United States General Accounting Office

GAO

Report to the Chairman, Legislation and National Security Subcommittee, Committee on Government Operations, House of Representatives

February 1993

STATE DEPARTMENT

Management Weaknesses at the U.S. Embassy in Mexico City, Mexico

148506

RESTRICTED--Not to be released outside the General Accounting Office unless specifically approved by the Office of Congressional Relations. 556418 RELEASED

GAO

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

National Security and
International Affairs Division

B-251252

February 8, 1993

The Honorable John Conyers, Jr.
Chairman, Legislation and National
Security Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

As part of our assessment of the Department of State's management of its overseas posts, which you requested in February 1992, we are reporting separately on posts where we identified significant management problems and issues. In this report, we address the oversight and controls over personal property, cashiering operations, contracting and procurement, residential housing, and training at the U.S. Embassy in Mexico City, Mexico.

Background

According to the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512) and the Comptroller General's internal control standards, federal departments and agencies are to maintain adequate control systems to reasonably ensure that (1) obligations and costs comply with applicable law and regulations; (2) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (3) revenues and expenditures are documented and accounted for properly. Internal control standards require, among other things, that all transactions and other significant events concerning assets be clearly and promptly documented and the documentation be readily available for examination. Accountability for the custody and use of the asset records is to be assigned, and the records are to be periodically reviewed based on the vulnerability of the assets. The standards also require supervision to ensure that the internal control objectives are achieved.

Results in Brief

The Embassy in Mexico City does not have sufficient management controls to ensure full compliance with applicable regulations and to minimize its vulnerability to fraud, waste, and abuse. In less than 2 years, the Embassy lost personal property, including office equipment and household furnishings, valued at $120,000. Although the magnitude of the losses suggested the possibility of theft or malfeasance, the Embassy essentially "swept the problem under the rug" because its records were poorly kept and it could not identify how the items were lost and if employees should be held responsible. The Embassy did not report its missing property to the State Department, as required by Department regulations. State plans to modify its regulations to increase the value of property losses that could trigger a report by its overseas posts. The planned reporting threshold of 3 percent of the total value of property lost would not include significant property losses, such as those in Mexico City.

In addition, weaknesses in controls over cashiering have affected mission operations since the mid-1980s. The Embassy, recognizing that inadequate controls have historically affected cashier operations at its constituent consulates[1] in Mexico, has established a cashier control unit to improve its monitoring capability. Oversight has improved; however, weaknesses in control continue, including (1) a failure to ensure cashier supervisors have completed training, (2) a lack of systematic visits to the consulates to ensure cashiering operations are in full compliance with regulations, and (3) inadequate control over consular collections, estimated to total $15 million annually.

Moreover, the Embassy has not established a formal competition advocacy program to ensure contracts are fully competed. The lack of such a program has contributed to the award of some contracts without full competition. Other management problems and issues include a lack of compliance with the Department's new residential housing standards and a system to monitor progress in meeting the standards. In addition, weaknesses in the personnel system include (1) the lack of employee training in important management and administrative disciplines, such as contracting and procurement, and (2) the failure to adequately certify a continuing need for the extensive use of personal services contractors. The State Department has also expressed concern about the Embassy's lack of effective budget controls.

The Embassy has taken, or plans to take, corrective actions in many of these areas. These include adoption of more stringent procedures for controls over personal property, expanded travel plans to improve oversight of consulate cashiering, expanded efforts to verify that all consular collections are deposited, and implementation of a competition advocacy program for contracts and procurements. Although these actions are important steps toward improving internal controls, the Embassy has

[1]Constituent consular posts are in Ciudad Juarez, Guadalajara, Hermosillo, Matamoros, Mazatlan, Merida, Monterrey, Nuevo Laredo, and Tijuana.

not adopted a formal program of management improvement and control to ensure systematic attention to management problems. We believe a formal program of management improvement is necessary to (1) focus senior management's attention on problems and issues and (2) provide a basis for continuity as foreign service officers rotate to their next assignments and are replaced by new officers having management responsibilities in critical control areas.

Recommendations

We recommend that the Secretary of State ensure that the U.S. Embassy in Mexico City, Mexico, takes steps to (1) effectively communicate the importance of management and internal controls to all mission personnel and (2) establish a formal, proactive system for management improvement and cost control. The system should provide for periodic post reviews and assessments of the Embassy's

- personal property systems to ensure that inventory losses are minimized and responsible individuals are held accountable for property losses;
- cashiering operations, including the extent that (1) supervisors systematically visit the consulates to monitor cashier operations, (2) cashier supervisors have completed necessary training, and (3) procedures ensure effective monitoring of consular collections and verification of deposits;
- Competition Advocacy Program to ensure that contracting and procurement actions comply with applicable laws and regulations governing competition;
- housing program to monitor progress in reducing the provision of housing units that exceed State standards; and
- personnel system to address (1) the training needs of U.S. and foreign service national employees and (2) the need for employees hired under personal services contracts.

In addition, we recommend that the Secretary of State ensure that embassies continue to be required to report to the Department any significant personal property losses and the factors contributing to such losses. To ensure comprehensive oversight of field operations, the Secretary should require that copies of all post property survey board reports about missing property are forwarded to the Department's Property Management Officer in Washington, D.C.

Agency Comments

As requested, we did not obtain fully coordinated State Department comments on this report. However, we discussed the report with officials at the Embassy and in State's Bureau of Finance and Management Policy and Bureau of Inter-American Affairs, and their comments were incorporated where appropriate. State officials generally agreed that better management controls are needed at the Embassy in Mexico City, but believed that our report did not give enough credit to the post for its initiatives to improve management. We recognize that the Embassy has taken, or plans to take, several actions to improve management controls, but believe that a formal proactive program of improvement is necessary to sustain the post's initiatives.

Scope and Methodology

We interviewed program officials and reviewed pertinent program documents, plans, cost estimates, budget support data, program schedules, and corrective action plans at the U.S. Embassy in Mexico City, Mexico. We discussed post management issues with State Department officials in the Inter-American Affairs Bureau and reviewed the results of prior audit efforts and Financial Integrity Act assessments. We performed our work between July and September 1992 in accordance with generally accepted government auditing standards. Details on the results of our work are in appendix I.

Unless you publicly announce this report's contents earlier, we plan no further distribution until 30 days from its issue date. At that time we will send copies to appropriate congressional committees, the Secretary of State, and other interested parties.

Please contact me at (202) 275-4128 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix II.

Sincerely yours,

Joseph E. Kelley
Director-in-Charge, International
Affairs Issues

Contents

Management Weaknesses at the Embassy in Mexico City, Mexico

Management at the U.S. Embassy in Mexico City, Mexico, has not adequately emphasized the importance of sound controls in its personal property, cashiering operations, procurement, housing, and personnel systems. We identified management deficiencies that have been prevalent for years because of the lack of focused management attention. The Embassy has no formal proactive program for management improvement and cost control to (1) focus senior management's attention on problems and issues on a systematic basis and (2) provide a basis for continuity as foreign service officers rotate to other posts and are replaced by new officers. As a result, U.S. funds and property are unnecessarily vulnerable to fraud, waste, and mismanagement.

Embassy Operations

The U.S. Embassy in Mexico City, Mexico, implements U.S. foreign policy objectives and supports constituent consular activities and other U.S. agency programs throughout Mexico. Key Embassy officers having management and administrative responsibilities include the Ambassador, the deputy chief of mission, the administrative counselor and the administrative officer, the director of the Embassy's Financial Management Center, two budget and fiscal officers, and the general services officer. The Embassy employs over 200 U.S. and foreign service national personnel and also has personal services contracts with over 250 foreign service nationals for a variety of support and administrative functions.

The Financial Management Center's responsibilities include (1) overseeing cashiering operations at the Embassy and its constituent consulates and (2) maintaining internal controls over cashier operations throughout the mission. State's Regional Administrative Management Center, also located at the Embassy in Mexico City, provides a wide range of financial management and accounting support services to posts throughout Latin America and the Caribbean. Its responsibilities for support of post activities in Mexico City include maintaining the payroll for foreign service nationals and reconciling post bank accounts.

The post's fiscal year 1992 budget for salaries, expenses, and administrative overhead was about $17 million. Inventories of nonexpendable personal property managed by the Embassy totaled about $5 million in fiscal year 1992, and residential leasing costs incurred by the post totaled about $9.5 million. The value of U.S. government-owned real property managed by the Embassy exceeds $22 million.

Inadequate Accountability and Controls Result in a Loss of Personal Property

The Embassy has experienced problems in accounting for and controlling its nonexpendable personal property,[1] which is valued at $5 million. Post documents indicate that the Embassy's property records have not been kept fully or accurately for several years. Due, in part, to this lack of control, more than 3,000 property items valued at over $100,000 were written off in 1991 after they were found to be missing during the annual inventory. Although theft or malfeasance may have been involved, poor property records precluded effective reconciliation of accounts to determine if individual employees should have been held accountable for missing items. Examples of missing items include automated data processing equipment worth $28,765, shredders and other security items worth $17,871, and typewriters worth $9,965. In addition, items worth $18,677, such as lamps, lawn furniture, vacuum cleaners, stereo equipment, and refrigerators, were not located during the 1990 residential inventory and were written off in 1991.

Some of the missing residential property was identified in post records as being in the custody of key post officials. For example, over 40 items valued at nearly $3,000 were identified as being missing from the Marine house, and items worth $5,300 were listed as missing from the Ambassador's residence. Post officials said that (1) these listings of missing residential property represented "dummy" locations used to artificially reconcile the overall property account in prior years and (2) the missing property may not have actually been assigned to the designated locations. Records were insufficient for us to determine if any individuals at the post should have been held liable for the missing items or if any of the missing items were in fact the responsibility of the officials identified in the inventory records.

The Embassy's Property Survey Board had also concluded that the records were too poor to determine responsibility or liability. In its October 1991 property disposal and survey report, the Board stated that

> It is sad that so much property is lost, or unaccounted for, and we feel that those responsible should pay. Unfortunately we have no choice but to sweep it under the rug. Even the record of who is responsible is obscured...We hope that there has been no theft or malfeasance, but...it is the easiest explanation for so great a loss.

[1]Nonexpendable property is property that (1) is complete in itself, (2) does not lose its identity or become part of another item when used, and (3) is of a durable nature and has an estimated useful life over 2 years. Examples include furniture, equipment, and machinery.

Missing Property Not Reported to State Headquarters

Although the Embassy's Property Survey Board authorized deleting $120,000 worth of missing property from property records in 1990 and 1991, it did not report its findings to State, as required by the Foreign Affairs Manual. The manual states that when an individual survey action exceeds $5,000, when the Survey Board recognizes a loss pattern or other irregularity, or when losses of a particular post exceed $10,000 within a 6-month period, copies of the Board's report and its findings should be forwarded to the Department's Property Survey Review Board. The Department's Property Survey Review Board is responsible for reviewing post actions regarding inventory controls over personal property and referring instances of possible fraud, waste, and abuse to the Department's Inspector General.

According to State officials in the Bureau of Administration, Office of Supply and Transportation, the Department's Property Survey Review Board no longer exists, primarily because its members felt they could not effectively examine overseas property issues from a Washington, D.C., location. At the time of our review, they had planned to delete from the Foreign Affairs Manual the requirement for review of post actions by the Property Survey Review Board. However, because of our findings in Mexico City, they plan to revise the manual to state that "when the survey board authorizes an inventory adjustment exceeding three percent of the total inventory value, a copy of the survey report shall be forwarded to the Agency Property Management Officer."

The value and number of items missing at the Embassy in Mexico City were substantial but represented only about 2 percent of its total inventory. Therefore, if the proposed revision to the manual is made, the Department will not be informed of significant property management problems such as those in Mexico City. We believe that the 3-percent threshold is not low enough to ensure that the Department maintains comprehensive oversight of field operations.

Actions to Improve Controls

According to post officials, for the purpose of inventory reconciliations in 1990, 10 fictitious locations were created within the nonexpendable property system, including the Ambassador's residence and the Marine house. Embassy officials said inventory items were never deleted from those locations and were reported as having missing property. Post officials said this procedure has since been stopped and current accountability procedures for nonexpendable personal property are as follows:

- One category is created for the placement of property not found during the inventory process, and a thorough search is made for each item placed in this category before it is listed as missing.
- Each property is removed from this category after its disposition is determined, and at the end of the inventory year, the category is eliminated.

The Embassy recently took several additional steps to improve internal controls over its personal property inventory. In March, April, and May 1992, the Embassy formalized and distributed procedures for receiving, requisitioning, and disposing of post property. The Embassy is also modifying its check-in and check-out procedures for transient and permanent housing quarters to prevent loss and damage to government property. In addition, the post has attempted to improve controls of its automated property inventory system by limiting employees' access to records and separating some of their duties. However, the Embassy has not fully implemented recommendations made by its Survey Board. For example, the Embassy has not required the full-time presence of a U.S. employee at the warehouse. The presence of a full-time U.S. employee supervisor at the warehouse could decrease the opportunities for fraud, waste, or abuse of the inventory. After our fieldwork, the post requested the establishment of a new position to provide a full-time U.S. supervisor in the warehouse.

Post officials believe that the new property controls have increased the ability of the Embassy to properly account for nonexpendable property. They noted that the 1992 inventory reflected a loss of $38,000, which is less than 1 percent of the total inventory.

Cashier Controls Are Not Adequate

Overseas cashiering operations in the State Department have historically been vulnerable to fraud, waste, and abuse. In the Department's December 1991 review of its management controls, which is required by the Federal Managers' Financial Integrity Act, its worldwide disbursing and cashiering function was identified as one of six areas that carry a heightened risk for fraud, waste, and abuse. In Mexico, these deficiencies included (1) the diversion in 1986 of about $75,000 by a cashier at one of the Embassy's constituent consular posts and (2) vulnerabilities in cashiering operations identified by the State Department Inspector General in 1989[2] and more recently by the Embassy as part of the process

[2]Report of Inspection, Embassy Mexico City, Mexico and Its Constituent Posts (State IG-0-89-20, Aug. 1989).

to assess internal controls under the Financial Integrity Act. Examples of vulnerabilities at the Embassy included a failure to settle temporary cash advances on a timely basis and the lack of a procedure to follow up on uncashed checks.

To improve controls, a Cashier Control Unit has been established in the Embassy's Financial Management Center. Unit officials are responsible for (1) monitoring, supporting, and guiding the operations of the Class B cashiers in Mexico[3] and (2) visiting the consulates to provide training and inspect operations. Although the Embassy has taken these steps to improve control, management weaknesses in the cashiering system continue. Specifically, the Embassy has not ensured that cashier supervisors have completed recommended training courses or adequately monitored cashier operations at the consulates. Moreover, State's Regional Administrative Management Center had not reconciled the bank account established for collections, estimated to total about $1.25 million each month, from the consulates.

Training Requirements Not Fully Enforced

The Financial Management Center had not verified that cashier supervisors have completed the training needed to properly oversee the cashiering function. According to a cable from the Embassy to the constituent consulate posts in Mexico, cashier supervisors should take the self-study course entitled "Training for Overseas Cashier Supervisors." In addition, internal control standards of the Financial Integrity Act require that individuals be given necessary training and specify that managers should understand internal controls in order for control systems to be effective.

Without sufficient training, cashier supervisors may not have the technical knowledge to reduce the vulnerability of cashier operations to mismanagement and abuse. Embassy documents indicate that recent cashiering problems at one of the constituent consulates in Mexico included an inability to fully reconcile the cashier's account. The lack of controls over cashiering was attributed in part to inadequate training of the consulate's Principal Officer, who had assumed cashier supervision responsibilities without knowing how to conduct monthly cashier cash counts.

[3]Mexico cashier operations include 11 Class B cashiers: 2 in the Embassy, 1 at the U.S. Trade Center, and 8 at the consulate posts outside Mexico City.

Center officials were unaware of any requirement to verify that supervisors have completed the course for cashier supervisors. According to the Director of Administrative Officer Training at the Foreign Service Institute, the State Department does not require that supervisors complete the self-study course to carry out their responsibilities. The Director believes, however, that foreign service officers should not assume responsibility for cashier supervision without completing the necessary training.

Cashier Operations Not Adequately Reviewed

The Financial Management Center had not systematically reviewed, supervised, and assisted consular cashiering operations in Mexico. Embassy documents indicated that several consulates have been visited in recent years. However, there was no record of when or if two of the consulates had been visited, and records were inconclusive as to when one of the other consulates had been visited. In an October 1991 memorandum, a former Embassy budget and fiscal officer having responsibilities for cashiering operations noted the need for additional visits to the consulates. Specifically, it was noted that

> So far, I've only arrived at our 'trouble spots' too late; I would prefer to get there ahead of disaster. I have spent my time at three [consulates] looking at messes and trying to sort through them. I haven't really 'inspected' any of the [consulates] vis a vis security, procedures, cash handling, supervisor's involvement, etc., though of course some anomalies became evident during the course of my visits. I feel we need to visit all our [consulates] on a biannual basis, and under normal circumstances, in order to invest the mission's cashier operation with some semblance of good management. If nothing else, such visits would be a visible reminder of Mexico's oversight.
>
> As I said, I have a bad feeling about what is lurking out there.

Post officials agreed that visits to consulates have not occurred as frequently as they would have liked. Past plans to visit the consulates had to be altered because of time constraints resulting from fiscal irregularities discovered at two posts and the closing of another. The importance of comprehensive and systemic reviews is further demonstrated by the following deficiencies that have been identified at some of the consulates during prior monitoring visits:

- In May 1991, the Financial Management Center found a shortage of 1,091,664 pesos (about $400) in the cashier account, even though the consulate had reported an overage of 2,799,000 pesos (about $1,000). The

Center concluded that the money was "lost beyond recovery" because (1) reconciliations[4] had not been done by the cashier on a daily or weekly basis and (2) cash counts had not been conducted properly by the cashier's supervisor on a regular basis. The Center attributed this condition, in part, to inadequate training of the cashier and the supervisor.

- During a visit to another consulate in October 1991, the Financial Management Center found a shortage of $1,400. According to the visit report, the consulate's account had been short for 10 months before the principal cashier discovered the discrepancy. In a follow-up review, Center officials identified a wide range of problems in cashiering controls, including inadequate supervision, poor record-keeping, and lack of control over safe combinations. The Center attributed the condition to lax accountability procedures at the consulate.
- During a review of one cashier's operation in September 1991, Financial Management Center officials found undocumented currency worth over $14,000 on hand, most of which had been in the cashier's possession since July. According to the State Department's Foreign Affairs Manual, all collections of $1,000 or more are required to be deposited in a bank account on a daily basis.

Post officials said they fully recognize the importance of improved monitoring of cashiering operations and plan to expand the number and frequency of visits to the consulates.

Consular Collections Not Adequately Controlled

We found a lack of control and accountability over consular collections in Mexico because (1) the Embassy's Financial Management Center failed to maintain adequate internal controls over cashiering operations at the mission and constituent posts and (2) the Regional Administrative Management Center failed to perform monthly reconciliations of the bank account established in May 1990 for the deposit of funds collected from the consulates.

The Financial Management Center had insufficient procedures to ensure control over consular collections in Mexico. Specifically, the Center did not track or reconcile collection bank deposit slips, cashier activity reports, consular officers' monthly collection reports, and completed cashier receipts. As a result, the Center could not (1) ensure that all consular collections were recorded and deposited to the post bank account, (2) monitor monthly collections, or (3) determine the amount of

[4]Cashier reconciliations typically involve post collections such as consular receipts, bank deposits, accommodation exchange transactions, the payment and processing of vouchers, and payrolls.

deposits made by the consulates. The Center also did not have sufficient control procedures for storing and distributing cashier general receipt forms. Receipt forms at the Embassy were inappropriately stored in the cashier's safe, rather than in a safe controlled by the cashier supervisor, and the receipt forms were not distributed to the consulates in sequence. Under State's guidance for control of receipt forms, the forms are to be pre-numbered, and the cashier is to verify that they are used in sequence.

The Regional Administrative Management Center had not reconciled the Embassy bank account of consular collections since its establishment in 1990. The disbursing officer acknowledged that (1) no procedure had been established to ensure that the account was reconciled at least monthly and (2) the failure to reconcile the account represented a significant internal control vulnerability. The officer explained that State's financial system is designed to have only one dollar bank account for each disbursing officer. The bank account for consular collections is a second dollar bank account, outside the financial management system, that was established because of the increasingly large volume of consular collections in Mexico.

Financial Management Center officials believed that the Center had been in technical compliance with existing rules and procedures. However, officials believed the procedures "did not go far enough" and that tighter controls over the collection process are needed. After our fieldwork, the Financial Management Center initiated several actions to tighten controls over cashiering, including the adoption of new requirements related to receipt forms and the monitoring of consular collections and deposits. The Center now requires all consulate Class B Cashiers to submit photocopies of receipts, and monthly files have been set up for each consulate. According to Center officials, with the copies of the receipts, the Center can (1) ensure that all receipts that are recorded in the master log as having been sent to posts are accounted for; (2) verify that the receipts are in numerical sequence; and (3) compare the reported consular fees for the month with copies of the Certification of the Record of Fees, which are now required to be sent monthly to the Center.

Center officials believed the new procedures would enable them to assure the Regional Administrative Management Center that all collection documents have been accounted for and that matching bank deposit slips have been received. In addition, the disbursing officer at the Regional Administrative Management Center said it had developed a local program to reconcile the consular collections bank account and had begun the reconciliation process.

Management Controls Not Fully Implemented

Weaknesses in training and cashiering controls have been identified in previous external and internal reviews. However, management controls have not been fully implemented to correct these problems. In a 1989 inspection, State's Inspector General Office identified several internal control weaknesses, including insufficient training of employees in implementing the post's financial management system and vulnerabilities in cashiering operations. In 1991 and 1992, the Embassy also identified weaknesses in the cashiering function.

In September 1991, the Ambassador certified in the annual Financial Integrity Act report that controls over cashiering and financial management had been enhanced by the following actions:

- The Embassy established a training program for cashier supervisors, and all post cashiers had completed the Foreign Service Institute's cashier training course.
- The Embassy developed a plan for supervisory cashiers to periodically visit each consulate and established a regular review program to ensure proper cash verifications.
- The Financial Management Center certified that the Embassy had complied with all cashier regulations cited in the Foreign Affairs Manual and had developed a revised processing system to guard against waste, fraud, and mismanagement.

Although the certification indicated an awareness of problems and a commitment to improvement, some of these management actions had not been fully implemented, and control weaknesses continued. As discussed in the preceding sections, the Center did not verify the extent to which cashier supervisors had received training, cashier operations at the consulates were not fully reviewed or supervised, and cashier collections were not effectively monitored or controlled. Financial Management Center officials agreed that tighter controls were needed to ensure that all collection documents are accounted for and that all collections received are properly deposited. They viewed this as particularly important because of the number of constituent posts that need to be visited, the frequent changeover of supervisory staff at the consulates, and the often heavy work loads at the smaller posts. These efforts will enhance the prior efforts of the Embassy to improve control, which included requiring a copy of all unannounced consular cash counts each month.

Controls Over Contracting and Procurement Are Weak

State's Office of the Procurement Executive has established a Competition Advocacy Program and provided a wide distribution of policy directives and information bulletins regarding contracting requirements and procedures. However, the Embassy's controls over the procurement function were insufficient. For example, the Embassy had not implemented a competition advocacy program or an automated procurement information system, both of which are considered important for ensuring that acquisitions comply with applicable laws and regulations. On the basis of a limited review of 1992 procurement actions, we also found that the Embassy had not opened all contracts and purchase orders to competition or adequately documented the reasons it had not opened them for competition and had not developed formal procedures to close out completed contracts.

We reported in 1991 that State's overseas procurement system was at risk for fraud, waste, and abuse because of limited actions to correct long-standing problems, including the failure of personnel to comply with applicable procurement laws, regulations, and procedures; the lack of a comprehensive and automated data base; and the lack of qualified or adequately trained personnel.[5] Because the Embassy in Mexico City is deficient in these areas, its procurement system should be viewed as vulnerable to fraud, waste, and abuse.

Lack of Competition Advocacy Program

We found that (1) the Embassy administrative officer was unaware of his role and responsibilities as the post's competition advocate[6] and (2) although many of the post's contracts were awarded under sealed bids, not all were competed consistent with State guidance.

- File documentation for a $51,000 contract for repairs to the Ambassador's residence indicated that only four local sources were solicited. In a fully competitive action, all responsible sources would be permitted to submit

[5]State Department: Status of Actions to Improve Overseas Procurement (GAO/NSIAD-92-24, Oct. 25, 1991).

[6]State's Office of the Procurement Executive established the Competition Advocacy Program to promote full and open competition in contracting for goods and services, encourage acquisition planning, and provide a formal mechanism for the review and approval of post justifications for restricting competition. All administrative officers were notified of the program in 1988 in Department Procurement Information Bulletin No. 88.02.

offers. The file contained no documentation justifying the lack of full and open competition. Post officials said the contract for repairs on the Ambassador's residence was solicited on an urgent basis to minimize disruptions.

- Two nonpersonal service contracts exceeding $25,000 were awarded in 1992 without documentation in the files that more than one source was solicited or a justification for other than full and open competition. According to State's Office of the Procurement Executive, if a contract for $25,000 or more is not advertised under full and open competition procedures, a justification for other than full and open competition must be prepared and a copy placed in the contract files.
- In 1991 and 1992, one of five contracts having a value of more than $100,000 was not submitted to the Office of the Procurement Executive for review, and a second contract file did not contain required documentation of the Office's review. According to State acquisition regulations, all contracts for more than $100,000 should be reviewed by the Office of the Procurement Executive, and contract files should contain evidence of the review.

The Embassy has taken several actions to improve controls. The administrative officer is now listed on the post's designation list as the competition advocate for the Embassy, and he will ensure all competitive awards are the result of full and open competition. The general services officer believed the lack of full and open competition for contracts is a much more serious problem at some of the consulates than at the Embassy and is improving oversight procedures to ensure full competition for contracts. According to post officials, steps are also being taken to ensure that correct procedures are used for nonpersonal service contracts.

Procurement Information System Not Implemented

The Embassy did not have an automated procurement information system for monitoring its contracts and purchase orders and had not implemented State's worldwide procurement data base system. This lack of a procurement information system substantially reduced management's visibility over the Embassy's contracting actions. For example, because the Embassy did not have an automated data base for its contracts and purchase orders, contracting officials were unable to readily determine the total number and dollar amount of open procurement actions.

Although State developed and distributed the worldwide procurement data base system in December 1991 to respond to legislative requirements,[7] the post had not fully implemented the system. According to the post contracting officer, the foreign service national contracting specialist responsible for operating the system had received insufficient training to effectively implement it. Post officials said they expected to be in compliance with reporting requirements by January 31, 1993.

Purchase Order Procedures Are Inadequate

Our review showed that (1) the appropriate official had not approved all purchase orders prior to procurement of goods and services and (2) the Embassy had inappropriately used purchase orders to hire temporary employees and to contract for an annual wage survey. For example, in July 1992, the administrative counselor reported that one consulate had violated regulations by frequently causing the General Services Office and the Financial Management Center to prepare purchase orders after the goods and services had been ordered and received. State's Foreign Affairs Manual specifies that goods or services should not be procured until the issuance of the valid obligating document—in these cases, a purchase order.

The Embassy improperly approved purchase orders to employ temporary personnel for longer than 30 days, which is inconsistent with State policy.[8] For example, one employee of another agency at the mission had been paid by purchase order for 16 months. In another case, several purchase orders, totaling $32,500, were used to contract for the Embassy's annual wage survey. The law specifies that proposed purchases costing more than $25,000 may not be divided into several purchases for lesser amounts to justify the use of small purchase procedures.[9] Purchases over $25,000 should be advertised to promote full and open competition. Because they were not advertized, the Embassy's use of purchase orders, rather than an

[7]The Office of Federal Procurement Policy Act, as amended 41 U.S.C. 417, requires that procurement data be collected and reported to the Federal Procurement Data System. In January 1990, State decided to develop an automated procurement information system to meet legal requirements, provide periodic and ad hoc status reports, and establish reporting criteria. The data base is necessary to provide information on contracts and contract modifications, including actions over $100,000 for compliance review purposes.

[8]According to State's Handbook on Foreign National Personal Services Contracts, which prescribes agency policy for use of such contracts, personnel requirements for longer than 30 days should be met through the use of a personal services contract or a direct hire position. All other methods of employing individuals are prohibited without specific approval from the Department's Office of the Procurement Executive.

[9]Competition in Contracting Act of 1984, 41 U.S.C. 253(g).

annual contract for the wage survey, had the effect of bypassing full and open competition requirements.

Post officials said purchase orders were used to contract for additional help for another agency because the agency did not have authorization for a full-time position in Mexico City. Embassy officials said the contract file clearly demonstrates that post management was concerned about using this procedure, but it was considered the only way to continue the agency's priority program. The post has recently been advised that the agency has been authorized a full-time position.

The Embassy also had not met requirements to prepare and implement formal closeout procedures for completed contracts. Closeout procedures are designed to ensure that, among other things, all contract work is performed and goods are delivered, the contractor's final invoice is submitted, and excess funds are de-obligated. Procedures and the requirements for closing out contract files are detailed in the Federal Acquisition Regulation. The general services officer said he will prepare a memorandum for each contract file formally stating when all closeout requirements have been met.

Other Deficiencies Reflect Inadequacy of Management Controls

In addition to the weaknesses in personal property, cashiering, and procurement systems, other management deficiencies have reduced the efficiency of Embassy operations. These include the lack of a system to monitor the Embassy's progress in meeting State residential housing standards, the lack of formal training programs for employees, and the lack of annual security surveys of unclassified information management systems.

Housing Standards

We reported in April 1989 that overseas embassies were regularly leasing housing units that exceeded State standards.[10] In June 1991, State issued new standards based on rank and family size to provide housing to meet employees' needs at the most advantageous cost to the U.S. government. In February 1992, the General Services Office in Mexico City surveyed all applicable properties to determine whether the standards were being complied with. According to the survey, about one-third of the properties exceeded the maximum space allowed, and only 49 families (19 percent) were appropriately housed in government-furnished housing in

[10]State Department: Management of Overseas Real Property Needs Improvement (GAO/NSIAD-89-116, Apr. 13, 1989).

accordance with the standards. According to the survey, the reasons for the lack of compliance with the current standards were that (1) housing assignments had often been made in exception to the prior standards and (2) measurements under the old system were significantly different from current standards.

Since that survey, State's Office of Foreign Buildings Operations has approved the Embassy's housing profile. The profile identified the number of approved housing units at various ranks for projected staffing levels at the mission, including (1) properties to be retained; (2) existing leases for over-sized or surplus, but relatively inexpensive residences that should be retained if renewal costs can be kept down; and (3) properties whose leases should not be renewed because of their size and cost. Although the Embassy projected that implementation of the profile would take about 4 years, it did not establish a system to monitor the degree of its compliance with the housing standards. After our fieldwork, post officials said a manual comparison of the current housing pool with the housing profile was completed for all properties in the post's automated Real Estate Management System data base as of October 27, 1992. The post plans to adapt the data base to allow monitoring of its progress by computer.

Training and Other Personnel Management Issues

The Embassy does not have a formal training program for foreign service national employees, and many have not received functional training for many years, if at all. For example, the foreign service national contracting specialist had not received formal training in contracting or sufficient training to implement the worldwide procurement data base. Moreover, some of the U.S. foreign service personnel having key management and administrative responsibilities had not received any formal training for years. For example, the supervisory general services officer had not received any formal training in 12 years. Post officials agreed that development of a formal training program for U.S. and foreign service national personnel is a good idea but said that the post lacked resources to facilitate such training. However, the post does provide informal training for employees who supervise foreign service nationals and has plans for a formal, group training session. Other sources of training identified by the Embassy include State's Bureau of Finance and Management Policy and the Bureau of Consular Affairs.

The post also did not formally review personal services contracts annually to assess the continuing need for the more than 250 foreign service nationals under contract. State's handbook on personal services contracts with foreign nationals states that embassies should prepare written statements certifying that the services of each contractor are necessary to justify each annual extension of a contract. Post officials said while a formal review of all personal services contracts has not been conducted annually, a formal annual review process has now been implemented. For budgetary reasons, 25 positions, both direct hire and personal service contractors, are currently frozen as a cost-saving measure. Also, a physical review process is now underway in the sub-units responsible for leasing and property management, addressing direct hire, personal services contracts, and part-time intermittent and temporary appointments.

Unclassified Automated Information System Security

The post has not systematically conducted annual surveys of unclassified automated information security. These security surveys have been required by State policy since January 1986 and are considered important to protecting proprietary information and protecting funds, supplies, and materials from fraud, waste, misappropriation, or misuse. The Embassy in Mexico City was preparing an annual system security report during our visit. However, the Embassy's Acting Information Management Officer said that State had not previously enforced the requirement for annual system security reviews. According to post officials, prior to August 1992, security assessments included (1) a June 1988 annual security report, (2) an August 1988 security audit by State's Bureau of Diplomatic Security, and (3) a compliance report in April 1992 to respond to additional security standards. Post officials said that they did not conduct annual system security reviews on a routine basis because Diplomatic Security had not issued instructions (or a list of specific questions) for posts' response.

Management Oversight Is Lacking

Attention to the problems and issues we identified could be strengthened through a formal, proactive management improvement program that is endorsed and promoted by senior Embassy personnel. According to Embassy officials, the Embassy improves management primarily through the internal assessment process required by the Federal Managers' Financial Integrity Act and cost reductions made through periodic budget reviews during the year. However, the Embassy's internal risk assessment for 1992 contained several responses that were not entirely accurate, indicating it has limited usefulness in focusing comprehensive attention on effective management. For example, the assessment stated that the cashier supervisor controls and accounts for cashiers' general receipt forms. The assessment also said that the Embassy had complied with residential housing space standards. As we noted, however, the cashier supervisor did not adequately control and account for these forms as required, and when last measured, only a small percentage of the Embassy's leases complied with established space standards.

In addition, the Embassy's attention to budget and cost control issues has been significantly limited. For example, the Embassy informed State that an additional $220,000 would be needed in fiscal year 1992 to meet mandatory costs and avoid anti-deficiency status. State replied that sloppy budget work and lax management budget oversight had hindered a determination of the Embassy's actual budget requirements. According to State officials in Washington, D.C., the funding situation could be resolved through a stringent examination of mandatory and discretionary spending requirements. They added that the Embassy in Mexico City is taking a number of actions to improve its budget controls but concerns remain because the post was responsible for one of the State Department's largest Anti-Deficiency Act violations, reported 4 years ago.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.	Thomas J. Schulz, Associate Director John Brummet, Assistant Director Lynn Moore, Project Manager John Townes, Senior Evaluator
Atlanta Regional Office	Roderic W. Worth, Regional Management Representative Christopher A. Keisling, Evaluator-in-Charge Sylvia Diaz, Evaluator

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

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

Official Business
Penalty for Private Use $300

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