachment to this letter.

Sincerely yours,

Frank M. Zappacosta

Frank M. Zappacosta
Assistant Director

Attachment

The Honorable Frank G. Meyer
Assistant Secretary, Bureau of
Administration
Department of State

ATTACHMENT

GAO VIEWS ON INTERNAL ACTIVITIES OF THE REGIONAL FINANCE AND DATA PROCESSING CENTER IN PARIS, FRANCE

March 22, 1971

General comments

The GAO views summarized below are based on observations and limited inquiries made during a survey of activities at the Department of State's Regional Finance and Data Processing Center in Paris, France. We performed the survey during calendar year 1970.

The results of the survey, together with related knowledge obtained elsewhere, have convinced us that the Department should reevaluate the need to perform functions now performed at the Paris Center. Our views on this subject are included in the letter to which this document is attached.

We believe, however, that efforts should be initiated to improve the internal activities of the Paris Center, as it is now constituted, while the larger question about the Center's future role is being considered. These are the views that are included in the remaining portion of this document.

Suggestion for making a current appraisal of ADP equipment requirements

We noted that the Paris Center was utilizing, on a less than full time basis, ADP equipment that appeared to be more sophisticated than the equipment needed for the current workload. Accordingly, the Center is apparently incurring unnecessary costs for the rental of unused equipment capacity.

We understand that the present equipment was acquired to permit the added processing of visa activities, but that the plans for visa processing were subsequently dropped. We understand also that it required time to revise the prior equipment programs to permit the efficient use of the present equipment, so that the excess capacity of the present equipment has only recently become a reality. Officials at the Center informed us that, although general ideas had been advanced for additional applications of the equipment, no specific plans had been formulated for eliminating the excess equipment capacity.

We suggest that a current appraisal be made of the ADP equipment requirements at Paris so that all excess capacity can be eliminated. We believe that the appraisal should take into account the Department's long-range plans with respect to the Center's future role.

Need for a review of controls over the issuance of checks

We noted that the Paris Center has been finding it necessary, on a recurring basis, to take action to correct for checks previously issued. Many of the actions consisted of canceling checks that had been returned for cancellation by the Posts. Some consisted of action to recover funds from payees who had received and retained duplicate payments.

The Center, of course, is necessarily aware of the circumstances that caused known instances of duplicate payments requiring recovery action by the Center. In the case of check cancellations requested by the Posts, however, the Center does not always know why the cancellations have been requested. The cancellation of checks previously issued could be necessary for a variety of reasons, including erroneous actions be the Posts in authorizing the issuance of checks as well as erroneous actions by the Center in complying with the Posts' authorizing submissions.

We were informed by a responsible official at the Paris Center that, although the Center does not have complete records to show why checks had to be cancelled, most of the check cancellations were probably attributable to operations at the Posts rather than the Center. The reasons given for such cancellations included incorrect coding or duplicate transmittals by the Posts and changes in the status of payees by the time authorized checks were received for payment.

In the case of identified instances of the Center issuing duplicate checks, we were informed that the types of errors made by the Center have included (1) the issuance of a check, on request, without the normal authorizing voucher, and the subsequent issuance of a duplicate check when the authorizing voucher was received, and (2) the issuance of duplicate checks as a result of the Center processing an authorizing voucher twice. In addition, we noted that a third type of discrepancy has occurred at the Center when a check that was intended to be voided was unintentionally released, which resulted in the issuance of duplicate checks when the valid check was subsequently issued.

We believe that the Center should have firm controls to ensure that checks are released from the Center only on the basis of valid disbursement authorizations, and to prevent the release of checks that do not conform with authorizations. We believe also that the Center should investigate and determine the precise causes of every identified instance in which corrective action was required with respect to a check previously issued so that both the Center's and the Posts' controls can be maintained at maximum effectiveness.

We suggest that the Center make a critical review of its internal controls over the issuance of checks, strengthen them wherever necessary, and establish a program for recording, reviewing, and taking actions to prevent the recurrence of each continuing discrepancy as it is identified.

Opportunity to reduce exchange rate losses on foreign currency bank accounts

We observed that, during fiscal year 1970, the Paris Center lost $273, 622 as a result of the downward movement of exchange rates applicable to foreign currencies held in the disbursing officer's bank accounts. The Center also gained $292,215 during the same period as a result of exchange rate movements in the opposite direction. We noted, however, that the losses had been incurred primarily on a small number of currencies, and that these currencies had accounted for very little of the gains.

We therefore believe that the Center has an opportunity to reduce its exchange rate losses through tighter management of selected foreign currency bank accounts. Obviously, any reduction in such losses would be beneficial to the monetary position of the United States.

The following schedule shows the net losses incurred as a result of exchange rate fluctuations applicable to currencies that accounted for most of the losses during fiscal year 1970:

	Losses	Gains	Net Losses
CFA franc	$ 46,820	$23,329	$ 23,491
Turkish lira	12,837	7,722	5,115
Afghanis	49,211	2,714	46,497
Malian franc	4,040	2,380	1,660
French franc	56,335	7,491	48,844
Congo zaire	4,484	32	4,452
Leone	5,941	-	5,941
Malagasy franc	54,551	1,894	52,657
Total	$234,219	$45,562	$188,657

Some of the losses shown above were incurred fairly consistently throughout the year, while others followed a more sporadic pattern. For example, losses incurred on the currency of Afghanistan were spread over nine of the twelve months, whereas the losses incurred on the French franc occurred primarily in one month, and to a much lesser extent, three other months. Officials at the Paris Center have recognized that it may be possible to reduce some of the exchange rate losses through tighter management of foreign currency bank accounts, but they have cited the sudden devaluations such as the devaluation of the French franc as evidence of their inability to predict that losses of that type will be incurred.

We recognize that currency devaluations are sometimes based on political decisions that cannot always be forecasted. We believe, however, that the Department has the expertise needed to identify the currencies that are monetarily weak even when official exchange rates do not yet reflect the weakness.

Personnel at the Paris Center have informed us that they have the ability to replenish foreign currency accounts within 48 hours or less. Under these conditions, and because the Center also controls disbursements, it seems that absolute minimum amounts could be maintained in the accounts for foreign currencies known to be weak.

Accordingly, we suggest that consideration be given to the development of modified approaches to the management of foreign currency bank accounts. At the present time, Departmental regulations allow the Paris Center to maintain an amount in any foreign currency account which is sufficient