

GAO

Report to the Chairman, Committee on
Government Reform and Oversight,
House of Representatives

March 1996

STATE DEPARTMENT

Actions Needed to Improve Embassy Management





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

National Security and
International Affairs Division

B-266136

March 12, 1996

The Honorable William F. Clinger, Jr.
Chairman, Committee on Government Reform
and Oversight
House of Representatives

Dear Mr. Chairman:

As requested by the former Chairman, House Committee on Government Operations, we have assessed the State Department's efforts to improve the management of its overseas posts. Specifically, we reviewed State's actions to implement the recommendations made in our July 1993 testimony and your Committee's November 1993 report.¹ We also identified management practices that could be used to improve operations at other embassies.

Background

The State Department operates over 160 embassies and over 100 consulates at a cost of about \$2 billion annually. The embassies perform diplomatic and consular functions and provide administrative support for other U.S. agencies. State employs over 7,300 U.S. Foreign Service officers, about 10,000 Foreign Service nationals, 650 U.S. contractors, and 30,000 Foreign Service national contractors. Worldwide, embassies manage about \$600 million worth of personal property, procure about \$500 million in goods and services annually, and share management responsibilities for about \$12 billion in housing and other real properties. Embassies also have responsibility for over \$2 million annually in accounts receivable, such as medical expenses.

For decades, long-standing management deficiencies have weakened administrative operations at the embassies, and millions of dollars remained unnecessarily vulnerable to fraud, waste, and abuse. We have previously criticized State's deficient controls over embassies' personal and real property, cashing operations, contract administration, and training. In July 1993, we testified that management deficiencies continued to plague embassies' operations. We suggested that each embassy establish a formal management improvement program to ensure sound management practices by documenting problems and monitoring corrective actions.

¹Widespread Management Weaknesses at Overseas Embassies (GAO/T-NSIAD-93-17, July 13, 1993) and State Department Mismanagement of Overseas Embassies: Corrective Actions Long Overdue, House Committee on Government Operations, November 22, 1993.

For years, Congress has been concerned about State's reluctance to address management and internal control problems that have historically reduced the effectiveness of its operations. In its November 1993 report, the House Committee on Government Operations stated that State should implement our recommendation that each embassy adopt a formal management improvement plan. On the basis of prior reviews by us and State's Office of the Inspector General (OIG), the Committee also recommended that State (1) strengthen controls over personal property, (2) ensure that appropriate training is available for U.S. and foreign service national personnel, (3) implement contracting and procurement improvements, (4) eliminate control problems in cashiering functions, and (5) develop systems to track and collect medical insurance reimbursements.

Results in Brief

State has not implemented our suggestion, conveyed in testimony and endorsed by Congress, that each post establish a proactive management improvement program, nor has it fully implemented the Committee's recommendations. State did take some actions to improve embassy management controls. These actions included providing additional embassy guidance and oversight in safeguarding resources and revising the overseas risk assessment questionnaire—a tool designed for posts to identify management weaknesses. However, these initiatives were inconsistently implemented at embassies we visited. Thus, long-standing management deficiencies continue to reduce the efficiency and effectiveness of many embassies' operations.

By contrast, three embassies (Ankara, Turkey; Dhaka, Bangladesh; and Tunis, Tunisia) have initiated management practices to improve administrative operations. These practices, which include tracking accounts receivables and automating travel vouchers, strengthened internal controls, improved compliance with regulations, reduced costs, and enhanced the efficiency and effectiveness of operations. In addition, these embassies were markedly distinguished from other posts we visited by the active involvement of senior management and use of existing reporting mechanisms, such as the certification of internal controls, the Mission Program Plan, and the revised risk assessment questionnaire, to routinely document administrative problems and corrective actions taken. These management practices could be replicated at other embassies.

State Has Not Fully Implemented Recommendations

State has not implemented our suggestion that all posts establish formal management improvement programs to identify and correct deficiencies. State officials believe that their approach of targeting specific areas for improvement is more appropriate and achieves comparable results in the long term. We continue to believe that if State were to use existing mechanisms for managing embassy operations, such as the Mission Program Plan, it could more quickly and easily achieve the intent of our 1993 recommendation. (See app. I.)

State has responded to recommendations contained in the House Committee on Government Operations' report by initiating some specific actions designed to improve its management over embassy operations. These actions, although steps in the right direction, do not go far enough to ensure that each embassy is improving its operations. We and the State's OIG continue to find deficiencies in (1) controlling personal property; (2) training for U.S. and foreign service national personnel; (3) contracting and procurement practices; (4) poor controls over cashiering functions; (5) medical insurance reimbursements; and (6) senior-level oversight of operations.

Controls Over Personal Property

In November 1993, the House Committee on Government Operations recommended that the State Department take the following actions to strengthen controls over personal property:

- establish more stringent procedures and guidance for receiving and issuing personal property overseas;
- improve the nonexpendable property application software to enhance reconciliation capability;
- provide increased and specialized training for Foreign Service officers and nationals;
- revise volume 6 of the Foreign Affairs Manual to require property officers to retain inventory records and other pertinent documentation in post files for 3 years; and
- adopt a zero-tolerance policy with respect to personal property losses.

In July 1993, before the Committee's report, State updated volume 6 of the Foreign Affairs Manual to include revised personal property regulations for all diplomatic and consular posts. This updated guidance incorporated changes in assigned responsibilities and federal regulations. The revised regulations also clarified accountability criteria for ensuring internal controls. On the basis of the new regulations, State's Property

Management Branch, which is responsible for central oversight for domestic and overseas personal property management, issued an instruction handbook that was intended to be an easy reference for posts to ensure compliance with management of personal property overseas. However, branch officials acknowledged that a number of posts were still not in compliance. During fiscal year 1994, branch staff visited 20 of the 260 posts to verify their annual inventory certification. Branch officials said that 14 posts failed to provide documentation that physical inventories were conducted.² Although posts that do not provide inventory certifications can be subject to a withholding of funds for personal property acquisitions, and individuals that either refused to certify or falsely certified inventories can be subject to punitive actions, we found no instances in which money was withheld or individuals were sanctioned for not following property management procedures.

According to State, it has a zero tolerance policy on personal property losses for fraudulent behavior, but it does not believe it to be in the taxpayers' interest to pursue small shortages; therefore, in November 1993, it adopted a 1-percent tolerance. State adopted this policy because the 1-percent level is commensurate with that of private industry and State officials believed that the cost to pursue shortages of less than 1-percent would outweigh any benefits. State officials said they required posts to submit to headquarters the amount of losses incurred in fiscal year 1994. Of the 160 posts that submitted such information, only 15 exceeded the 1-percent level.

In 1989, to improve property management and accountability, State integrated an inventory reconciliation software package with its non-expendable property application (NEPA) software at about 210 of the overseas posts. State is testing a new application of NEPA, but it has not yet determined how NEPA and other subsidiary systems will function with the planned Integrated Financial Management System.³ In August 1994, we reported that this system was at a high risk of failure because of State's inadequate management and planning and therefore might not solve long-standing financial management and internal control problems.⁴

²In commenting on a draft of this report, State reported that 12 of the 14 posts had subsequently submitted the required inventory certification.

³This system is intended to be a single integrated accounting system that links State's worldwide operations and provides managers at all levels with reliable financial information to plan and conduct operations.

⁴Financial Management: State's Systems Planning Needs to Focus on Correcting Long-Standing Problems (GAO/AIMD-94-41, Aug. 12, 1994).

Training for U.S. and Foreign Service National Personnel

The Committee recommended that State train both U.S. Foreign Service officers and Foreign Service national employees in the areas of procurement and acquisition, real property management and maintenance, personal property, and budget and fiscal responsibilities. State's training arm—The Foreign Service Institute—offers training in most of these areas. State acknowledged that, in some cases, Foreign Service officers report to posts without such training. And, according to the Director of the Office of Foreign Service National Personnel, training Foreign Service nationals is not a priority because of the high costs involved in bringing Foreign Service nationals to Washington, D.C.

Although State says it has focused on increasing its regional training of Foreign Service nationals, those we interviewed said that training was still limited, often not timely, and generally not offered in their native language. Of the seven posts we visited, only Paris had formal training programs that identified or provided opportunities for the training requirements of Foreign Service nationals or officers.

State is exploring ways to increase the role of Foreign Service nationals in administrative operations overseas. However, the Foreign Service Institute does not have a formal plan in place to ensure that Foreign Service nationals receive adequate training. Transferring more responsibility to Foreign Service nationals without proper training is likely to weaken compliance with internal controls.

Contracting and Procurement Practices

In 1993, the Committee recommended a number of actions to improve contracting and procurement practices. These included (1) requiring training for all Foreign Service officers and Foreign Service nationals responsible for contracting and procurement, (2) developing and implementing a procurement management information system that includes overseas procurement operations, (3) requiring each post to fully implement the worldwide procurement data system and provide each with appropriate software, (4) requiring each post to appoint a competition advocate and establish a competition advocacy program, and (5) requiring posts to develop advance acquisition plans each fiscal year.

To address the need for procurement training, State established new training requirements for contracting officers, including training seminars for about 100 employees at seven regional centers. However, only 150 of the 700 officers overseas have received required training for standard contracting authority up to \$250,000. The rest of State's overseas

contracting officers have provisional contracting authority up to \$100,000.⁵ Procurement officials estimate that it will take many years before all of these officers complete their training. In addition, some Foreign Service nationals responsible for maintaining contracting files indicated that they were not adequately trained. For example, one Foreign Service national told us she had been involved in procurement actions for 6 years before receiving formal training.

State developed a worldwide procurement database to meet the minimum legal and regulatory overseas procurement reporting requirements. This database is currently in use at 193 (or 73 percent) of the 265 overseas posts. This database, however, only reports the number and types of contract actions. It is not used to manage, monitor, or ensure control over embassy procurement operations.

Most of the posts we visited had not established a competition advocacy program called for by the Committee. The lack of such a program contributed to the failure of some posts to fully compete or review their contract actions and prepare and maintain required documentation. None of the posts had a written policy to advertise solicitations or had evidence that solicitations were authorized. Also, most posts did not maintain a current vendor list, and therefore, could not be assured that all potential sources had been solicited.

Several of the embassy officials we met with said they had not received or could not locate headquarters' guidance stipulating the need of advance acquisition planning. In addition, none of the officials had developed an advance acquisition plan ranking essential procurements.

Controls Over Cashiering Functions

Embassy cashiers are responsible for the day-to-day payment, collection, deposit, and reconciliation of funds advanced by regional disbursement centers. Cashiering operations are supervised by U.S. disbursing officers located at those centers.

To improve controls over cashiering, in 1993, the Committee recommended that State

- fully fund the implementation of a worldwide standardized and integrated financial management system,

⁵State instituted a program in October 1992 that grants contracting officers with provisional contracting authority up to \$100,000. Once training is completed, the officer is granted authority up to \$250,000.

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- adopt standardized accounting systems,
 - increase monitoring and oversight of overseas cashiering operations,
 - improve oversight of U.S. disbursing officers operations to ensure that transactions and accounts are properly recorded and reconciled, and
 - require all posts to train staff in safeguards and procedures to prevent theft or misuse of official funds.

State has not fully implemented the computerized Integrated Financial Management System;⁶ therefore, controls over cashiering continue to be manual and dependent on noncompliant financial systems in the majority of overseas posts. Although reconciliations are required monthly at overseas post, only about one-third of embassies' cashiering operations are currently reviewed each year by external review teams from the State's Financial Service Centers. Headquarters officials said that losses have been minimal, but acknowledged that major problems could occur.

To gain control over disbursing operations overseas, State has centralized 18 of 19 disbursing operations with its 3 regional administrative management centers and plans to relocate the 1 remaining operation (Brasilia). State's Deputy Chief Financial Officer and Deputy Assistant Secretary for Finance initiated this action to improve oversight and management controls over disbursing.

State also created the Office of Overseas Financial Management and Oversight under the Chief Financial Officer. However, officials from this office said that fiscal irregularities were continuing due to (1) the lack of trained U.S. Foreign Service officers and nationals on cashiering practices, (2) negligence, and (3) malfeasance.

To address the Committee's recommendation to train staff on financial controls, in June 1994, at the Regional Administrative Management Center in Mexico City, State trained about 40 budget and fiscal officers and 40 supervisory Foreign Service nationals from the posts in Mexico on safeguards and procedures to prevent theft or misuse of funds. However, State officials said more regional training was needed for the hundreds of Foreign Service nationals supporting State's budget and fiscal operations overseas.

⁶The Integrated Financial Management System is intended to be a single integrated accounting system that links State's worldwide operations and provides managers with reliable financial information to plan and conduct operations. We reported in 1994 that this system ran a high risk of failure because State's management and planning has been inadequate.

Medical Insurance Reimbursements

In 1993, the Committee recommended that State (1) develop and implement systems that identify and report on overseas medical expenses paid, claims filed, and amounts reimbursed to the government and (2) require all Foreign Service officers serving overseas to carry private medical insurance. State's Office of Medical Services now assigns an obligation number for each medical claim and authorizes payment by the overseas posts. The embassy notifies the office of each payment, and an accounts receivable and corresponding billing documents are then established in the Central Financial Management System. These actions resulted in collections of over \$1 million in fiscal year 1994, including funds owed since 1991. According to a Medical Services official, the collection system applies to State employees only. It does not cover employees of other agencies that may receive medical services overseas.

Although State still does not require Foreign Service officers to have private medical insurance before they are assigned overseas, it has stopped paying claims for hospitalization of those without insurance with the exception of the hospital admission charge, which must be promptly reimbursed.

Senior-Level Oversight of Operations

In 1993, the Committee called for increased oversight of operations by senior officials both in Washington and at the embassies. State officials acknowledged that a greater emphasis should be placed on management controls, and that commitment and support should come from the top. To enhance senior managers' commitment at posts, State has introduced a number of actions intended to address the managers' systemic disregard for sound management practices and establish accountability for carrying out headquarter's requirements. For example, State now emphasizes the importance of management controls and responsibility for those controls to newly appointed ambassadors during preassignment briefings and in the Secretary's Chief of Mission Authority Letter. The Chiefs of Mission are required to develop a Mission Program Plan that will form the basis for the missions' major activities and resource allocations and have the plan approved by the Assistant Secretary of State. They are also required to reduce mission costs whenever possible, implement sound management controls to ensure that government resources are maximized and protected, and certify annually that management controls are adequate.

Another action to increase senior-level attention to embassy management included the addition of a management control segment to the training course for new Deputy Chiefs of Mission. This segment defines

management controls, emphasizes using the Mission Program Plan, and encourages the use of the risk assessment questionnaire. In addition, the risk assessment questionnaire was revised to include questions covering the minimum controls necessary for facilities maintenance, contracting, and medical reimbursements.

These initiatives were inconsistently applied at the posts we visited. However, as discussed below, posts that employed sound management practices had the active involvement of the Deputy Chief of Mission serving as a Chief Operating Officer.

Some Embassies' Management Practices Have Improved Operations

Some embassies have implemented practices on their own to improve administrative operations. Practices, such as those we observed in Ankara, Tunis, and Dhaka, could be used by other embassies to strengthen management controls, reduce costs, foster accountability, and increase compliance with applicable regulations.

Embassies in Ankara, Tunis, and Dhaka introduced operational improvements to address and correct continuing deficiencies in the areas of property management, training, contract administration, and cashiering. For example, in Tunis and Ankara, setting performance targets for inventory control and accountability resulted in more efficient property utilization and reduced losses from theft. Cross-training programs for Foreign Service nationals within the budget and finance offices in Tunis and Ankara increased their supervisors' flexibility to fill staffing gaps and enhanced morale among their subordinates. In Tunis and Dhaka, the implementation of internal control checklists for contract administration ensured that their contracting and procurement operations were in compliance with regulations. All three posts have developed systems for tracking and collecting accounts receivables, which resulted in more accountability, cost savings, and reduced vulnerabilities to fraud, waste, and abuse. Table 1 summarizes the initiatives at these posts.

Table 1: Initiatives That Contributed to Improving Administrative Operations

Initiative	Administrative area	Impact	Embassy
Automated Travel Voucher Processing System	Budget and fiscal	Improved efficiency of embassy services. Reduced processing time from 31.5 to 3 days.	Tunis, Tunisia
Cross training	Budget and fiscal, and sections of general services	Increased skill level of Foreign Service nationals, provided flexibility for managers, and improved efficiency of operations.	Tunis, Tunisia, and Ankara, Turkey
Performance targets	Budget and fiscal	Enabled Foreign Service nationals to know expectations and time frames for their completion. Increased efficiency and effectiveness.	Ankara, Turkey, and Tunis, Tunisia
Voucher recertification checklist	Budget and fiscal	Ensured compliance with regulations and helped reduce vulnerability to fraud, waste, and abuse.	Tunis, Tunisia
Unused Ticket Refund System ^a	Budget and fiscal	Ensured compliance with regulations and protected funds from waste. Resulted in \$13,000 savings in fiscal year 1994.	Tunis, Tunisia
In-house systems to track accounts receivable and other collections	Budget and fiscal	Ensured compliance with regulations and helped ensure timely collection of U.S. funds.	Tunis, Tunisia; Ankara, Turkey; and Dhaka, Bangladesh
Standard Operating Procedures Manuals	Budget and fiscal, and general services	Ensured compliance with regulations and established consistent procedures.	Dhaka, Bangladesh; Tunis, Tunisia; and Ankara, Turkey
Checklist for guidance on solicitation of contract bids	Contracting and procurement	Ensured compliance with regulations.	Tunis, Tunisia
Review of local utilities' charges for accuracy	General service officers	Allowed posts to operate cost effectively and reduce vulnerability of funds to fraud and waste. Saved \$116,000 in 1994. Additional savings were expected in 1995.	Dhaka, Bangladesh

^aAll posts are required by regulations to recoup funds on unused tickets. However, if posts do not have systems in place to track these types of accounts receivable, U.S. funds may not be adequately safeguarded against waste.

We discussed these practices with State Department officials in Washington, D.C., and determined that the initiatives could be used to improve operations at other posts, as applicable. They said that many of these practices could be introduced by the post planning processes and would greatly assist in their efforts to achieve real management reform of embassy operations. As budget uncertainties continue, implementation of these practices could provide overseas managers with more flexibility in managing their operations.

These posts had two other practices in common—the direct involvement of senior officials in post’s operations and the use of existing management tools to address deficiencies. These practices could also be replicated at other embassies.

Direct Involvement of Senior Officials

At embassies in Ankara, Tunis, and Dhaka, the Deputy Chiefs of Mission and sometimes the Chiefs of Mission are directly involved in embassy administration. The commitment of these officials to management was demonstrated through regularly scheduled meetings to discuss management issues, an open-door policy for the resolution of problems, and daily reviews of management operations.

The Deputy Chiefs of Mission served as the Chief Operating Officer at all three missions. These officials emphasize a zero-tolerance policy for inadequate management controls. They use management reviews and performance evaluations to hold section managers accountable for adequate internal controls and corrections of management deficiencies. In addition, the Deputy Chiefs of Mission regularly reinforce the importance of internal controls to administrative staff through counseling, according to embassy officials.

Embassy managers stressed the importance of senior management involvement in the management of operations and said senior officials set the tone for how well their administrative staff will manage embassy operations. Reports by State’s OIG have documented the critical link between the emphasis placed on internal controls by senior officials and the attention given to the management issues throughout the embassy.

Use of Existing Management Tools to Address Weaknesses

Senior managers at embassies in Ankara, Tunis, and Dhaka have successfully used existing, agencywide reporting requirements to address and correct management deficiencies. These include the Mission Program Plan, risk assessment questionnaire, and certification of internal controls.

Mission Program Plan

In 1990, the mission program planning process began. The Mission Program Plan is a long-range planning document that is updated annually to address the objectives of the mission and the resources needed to fulfill those objectives. It addresses all areas of embassy operations, including administrative operations. According to State guidance, the plan should include milestones for critical progress points and completion of action. The plan also has a performance and evaluation component.

The Mission Program Plans for the embassies in Ankara, Dhaka, and Tunis all incorporated detailed statements of objectives and responsibilities within the administrative section, which helped management focus attention on identifying problems and developing corrective action plans. For example, in Ankara the Mission Program Plan establishes time frames for the correction of management deficiencies, and identifies offices that are accountable for the corrections. According to officials in the Office of Management and Planning, State is encouraging the posts to use this mechanism to address management weaknesses and increase accountability by tying resource allocations to objectives of the plan (see app.I). While there are few posts that currently do this, our review indicates that using the Mission Program Plan to address deficiencies would be consistent with our recommendation that each post establish a proactive management improvement plan.

Risk Assessment Questionnaire

The risk assessment questionnaire identifies internal control weaknesses. State's policy requires posts to complete these questionnaires just before an inspection by the OIG, which usually occurs every 4 to 5 years. However, to help ensure adequate internal controls at the posts, State sent a February 1994 cable to all overseas posts that encouraged them to use the risk assessment questionnaire as frequently as local conditions warrant.

The embassies at Ankara, Dhaka, and Tunis have used the risk assessment questionnaire at least once a year to assess administrative weaknesses. The questionnaires have provided input for the planning process and served as a foundation for the annual certification of internal controls. These posts also used the questionnaire to link management controls to goals and objectives in the Mission Program Plan. For example, in Ankara, administrative officers developed detailed corrective action plans, including milestones, based on the results of their questionnaires.

Officials at these posts agreed that the questionnaire was an excellent management tool for identifying potential problems and that it can be completed with minimal effort. Officials in Washington asserted that all embassies should use the questionnaire on a more frequent basis. Officials in the Office of Finance and Management Policy said they encourage posts to use the questionnaire as a self-assessment management tool and find that posts that are concerned about management use the questionnaire annually, and posts less concerned about management only use the questionnaires prior to an inspection.

Certification of Internal Controls

The Chiefs of Mission are required by the Secretary of State to certify the adequacy of management controls each year. These certifications are to aid the Secretary of State in preparing the annual report required by the Federal Managers' Financial Integrity Act. The mission chiefs at the embassies in Ankara, Dhaka, and Tunis said they did not sign their certifications until they were sure that spot checks had been conducted to ensure the veracity of the certification. Officials in the other four posts we visited did not use the questionnaire to validate their certifications and their Chiefs of Mission relied solely on their administrative officer's opinion without conducting spot checks in certifying the posts' internal controls.

Recommendations

We recommend that the Secretary of State expand the operational improvements discussed in this report to a minimum of 50 other embassies on a test basis to help improve operations. If the test demonstrates the applicability of these improvements in a variety of posts, the practices should be further expanded until the maximum benefits are achieved.

Agency Comments and Our Evaluation

In commenting on a draft of this report, State Department officials stated that improving the management of its overseas operations was a high priority and that it would like to see the overseas posts use the practices that we identified as a positive management tool in ways that make sense for their particular circumstances and environments. State believes it needs to provide overseas posts with information on the initiatives of other posts, but it does not want to make the implementation of such practices a requirement. We do not believe that relying on voluntary adoption of these practices will produce the maximum benefits. The management deficiencies have existed for decades. However, because our findings were focused on only a few overseas posts, and State points out that overseas posts operate in different environments, we have modified our position from one that would require all posts to immediately implement the recommended improvements. We believe that if State is serious about trying to improve management of its overseas operations, then out of its more than 260 posts, it should be willing to pilot test the recommended actions at a minimum of 50 posts. If the pilot demonstrates the applicability of these improvements in a variety of posts, then State should continue to expand the use of these practices until the maximum number of posts benefit.

The Department of State's comments are presented in their entirety in appendix II along with our evaluation of them.

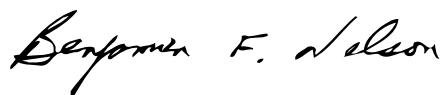
Scope and Methodology

We interviewed State Department officials in Washington, D.C., who are responsible for embassy management oversight, to assess actions taken by State to improve the management of its overseas operations. We analyzed documentation related to embassy management improvements provided by functional managers and documented continuing management deficiencies from State OIG reports. (See app. III for a listing of related GAO and OIG reports.) In addition, we observed good embassy practices that could be used at other embassies. We selected these embassies based on (1) State OIG reports that identified good management practices at these posts and (2) the recommendations of post management officers responsible for embassy oversight. Overall, we reviewed operations at U.S. embassies in Venezuela, Tunisia, France, Portugal, Turkey, Philippines, and Bangladesh.

We performed our work from April 1994 to November 1995 in accordance with generally accepted government auditing standards.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix VI.

Sincerely yours,



Benjamin F. Nelson, Director
International Relations and Trade Issues

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Abbreviations

MPP	Mission Program Plans
NEPA	non-expandable property application
OIG	Office of the Inspector General

Linking Resources With State's Planning Process

State's primary means for linking foreign policy objectives and resources is the program planning process. In a November 1994 cable to all diplomatic and consular posts, the Under Secretary for Management informed the Chiefs of Mission that the link between resources and the mission program planning process was missing; consequently, budget reductions were enacted without thought to the future. The Under Secretary instructed mission management to develop a mission program plan that reflects mission priorities in both policy and management areas, actively involves all mission elements in its preparation, and serves as an instrument for continuous management improvement.

A More Effective Post Planning Process Would Help Institutionalize Management Improvement Efforts

State guidance to embassies for preparing the Mission Program Plans (MPP) for fiscal years 1995 through 1999 attempts to build on previous planning efforts and encourages posts to embrace MPP as a management creed of continuous improvement to support the Department's goal of building an efficient organization. This guidance directs embassies to use MPP as a tool to measure progress in achieving mission objectives, including examining innovative and lower cost ways to deliver administrative support. More importantly, State guidance instructs embassy managers to document how they will address material weakness in administrative areas when reducing administrative staff.

The structure of MPP supports a proactive management improvement effort. MPP has an administrative section that reviews financial management, cashiering, procurement, supplies, and warehousing. In addition, MPP has a status of progress section that tracks progress on administrative and other mission goals.

The Under Secretary for Management's guidance encourages senior managers to personally assist in the preparation and implementation of the plan by (1) objectively measuring or validating results and adjusting performance through a regular, systematic process; (2) providing personal leadership and involvement; and (3) holding others accountable on a regular basis. Senior officials are also directed to establish incentives to help institutionalize the use of MPPs. To fully achieve these goals, recent headquarters actions have attempted to link embassy staff work requirements to mission program plans. One of these actions was to require that objectives of MPP be reflected in work requirements statements so that performance can be linked to the successful achievement of MPP goals. Assistant secretaries are also instructed to evaluate the performance of Chiefs of Missions based on the successful

achievement of MPP objectives and their diligence in evaluating subordinates' performance against MPP objectives.

Bureau Procedures Designed to Improve Planning Efforts

To assist posts in using MPP to manage resources, the Under Secretary for Management issued 5-year staffing and funding levels for each geographic bureau. Bureaus use MPPs to review current resource deployments against policy priorities and determine the optimal match of resources and post needs. Both the Bureau of Diplomatic Security and the Bureau of International Organization Affairs have established exemplary bureau planning processes.

The Bureau of Diplomatic Security initiated an operational planning system in fiscal year 1987 to establish specific goals and monitor progress in security programs receiving funds from the Supplementary Diplomatic Security budget. This effort has become known as the Milestone Program. The program, which is administrated by the Bureau's Office of Policy, Planning, and Budget, expanded in fiscal year 1988 to include all bureau programs. The Milestone Program applies management-by-objectives criteria to the security programs managed by the Bureau. Elements of the program include:

- meeting monthly to discuss program performance, problems, and modifications and revise milestones for the next cycle;
- tracking activities to specific program objectives;
- establishing performance measurements to keep programs in compliance;
- tying financial information to program milestones and continually analyzing ways to contain costs and streamline activities; and
- fully integrating the Bureau's planning process with its milestones.

Likewise, the Bureau of International Organization Affairs' Internal Controls Plan uses a management-by-objective process that links foreign policy and management priorities to resource allocations. According to Bureau officials, this plan allows the Bureau to identify internal control weaknesses and better allocate resources. Program planning officials believe elements of these programs can significantly improve planning efforts at other bureaus.

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

Chief Financial Officer

Washington, D.C. 20520-7427

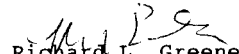
November 8, 1995

Dear Mr. Hinton:

We appreciate the opportunity to provide Department of State comments on your draft report, "STATE DEPARTMENT: Actions Needed to Improve Embassy Management," GAO Job Code 711073. Enclosed are some editorial refinements followed by an overall observation.

If you have any questions concerning this response, please call Mr. Vincent Mayer, M/P, at (202) 647-0768.

Sincerely,


Richard L. Greene

Enclosure:
As stated.

CC:
GAO - Ms. Glod
State/M/P - Mr. Mayer

Mr. Henry L. Hinton, Jr.,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Appendix II
Comments From the Department of State

GAO Draft Report: "State Department: Actions Needed
to Improve Embassy Management," GAO Job Code 711073

Suggested Revisions to and Comments on Draft
Text (followed by overall observations:

Page 5 "Controls Over Personal Property"

The Department submits the following comments on this section and specifically lines 9 through 20 for clarification and update:

o Clarify the possible misinterpretation that 14 of 20 posts visited by Property Management Staff during FY-1994 either failed to provide documentation that the physical inventories were conducted or falsely certified the inventory certification. No instances of false certification were identified at the 20 posts visited by the Property Management Staff during FY-1994; and

See comment 1.

o Update the following information. Of the 14 (of 260) overseas posts which had not submitted the required inventory certification at the time of GAO's inquiry, 12 posts subsequently submitted the certification at a later date. Further, of the remaining two posts, Embassy Algiers was not required to submit the report for FY-1994, due to their security situation.

See comment 1.

In the same paragraph, the statement that "some posts falsified inventory certifications," cannot be confirmed for FY-1994. We can only surmise that a reference was made with regard to false certifications that were identified from submissions prior to FY-1994.

See comment 1.

The Property Management Branch staff properly reported each post that failed to the proper management officials submit an inventory certification for FY-1994, as well as instances of false certification from previous years.

We have the following additional comments on this section and specifically the last paragraph:

The GAO is incorrect in stating that the Department of State does not have a "zero-tolerance" policy. The Department has a definite zero tolerance for abuse of the public's trust. Department regulations require that all cases involving lost,

See comment 2.

Appendix II
Comments From the Department of State

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damaged, or stolen personal property be documented in a Report of Survey and that a copy of all Survey Reports involving missing property, acted on by the Post Survey Board, be forwarded to the Agency Property Management Office. The Department believes, however, that it is simply not in the taxpayers interest to expend valuable resources to balance property inventory to the penny. Best case commercial business practices acknowledge that a small inventory reconciliation is inherent in any operation. This is a rational decision because it can cost more to pursue shortages below the 1% level than they are worth. Thus the Department has both a zero tolerance for fraudulent behavior and a practical realization that the taxpayer can, in certain limited and specified circumstances, best be served by not expending a greater sum in inventory controls than that at which the discrepancy is valued.

See comment 2.

Page 6, lines 4 through 7:

While it is true that the Department has not, to date, determined how NEPA will function with the Integrated Financial Management System, we advise that a new release of NEPA (3.00) is currently being Beta tested by the Department and estimated for release in January 1996 to all posts that utilize the program (both VS and PC versions). Some of the release's major features include:

See comment 2.

- LAN capability, with appropriate file-sharing and file-locking capabilities, and

- The addition of PC CUE to the PC version, with its transaction access levels, to strengthen internal controls on PC Security.

Page 2, paragraph 2 addressing the statement: "Congress has been concerned about State's reluctance to address management and internal control problems that have historically reduced the effectiveness of its operations."

While the Department would agree with a statement that the Department can continue to improve its management at overseas posts, we believe that Department officials and responsible officers at overseas posts have made significant progress to strengthen internal controls over personal property.

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Page 10 "Controls Over Cashier Functions"

See comment 2.

The GAO speaks of "about one-third of embassies' cashiering operations currently being reviewed each year." This is misleading in that the advance of each embassy's cashier must be reconciled and verified monthly by his/her American supervisor at post. The reconciliation must be submitted to the USDO to whom the cashier is accountable. The USDO staff reviews each reconciliation and takes action to deal with posts regarding problem areas (in-transit items, exceeding advance levels, etc). Nevertheless, the Financial Service Centers (FSCs), formerly known as RAMCs, would like to be able to send a cashier monitoring team to each post once a year. These teams are better equipped to review cashier operations than most American supervisors. Budgetary restrictions have prevented the FSCs from sending teams annually to more than approximately one-third of the posts they service. The FSCs have been able to provide three regional training workshops on the automated cashier system.

Post Support Program: The Department has initiated a post support program under which an expert from Washington visits selected posts to review financial operations there, to effect improvements, clarify regulations and guidelines, serve as intermediary in problems with the servicing FSC (RAMC), assist post management and to identify training requirements.

Page 11 "Medical Insurance Reimbursements"

The Department requests that the last sentence in this section be replaced with new language to correct an inaccuracy in the text.

See comment 2.

The new sentence is as follows: A/DGP/MED does not require Foreign Service Officers to have private medical insurance before they are assigned overseas. M/DGP/MED has stopped paying the claims for hospitalizations of those without insurance. These Foreign Service Officers may be advanced money to gain admission to the hospital, but they must make prompt reimbursement.

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Pages 12-15 "Some Embassies' Management Practices have Improved Operations" - Department comments:

Automated Travel Voucher Processing System: Although some posts, like Tunis, have developed their own individual automated travel voucher processing systems, the Department is proceeding with the implementation of an off-the-shelf software package for use at all posts overseas. In this way, there will be a single uniform process for travel vouchers. An automated system is already in place for processing travel vouchers in the Department. Additional time is required to develop a system for the considerably more complicated travel vouchers processed overseas.

Cross Training: Tunis and Ankara are not, by far, the only posts which have implemented cross-training of FSNs. This is a common practice at posts, but many have not announced a formal program under the central direction of the Counselor for Administration. This practice makes such good common sense that it has always been done at posts to accommodate for absences and personnel turnover. This program, however, could be formalized and expanded by central direction from the Department.

Performance Measures: Measures to enable all employees, not FSNs alone, to know both time and quality expectations with respect to their work is a common goal. This again is something practiced wherever there are good supervisors and is not unique to the Embassies in Ankara and Tunis.

Voucher Recertification Checklist: The Department assumes this description refers to an in-house review/audit of paid vouchers, which it considers a highly desirable procedure that the Department may well introduce as a world-wide practice.

See comment 3.

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Unused Ticket Refund System: The regulations require that the office issuing the tickets recover amounts paid for any of them that are unused. Under these regulations, a receivable would be established for unused tickets and collection action initiated promptly. Posts will be reminded of the procedures applicable in this situation and proper compliance with established regulations will undoubtedly result in improved savings for other posts, just as it did for Tunis.

See comment 4.

In-house Systems to Track Accounts Receivable and Other Collections: Again, this is not a practice that is unique to Ankara, Tunis and Dhaka. Most posts have systems to track receivables and collections, though perhaps not automated. Some posts may not followup as often or as promptly as they should. Some might need assistance in properly identifying those telephone calls that are private and billing for them. The Department plans to develop standardized procedures for recording and processing receivables both domestically and overseas. Since all systems in use should be consistent, our procedure is first to finish the Department's system for domestic receivables, and then modify and develop it further for the use of posts overseas.

See comment 5.

Standardized Operating Procedures Manuals: While such manuals would be highly desirable, this is not something that the Department could do centrally for all posts. Each post, by necessity, would have unique standard operating procedures. The Department, however, seeks to provide useful guidelines which, together with the Foreign Affairs Manual, the Served Post Users Manual, and other regulations will respond to the needs of posts.

See comment 6.

Review of Local Utilities' Charges for Accuracy: Under current procedures, the GSO is tasked to confirm kilowatt usage, at least on the basis of statistical sampling, before sending utility bills to the B&F office for payment. To permit payment, the utility bills are supposed to be signed by a GSO verifying the fact that the services billed have been received in the quantity billed. This is standard procedure and not an innovation.

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Pages 18-19 "Certification of Internal Controls"

See comment 7.

The Department agrees that the risk assessment questionnaire is an excellent management tool for identifying potential problems. However, we disagree with the recommendation that embassies be "required" to complete questionnaires each year before the annual certification process. We "encourage" posts to complete them not only at year-end but anytime there is a large turnover, a new DCM is assigned or as frequently as circumstances warrant, but not less frequently than every five years prior to an inspection by the Inspector General.

Further, if the Department "required" annual questionnaires the Bureau of Finance and Management (FMP) does not have the resources to score and evaluate 250 posts in a reasonable turn-around time.

Page 17 "Mission Program Plan"

The Department concurs with the GAO conclusions that the Mission Program Plan (MPP) is a key management tool for managing resources and addressing deficiencies. This is confirmed by the ongoing personal involvement of the Secretary and the Deputy Secretary in the MPP process. Further, this personal involvement, together with a streamlining of the process, has given added impetus to the importance and use of the MPP as the Department's basic management tool for linking foreign policy objectives with resources.

Overall observation:

See comment 8.

Improving management of our overseas operations is a high priority for the Department and for that reason we laud GAO's effort to identify "Best Practices" which can be used to improve operations at other embassies. We are concerned, however, that this positive initiative will result in recommendations to assign additional requirements on our overseas missions. We would like to see the GAO's best practices initiative used as a positive management tool by posts to improve operations in ways that make sense for their particular circumstances and environments. In this era of downsizing, restructuring, and diminishing resources, we believe that we need to provide missions with the best practices of their colleagues without adding the burden of another mandatory requirement.

The following are GAO's comments on the Department of State's letter dated November 8, 1995.

GAO's Comments

1. We have modified our report by stating that branch officials said that 14 of the 20 posts visited failed to provide documentation that physical inventories were conducted. We also footnoted that 12 of the posts subsequently submitted the required certification at a later date.
2. We have modified the report in line with the comment.
3. We agree that a single automated system for processing travel vouchers is needed. However, replication of individual post systems that work could be beneficial to other posts until State is able to implement a uniform system for vouchers processed overseas.
4. Standardized procedures for tracking accounts receivable and other collections have long been needed in State. However, we believe that until standard procedures are implemented, application of automated systems used at individual posts would prove useful.
5. We did not recommend that State centrally develop manuals for all posts. However, State's endorsement of standard operating procedures manuals for each post could encourage individual posts to develop manuals consistent with their individual needs and conditions.
6. Although State described this practice as a standard procedure, our review indicated that only a few posts were actually performing this internal control procedure.
7. Completion of the risk assessment questionnaire annually by the posts would optimize the use of this document, which has been endorsed by the State Department as an excellent management tool. We do not believe that it is necessary for Washington to score and evaluate the questionnaires on an annual basis. Instead, the posts could use and score their own questionnaires for self-assessment purposes during the annual certification process.
8. The Secretary of State's endorsement of the use of best management practices throughout State's overseas system, where applicable, would help demonstrate a commitment from the top to improve management at the overseas posts. It would also encourage the use of best practices, such

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as automated travel voucher and accounts receivable tracking system, on a greater scale until agencywide systems are available.

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Appendix III
Major Contributors to This Report

Related GAO and OIG Products

GAO Products

Internal Controls: State's Controls Over Personal Property Management Are Inadequate (GAO/NSIAD-87-156, June 10, 1987).

Embassy Contracting: State Department Efforts to Terminate Employee Association Contracts (GAO/NSIAD-88-85, Feb. 16, 1988).

Overseas Support: Current U.S. Administrative Support System Is Too Complicated (GAO/NSIAD-88-84, Mar. 25, 1988).

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

State Department: Need to Ensure Recovery of Overseas Medical Expenses (GAO/NSIAD-92-277, Aug. 7, 1992).

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

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Report of Inspection, Embassy Tunis, Tunisia (ISP/I-94-20, Mar. 1994).

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