

June 1987

# INTERNAL CONTROLS

## State's Controls Over Personal Property Management Are Inadequate



133179

039144

---

---



United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-226301

June 10, 1987

The Honorable George P. Shultz  
The Secretary of State

Dear Mr. Secretary:

This is our report on the Department of State's internal controls over personal property. We found that (1) domestic and foreign offices are not adequately complying with the State Department's regulations, (2) problems are being encountered in trying to implement State's automated property record keeping system, and (3) domestic warehouse property is not being adequately controlled. Internal control could be improved if you reemphasize the importance of following the regulations, provide the Central Property Management Office the resources necessary to carry out its assigned responsibilities and direct the Under Secretary for Management and other officials to take the actions specified in our report.

The report contains recommendations to you in chapters 2, 3, and 4. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs no 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 Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, and House and Senate Committees on Appropriations, and the Director, Office of Management and Budget.

Sincerely yours,

Frank C. Conahan  
Assistant Comptroller General

---

# Executive Summary

---

## Purpose

The Department of State owns a large amount of nonexpendable personal property—motor vehicles, office and home furnishings, and communications and security equipment. Although State does not know the value of this property, it spent about \$252 million acquiring personal property during the last 2 fiscal years. GAO evaluated whether State's efforts to improve internal controls over such property are working and whether regulations are being followed.

---

## Background

For almost two decades, GAO, and more recently, the State Department's Inspector General, has reported that internal controls over personal property, located at about 260 foreign posts and in 21 domestic cities, were inadequate. This occurred because posts and offices were not following departmental regulations and proper enforcement actions were not taken.

As part of the responsibilities under the Federal Manager's Financial Integrity Act of 1982, the Secretary of State reported weaknesses in the State Department's property management controls to the President and to the Congress in 1983-86. To solve the problems, State reported that it was taking action to

- establish a central office to revise and monitor compliance with regulations and provide training and assistance in property management,
- develop and implement an automated property record keeping and reporting system for use worldwide, and
- require annual certifications to headquarters that physical inventories of property have been taken and reconciled.

---

## Results in Brief

State has not established an effective management mechanism for monitoring and enforcing compliance with its regulations and has not provided the training and assistance needed to effectively implement the automated personal property control system. As a result, controls over personal property are inadequate.

State's nonexpendable property management regulations are not being adequately followed and the actions it initiated to improve controls have not yet worked. The Central Property Management Office has not been given the resources necessary to monitor compliance and carry out its other responsibilities.

Some locations implementing the automated record keeping system have experienced considerable difficulty while others have implemented it ineffectively. Also, insufficient attention has been given to ensuring adequate automated data processing controls at automated sites. The training and assistance needed to help offices effectively implement the system has not been provided.

---

## Principal Findings

---

### Regulations Still Not Followed

GAO visited 16 foreign offices and found that most had not taken inventory fully and properly and only 1 had adequately reconciled it. GAO also visited seven domestic offices and found that none had properly taken and reconciled inventories as required by the State Department's regulations.

---

### Problems Implementing Automated System

The State Department has implemented an automated property management system at several locations but some locations have received insufficient guidance and training. Further, inadequate attention has been given to ensuring that internal controls are adequate. For example, several operational locations do not have cost or maintenance data for some property recorded in their systems. Only two of the locations GAO visited had a written contingency plan in case of computer failure and several let some people have access to too many system functions.

---

### Domestic Warehouse Controls Inadequate

State's regulations contain insufficient requirements for domestic warehouse operations, and controls over warehouse property are inadequate. For example, all property records GAO tested in four warehouses were incomplete or inaccurate, and physical security at two warehouses was so lax that property could easily have been taken without detection. Further, none of the seven warehouses GAO visited had taken and reconciled inventories of all their property in fiscal year 1986.

---

## Recommendations

GAO recommends that the Secretary of State take several actions to strengthen the State Department's internal controls over nonexpendable personal property. For example,

- provide the Central Property Management Office the resources necessary to carry out, among other things, an adequate compliance monitoring program and
- direct the Under Secretary for Management to immediately correct domestic warehouse physical security problems and establish a new mechanism to ensure that longstanding, uncorrected property management problems are corrected.

---

## Agency Comments

The Department of State said it recognized the deficiencies prevalent in its personal property management function and acknowledged the need for an accelerated program to correct these deficiencies. State said it would provide the necessary resources and management commitment to improve personal property management controls and implement GAO's recommendations. State also said that progress in achieving its goals would be included in future Financial Integrity Act reports.



# Contents

---

<b>Executive Summary</b>		2
<hr/>		
<b>Chapter 1</b>		8
<b>Introduction</b>	Long History of Inadequate Control Over Personal Property	8
	State Department Plans for Correcting Control Weaknesses	9
	Objectives, Scope, and Methodology	9
<hr/>		
<b>Chapter 2</b>		12
<b>State Department Regulations Not Being Followed</b>	Property Records Not Adequately Kept	12
	Inventories Not Properly Taken and Reconciled	13
	Property Being Replaced Before Necessary and Stocked in Excess	15
	Central Property Management Office Lacks Formal Monitoring Program	16
	Conclusions	17
	Recommendations	18
	Agency Comments	19
<hr/>		
<b>Chapter 3</b>		20
<b>Problems With Effective Implementation of Automated Property Records System</b>	Conversion to NEPA Poorly Planned and Implemented	20
	Insufficient Training and Guidance	22
	Key ADP Controls Ineffective	24
	Conclusions	25
	Recommendations	26
	Agency Comments	26
<hr/>		
<b>Chapter 4</b>		28
<b>Inadequate Controls at Domestic Warehouses</b>	Inventories Not Taken and Reconciled Annually	28
	Incomplete and Inaccurate Property Records	29
	Inadequate Physical Security	30
	Centralized Guidance and Management Lacking	34
	Conclusions	34
	Recommendations	34
	Agency Comments	35



<b>Appendix</b>	Appendix I: Comments From the Department of State	36
<b>Table</b>	Table 2.1: Comparison of Number of Typing Units With Number of Employees at Selected Offices	16
<b>Figures</b>	Figure 4.1: Small Arms Munitions Stored in Unattended Room to Which Open Garage Door Led in Bureau of Diplomatic Security Warehouse.	31
	Figure 4.2: Security Equipment Staged for Shipping in Unattended Room to Which Open Garage Door Led in Bureau of Diplomatic Security Warehouse.	32
	Figure 4.3: Vault in Unattended Room to Which Open Garage Door Led in Bureau of Diplomatic Security Warehouse and Which Was Open and Contained Three Electronic Eavesdropper Detection Sets at Time of Our First Visit.	33

**Abbreviations**

ADP	automated data processing
DCI	data collection instrument
FLA	Financial Integrity Act
GAO	General Accounting Office
IG	Inspector General
NEPA	nonexpendable property application

# Introduction

The Department of State has nonexpendable personal property at about 260 foreign posts and in 21 domestic cities. This property includes such things as motor vehicles; household and office furniture and equipment; and communications, security, and automated data processing (ADP) equipment. The State Department has no reliable estimate of the value of its personal property inventory, but it spent about \$252 million to buy personal property in fiscal years 1985 and 1986 alone.

State regulations for managing and controlling this property are included in its Foreign Affairs Manual. During our review, the Central Property Management Office was revising these regulations because the regulations applicable to foreign operations contained some minor inadequacies, and those applicable to domestic operations contained major omissions.

## Long History of Inadequate Control Over Personal Property

Adequate personal property management requires internal controls to ensure that the government's investment is prudent and that property is properly used, maintained, safeguarded, accounted for, and redistributed or disposed of when no longer needed.

Over the past 18 years, we, and more recently the State Department's Inspector General (IG), have reported that State's internal controls over personal property were inadequate.<sup>1</sup> Some of the problems repeatedly found were failures to

- maintain accurate and complete property records,
- take and reconcile inventories annually,
- plan adequately for procurement, and
- identify and redistribute or properly dispose of excess property.

To some extent, these problems were the result of inadequate regulations for property management, especially those for domestic offices. However, they resulted mainly because the State Department did not enforce established regulations.

<sup>1</sup>Department of State's Progress in Implementing the Federal Manager's Financial Integrity Act (GAO/NSIAD-85-135, Sept. 25, 1985); Personal Property Management, Domestic Operations (Inspector General, U.S. Department of State, A-848, Dec. 1984); Personal Property Management, Overseas Operations (Inspector General, U.S. Department of State, A-849, Dec. 1984); Management and Control of Personal Property Is Poor and Procurement Controls Should Be Strengthened at U.S. Embassies in Latin America (GAO/ID-80-23, Feb. 11, 1980); Acquiring and Managing Nonexpendable Personal Property Overseas: A Follow-up Review (GAO/ID-75-66, June 9, 1975); and Improvements Made or to Be Made in the Acquisition and Management of Nonexpendable Personal Property Overseas (GAO/B-165867, Mar. 12, 1969).

---

## State Department Plans for Correcting Control Weaknesses

The Federal Managers' Financial Integrity Act (FIA) of 1982 requires federal agencies to evaluate their internal control systems and report annually to the President and to the Congress any material control weaknesses and their plans for correcting them. In its 1983-86 FIA reports, the State Department reported that its internal controls over personal property were inadequate. To correct these weaknesses the State Department has reported progress in implementing the following plans and actions:

- establishing a central property management office to determine policy, develop regulations and procedures, develop and provide training, provide assistance in property management, monitor compliance with regulations, and coordinate overall property management activities;
- designing, developing, and implementing an automated nonexpendable property management application (NEPA) that all domestic offices and most foreign posts will use to keep property control records and prepare inventory and other reports; and
- requiring offices to certify annually to headquarters that required physical inventories of personal property have been taken and reconciled.

---

## Objectives, Scope, and Methodology

Our objectives were to determine whether (1) the State Department's efforts to implement improved internal controls over nonexpendable personal property are sufficient to provide adequate control, (2) nonexpendable personal property management policies and regulations are being followed, and (3) additional actions are needed to strengthen State's property management controls.

This review was done as part of our efforts to assess agencies' implementation of FIA and because our previous audit work had indicated that the State Department was not effectively correcting the reported internal control weaknesses.

Between April and December 1986, we collected information at Department of State foreign and domestic locations. At foreign locations, we did detailed audit work on personal property management controls in Athens, Greece; London, England; The Hague, Netherlands; Vienna, Austria; Dhaka, Bangladesh; Rangoon, Burma; Bangkok, Thailand; Seoul, Korea; Hong Kong; and The American Institute in Taiwan at Taipei. Detailed audit work was also done on the taking and reconciling of inventories at Cairo, Egypt; Rabat, Morocco; Santo Domingo, Dominican Republic; Port-Au-Prince, Haiti; and Brasilia and Rio de Janeiro, Brazil.

At Brasilia, we also collected information on State's implementation of an automated property management system.

At domestic offices, we performed detailed audit work on personal property controls at the Foreign Service Institute and at the Bureaus of African Affairs, Inter-American Affairs, East Asian and Pacific Affairs, European and Canadian Affairs, Near Eastern and South Asian Affairs, and Consular Affairs—all in Washington, D.C. We also performed detailed audit work at seven warehouses used by the Office of Communications, the Bureau of Diplomatic Security, and the Office of Supply, Transportation, and Procurement in Washington, D.C. At these offices, we examined property controls and available documents on the taking and reconciling of inventories for specialized program equipment kept at foreign locations.

A structured data collection instrument (DCI) was used to gather uniform data on personal property management at the audit work sites. We also interviewed key property officials at each location, reviewed documents on property management functions ranging from property acquisition through disposal, and tested records to check internal controls in operation. In addition, we reviewed recent State Department IG reports on the management of personal property. We evaluated the NEPA system at the two headquarters units and at five foreign locations where State considers it operational, and at three foreign locations trying to implement it. Using a structured DCI to gather uniform data on ADP control practices, we also evaluated selected ADP controls at most NEPA locations visited.

Our review was performed in accordance with generally accepted government auditing standards.



# State Department Regulations Not Being Followed

At the time of our review, the offices we visited were not fully complying with many State Department regulations for managing and controlling personal property. The following are some of the major problems we identified:

- Property records not being adequately kept.
- Inventories not being properly taken and reconciled.
- Property being replaced before necessary and stocked in excess.

In addition, State's Central Property Management Office, which is charged with monitoring compliance, had no established program for doing so.

## Property Records Not Adequately Kept

State Department regulations require offices to maintain records of the quantities, values, and maintenance history of the Department's nonexpendable personal property. However, many of the offices we visited were not maintaining accurate and complete property records.

At the foreign offices, we found a number of problems with property records. For example, officials in Rio de Janeiro, Cairo, London, and Vienna considered their property records too inaccurate to be used for reconciliation. Also, at Hong Kong, records for 15 percent (8 of 53) of the property items we tested were inaccurate or incomplete. The records (1) did not show the correct location of five items, (2) listed a computer work station and a computer printer that could not be found, and (3) did not list a personal computer that we found.

Similar problems were found at the domestic offices. For example, we tested 60 property records and could not locate 12 (20 percent) of the items listed. We also selected 106 property items in these offices and found that 22 (20.8 percent) were not identified on property records.

Some record inaccuracies at the domestic offices occurred because the offices were not recording ADP equipment when received and some offices, such as the Foreign Service Institute and the Bureau of Consular Affairs, were not recording property transactions promptly. Property management officials said ADP equipment was not being recorded when received because the contract stipulated that boxes be opened only in the presence of an authorized supplier representative. Because the representative does not come to the office until the equipment is to be installed, which may be weeks or months after the equipment is received, the equipment is not entered on accountable property records

until then. Thus, some very expensive ADP equipment remains inadequately controlled for long periods.

## Inventories Not Properly Taken and Reconciled

State Department regulations require each office to perform annual physical inventories of personal property. The inventories are intended to serve as the basis for annual property reconciliations and adjustments to property records. When the inventory and reconciliation is completed, the accountable property officer is required to certify that (1) a physical inventory was taken of all personal property, (2) the inventory was reconciled with the property records, (3) all missing property was reported to a Board of Survey, and (4) property records are current. To encourage more offices to take and reconcile the inventories, State has begun requiring property officers to submit the certifications to headquarters. The first submission was required at various times from September 30, 1985 through November 1, 1986, depending on the location of the office.

As of December 31, 1986, about 85 percent of the State Department's 260 foreign offices had submitted their first inventory certification. Of the 39 foreign offices which had not provided the certifications, 27, or 69 percent had provided an explanation of their noncompliance and the date they expected to complete the inventory and reconciliation. Similarly, about half of State's domestic offices had submitted the certification, and of the 20 which had not, 17, or 85 percent, had provided an explanation of their noncompliance and the date they expected to complete the inventory and reconciliation.

In reviewing the foreign office certifications, many were misleading. For example:

- Athens certified in September 1985 that a complete inventory was taken and reconciled except for the ambassador's residence, although warehouses were not inventoried until 6 months later. Further, property management officials at Athens said they arbitrarily adjusted property records to agree with the inventory and that the General Services Officer had submitted the certification knowing this because the State Department required it.
- The Hague certified in September 1985 that inventories had been taken, but property officials had not inventoried warehouse stock and had not physically counted property in residences when they were vacated.
- Bangkok certified in April 1986 that inventories had been taken and reconciled and that property records were current as of December 1985,

however, property records we examined were not adjusted until June 1986.

- Cairo officials certified that a reconciliation was performed and that property records were current even though they had not completed the reconciliation because they doubted the accuracy of the property records.
- Rangoon certified in December 1985 that the inventory had been taken and reconciled and that property records were current; but, when we visited in the summer of 1986, we found that the reconciliation was not yet complete and that property records had not yet been adjusted.

We were not able to obtain satisfactory reasons why these misleading certifications were made.

State's regulations also require that offices maintain complete documents on how inventories were performed. However, many of the posts we visited had insufficient documentation.

We did not verify the certifications of seven domestic offices because their certifications were not due until after our review was completed at those sites. However, we did look at inventory and reconciliation records and procedures. One office—the Foreign Service Institute—had not performed an inventory and had no record or corporate memory of when an inventory was last taken. The other six offices had either recently performed or were performing an inventory at the time of our review. However, they were not adhering to prescribed procedures such as performing an actual count of property without reference to property listings or maintaining an inventory file. Further, none had performed an adequate reconciliation. For example, Bureau of African Affairs officials told us that they arbitrarily change property records to account for shortages without making any effort to determine their cause and that they simply ignore any overages.

The certifications submitted by the foreign offices do not cover specialized communications and security equipment or motor vehicles at foreign offices. It is the responsibility of the Office of Communications, the Bureau of Diplomatic Security and the Office of Supply, Transportation, and Procurement, located in Washington, D.C., to inventory such property. Although a detailed review was not performed on the adequacy and accuracy of inventories of specialized equipment at foreign offices, we did examine available documents in Washington, D.C. From this examination we concluded that the Bureau of Diplomatic Security is



sending maintenance teams from Washington to repair equipment at foreign offices and to inventory the equipment during these visits, and the Bureau is maintaining copies of the inventories on file in Washington. The Office of Supply, Transportation, and Procurement is relying on motor pool officials at foreign offices to provide them with current lists of motor vehicles at each office and maintains a centralized computerized inventory listing, by office, in Washington. The Office of Communications, however, was not able to provide documents to show that inventories of communications equipment have been performed. According to Central Property Management Office officials, however, when these domestic offices submit their certifications, they will be certifying that the specialized equipment throughout the Department, including that at foreign locations, has been physically inventoried, that a reconciliation has been performed, and that property records are current.

## Property Being Replaced Before Necessary and Stocked in Excess

State's regulations for nonexpendable property management are based on a policy that offices only acquire property needed for efficient and effective operations. This policy is promoted by requiring foreign locations to perform reviews of the use of the property, requiring all locations to take steps to ensure that property is acquired only when actually needed, and specifying replacement and use standards for some types of property.

Many of the offices were not complying with these regulations and, as a result, property was sometimes being unnecessarily replaced or being stocked in excess. For example:

- Although State Department regulations provide that electric typewriters are to be used at least 12 years unless repair costs would be excessive, Bangkok officials planned to replace 205 electric typewriters, valued at \$167,310, in fiscal year 1987, even though over half of them were less than 8 years old and they had no evidence that repair costs were excessive.
- Rangoon officials replaced nine electric typewriters, valued at \$6,945, which had been purchased in 1985 because the warranty had expired. When checked by the person who services typewriters at the office, they were found to be in good working condition.
- Seoul had 530 window air conditioners on hand even though about three-fourths of its 217 housing units and its main office building have central air conditioning.

- The American Institute in Taiwan had 236 refrigerators, 137 ranges, 159 vacuum cleaners, and 139 water heaters on hand for a total of only 93 housing units. Officials said that market and climatic conditions necessitate two refrigerators per residence, some ranges and vacuum cleaners were used in office buildings, some houses needed more than one water heater, and they planned to dispose of some units.
- Some offices had more typing units (typewriters and computer work stations) than they had employees. (See table 2.1.)

**Table 2.1: Comparison of Number of Typing Units With Number of Employees at Selected Offices**

Office	Typing Units			No. of employees
	Typewriters	Computer work stations	Total	
Hong Kong	181	50	231	218
Bureau of African Affairs	116	133	249	148
Bureau of European and Canadian Affairs	156	131	287	210
Bureau of Inter- American Affairs	178	119	297	217
Bureau of East Asian and Pacific Affairs	109	126	235	138
Bureau of Near Eastern and South Asian Affairs	102	153	255	144
Bureau of Consular Affairs	137	118	255	165

### Central Property Management Office Lacks Formal Monitoring Program

In September 1985 the State Department established the Central Property Management Office in its Bureau of Administration to improve internal controls over personal property. This office does not physically manage, control, and account for the State Department's personal property as administrative responsibility for that rests with functional and regional offices within the State Department. The Central Property Management Office, which at the time of our review was staffed with two employees, is responsible for developing policy, regulations and procedures; developing and providing training; providing required assistance; monitoring compliance with regulations; and coordinating personal property management activities. So far, because of its limited staffing, the office's efforts have been largely concentrated on revising the regulations. Once the revised regulations are issued, the office plans to work, within the limitations of the resources it has been provided, on its other responsibilities.

The Central Property Management Office has not yet developed a formal regulations monitoring program. As of November 1986 the office had visited only 4 of the State Department's 260 foreign offices and a

few of its domestic offices. The office officials said that it does not have the staff or funds for extensive monitoring visits. It had, however, asked the IG to alert it to significant instances of noncompliance identified during inspections. Because the State Department's IG Office is reorganizing, we contacted officials in both the old office—now the Office of Policy and Program Review—and the new IG Office about plans for inspections. Officials in both offices said that they were unsure how or when inspections would be performed because of the reorganization. The new IG office will not be organized and staffed to begin inspecting posts and offices until sometime in 1988.

The House Committee on Government Operations asked the State Department which State official has the authority to ensure that regulations are followed. The Department's July 1986 response said that the Under Secretary for Management has sufficient authority and, after being notified by the Assistant Secretary for Administration of a failure to comply, could take appropriate action to ensure compliance. Moreover, the Assistant Secretary for Administration stated in September 1986 that:

"Thus far it has not been necessary for me to notify the Under Secretary for Management that personal property management regulations are not being followed since there have been no such instances."

However, the results of this review, as well as our previous and State Department IG reviews, demonstrate clearly that personal property management regulations have often not been followed.

---

## Conclusions

Many of the problems identified over the years in the State Department's internal controls for personal property continue, even though State's FIA reports have outlined progress toward correcting them. Domestic and foreign offices are still not adequately complying with regulations for the management of nonexpendable personal property or exercising adequate internal controls over their property. This situation will continue, in our opinion, until the State Department ensures compliance with its regulations through monitoring and enforcement action. The Central Property Management Office, which is responsible for monitoring compliance with the regulations, has not been given the resources necessary to carry out its responsibilities, and thus, has not yet established an effective monitoring program. The Central Property Management Office should be given the resources necessary to carry out all of

its responsibilities and the State Department needs a formal monitoring program. This program should include results of

- IG and Office of Policy and Program Review audits and inspections when performed,
- Federal Managers' FIA internal control assessments and questionnaires,
- monitoring instruments (such as a questionnaire or checklist) to be completed by geographic bureau Post Management Officers when they visit foreign offices,
- regulations compliance questionnaires which all State offices should complete and certify annually along with their certification of the taking and reconciling of inventories, and
- periodic Central Property Management Office on-site monitoring visits to domestic and foreign offices.

Since property management problems have been long standing and remain uncorrected, it seems clear that a new mechanism is needed to ensure corrective action is taken. More aggressive enforcement is also needed.

---

## **Recommendations**

We recommend that the Secretary of State

- reemphasize the importance and the need for principal officers and property control officials to assure that regulations on personal property management are properly followed;
- provide the Central Property Management Office the resources necessary to carry out its responsibilities, including the establishment of a compliance monitoring program;
- direct other offices to participate as needed in a compliance monitoring program; and
- ask the IG to provide the Central Property Management Office with copies of all audit and inspection reports that discuss compliance with personal property management regulations.

We also recommend the Secretary of State direct the Under Secretary for Management to implement a new mechanism that would ensure the property management problems are corrected.

---

## **Agency Comments**

State agreed our findings represented a fair and accurate assessment of the property management deficiencies at its domestic and foreign offices. State also acknowledged the need for an accelerated program to

correct the deficiencies. State said that it is preparing a plan to fully implement our recommendations, discussed actions it has already taken, such as adding a third person to the Central Property Management Office staff, and discussed some of its plans to improve its property management controls, such as development of a compliance monitoring program. (See app. I.)

State's Office of Inspector General agreed that the Department's controls were inadequate, but disagreed with our proposal that the Secretary ask the IG to participate as needed in a compliance monitoring program. The IG stated that compliance monitoring should be a function of the Central Property Management Office and that IG participation in monitoring could interfere with the IG's independence by placing the IG in State Department's management process. The IG agreed, however, that reports on noncompliance with property management regulations will be provided to appropriate State managers when the inspection teams focus on property management as a special project. That, in fact, was the intent of our proposal, and since the IG has stated that he will provide these reports, the proposal for the IG to participate in a compliance monitoring program is no longer included in our recommendations.

# Problems With Effective Implementation of Automated Property Records System

One of the State Department's major efforts to improve internal controls over personal property has been to develop and implement an automated NEPA system to replace the manual records system. NEPA development began in the late 1970s. As of November 1986, the State Department considered NEPA to be operational at 27 foreign offices and 2 domestic offices. At least 15 other foreign offices and 2 other domestic offices are currently implementing NEPA, and an additional 11 foreign offices are scheduled to begin using NEPA before the end of 1987. State officials estimate they have spent about \$260,000 developing NEPA during the last 2 fiscal years. The State Department plans to spend about \$100,000 on NEPA development during fiscal year 1987 and intends to eventually use NEPA in almost all its foreign and domestic offices.

NEPA allows users to create automated records and record receipt, issuance, transfer and disposal for each item of property. The records include information such as description, cost, life expectancy, assigned property number, location, and maintenance history. An individual record with a separate property number can be created for each item of property. Although individual records are recommended for almost all property, group records can be created for items, such as a set of silverware, when it is not practical to affix individual property numbers. NEPA also allows users to produce a variety of property management reports, such as reports on inventory, maintenance, disposals, or items due for replacement.

The system's software is being improved to increase the types of property reports that can be automatically produced and new software is being developed to allow posts and offices having personal computers to use the system. The State Department plans to test the new software in early 1987. State reported in its December 1986 FIA report that the software for personal computers is scheduled for general implementation by May 1987. The State Department also plans to develop software that will make taking and reconciling inventories easier by using a laser wand scanner and a bar code property numbering system.

## Conversion to NEPA Poorly Planned and Implemented

Effective implementation of NEPA depends on such factors as

- entering accurate and complete data on all property on hand, based on a complete physical inventory and reconciliation, and all property acquired and disposed of after the system is implemented;
- training and providing guidance to system users; and

- providing ADP controls, including (1) development of contingency plans (plans for how operations can be restored) in the event of system failure or destruction, (2) limiting employees access to the system, and (3) maintaining source documents (manual records) until the computer system data is backed up or copied to prevent data loss if a system failure occurs.

We evaluated NEPA at 10 locations that State had listed as using or implementing it and found that some are experiencing difficulties in changing to the new automated system, while others have implemented it ineffectively.

---

**Operational Problems at  
Domestic Offices**

Neither the Foreign Service Institute nor the Bureau of Consular Affairs took and reconciled a complete physical inventory before entering property data in the automated system. Also, neither recorded all property acquisitions and all disposals occurring since system implementation. As a result, their property records were incomplete and inaccurate. We also found that both used property numbering systems and affixed bar codes to the property that will not work with the laser scanner inventory system the State Department plans to develop. The Bureau of Consular Affairs became so discouraged by the problems it encountered in trying to implement NEPA that it stopped using the system, even though its manual property records had already been discarded. In effect, the Bureau of Consular Affairs had no property management and control system in operation. Bureau officials said that no one in the bureau knows how to use NEPA.

---

**Operational Problems at  
Foreign Offices**

At five foreign offices listed as using NEPA, we found NEPA had not yet replaced manual record systems at two offices and that the other three had not yet achieved fully effective implementation. For example:

- Athens continues to rely on its manual records system even though it spent 2 years labeling and entering property into NEPA.
- Hong Kong continues to rely on its manual records system, even though it began implementing NEPA before June 1985, because its NEPA data base is still incomplete and it found that the property records entered into the system contained numerous errors.
- Hong Kong and the American Institute in Taiwan did not affix property numbers to specifically identify property items because officials feared that the numbers they assigned might not be compatible with the planned laser scanner inventory system. Property officials were waiting

for the State Department to send them appropriate bar coded property number stickers. (After we brought this situation to the attention of the Central Property Management Office, it informed these locations where and how to obtain appropriate labels.)

- Vienna, Seoul, Hong Kong, and the American Institute in Taiwan did not have cost or maintenance information recorded in NEPA records for some property items. For example, Seoul's system showed no acquisition cost for items such as minicomputers and computer work stations. Vienna's system listed no repair data for any items and no unit costs for many items.

---

### Implementation Problems at Three Foreign Offices

The three foreign offices we visited where NEPA was not yet operational were experiencing difficulties in implementing the system. For example:

- London has been trying to implement NEPA for over 3 years, but still has not entered residential furniture records into the system. Also, many of the records show no procurement or cost data for embassy and warehouse property. Further, officials initially created group records for some types of property, but when they found that group records provide inadequate control they reentered the property with individual property numbers.
- Although the Hague had been informed in March 1985 that individual records are recommended for almost all property, officials had created group records for some property. (After we pointed out London's experience, they began to create individual records with separate numbers for each piece of property.)
- In Brasilia, officials have been trying to implement NEPA since June 1984. By September 1986, they had entered less than 4 percent of the post's property into the system. Officials said a number of problems had hampered implementation efforts, including inadequate training, the complexity of NEPA and having only one computer terminal to enter thousands of property items into the system.

---

### Insufficient Training and Guidance

Several offices told us that their transition to NEPA has been hampered by insufficient training and guidance. Employees at most foreign locations had been trained to operate the computer and the NEPA software when it was installed. However, they were not trained to properly establish and then maintain the property system. Also, they could not find guidance they needed in the system's user manual. For example, the



manual initially did not discuss the need to take and reconcile inventories before entering data into the system or the need to create individual property records for almost all property. The manual does not discuss the appropriate bar code sticker labels to use in numbering property or the relationship of NEPA to regulations for personal property management.

The State Department has attempted to overcome NEPA training and guidance problems by issuing "lessons learned" bulletins, which it then considers part of the manual, cabling information to offices, and telephoning offices to discuss problems. It was also developing a new system's user manual at the time of our review. Furthermore, Central Property Management Office personnel have visited a few offices to provide guidance and assistance and have given some training. In addition, in May 1986, the State Department's Foreign Service Institute expanded the General Services course it gives to some foreign service officers from 3 to 7 weeks. This expansion increased the course time devoted to personal property management training from about 8 hours to over 15 hours and also provided 3 additional hours training in the use of NEPA. It may be years, however, before many property managers receive this training. Half the property managers at foreign offices we visited said they had received no training in personal property management during their career at State. The other half had received some training on personal property management before the Foreign Service Institute courses were expanded. The Foreign Service Institute does not provide courses for domestic property management personnel. So at domestic offices we visited, most personnel said they had not received any personal property management training.

As a result of its review of the State Department's minicomputer program,<sup>1</sup> including NEPA, the State Department IG recommended that State

- establish minimum training requirements for minicomputer users and operators;
- develop classroom training courses and self-study courses for each application; and
- develop an adequate system conversion program for each application that includes user orientation and guidance, a system conversion manager, and a systematic approach to the initial entering of data.

---

<sup>1</sup>The Minicomputer Program of the Department of State (Program Inspector General, U.S. Department of State, A-85-9, April 1986.)

## Key ADP Controls Ineffective

NEPA was designed to make accurate property record keeping and reporting easier and, thus, to improve internal controls. We did not evaluate ADP control systems for minicomputer operations in depth because we wanted to focus directly on personal property management and because State's IG had just finished its minicomputer audit as our review was beginning. However, we did check to see if locations where NEPA was operational limited user access to the computer software application, maintained source documents until data was copied or backed up, and had developed written contingency plans. Some locations are not adequately limiting access; some are not maintaining source documents until computer records are copied; and only two had developed a written contingency plan.

## Access to NEPA Could Be More Limited

Key property management responsibilities need to be separated to reduce the risk of error, waste, or wrongful acts when a person can perform several key types of property transactions such as recording receipt, issuance, transfer, and disposal of property. State assigns a password to each user at a NEPA location to prevent unauthorized persons from gaining access to the automated system. State also assigns each authorized user an access level within the system. A low access level prevents the user from performing some types of transactions. A high access level allows the user to perform many different types of transactions. At some locations, several employees had access levels high enough to perform several key system transactions, thus reducing the degree to which duties were separated. For example:

- In Vienna, 18 people had access to NEPA, including 7 systems personnel, and some of them had higher access than necessary. Officials in Vienna agreed that they needed to review NEPA access levels regarding separation of duties.
- In Athens, officials did not evaluate access levels when NEPA was installed. The ADP systems manager agreed to restrict access levels after we alerted him to the internal control problem.

We also became aware that ADP system managers at NEPA locations can change or delete NEPA data without detection because the operating system for the minicomputers contains no audit trail or record of such changes. State officials were aware of this internal control weakness and were requesting proposals from software developers for an operating system that will contain adequate internal controls.

---

Some Offices Not  
Maintaining Source  
Documents

Some locations were not maintaining all source documents for the period between when data is entered into the computer and when the data is copied or backed up by the computer. For example, in Vienna, property officials did not keep source documents, even though the ADP systems manager directed them to do so, and a recent minor computer malfunction had resulted in the loss of data transactions for one entire day. Also, the Athens systems manager had no established policy but, as a result of our review, the manager intends to direct all ADP users to retain all their source documents for 24 hours to allow time to update automated back up files.

---

Most Offices Without  
Contingency Plans

Except for Seoul, which has a draft contingency plan, and the Bureau of Consular Affairs, none of the other NEPA offices we visited had developed contingency plans. State regulations require such plans to provide for timely reinstatement of computer operations for all minicomputer applications. The State Department's Office of Information Systems Security is currently working to develop and implement a contingency planning program. It has developed a contingency planning handbook for foreign offices, which it sent to ADP systems managers in April 1986. The systems managers are responsible for developing the individual office's plan and providing a copy to the Office of Information Systems Security for review. (No location had yet returned a copy at the time of our review.) The Office of Information Systems Security also intends to develop and distribute a handbook for domestic offices, which may have different computer capabilities, during 1987.

The State Department's IG identified ADP internal control problems similar to those we found. The IG recommended that State develop a checklist reporting and certification process on compliance with automated system control standards, including

- making selective tests of the validity of answers by on-site inspection;
- implementing a formal standards compliance process and a mechanism for referring instances of substantial noncompliance to higher management for resolution; and
- incorporating control standards, operational standards, and the compliance enforcement process into the Foreign Affairs Manual.

---

Conclusions

The State Department is implementing an automated personal property management system to improve internal controls over personal property. We believe that the system and enhancements being developed and

planned will be a more efficient way to keep accurate property records, generate property reports, and develop information for management decisionmaking—if it is effectively implemented and maintained. Some system implementations, however, have encountered problems because office personnel did not receive appropriate training and guidance. Also, not enough attention has been given to ensure that ADP controls are adequate.

The lack of proper training and guidance and ADP controls were also surfaced as problems in the IG's April 1986 report. The IG's recommendations, if implemented, should strengthen internal controls for the minicomputer program and help State's managers implement minicomputer applications, including NEPA. We believe these actions should also be extended to the planned operation of NEPA on personal computers. In addition, to ensure effective NEPA implementation and control over personal property, the Central Property Management Office should provide State offices with training on NEPA implementation and property management; NEPA implementation scheduling, monitoring, and assistance; and final approval of implementation completions.

---

## Recommendations

To further strengthen property management controls and facilitate an automated control system, we recommend that the Secretary of State direct the Central Property Management Office to develop

- a training program on managing and controlling nonexpendable personal property, with special attention to problems in establishing NEPA and
- a NEPA implementation guide and a monitoring mechanism that will identify when direct assistance is needed and when systems are fully operational.

---

## Agency Comments

State agreed with our recommendations and discussed plans for implementing them. (See app. I) These plans include developing a training program on NEPA implementation and the administrative procedures required to maintain automated property records and developing a mechanism for monitoring NEPA implementation.



# Inadequate Controls at Domestic Warehouses

State Department regulations for domestic personal property management do not specifically address domestic warehouses. However, they do include a requirement for domestic offices, which includes warehouses, to take and reconcile inventories annually and to establish and maintain adequate property records. Good internal controls would also include provisions for adequate physical security and adequate management of major property functions. However, such controls were lacking at the warehouses we visited—those operated by the Office of Communications, the Bureau of Diplomatic Security, and the Office of Supply, Transportation, and Procurement.

Also, although State's annual FIA reports stated that internal controls over personal property are inadequate, the reports have not specifically identified weaknesses in controls for domestic warehouses and spelled out plans for correcting the weaknesses, even though a December 1984, State Department IG report stated that controls were weak.

## Inventories Not Taken and Reconciled Annually

The three organizations we visited operated seven warehouses. None had taken and reconciled inventories of all warehouse property during fiscal year 1986.

In 1985 when the Office of Communications moved property into a new warehouse, it did not reconcile the property placed in the warehouse with old property records or with the last inventory taken in 1980. At the beginning of fiscal year 1986, it had one person begin a cyclical inventory of warehouse property by counting 10 to 16 item categories each workday and comparing the count with property records. At this rate, the cyclical inventory of the approximately 20,000 item categories in the warehouse will be completed in about 6 to 9 years. Office of Communications officials told us that they are concentrating on counting high-value property first and have requested additional funding for more personnel to complete the inventory more quickly.

We also found that the Office of Communications has not recently taken an inventory of the communications equipment it has stored in two warehouses operated by the Office of Supply, Transportation, and Procurement. The two offices disagree on who is responsible for taking and reconciling inventories of this property. Consequently, an adequate inventory of communications equipment has not been taken for a number of years.

We found that the Bureau of Diplomatic Security compared property in three of the warehouses where it stores property with a list of warehouse stock by location. Although it plans to adjust property records so they will be accurate, it does not plan to determine the cause of or reconcile any discrepancies found. Because the Bureau did not make a count of warehouse property without reference to property listings, keep an inventory file, and reconcile the inventory to property records; the inventory did not conform to State's regulations.

The Office of Supply, Transportation, and Procurement, in addition to worldwide inventory responsibility for motor vehicles, is responsible for procuring, storing, and distributing furniture and equipment for domestic offices. The Office inventoried new and rehabilitated office furniture and equipment it stores in one of its four warehouses, but did not inventory excess property stored in another of its warehouses.

## Incomplete and Inaccurate Property Records

We reviewed property records at six warehouses and found that all had some incomplete or inaccurate records. At four of the six, every record we tested was either incomplete or inaccurate.

At three warehouses, we selected 13 groups of security equipment items and checked them with the automated property records. The records did not list 6 of the 13 groups of items we selected, including 23 dual-screen TV monitors and 69 vehicle armoring kits. For the other seven groups of items, all records showed the wrong location of the property and/or incorrect quantities. For example, the property records listed 453 single-screen TV monitors at specific locations in one warehouse. We found no monitors at these locations, but found 184 monitors in another unrecorded location. Also, the property records listed 72 TV cameras in one warehouse. We found only 61 TV cameras, including 24 at an unrecorded location. Warehouse officials said that they could not document the whereabouts of missing equipment and that property record discrepancies occurred because they were several months behind in posting property transactions.

In one warehouse, we selected 10 property record cards for groups of communications equipment items stored in the warehouse and attempted to physically locate the recorded property. All 10 cards were inaccurate. For example, the four minicomputers listed on one card and the two dish antennas listed on another were not at the warehouse. (Warehouse officials were unable to document the location of this equipment.) Warehouse officials told us that they do not have a complete and

accurate set of records for communications equipment in this warehouse and do not consider their records to be official. They said, however, that they plan to take an inventory of the equipment and to establish accurate records.

## Inadequate Physical Security

During two visits, 6 days apart, we found inadequate physical security over property stored in the main warehouses of the Bureau of Diplomatic Security and the Office of Supply, Transportation, and Procurement. The two warehouses are separated by a parking lot which the State Department uses to store motor vehicles. Chain link fences enclose the parking lot and most of the two buildings; however, on one end, the buildings extend beyond the fences and have two garage door openings.

During our first visit to the Diplomatic Security warehouse, a large room at the back of the building was unattended. A garage door in this room, which leads to the parking lot, was open, as were other garage doors leading to the outside. Inside the large room, was an open vault which contained three electronic eavesdropper detection (debugging) sets. The room also contained eight crates of cameras, security equipment staged for shipment to foreign posts, and tear gas dispensers. Although cameras monitor the room and the building's exterior, the monitors were not being watched.

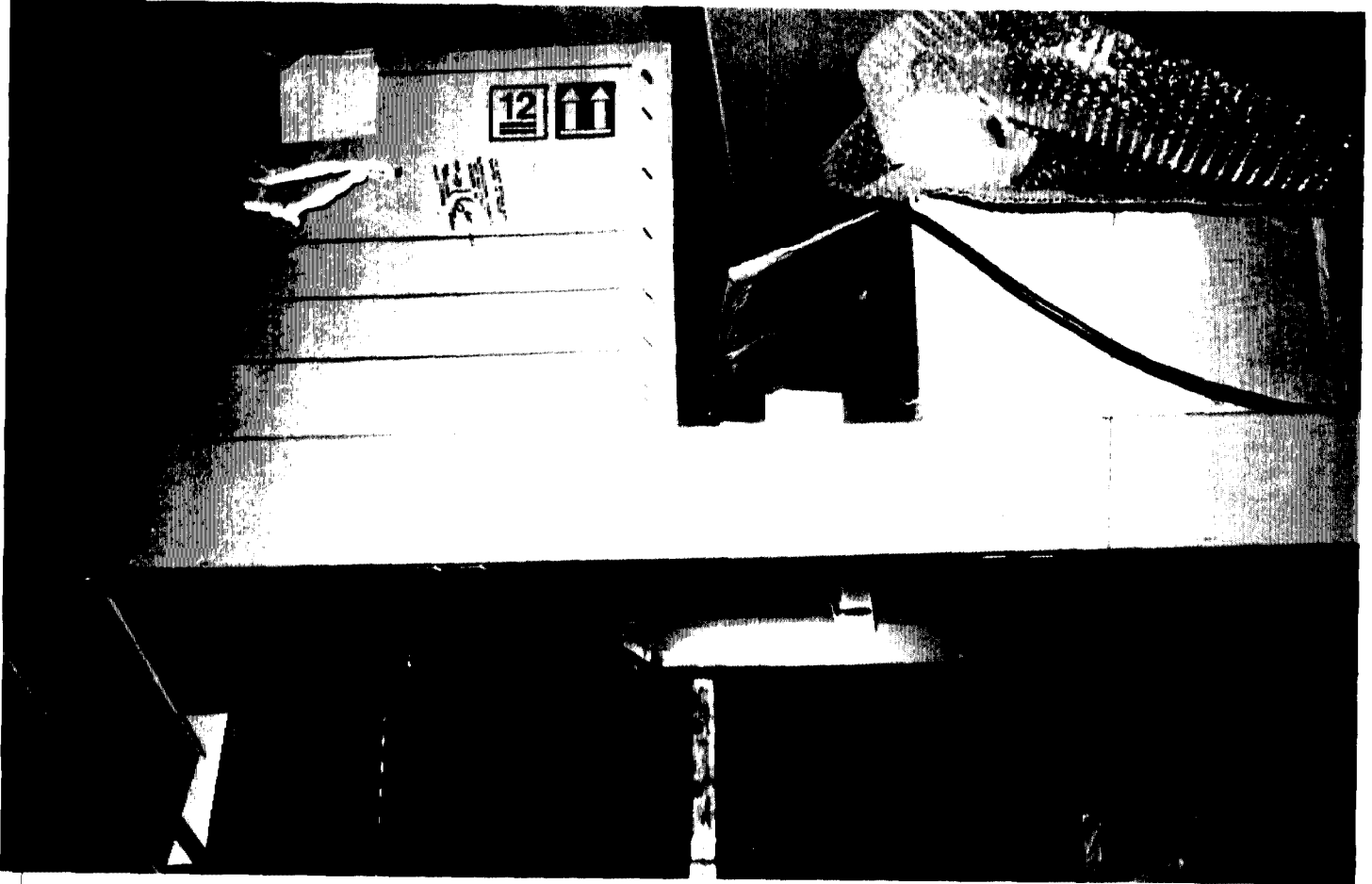
During our second visit to the warehouse, we observed the same conditions, except the vault door was closed and the crates of cameras had been removed. However, five crates of small arms munitions had been moved into the unattended room. During this visit we were able to walk unchallenged, although totally unknown to warehouse officials, through an open garage door outside the fence, down the main aisle of the Supply, Transportation, and Procurement warehouse, out another open garage door into the fenced parking lot, and across the lot to the open Diplomatic Security warehouse garage door. We notified State Department officials about the problem and they said they would correct it. Some of the photographs we took during this visit are shown in figures 4.1 through 4.3.



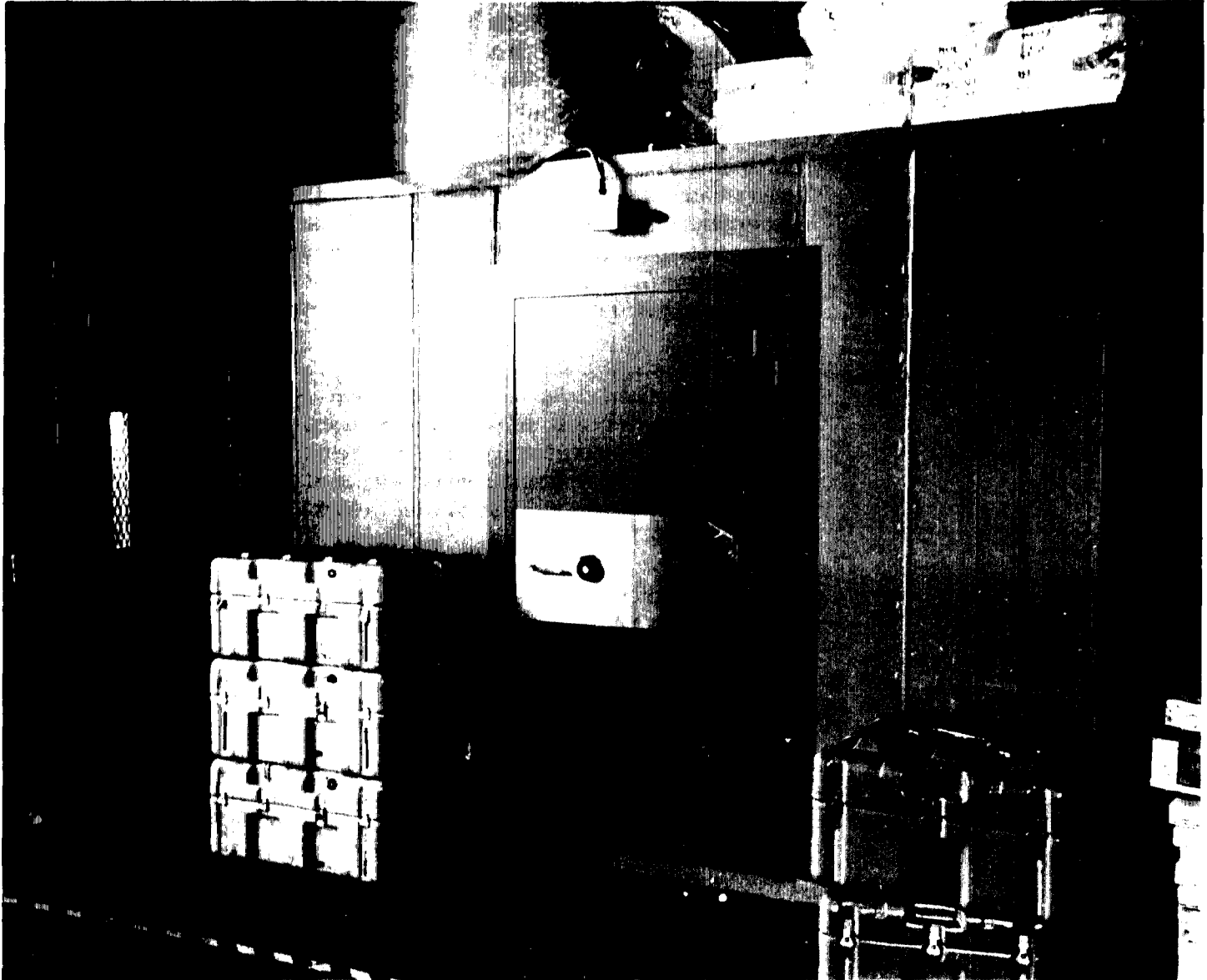
Figure 4.1: Small Arms Munitions Stored in Unattended Room to Which Open Garage Door Led in Bureau of Diplomatic Security Warehouse.



Figure 4.2: Security Equipment Staged for Shipping in Unattended Room to Which Open Garage Door Led in Bureau of Diplomatic Security Warehouse.



**Figure 4.3: Vault in Unattended Room to Which Open Garage Door Led in Bureau of Diplomatic Security Warehouse and Which Was Open and Contained Three Electronic Eavesdropper Detection Sets at Time of Our First Visit.**



---

## Centralized Guidance and Management Lacking

At State Department warehouses, inventories are sometimes not taken and reconciled or adequate property records kept because warehouse officials disagree as to whose responsibility it is to do so. Also, some warehouse officials—such as those in the Bureau of Diplomatic Security—have not developed written procedures for warehouse operations such as receiving and inspecting, and taking inventory. In addition, each warehousing organization has a different contractor developing or enhancing its separate automated record keeping and logistics system, even though the basic warehousing and logistics functions performed by the organizations are similar. The State Department had performed no evaluation to determine if one system serving the needs of all might be more appropriate and less costly and had not attempted to implement a 1984 IG suggestion for a centralized automated property records system.

---

## Conclusions

The Department's seven domestic warehouses we visited have inadequate internal controls. At some warehouses, property records were so incomplete and inaccurate and physical security so lax that sensitive property might have been taken or tampered with without the State Department's detection. Control weaknesses were also noted in a December 1984 IG report.

State Department regulations for domestic personal property management do not specifically address domestic warehouses and no one monitors and enforces compliance with the requirement to take and reconcile inventories and keep adequate property records. Warehouse organizations disagree over who is responsible for controlling some property.

Because of the potential significance of the physical security problems and the control problems identified by State's IG in December 1984, we believe domestic warehouse control problems should have been specifically identified in the State Department's 1985 or 1986 FIA report to the President and the Congress. Further, State needs to develop an action plan to correct these deficiencies, and should immediately ensure that physical security problems are corrected.

---

## Recommendations

We recommend that the Secretary of State

- direct the Under Secretary for Management to immediately correct the physical security problems found at domestic warehouses;

- direct the Central Property Management Office to develop, for inclusion in the Foreign Affairs Manual, specific guidance and regulations sufficient to ensure adequate internal controls over domestic warehouse operations and to monitor compliance with the regulations; and
- identify the management control weaknesses found at domestic warehouses in the next annual FIA report to the President and the Congress, including actions taken and planned for correcting the weaknesses. The actions and plans should address the specific responsibilities of each warehouse organization and establish responsibility and authority for ensuring the adequacy of internal controls in operation at State's domestic warehouses.

---

## Agency Comments

State agreed with our findings and recommendations and discussed actions it has already taken and its plans for implementing our recommendations. (See app. I). Actions already taken include performing a security survey and preparing a report on security at warehouses where we found inadequate physical security. State also said other actions which could be accomplished immediately to improve security, such as securing warehouse doors, improving vehicle storage lot control, and briefing employees on security, have been completed. Planned actions to implement our recommendations include preparing an action plan and expanding domestic personal property management regulations to include domestic warehouse operations.

# Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Comptroller

Washington, D.C. 20520

April 24, 1987

Dear Mr. Conahan:

I am replying to your letter of March 24 to the Secretary which forwarded copies of the draft report entitled Internal Controls - Department of State's Controls Over Personal Property Management Are Inadequate (GAO assignment code 390040) for review and comment.

Enclosed are comments prepared in the Bureau of Administration, Office of Operations (A/OPR) and in the Office of the Inspector General (OIG).

We appreciate having had the opportunity to review and comment on the draft report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Roger B. Feldman".

Roger B. Feldman

Enclosure:  
As stated.

Mr. Frank C. Conahan,  
Assistant Comptroller General,  
National Security and  
International Affairs Division,  
U.S. General Accounting Office,  
Washington, D.C. 20548

DRAFT COMMENTS: INTERNAL CONTROLS - DEPARTMENT OF STATE'S  
CONTROLS OVER PERSONAL PROPERTY MANAGEMENT ARE INADEQUATE

I. GENERAL

The Office of Operations of the Bureau of Administration (A/OPR) has thoroughly reviewed the GAO's draft report entitled Internal Controls - Department of State's Controls Over Personal Property Management Are Inadequate. We have also shared pertinent portions of this report with other affected offices within the Department. Additionally, our overseas posts have been queried to solicit their comments regarding property management deficiencies noted in the report. At this writing, we have not had sufficient time to receive responses from the latter.

There is general agreement that the report findings represent a fair and accurate assessment of the property management deficiencies at our domestic offices and overseas posts. We welcome this opportunity to address a number of these shortcomings and to review specific corrective actions planned or already undertaken. These comments reflect a consolidated Department response.

First, we wish to point out several inaccuracies contained in the report. While these admittedly may not be significant we feel that they should be duly noted in the final GAO report:

- The report refers to a "Central Property Management Office". This term is misleading for readers of the report. The State Department has decentralized administrative management authority with both functional and regional bureaus having independent responsibility for their respective areas.
- The report states that the Department does not have a systematic, formal training program for personal property management or Non-Expendable Property Application (NEPA) implementation. This is incorrect. The School of Professional Studies at our Foreign Service Institute includes 15 hours of training in property management in its General Services course. All General Services and Administrative Officers are required to attend this course. The subject matter covered includes warehouse operations, property receiving and issuing functions, inventory and residential property control and residential property management procedures. Personal property management is also covered in other segments of the course dealing with procurement forecasting, budget and resource allocation and logistical services. The General Services course also provides three hours of training in the use of NEPA. Additionally, personnel from the

See comment 1.

See comment 2.

See comment 3.

Information Systems Office (ISO) have provided introductory training in computer applications, including NEPA, to overseas posts at the time when they were initially installed.

-- Pages 9 and 21 of the report state that the Department's annual Financial Integrity Act (FIA) Reports indicate that "substantial" progress was being made in improving internal controls for personal property management. We would like to stress that the Department's FIA reports provide information on yearly progress made towards improving internal controls over the personal property management function. The Department recognizes the magnitude of the problems inherent in this function and views their correction as a long-range effort. It was not the intent or purpose of the FIA reports to characterize the progress being made and we did not describe progress to date as "substantial".

-- On pages 20 and 21, the report states that the Assistant Secretary for Administration indicated in September 1986 that it had not yet become necessary for him to notify the Under Secretary for Management that personal property management regulations were not being followed since there had been no such instances. This statement should be clarified in the report. The Assistant Secretary's comment is correct in the sense that, at the time, the annual inventory reconciliation certifications from our overseas posts had not yet been received. Thus, there was no indication of deficiency to report to the Under Secretary.

## II. ACTIONS COMPLETED OR UNDERTAKEN TO DATE

Since September 1985, the Department in general and the Property Management Staff in particular has undertaken a number of initiatives to correct many of the deficiencies brought to light in the GAO draft report. These remedial measures are summarized below.

### Staffing

A third position has already been added to the Property Management Staff from existing A/OPR resources and a fourth position will be reprogrammed and assigned to the staff in the near future. Two additional positions needed for compliance monitoring will be requested in our FY-89 budget submission. Contractor assistance is also currently being examined as a means of augmenting staff resources for training and compliance monitoring.

See comment 4.  
Now on pp. 9 and 17.

See comment 5.  
Now on p. 17.



Regulations

The domestic property management regulations contained in 6 FAM have been completely rewritten and greatly expanded and include new property management standards for typewriter and ADP equipment environments. These regulations have already been published.

Major revision of the Foreign Service property management regulations in 6 FAM has been completed. These regulations are currently being published. The revision includes expanded procedural instructions on property recordkeeping, taking and reconciling inventories, and property survey board procedures. More explicit policy on the use of NEPA in property management is also addressed.

A property inventory certification program has been implemented. Initially recommended only for overseas locations, we have expanded this requirement to include domestic offices. The Property Management Staff has monitored compliance and has coordinated with the regional bureaus (for overseas post compliance) and with domestic offices directly. Bureaus and posts which failed to comply have been brought to the attention of the Assistant Secretary for Administration who, in turn, has referred the matter to the appropriate regional bureau Assistant Secretary for action.

Domestic Liaison

To enhance property management and clearly define the connection between custodial record-keeping and management oversight responsibilities, efforts have been made and are ongoing to establish and maintain a listing of personnel responsible for the property management function within domestic offices.

Dialogue was established with domestic accountable offices to provide instruction and assistance -- including meetings with responsible personnel in domestic bureaus to discuss how best to control program and administrative property. Several instructional memoranda have been distributed to bureau Executive Directors to explain program changes, establish controls, advise of new procedures and remind domestic offices of their property management responsibilities.

Property management procedures at the Foreign Service Institute have been reviewed. Written procedures for inventory and data entry were provided as well as operating procedures for maintaining NEPA. A follow-up review indicates that a complete inventory was conducted on March 20 and that all records are now on NEPA.

Appendix I  
Comments From the Department of State

The Bureau of Consular Affairs (CA), as cited on pages 13, 19 and 26 of the report, has taken a number of steps to correct the deficiencies noted. For example, this office is presently conducting a survey to better utilize typewriters and computer workstations vis-a-vis the number of employees. CA also completed a physical inventory on February 11. Beginning with FY-87, CA's procurement files accurately document property acquisitions, and property disposed of is so noted. New bar code labels have been ordered and, as soon as these are received, will be the basis for a new computerized inventory strictly adhering to the NEPA system. All members of CA's General Services staff have received instruction on the NEPA system, and it is presently being used to record acquisition and disposal of property and equipment.

The Property Management Staff has met many times with our Comptroller's Office to develop procedures for recording and calculating data from NEPA and manual property records in anticipation of an interface with the Department's new Financial Management System.

A domestic Property Survey Board has been reestablished after many years, and a Survey Review Board was established.

New regulations and procedures have been developed for a centralized domestic property receiving function. Implementation of this function is anticipated in the near future.

Field Travel

Within the past thirteen months, the Property Management Staff has visited seven Foreign Service posts to provide training and assistance and to offer guidance on conversion from manual to automated records. In Ottawa, the General Services staff was trained on NEPA implementation and the conduct of a pre-automation inventory. In Vienna, a formal regional training program was conducted for Foreign Service National employees from all Eastern European posts. NEPA and property management procedures were reviewed at London. A week was spent in Mexico City to correct data base problems caused by earlier inadequate management supervision and inconsistent data entry. On a trip to Tel Aviv, Tunis and Dublin, instructions on the property management and administrative aspects of NEPA implementation were provided. Additionally, all property management operations were reviewed and recommendations were made in departure meetings with post administrative personnel. Based on knowledge acquired through post visits, we are developing a property "audit plan" for use by the Property Management office, regional bureau post management personnel, and possibly the IG's office to verify compliance with regulations.

NEPA and Systems Development

The Property Management Staff has initiated a "Property Systems Group" to improve the Department's mini-computer property system and to determine how best to provide a property management system for personal computers which could be used by small posts and offices. The group consisted of representatives from several Departmental offices as well as other foreign affairs agencies. This has resulted in a much improved system which can be used on either mini- or personal computers.

The Information Systems Office (ISO) has designed and programmed a completely revised version of NEPA which will run on personal computers as well as mini-computers and which improves upon the previous version in significant respects. ISO is also completely revising the NEPA users manual and providing detailed guidance therein on the original selection of data needed by NEPA.

A variety of bar code reading hardware was acquired for testing purposes. Working with our computer programming office and vendors, software to operate the equipment was developed. The equipment is being tested and evaluated.

Systems requirements for the Department's Art in Embassies program were reviewed and that program's use of a non-NEPA system has been approved.

Manual and automated systems for tracking and depreciating capitalized personal property have been developed. A standard report in NEPA and a manual reporting form were developed for reporting property value.

Warehouse Operations

Property management regulations are in the process of being expanded to include domestic warehouse operations. Additionally, the Office of Communications (A/OC) is developing a Memorandum of Understanding (MOU) which will clearly delineate responsibility for the communications equipment stored at domestic warehouse facilities. A/OC is also requesting additional resources to facilitate annual inventories and record keeping.

In response to the physical security recommendations made by GAO, the Bureau of Diplomatic Security (DS) sent a security survey team to the Newington warehouse facility and prepared a formal inspection report dated December 12, 1986. The report contained 11 recommendations, five of which were directed to the facility manager and six to the facility security officer.

All responsible offices have taken steps to improve the security at the warehouse facility. Those actions which could be accomplished immediately, such as securing of doors, improved control of parking lot, and security briefings of all employees have already been completed. Actions which require construction upgrades or alarm system installations have been referred to offices with responsibility for implementing such improvements. DS anticipates that a plan for implementation of all recommendations will be approved and funded by the end of the third quarter of this fiscal year with construction and/or installation to be completed as quickly as possible thereafter.

### III. PLANNED CORRECTIVE ACTIONS

Pursuant to the findings contained in the draft report, A/OPR is preparing a full action plan for implementation over the next two years incorporating the GAO recommendations to improve the Department's overall property management function. This plan includes, but is not limited to, the following specific areas:

#### Training

In addition to instruction provided for the General Services classes at the Foreign Service Institute, the Property Management Staff regularly briefs General Services and Administrative Officers on their way to new assignments. This will continue.

Training on the personal computer version of NEPA which will become available this summer will be a primary objective. Training in the operational use of NEPA is provided by the Department's Information Systems Office (ISO) through on-site visits and in the Foreign Service Institute's GSO course. The Department has contracted for the services of a training specialist who will work with the programmers in ISO to develop a computer-based "on-screen" software training tool which would be distributed along with the NEPA software. This self-teaching device, along with a revised user's manual with more detailed instructions on NEPA implementation, will allow a user to begin application without additional training. Follow-ups are planned to ensure that the program is working satisfactorily. The Department will explore the possibility of expanding the NEPA training provided by FSI and for making such training available to domestic offices. Consideration is also being given to providing training in the use of PC NEPA at regional training centers overseas.

To improve implementation of the NEPA program at overseas and domestic offices, the Department will develop a formal training program for property management and include

instruction on NEPA implementation and the administrative procedures required to maintain automated property records. New methods of providing this training, such as simplified handbooks and audiovisual training materials, will be examined. In addition to these general training approaches, the Property Management Staff will travel more frequently to overseas posts to provide hands-on guidance. Training and assistance will be provided to original NEPA sites where the application has not yet been fully implemented.

Domestically, the Department plans to develop a property custodial officer's handbook as a guide to basic operating procedures and internal controls which will supplement existing regulations. This would be enhanced through regular visits to domestic custodial officers to train and to answer questions.

#### Monitoring Compliance

As recommended by GAO, the Department will develop a compliance questionnaire which each post will complete and submit along with annual certifications of inventory reconciliation. Additionally, a property audit checklist will be prepared for regional bureau post management personnel to complete during the course of visits to post. These checklists will be returned to the Property Management Staff for review. The Department's inspectors will also be requested to notify the Property Management Staff of noncompliance with property management regulations which they encounter during post or domestic office audits or program reviews. The Internal Controls office will be asked to send copies of internal control assessments and questionnaires to the Property Management Staff for review. All these materials as well as the inventory certificates which are already being monitored will be evaluated to determine how fully posts are complying with the Department's property management regulations.

When a deficiency is discovered at a particular post, the Property Management Staff will notify responsible administrative personnel of corrective action to be taken and will require that a progress report be made to the appropriate regional bureau Assistant Secretary. If corrective action is not taken or if the breach of regulation is serious enough, the matter will be reported to the Under Secretary for Management with a recommendation that sanctions be imposed and disciplinary action be taken.


Additionally, we will develop a mechanism for monitoring implementation of NEPA which will require periodic reports from posts until they have demonstrated that NEPA has been fully and successfully implemented.

Systems Development

Field testing of the revised NEPA is underway and the completed handbook is expected to be published by the end of the current fiscal year. The next phase of NEPA development is the reconciliation module on which our Information Systems Office is to begin shortly. This is the portion which will accept data from a bar code reader and compare it with property record files and then produce several reconciliation reports. After NEPA, the Department will redesign and rewrite its expendable supply/stock control program.

IV. SUMMARY

The Department recognizes the deficiencies prevalent in our personal property management function. We also acknowledge the urgent need for an accelerated program to correct these deficiencies. We will provide the necessary resources and management commitment to carry out the recommendations offered in the GAO report. Many of these are now underway. Progress in achieving these goals will be included in the Department's Financial Integrity Act (FIA) Reports. Members of my staff and I are prepared to meet with the GAO audit team to elaborate on any comments or recommendations contained in the report which have not been fully addressed here.

  
Richard E. Faulk  
Deputy Assistant Secretary  
for Operations



United States Department of State

Office of Inspector General

Washington DC 20520

March 31, 1987

MEMORANDUM

TO: M/COMP/FM/PAE - Mr. Theodore Woronka

FROM: OIG - H. Byron Hollingsworth *HBH*

SUBJECT: GAO DRAFT REPORT: "Internal Controls: Department of State's Controls Over Personal Property Management are Inadequate"

The Office of Inspector General (OIG) generally agrees with the conclusion in the subject report that controls over personal property are inadequate. The OIG, however, does not agree with one of the recommendations to improve those controls. On page 23 the report recommends that the Secretary of State "ask the IG to participate as needed in a compliance monitoring program." While the thrust of this recommendation is to ensure that the Department's domestic and foreign offices comply with property management regulations, the OIG is not the proper office to do this monitoring for two reasons.

1. The monitoring of operations is a management functions. As stated in the June 1983 GAO report entitled State Department's Office of Inspector General Should Be More Independent and Effective:

"Government managers, as an inherent part of their basic management responsibility, are expected to routinely monitor and assess their own operations to assure themselves, their superiors, legislators, and the public that their programs and operations are well controlled and meet intended goals and objectives. The role of the independent audit organization, on the other hand, is to evaluate how well agency management is carrying out its basic management responsibilities, including its routine monitoring and assessment functions."

Compliance monitoring should be a function of the Central Property Management Office and if, as GAO states, that office "does not have the staff or funds for extensive monitoring visits," then the Department should make the necessary resources available. OIG can not very well be involved in the compliance monitoring process, then evaluate how well the Department is carrying out its compliance monitoring process.

See comment 1.  
Now on p. 18.

2. GAO is, in this draft report, recommending the OIG do a function which the GAO has in the past criticized the Department's IG for doing. In its 1983 report, GAO stated that the Department's IG was not sufficiently independent of the management process. This recommendation could again place the OIG in the management process.

On the other hand, if from time to time, OIG inspection teams focus on property management as a special inspection subject and find that posts or bureaus are not complying with regulations, reports on the non-compliance will be provided to both the post involved and appropriate managers in the Department.



The following are our comments on the Department of State's letter dated April 24, 1987.

## GAO Comments

1. Our replies to State's general comments to the draft report's findings and recommendations are contained in the agency comments sections of the report.

Additionally, after State had submitted its formal comments to us it received responses to the query of foreign offices mentioned in the first paragraph of the comments. In these responses several offices indicated that since our visits, they had made progress toward correcting some property control deficiencies.

They also provided additional information related to some points made in our draft report and where appropriate, we made adjustments to the report.

2. Report revised to note that the State Department's Central Property Management Office does not physically manage and control personal property.

3. Report revised to note the Foreign Service Institute course. However, we point out that most property management personnel at offices we visited have not received adequate training.

4. Report revised to delete the word "substantial".

5. Report not changed. All foreign offices were required to submit first certifications on or before March 1, 1986. Also, the IG's December 1984 reports on domestic and foreign office personal property management noted several areas where regulations were not followed or where controls were weak.

.....

---

**Requests for copies of GAO reports should be sent to:**

**U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877**

**Telephone 202-275-6241**

**The first five copies of each report are free. Additional copies are \$2.00 each.**

**There is a 25% discount on orders for 100 or more copies mailed to a single address.**

**Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.**

---

**United States  
General Accounting Office  
Washington, D.C. 20548**

**First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100**

---

**Official Business  
Penalty for Private Use \$300**

**Address Correction Requested**

---