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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

May 17, 1977

The Honorable John M. Thomas
Assistant Secretary for Administration
Department of State

Dear Mr. Thomas:

We recently completed a survey at the Regional Finance and Data Processing Center in Paris, France. We examined activities related to automated data processing equipment, foreign currency purchases, payroll, allotment accounting, cashiers, and check stock.

The mechanics of processing accounting data, paying vouchers, and payroll were adequate and resulted in timely and accurate outputs. Certain issues were noted, however, which we believe warrant your attention. We discussed these with Center officials and have included their comments.

EQUIPMENT ACQUISITION METHODS

Federal Management Circular 74-5 states that automatic data processing equipment should be acquired by the method which offers the greatest advantage to the Government and that a comparative cost analysis should be performed to determine which method (e.g., purchase, lease, or lease with option to purchase) offers the lowest overall cost. Center officials told us they have always leased their equipment and have never considered purchasing it. Accordingly, the Government may be spending more to satisfy the Center's equipment needs than is required.

Using information from IBM's bid response to the Center's 1975 solicitation, we made a limited analysis of the Center's options for acquiring existing equipment. Our analysis indicates that about \$700,000 could be saved by purchasing the equipment. (See enc. I.)

Our attempts to locate a comparative cost analysis for the Center's equipment proved fruitless. Neither officials at the Center and Paris Embassy, nor the State Department's Office of Operations could provide us with documentation supporting the decision to lease rather than purchase the present equipment.

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Even though our analysis does not represent a complete comparative cost analysis, we believe it indicates that the Center's methods of acquiring equipment need to be fully evaluated, particularly since it is currently negotiating a new contract with IBM.

We therefore, recommend that such a evaluation be made and that the most economical method be used to acquire the equipment. We also recommend that action be taken to ensure future compliance with Federal Management Circular 74-5, including a clear assignment of evaluation responsibility and a review mechanism to ensure that the requirements are met.

COMPUTERIZED MODEL FOR FOREIGN CURRENCY PURCHASES

In a letter report dated October 13, 1972, which was based on our 1972 survey at the Center, we recommended that the Center purchase foreign currencies at more frequent intervals and in amounts more closely related to immediate needs so that bank balances could be minimized. To accomplish this objective, the Center planned to determine the practicality of applying computer techniques to the overall management of funds.

The Center began developing the computerized model in 1975 and, at the time of our survey in 1977, was buying about \$500 million annually in foreign currencies. Center officials said they were using the model to compute the timing and amounts of foreign currency purchases necessary to minimize the amounts held in 30 of about 70 bank accounts. However, our survey showed that personnel involved in currency purchases were not consulting the model when they made such decisions. They stated that attempts to buy foreign currencies exactly as the model recommended resulted in overdrafts or excessive amounts in some accounts.

As a result of our discussions, Center officials said they would begin consulting the model for several accounts and would evaluate and refine the model until it provides accurate purchase recommendations with limited human intervention. They will expand its use to the other accounts.

We recommend that the Department review and evaluate this computerized model presently being tested and used on a limited basis at the Center, and if it is found to be more effective and economical than the manual system, fully implement the use of the model and consider whether it would be applicable to the Bangkok Center.

USE OF CONTRACTED SERVICES

The Director of the Center told us that, because of workload volume and personnel ceiling constraints, he has authorized the use of contractor services for console operators and keypunchers who will be absent for a week or more.

In fiscal year 1976, about \$31,000 was spent for these services and about \$39,000 is projected for fiscal year 1977. According to salary figures submitted in the Center's fiscal year 1977 financial plan, the Center could hire the requested console operator and two keypunchers for about \$31,000.

Center officials believe it costs more to use contractor services than to hire permanent personnel. They said the Department of State seems less reluctant to provide increased operational funds than to provide additional personnel slots.

On the surface, it appears that contracting for these services is more expensive than hiring additional personnel. We recommend that the Department evaluate the alternatives to identify the most economical method of obtaining these services.

EXPANDED COMPUTER CAPACITY

The Center's proposed fiscal year 1977 financial plan includes \$54,000 for increased computer capability. Most of the increase was attributed to the anticipated expansion of the Accrued Cost and Real Estate System (ACRES)--a system to incorporate cost and accrual accounting data with real property information. ACRES is being implemented on a pilot basis in Athens, Bonn, Copenhagen, London, and Paris. Since ACRES is being managed from State Department headquarters, we could not determine at the Center whether or when the Department plans to expand the system. We did note, however, that full implementation at the pilot posts does not appear imminent.

Center officials told us that most of the pilot posts are still either not submitting all the documents required or not submitting them in a timely manner. The Budget and Fiscal Officer at the U.S. Embassy in Paris told us he had not begun to implement ACRES at the Embassy. He said posts have little incentive to submit the additional paperwork required, since the information is not used by the posts and does not affect their budgeting process.

Portions of the Center's financial plan related to ACRES had not been approved by the State Department at the time of our survey. We believe that if the expansion of ACRES does not occur as originally planned, the Department should not approve funds for expanding the computer and keypunch capability at the Center to accommodate ACRES. Also, the Department should review the problems associated with the posts' submission of required documents for proper implementation of ACRES.

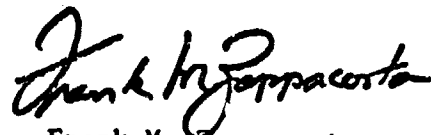
The Center may not have ultimate responsibility for the issues discussed above, but the Center Director has given the Management Services Branch authority for oversight of these issues. Center officials told us, however, that the Branch concentrates on administrative functions because of staffing limitations and does little

in the way of evaluating the Center's operations. We believe the Center could use the Branch more effectively by expanding its oversight role for activities of the other Branches. Center officials agreed and said that the staffing of the Branch will be increased and its management oversight role expanded.

We wish to express our appreciation for the cooperation and timely assistance of the Director and his staff during our survey.

We would appreciate receiving your views on the matters covered by this report, including advice of any actions taken or contemplated as a result of our survey.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank M. Zappacosta". The signature is written in dark ink and is positioned above the printed name and title.

Frank M. Zappacosta
Assistant Director

LEASE VERSUS PURCHASE ANALYSIS (note a)

	<u>Expense</u>			
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Purchase basis:				
a. Purchase price	\$ 747,786	-0-	-0-	-0-
b. Maintenance, cumulative	<u>42,777</u>	\$ <u>85,554</u>	\$ <u>128,331</u>	\$ <u>171,108</u>
c. Cumulative purchase basis	\$ 790,563	\$ 833,340	\$ 876,117	918,894
Lease basis, cumulative (includes maintenance)	\$ 409,005	\$ 818,011	\$ 1,227,016	\$ 1,636,022
Purchase exceeds lease	\$ 381,558	15,329	-0-	-0-
Lease exceeds purchase	-0-	-0-	350,899	717,128

Number months to recoup purchase cost

Purchase cost/monthly rental
 $\$918,894 / \$34,084 = 27$ months

a/Does not include the present value of money or residual value, as outlined in FMC 74-5.