

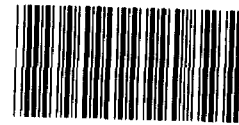


United States
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National Security and
International Affairs Division

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

Dear Mr. Chairman:

In reply to your July 26, 1993, letter, we are providing our responses to your follow-up questions on issues discussed in the Subcommittee's July 13, 1993, hearings on the State Department's management of its overseas embassies. Our responses address your questions concerning real property management, contracting and procurement, staffing and training, personal property, overseas medical expenses, housing standards, cashiering and other financial controls, and the views of embassy officials in Mexico City, Mexico, on our report dealing with management weaknesses at that post.

We appreciated the opportunity to testify on this important subject and look forward to working with you in the future on issues of interest to the Subcommittee. Major contributors to our responses were Lynn Moore and John Townes.

If we can be of additional assistance, please contact Joseph E. Kelley at (202) 512-4128.

Sincerely yours,

for Frank C. Conahan
Assistant Comptroller General

Enclosure

GAO/NSIAD-93-280R Management of Embassies

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REAL PROPERTY MANAGEMENT

1. GAO has been reporting on the problems of overseas real estate and construction for over 30 years. GAO has indicated that State has made some improvements to correct some of its chronic problems in dealing with overseas real property. Do these changes show promise?

GAO response: As noted in our December 1992 high-risk series report on management of overseas real property,¹ after many years of neglect, the Department has recognized the urgency of improving its management of overseas real estate programs and is taking action to correct past problems. We concluded that these actions, including establishing construction priorities and value engineering programs, hiring additional qualified staff, determining the maintenance conditions of posts worldwide, establishing regional maintenance centers, and creating a facilities maintenance skill group within the foreign service, hold promise. However, we also noted it is important that Department officials continue their commitment to management reform and oversight of post activities if State's chronic problems in managing real property are to be resolved. We plan to review the status of reform efforts in 1994.

2. Considering the Department, through FBO, manages about 8,300 leased properties and 1,750 government-owned properties at nearly 300 locations worldwide worth approximately \$8-\$10 billion, do you believe the State Department has attached adequate importance to seeking immediate short-term and long-term corrective actions?

GAO response: As indicated above, we believe State's actions hold promise, particularly in the short-term. However, it is important to recognize that weaknesses in real estate management have been entrenched in the Department for decades. Some of the key improvements that have been initiated will take years to implement, and continued oversight and monitoring of progress will be needed. In addition, State may face obstacles in fully implementing its actions. Likely challenges include funding availability and shifts in foreign policy objectives. As noted in our high-risk series report, the added workload and costs associated with opening new posts in the former Soviet Union are the kind of changes that, without continued commitment, could deflect attention from correcting past problems with overseas real estate management.

¹High-Risk Series: Management of Overseas Real Property (GAO/HR-93-15, Dec. 1992).

3. Over the 30 years you have reported on overseas real property issues, has the situation really improved or has the Department worn GAO out?

GAO response: Actions such as establishing regional maintenance centers and creating a facilities maintenance group within the foreign service were needed to begin dealing with the chronic problem of inadequate building maintenance. We believe that these and other actions indicate that the situation has improved, at least in terms of commitment to improvement; only time will tell whether these actions will achieve the desired results. However, we are encouraged that after many years of inaction, State has made some progress in improving its management of overseas real estate.

CONTRACTING AND PROCUREMENT

1. In the survey results, only 58 percent of the embassies responding to the questionnaire reported having a Competition Advocacy Program, which is designed to promote full and open competition in contracting, encourage acquisition planning, and provide a formal mechanism for the review and approval of justifications for restricted competition. Were the other 42 percent of embassies cited for not competing consistent with State guidance and Federal regulations?

GAO response: The questionnaire did not ask if the embassies had been cited for noncompliance with State guidance and federal regulations regarding contracting and procurement. However, we believe that the lack of a competition advocacy program may indicate insufficient attention to compliance with applicable guidance and regulations on competition.

In 1988, State designated the administrative officer at each post as a competition advocate with responsibilities for promoting and encouraging full and open competition, challenging barriers to restrictive competition, encouraging and participating in the development of acquisition planning, and reviewing and/or approving justifications for restricted competition. Since then, both we and State's Inspector General have found weaknesses in embassy procurement systems, including frequent failures to fully compete procurements and/or to adequately plan acquisitions in advance. At some posts, administrative officers and other personnel having procurement responsibilities were not aware of the role of the competition advocate. Although embassies are not technically required to have a competition advocacy program, the policy directive designating the administrative officer as a competition advocate has not on its own achieved the desired result. We believe that a competition advocacy program at each embassy would help ensure that staff are informed of the objectives of the competition advocate and that maximum compliance with contracting and procurement regulations is achieved.

2. Did the 42 percent of embassies without a Competition Advocacy Program also lack vendor lists to identify potential sources for procurements, and did they also lack advance acquisition planning for goods and services at the embassies?

GAO response: The questionnaire did not ask about vendor lists. However, the data shows that many embassies without a competition advocacy program also did not prepare an acquisition plan. Other embassies indicated that either they did not have a competition advocacy program but conducted advanced acquisition planning or they had a competition advocacy program but did not prepare an acquisition plan.

A January 1991 audit of overseas procurement operations by the State Department's Inspector General concluded that the lack of embassy procedures to carry out the Department's competition advocacy program directly contributed to the large number of sole-source procurements overseas.² We believe that embassies' failure to have a competition advocacy program limits their ability to effectively promote competition, ensure compliance with regulations, and avoid sole-source contracts. Concerning the planning issue, we note that an April 1990 audit by State's Inspector General on the Department's controls over year-end spending³ concluded that erratic, late, or nonexistent advance acquisition planning at overseas posts directly contributed to inefficient, wasteful, and improper procurement practices and excessive year-end spending. Embassies are currently required by State to develop advance acquisition plans for individual procurement actions. Although plans on a fiscal year basis are not required, we believe such planning would help avoid year-end spending problems and better match procurement requirements to the fiscal year budget process.

3. Can you recall some of the worst instances of contract and procurement abuses from the survey results?

GAO response: The questionnaire was not designed to identify contract and procurement abuses; rather, it was designed to determine if embassies had sound management controls that promoted competition, encouraged acquisition planning, and met the State Department's reporting needs.

²Overseas Procurement Operations (State Inspector General, 1-PP-04, Jan. 1991).

³Year-end Spending (Phase II-Overseas) (State Inspector General, O-PP-016, Apr. 1990).

4. Respondents to your survey indicated that 30 percent of the embassies have not implemented the worldwide procurement database system. What effect does this have on daily embassy functions?

GAO response: Full implementation of the worldwide procurement database will bring State's overseas procurement system into compliance with the legislative requirement to make procurement data available to the Congress, the executive branch of the government, and the public through the Federal Procurement Data System. Although the impact of less than full implementation of the database on daily post functions is minimal, the Department's ability to oversee posts' procurement activities is diminished. The worldwide procurement database was designed to develop information on contractors, costs, and completion dates for overall management of the Department's procurements. This information is also useful for advance acquisition planning by the embassies.

STAFFING AND TRAINING

1. You reported that the supervisory general services officers at the Embassies in the Dominican Republic and Mexico were responsible for contracting and procurement, but they had not received any formal procurement-related training since the 1970s. How did this lack of training affect their ability to perform their duties?

GAO response: We did not assess the performance of individual contracting officers during our review. However, past audits of the Department's overseas procurement system by State's Inspector General have identified inadequate training of both U.S. staff and foreign service nationals as a key factor limiting the efficiency and effectiveness of contracts and procurements. We found weaknesses in procurement systems at the Embassies in the Dominican Republic and Mexico City during our review. In view of the substantial changes in procurement policy and regulations over the years, we believe that periodic formal training in procurement-related issues is critical for supervisory general services officers and others holding contracting authority (particularly those who have not received formal training in almost two decades) to effectively manage embassy contracting and procurement operations.

2. Staffing gaps in key U.S. management positions in numerous posts, including the Embassies in Turkey, Poland, Panama, and Barbados, were reported by GAO as having hindered administrative and management functions. Were the concerns of the these posts communicated to Washington, and if so, what corrective actions did the Department take?

GAO response: Staffing gaps in key administrative positions are a systemic weakness in the Department's personnel system. Although State officials said that they would like vacancies to be filled as soon as possible, delays are encountered for a variety of reasons

(for example, language and other training of personnel prior to overseas posting). Embassy officials said they work with State's headquarters staff to fill authorized positions but accept staffing gaps as a fact of life. To compensate for staffing gaps, embassies frequently use part-time intermittent personnel and contractors or ask other U.S. foreign service officers to assume responsibilities for administrative duties. Personnel assuming these duties sometimes have limited skills or training in the positions they are assigned. State's Inspector General has concluded that (1) overall weaknesses in the Department's personnel system are reflected by the excessive gaps in replacements at the overseas posts and (2) the Department's Bureau of Personnel has not efficiently or effectively provided the staff resources needed now or in the future. In addition, as part of the Financial Integrity Act process, State has identified an acute shortage of skilled foreign service administrative staff overseas as a material control weakness. Corrective action to address the shortage of overseas administrative staff is not scheduled to be corrected until 1996.

3. According to your questionnaire, staffing gaps caused delays in critical tasks, forced staff to assume responsibilities for which they were not trained, and compromised embassies' ability to exercise control functions. Can you give us some examples?

GAO response: Embassy responses concerning the impact of staffing gaps on embassy operations identified the type of impact in general terms. Although respondents were not asked to include specific examples, many indicated that staffing gaps had increased the frequency of overtime and in some cases reduced staff morale. One post response indicated that the lack of critical staff at the end of the fiscal year had significant internal control consequences because inexperienced staff that are not adequately supervised improperly handle funds. During our review at individual embassies, we also identified specific examples.

- At the Embassy in Moscow, officials said that staffing gaps in authorized U.S. positions have occurred at all levels on a consistent basis, making it difficult to support growth in other agency programs in the country and to exercise adequate controls over State resources. We found inadequate controls over accounts receivables (travel advances, medical expenses, and personal phone calls) and personal property.
- In Barbados, the Embassy did not have the services of a budget and fiscal officer for 6 or 7 months in fiscal year 1992, which according to post officials, resulted in the lack of cashier verifications.
- In Turkey, staffing gaps in the buildings and maintenance and general services officer positions delayed routine maintenance and the performance of other property functions.

4. Sixty percent of the embassies responding to your survey reported increased workloads to support non-State agencies, even though their administrative staff levels remained constant or declined. With the possibility of a down-sizing of U.S. government personnel, will American representation overseas be adequate, and to your knowledge has any criteria been mentioned in which agencies see cuts?

GAO response: Any reductions in non-State personnel at U.S. embassies and consulates will reduce the workload of State's administrative staff. However, it is unlikely that personnel reductions in the near term will eliminate the problem of inadequate administrative staff at the overseas posts. State first identified the lack of overseas administrative staff as a material internal control weakness in 1988 and does not anticipate corrective action until 1996. We are currently reviewing U.S. staffing patterns overseas and the extent reductions in the U.S. presence can be achieved.

PERSONAL PROPERTY

1. In the surveys each post returned, was property management an area in which problems seemed most acute? If so, what seemed to be the areas of difficulties or frustration in keeping track of personal property?

GAO response: Embassy responses to the questionnaire indicated that personal property management is one of several areas of post management requiring continuing attention. Our work at individual embassies indicated that the major reasons embassies have experienced problems in keeping track of their property include poor record-keeping, a failure to comply with property regulations, a failure to fully implement State's automated nonexpendable property system, and a failure to hold responsible personnel accountable for missing property.

2. What actions should the Ambassador at each embassy take to improve controls and stop unnecessary losses?

GAO response: State requires that its embassies report losses exceeding 1 percent of the total property inventory to post property survey boards for adjudication. We believe that to some extent, the threshold encourages posts to tolerate losses of less than 1 percent, which over time accumulate to substantial losses. To tighten controls and demonstrate a commitment to solving the problem, each ambassador or chief of mission should adopt a policy of zero tolerance for property losses. Periodic reviews of property systems should also be conducted as part of an overall formal management improvement program to identify system vulnerabilities and corrective actions. When losses occur, responsible individuals should be held personally accountable for negligence or lapses in management controls.

OVERSEAS MEDICAL EXPENSES

1. How much do you estimate could be recovered through better follow-up procedures?

GAO response: In fiscal year 1991, State's expenditures for overseas medical expenses totaled about \$2.2 million and fiscal year 1992 appropriations available for medical expenses totaled about \$1.7 million. State had no reliable records from which an accurate estimate could be made of the amounts of expenses that should be recovered or are actually recovered. However, State officials noted that insurers typically cover 80 percent of authorized expenses. Using that percentage, the potential recoverable amount of fiscal year 1991 State expenditures would have been approximately \$1.76 million, and potential recoverable fiscal year 1992 appropriations would have been \$1.36 million. Assuming a portion of the expenses are returned to State, we estimated in August 1992 that as much as \$1 million could be recovered through better procedures. Estimates of State's Inspector General are somewhat less. However, we and the Inspector General agree that substantial amounts can be recovered through better controls.

2. Does this problem affect non-State agencies with staff assigned to overseas posts?

GAO response: We did not address the controls exercised by non-State agencies. However, State officials said that personnel of several other agencies participate in the overseas State medical program. State authorizes medical payments for such personnel but does not monitor the extent other agencies collect reimbursements. State officials estimated that the overseas costs for other agencies' participation in the State program will total about \$1.3 million in fiscal year 1993. If other agencies are not exercising sufficient controls, there could be additional funds that are not being recovered.

3. Are there any other areas at State where failure to or delays in aggressively collecting funds may be costing the government money?

GAO response: Yes, inadequate control over receivables has been a long-standing problem at State. For example, in an August 1988 report, we noted that State's overdue or delinquent travel advances totaled about \$15.4 million in 1987.⁴ Since then, State has identified inadequate controls over travel advances as a material weakness under the Financial Integrity Act process. During a 1991 audit of the receivables function, State's Inspector General found

⁴Internal Controls: State Department Needs to Improve Management of Travel Advances (GAO/NSIAD-88-178, Aug. 15, 1988).

that because of inadequate reporting and other weaknesses, there was no assurance that receivables (funds owed to the Department for reimbursable services, loans, overpayments, and other expenditures) were being collected. Our review of embassy management identified continuing weaknesses in controls over accounts receivable at individual posts, for example, we found inadequate controls over travel advances and personal phone bills at the Embassy in Moscow.

OVERSEAS HOUSING STANDARDS

1. You have been reporting on overstandard housing for nearly 20 years, yet posts responding to your survey indicate that almost one out of five housing units currently exceeds space standards overseas. Over one-half estimate that full compliance with housing standards will take more than 2 years. Is there any hope that the Department will meet the standards issued in 1991 within 2 years?

GAO response: Based on responses to our questionnaire and past problems with overstandard housing, we do not believe that State will be in full compliance with its housing standards for many years. State faces several obstacles to fully meeting the standards in the short term. For example, some overseas properties that exceed the standards are under long-term lease, and time will be required to replace them; others are relatively inexpensive and are retained for economic reasons. In addition, State has cited security concerns and the limited availability of acceptable properties in some foreign cities as obstacles to timely adherence to the standards. State's Office of Foreign Buildings Operations (FBO) has developed a process of reviewing and approving individual embassy housing profiles that identify the number of housing units at various ranks for projected staffing levels. This process is designed to help ensure compliance, but it has weaknesses. FBO's information systems do not identify the extent individual properties meet standards, and approval of a post profile does not ensure post compliance. For example, at the Embassy in Mexico City, although the post's housing profile had been approved, the Embassy did not have a system to monitor the degree of compliance with the housing standards. A subsequent inspection by State's Inspector General concluded that the mission faced major problems because of its inconsistent, poorly managed housing policy, which, did not conform to current housing standards. As in other management areas, most posts need to place more emphasis on compliance with standards.

2. Does FBO exercise the necessary oversight to ensure posts' compliance with the 1991 standards?

GAO response: As noted above, FBO's information systems do not indicate the extent individual housing units meet standards. Current FBO processes to monitor compliance include the approved profiles for projected occupancy at each post, visits by FBO area management personnel to individual posts, and a lease waiver

process requiring FBO's approval of units that exceed size or cost standards. We have not recently conducted a review of these processes; however, we found in our past work that FBO's area managers had not placed sufficient priority on monitoring of post activities. In our 1994 review of the management of overseas real estate we will review the adequacy of oversight.

CASHIERING AND OTHER FINANCIAL CONTROL ISSUES

1. In a November 1992 report, you concluded that financial management problems at State were serious, long-standing, and widespread, and your work at overseas embassies supports this conclusion. Apparently State is making a sincere effort to improve its financial management. Is State making adequate progress?

GAO response: We believe State is making some progress in sorting out problems with its financial management systems. State is in the early stages of planning and determining what kinds of financial information is needed, establishing goals, and designing system parameters. However, corrective action to deal with a myriad of problems--lack of a standardized general ledger, deficiencies in data quality, inadequate interface of various domestic and overseas systems, and inadequate support of mission performance--is not scheduled until 1999, which is 16 years after State first identified problems with its accounting and financial management systems under the Financial Integrity Act process. The ability of State to develop a worldwide standardized and integrated financial management system is uncertain due to budget constraints, competing priorities within the Department, and its past difficulties in implementing an overseas financial management system.

2. Do you plan to review State's financial management improvement strategy to ensure that State is moving in the right direction?

GAO response: Yes, we plan to review the progress of State's financial management improvement strategy in fiscal year 1994. We have developed an expanded methodology to audit financial systems and plan to use this methodology as part of our review.

ADDITIONAL QUESTIONS

1. The GAO report on management weaknesses at the U.S. Embassy in Mexico City, Mexico, was forwarded by the Subcommittee to the State Department for comment. State asked Ambassador Negroonte to respond to the conclusions and recommendations of the report. Please comment on Ambassador Negroonte's June 16, 1993, letter to the Assistant Secretary of Legislative Affairs concerning the GAO report.

Background: The Ambassador's letter stated that (1) the loss of \$120,000 in personal property in 1990 and 1991 was an old problem

that the Embassy was aware of and that its subsequent efforts to improve controls had reduced losses to \$38,000 in 1992; (2) we used the findings of a prior post officer to indicate that oversight of consulate financial operations has been weak and since then, visits by Embassy personnel to the constituent posts indicate that cashier operations are in good to excellent condition; and (3) the mission management team has a proactive management philosophy that includes instituting improved procedures and holding periodic country team and administrative officer/staff meetings to act on issues of concern.

GAO's response: Overall, the Ambassador took the position that the Embassy's management practices were better than we had indicated in our report.⁵ Such a position seems inconsistent with the Embassy's historical pattern of management weaknesses described in our report and a recent Inspector General inspection at the post,⁶ which concluded that (1) the Embassy is not well run administratively and (2) senior administrative officers and the Embassy executive office must more effectively address the management issues facing the post. Although the property losses in 1990 and 1991 could be viewed as an old problem, they resulted from an almost total lack of control over property at that time. We agree that property losses of \$38,000 represent an improvement over prior year losses. However, we also believe that property losses of \$38,000 are not acceptable. We believe that ambassadors should adopt a zero-tolerance policy on personal property losses. Concerning the adequacy of cashiering operations, we noted in our report that Embassy officials had not systematically reviewed cashier operations at the consulates. The most recent Inspector General report concluded that the abilities of the individual cashiers and their American supervisors ranged from poor to excellent, which further indicates that continued monitoring of cashiering operations at the consulates is needed.

We do not doubt the Ambassador's sincerity in stating that his staff have a proactive management improvement philosophy. However, we believe that mechanisms described by the Ambassador, principally periodic staff meetings to address issues of concern, are not sufficient to address major management problems in the long term. If they were, past management weaknesses such as significant property losses and current problems such as the poorly managed housing program could be avoided. As we recommended in our report, proactive management improvement processes should be formal, under the direction of the deputy chief of mission or other senior

⁵STATE DEPARTMENT: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico (NSIAD-93-88, Feb. 8, 1993).

⁶Embassy Mexico City, Mexico and Its Constituent Posts (State Inspector General, ISP/I-93-25, June 1993).

official, and provide for periodic assessments of key management areas.

2. Please comment on Ambassador Negroponte's March 9, 1993, letter to State's Director of the Office of Mexican Affairs concerning the GAO report.

Background: The Ambassador's March 1993 letter is similar to the June letter in that it criticizes us for "sensationalizing" past weaknesses and not giving the Embassy adequate credit for efforts to remedy problems. Our report described in detail the personal property losses in 1990 and 1991 (\$120,000), the number of items missing (more than 3,000), and the fact that the Embassy did not report the losses to State headquarters as required by State regulations. We do not view reporting on such losses as sensationalizing. In addition, our report identified a number of corrective actions taken by the post to improve management of personal property and other areas.

The Ambassador's letter incorrectly refers to State's standards for property control. Specifically, the letter states that although the write-off of \$120,000 in personal property was a serious loss, it was "still less than the 3 percent of the overall inventory tolerance standard of the Department." According to State property officials, the only percentage standard that has existed is the current requirement for reporting of losses greater than 1 percent of inventory to the post property survey board. The Ambassador referred to the property loss of \$38,000 in 1992 as "an achievement that has earned praise rather than criticism." State property management officials agree with us that a loss of \$38,000 should not be praised.

3. Are Ambassador Negroponte's responses indicative of a particular culture pervasive at the State Department, which has allowed managerial concerns to be ignored for over three decades?

GAO response: Historically, State has not regarded management as an important issue. Personnel that violate regulations have not been held sufficiently accountable for their actions, and incentives for good management have been lacking. The numerous audit findings by us and State's Inspector General have over the years repeatedly confirmed the lack of adequate attention to management concerns in the Department. The Ambassador's response indicates that (1) attention to management problems continues to be largely reactive at that post and (2) a greater commitment to proactive improvements is changed.

4. Can such attitudes be changed given the long-standing problem of officials ignoring oversight matters?

GAO response: We believe that there is room for cautious optimism. For example, FBO has made progress in addressing the endemic facility maintenance and other real estate management problems facing State overseas. Similarly, officials in State's central property management office have begun to periodically visit embassies to assess the quality of personal property management, and opportunities for improvement at several posts have been identified. However, because State has historically displayed a pattern of poor management and recent audits and inspections have identified weaknesses in overseas management systems, continued emphasis on improvements is needed. In testimony before the Legislation and National Security Subcommittee, we stated that additional progress requires that (1) each overseas embassy adopt a formal management improvement program, (2) ambassadors and other embassy managers endorse the program and pay close attention to its progress, and (3) top State management display a commitment to improving management controls.

5. Can we expect that appropriate accountability will be exercised by Ambassadors and Heads of Missions in the future?

GAO response: Congress and the taxpayer should expect appropriate accountability. Better accountability can be achieved if top State management officials demonstrate a strong and continuing commitment to improving management controls and if ambassadors and other embassy managers pay more attention to management issues.

6. Should Congress micromanage State operations until State assigns appropriate attention to management priorities?

GAO response: Probably not, assuming State demonstrates progress and commitment to improving overseas management. However, because of State's historical lack of attention to management concerns and continuing management weaknesses in a number of areas, close congressional monitoring and oversight will be needed. If progress is not demonstrated, the Congress may need to become more involved in State's management. For example, Congress may wish to consider earmarking funds for improved financial management and other key systems to ensure improvements are in fact carried out.

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