



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

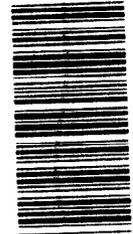
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DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

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OCTOBER 10, 1979

B-183363

Mr. Stuart E. Branch
Acting Assistant Secretary for
Administration
Department of State



Dear Mr. Branch:

This report contains the results of our survey of accounting controls over revenue and expenditure transactions at seven embassies and two consulates in Europe. In summary, the survey identified weaknesses in internal controls over cash collections, accounts receivable, imprest funds, disbursements, and obligations, as well as weaknesses in the use of foreign air carriers. These weaknesses are discussed in enclosure I.

We discussed our survey results with responsible accounting station and headquarters officials, and in most instances, they initiated or promised corrective action. We are informing you of the weaknesses to help you in discharging your responsibilities under 31 U.S.C. 66a, which requires agency heads to provide effective control over, and accountability for, all funds for which they are responsible.

We are not making any formal recommendations because accounting station officials assured us that they will take corrective actions. We suggest that you arrange to follow up on the adequacy of the corrections.

Questionnaires designed to identify potential internal control problems were the basis of our interviews and discussions with responsible accounting station officials. When responses indicated potential weaknesses, we tested selected transactions to determine if the weaknesses actually existed. But we only verified the existence of the weaknesses and did not attempt to establish their extent or the precise corrective actions needed.

During the application of this questionnaire, we observed that local procurements were not adequately controlled. Problems were inadequate competition, insufficient separation of employee duties, and improper verification of goods and

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Budget controllability
Embassies
Accounting systems
Budget receipts
Budget outlays
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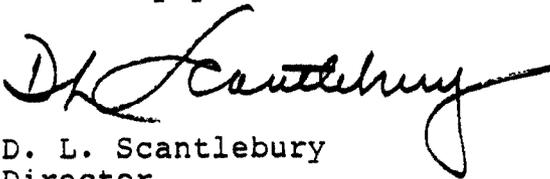
services received. Details of procurement weaknesses are in enclosure II, and locations of the weaknesses are in enclosure III.

We would appreciate being informed in writing of the actions taken or planned by you to correct the weaknesses discussed in this report and its enclosures.

We are sending a copy of this report to the Inspector General, Department of State.

We appreciate the courtesies and cooperation extended to us at each location visited.

Sincerely yours,

Donald

D. L. Scantlebury
Director

Enclosures - 3

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT
NINE DEPARTMENT OF STATE ACCOUNTING STATIONS IN EUROPE

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a) requires the head of each executive agency to establish and maintain a system of accounting and internal control over, and accountability for, all the agency's assets. Our survey of internal controls at accounting stations at seven embassies and two consulates in Europe, disclosed that:

- Collections were inadequately controlled at many accounting stations; employee duties were insufficiently separated, prenumbered receipts were not controlled, and collections were not always deposited promptly.
- Accounts receivable were not collected promptly. The receivables were for outstanding travel advances, unused transportation tickets, medical insurance reimbursements, and amounts due for employees' personal telephone calls.
- Imprest funds at most accounting stations were not properly handled and safeguarded; they were disbursed in excess of limitations, they exceeded authorized balances, they were not counted on an unannounced basis, and the adequacy of fund replenishment was not periodically reviewed.
- Obligations were not properly recorded at most accounting stations. Many were recorded after the obligations were incurred.
- Use of foreign airlines and purchase of airline tickets were not controlled to comply with all legal requirements.
- Discounts lost or taken were not recorded as required by the GAO Policy and Procedures Manual for Guidance of Federal Agencies (GAO Manual).
- Blank checks were not properly safeguarded.

These internal control weaknesses, most of which existed at more than one accounting station, are discussed below. The locations of the weaknesses are identified in enclosure III.

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NEED TO IMPROVE CONTROL OVER COLLECTIONS

✓ The GAO Manual (7 GAO 11.1 and 12.2) states that agencies shall place cash collections under appropriate accounting and physical control upon receipt and shall deposit these collections daily. The nine activities visited collected an average of \$1.2 million each month for such items as personal phone calls, consular fees, loan repayment, surplus property sales, property rental, and return of unused airline tickets. While controls over collections were generally adequate, we identified weaknesses in the separation of duties, the control of receipt documents, and timely deposit of collections.

Lack of separation of duties

One of the basic principles of internal control is dividing the critical functions between two or more persons, a technique often referred to as separation of duties. Errors are more likely to be detected when duties are separated, and fraud is less likely to occur when its success depends upon collusion. The GAO Manual (7 GAO 11.2) provides that persons handling cash receipts not participate in accounting or operating functions which would permit concealing the misuse of those cash receipts in the accounting records.

4 FAM [4] 283.4 ✓
Likewise, the State Department's Foreign Affairs Manual (4 FAM 283.4) states that employees responsible for receiving money should not maintain accounts receivable records and that collections should be directed to a cashier or a cashier's authorized designee. We found the following violations of these regulations:

- Employees may make personal calls through the embassy or consulate on a reimbursable basis. At six locations, cashiers were responsible for not only collecting and depositing the reimbursements, but also for maintaining accounts receivable records.
- At three locations, refunds from unused airline tickets were received by employees who also maintained accounts receivable records.
- At the Embassies in Rome and Athens, the general services office controlled all aspects of surplus property sales, including collections, and the only time another Embassy section knew of the collections was when they were deposited with the cashier.

--In Rome, a secretary received collections of about \$1,000 a month through the mail. These collections should have gone to the cashier.

We believe these examples show that better controls are needed to insure that all collections are properly accounted for. Further, the lack of separation of duties increases the potential for misappropriation and mismanagement of funds. Embassy officials generally agreed with our observations and said they would act to ensure that the duties are separated and that cashiers receive all collections directly.

Prenumbered receipts not used or not adequately controlled or safeguarded

Prenumbered receipts can help insure that all collections are promptly placed under accounting control. For this internal control function to be effective, however, the forms must be properly safeguarded and accounted for.

Individuals receiving collections at four locations had access to the unused receipts. In addition, at two locations no one regularly verified that all the sequentially-issued receipts were accounted for. Embassy officials generally agreed that unissued, prenumbered cash receipts should be tightly controlled. They promised to act to ensure that proper controls are instituted.

Deposits not made promptly

The GAO Manual (7 GAO 12.2) stipulates that collections be deposited daily if possible. Prompt deposits lessen the chance of loss or misuse of funds. The Treasury Department provides more specifics on deposit frequency in its Fiscal Requirements Manual for Guidance of Departments and Agencies (I TFRM 6-8000). The manual states that collections of \$1,000 or more should be deposited daily, but that smaller collections may be accumulated and deposited when they total \$1,000. Still, deposits must be made at least weekly regardless of the amount accumulated. (State Department regulations allow for less frequent deposits if approved by the U.S. disbursing officer but require that all collections go to the embassy cashier as soon as possible.) As the following examples show, timely deposits were not made at five locations:

--Subcashiers in London and Madrid held visa and passport application fees until the applications were approved--up to 2 months. The subcashiers did not record these collections on prenumbered receipt forms.

- The general services officer in Athens held surplus property proceeds until the sales were completed--up to 3 weeks. During our visit, the officer had collections of about \$12,500 in his safe.
- Elsewhere, a subcashier received collections for Government property damage but only forwarded them to the cashier about every 3 months.
- The U.S. Embassy in Bonn receives about \$50,000 a month in rental fees for government property. The rentals are managed by a quasi-governmental German agency which was up to 5 months late depositing the rent in U.S. Government accounts. Furthermore, the Embassy did not routinely reconcile rents due with the collections.

These matters were brought to the attention of embassy officials and they said they would take corrective action to assure prompt deposits.

NEED FOR MORE AGGRESSIVE ACTIONS
TO COLLECT ACCOUNTS RECEIVABLE

✓ The GAO Manual (4 GAO 69.1) requires timely, forceful, and persistent action to collect all claims of the United States. The Federal Claims Collections Standards require three written demands to be made at 30-day intervals, collection by offset where feasible, personal interviews with debtors, exploration of compromise, and other persistent actions until claims are either paid, determined to be uncollectible, or sent to GAO for settlement. As shown by the following examples, we found instances where these procedures were not followed.

- Regulations require that a traveler submit a voucher and liquidate any outstanding advance promptly upon completion of travel. Embassies in London and Athens did not insist on this and thus had advances of \$8,000 and \$1,500, respectively, which had been outstanding for up to 6 months.
- The Embassy in London had about \$6,000 in receivables due from transportation companies for unused tickets. Although these receivables were outstanding for over 3 months, the Embassy requested payments only initially and did not take followup action.
- The State Department pays medical expenses for its employees and their dependents, so any reimbursements

from the employees' medical insurance must be paid to the Government. The Embassy in Spain paid over \$3,000 in medical expenses, some of which were covered by insurance, but had not been reimbursed for payments made over 2 years ago. The only attempt to recover these payments was a notice to the employees that any insurance reimbursement was to be turned over to the Government.

--The Embassy at Paris had outstanding receivables of over \$11,500 for nonbusiness phone services provided its employees. Some of these receivables were as old as 9 months and, in one case, an individual owed over \$1,700. A State Department inspection report in April 1978 stated the same finding and recommended that the Embassy collect for personal phone calls within 5 working days. Embassy officials agreed, but by the time of our review had not ensured that the collection procedure was enforced.

Embassy officials with whom we discussed these matters generally promised to take corrective action.

NEED TO IMPROVE CONTROL OF IMPREST FUNDS

Embassies and consulates are authorized cashier operations to collect funds, make limited cash disbursements, and provide currency exchange to authorized individuals.

Unless well controlled, imprest funds provide opportunities for misuse, loss, and theft of money. Accounting and physical controls to minimize these opportunities are specified in the GAO Manual (7 GAO 27.6), in the Treasury Manual of Procedures and Instructions for Cashiers, and in the State Department's Foreign Affairs Manual (4 FAM 300). At the nine locations reviewed, the cashiers had authorized advances totaling \$1,595,000. These cashiers, when authorized, can make advances to subcashiers when cashier-type operations are necessary elsewhere.

Our review disclosed that (1) cashiers were routinely exceeding the limit on cash disbursements, (2) cashiers' accountability 1/ exceeded their authorized advance, (3)

1/A cashier's accountability includes cash on hand, paid vouchers, advances to subcashiers, and deposit slips, as well as accommodation exchange receipts in transit to the regional finance center.

funds were not always safeguarded against loss or unauthorized access, (4) required unannounced cash counts were not performed, and (5) the adequacy and frequency of funds replenishment were not being reviewed.

Cash disbursements in excess of limit

State Department regulations (4 FAM 394.2-1) provide that single cash disbursements not exceed \$250, except for emergencies and utility payments in which cases the limits are \$1,500 and \$3,000, respectively. Except for the Consulate in Munich, cashiers at the locations visited made disbursements in excess of the limits. These disbursements included payments for official residence expenses, contractors, and temporary living allowances. For example:

- Six embassies paid monthly official residence expenses, including salaries, in cash. At one embassy, disbursements to four individuals amounted to about \$15,000 a month.
- An embassy paid a \$1,000 hotel bill in cash.
- An embassy paid temporary lodging allowances, training expenses, and trash removal fees--totaling about \$2,300--in cash. In each instance, the cash payment exceeded the limit.

Officials were aware of the limit on cash disbursements but exceeded it because they considered it unrealistically low. One embassy requested State Department approval for routine disbursements for official residence expenses above the limit. The Department denied the request and told the Embassy to request checks to pay such expenses. While cash payments reduce the amount of paperwork and expedite the payment process, such payments increase cash-on-hand requirements and, therefore, increase the potential for fund loss and mismanagement. Embassy officials said they would review their cash payment policies with a view toward reducing the type and amount of such payments.

Cashiers' accountability for funds exceeds their authorized advance

The GAO Manual, Treasury regulations, and State Department regulations provide that cash advances to cashiers be limited to the smallest amount necessary, and that such amounts not be exceeded. As shown below, at the Embassies in Athens, Paris, and London, cash advances exceeded authorized levels from time to time.

<u>Embassy</u>	<u>Authorized advance</u>	<u>Period reviewed</u>	<u>Times accountability exceeded authorization</u>	<u>Range of accountability</u>
Athens	\$400,000	Aug. 28, 1978 to Dec. 29, 1978	4	\$402,003 to \$555,889
London	\$100,000	June 27, 1978 to Jan. 26, 1979	7	\$113,430 to \$192,854
Paris	\$ 80,000	Aug. 16, 1978 to Feb. 27, 1979	4	\$ 89,782 to \$159,742

Although the regional finance center in Paris is responsible for monitoring monthly accountability reports so that a cashier's accountability does not exceed the authorization, center officials said they lack the personnel to do this thoroughly. Further, those officials believe they lack the authority to withhold or reduce a cashier's request for replenishment funds even when the cashier's accountability exceeds the authorization. They added that doing so could disrupt a post's operations.

Embassy officials agreed to monitor the accountability reports more closely to reduce the instances of accountability exceeding the authorized advance.

Funds not always properly safeguarded

An important aspect of effective internal control is the physical safeguarding of funds. We found the following deficiencies in that area:

- At six locations, safe combinations had not been changed annually as required. In one case, the combination had not been changed in 5 years.
- At one location, about \$18,000 was stored in a key-lock file cabinet although regulations require that funds be stored in a combination safe.
- At eight locations, funds are advanced to alternate subcashiers contrary to State Department regulations which provide that, to pinpoint responsibility, advances to subcashiers cannot be transferred.
- At one location, the door to the cashier's cage was unlocked, allowing anyone to enter.

--At one location, a cashier was robbed of over \$50,000 when returning from the bank. Embassy officials did not fully implement the added security measures recommended by the official who investigated the theft. The recommendations included obtaining underground parking at the bank to reduce the cashier's public visibility. At the time of our visit--about 1-1/2 months after the theft--underground parking had not been obtained. In addition to the security measures recommended by the investigating official, the Embassy should consider arranging to conduct banking in a more secure area than the main bank lobby.

--At another location, amounts up to \$30,000 are transported to hotels or the airport to provide visiting VIP delegations with exchange services and per diem advances. Personnel transporting the funds and providing cashier services are not given security services.

We apprised Embassy officials of these matters and they corrected or promised to correct them.

Unannounced cash counts
are not being performed

State Department regulations require the cashier's immediate supervisor to verify the cashier's funds monthly without announcement. In the case of subcashiers, unannounced cash counts are required monthly for those with an advance of over \$1,000 and quarterly for those with an advance of less than \$1,000. The purpose of a cash count is to ensure that the total of cash on hand and paid voucher receipts agrees with the authorized advance.

At three locations, the cash counts were not taken without announcement and at one of the three locations, a cash count was not being taken monthly. No subcashier activity performed all cash counts at the required frequency.

We also found that at six locations, little attempt was made to verify the cash on hand, collections, and paid voucher receipts with the accountability records or support documentation. In our opinion, unless such verification is performed, there is no assurance that funds are properly controlled and accounted for. Embassy officials agreed to take action to ensure that unannounced cash counts and reconciliations occur as required.

Subcashier advances not periodically reviewed

The GAO Manual (7 GAO 27.4) states that "an imprest fund should be limited to the smallest amount commensurate with the authorized purpose of the fund." No location reviewed all its subcashier operations to determine if cash advances exceeded cash requirements. We believe advances to certain subcashiers were excessive or unnecessary as shown below.

--A subcashier with an advance of about \$1,800 advanced \$360 to two other subcashiers contrary to State Department regulations (4 FAM 398.2-1).

--A subcashier, with an authorized advance of about \$1,950, was located across the hall from the Embassy cashier and could not support the need for this fund.

--A subcashier, with an authorized advance of about \$1,800, had a turnover rate of once every 6 weeks.

--A subcashier, with an advance of about \$5,000, had a turnover rate of six times a year.

Embassy officials agreed that there was a need for closer monitoring of cash requirements. They also agreed to review the situation and reduce outstanding advances where appropriate.

NEED TO IMPROVE CONTROLS OVER OBLIGATIONS

The GAO Manual (7 GAO 17.1) requires agencies to promptly record all obligations or charges against applicable appropriations in a manner which will meet requirements for fund control, provide essential management information, and facilitate preparation of statements and required reports. Following these requirements should preclude overobligation of available funds as well as potential Anti-Deficiency Act violations. In this regard, fund availability should be ascertained before committing the Government to an obligation. The Embassies in Rome and Bonn were generally following the regulations. However, as shown in the following table, the other embassies frequently incurred obligations before funds were certified as available for the intended purchases.

<u>Embassy</u>	<u>Obligation documents reviewed</u>	<u>Funds certified available after obligation incurred</u>
Athens	41	11
London	49	10
Madrid	43	15
Paris	163	38
Vienna	(a)	(a)

a/During our review, we noted several instances where the availability of funds was certified after the obligation was incurred. Embassy personnel said this was a recurring problem and estimated that it occurs in about 20 percent of the cases.

While we found no instances where this practice resulted in an embassy being overobligated at fiscal yearend, such practices reduce management's awareness of unobligated funds and indicate poor fiscal management and control. Embassy officials promised to further review these matters and take appropriate corrective action.

NEED TO BETTER CONTROL USE OF FOREIGN AIRLINES AND PURCHASE OF AIRLINE TICKETS

The Comptroller General's Guidelines for Implementation of Section 5 of the International Air Transportation Fair Competitive Practices Act of 1974 (49 U.S.C. 1517), commonly referred to as the Fly America Act, states:

"The Comptroller General will disallow any expenditures for commercial foreign air transportation on noncertificated air carriers unless there is attached to the appropriate voucher a certificate or memorandum adequately explaining why service by certificated air carrier is 'unavailable.'"

State Department regulations provide that no justification for flying a foreign-flag carrier is required if no American carrier operates between any two points on a traveler's itinerary. Three of the embassies require justification for use of a foreign-flag carrier only if an American carrier operates from the point that travel begins and the American carrier is not utilized. Under the Department's regulations the legitimate use of a foreign carrier could be disallowed

because the act does not distinguish when a certificate of nonavailability is not required. Thus, the embassies should require that a certificate of nonavailability of an American carrier be attached to the travel voucher whenever a foreign-flag carrier is used, and that embassy certifying officers should question the propriety of payment when such information is not provided. Embassy officials said they will review their certification procedures.

Department of State travel regulations also stipulate that all transportation services should be procured from branch offices or general agencies of U.S. carriers even if some, or all, of the transportation will be on a foreign-flag carrier. The regulations further provide that travel agencies not be used unless branch offices and general agents of U.S. carriers are not readily available. Part of the rationale for this is that the booking firm receives a commission.

We found that the Embassies in London and Paris routinely purchased tickets through foreign carriers, and the Embassies in Athens and Madrid routinely purchased tickets through travel agencies even though U.S. carrier agents were available in each city. Embassy officials said they would review their system of purchasing transportation services.

NEED TO IMPROVE CONTROLS OVER DISCOUNTS

✓ The GAO Manual (7 GAO 24.8) states that a system should be established to ensure that cash discounts are promptly taken and that lost discounts are explained in writing. Very few European companies, except in Germany and Austria, offer cash discounts for prompt payment. Embassy officials in Germany and Austria told us that discounts are taken as quickly as possible and that the amount of discounts lost was minimal. However, because no records of discounts taken or lost were kept, we could not determine whether the embassies were, in fact, following this practice. Officials at both embassies said that they would review their procedures for documenting lost discounts.

INADEQUATE CONTROL OF BLANK CHECKS AT THE REGIONAL FINANCE CENTER

✓ The GAO Manual (7 GAO 24.6) states that procedures should be implemented to insure proper custody of checks. The regional finance center in Paris, which performs disbursing and check preparation functions for over 87 posts, was storing blank checks in an unsecured file cabinet. This increases the chance for unauthorized use of these checks. Finance center personnel agreed to transfer these checks to a secure area.

GAO OBSERVATIONS ON PROCUREMENT PRACTICES AT
NINE DEPARTMENT OF STATE ACCOUNTING STATIONS IN EUROPE

All the embassies and consulates we reviewed procured goods and services on the local economy through contracts, purchase orders, and petty cash. Systems should be established to insure that goods and services are procured most economically, that the vendor's or contractor's performance is in accordance with the terms of contract or purchase order, and that the duties of personnel who purchase, receive, and account for goods and services are properly separated to reduce the potential for collusion and misuse of funds. We believe the procurement practices were generally adequate. However, we noted some weaknesses in (1) contract award procedures, (2) separation of duties, (3) procurement through purchase orders, and (4) verification of contractors' and vendors' performance.

NEED TO IMPROVE CONTRACT AWARD PROCEDURES ✓

At three locations, the procedures used to award contracts and subsequent contract modifications did not ensure that the Government obtained the best possible price for the goods or services received. For example:

- At one embassy, a contract was awarded to the low bidder; subsequently, the work was increased significantly, thus increasing the contract amount. However, the embassy did not negotiate the cost of the additional work with the contractor, but rather accepted the contractor's price for the additional work.
- The same embassy solicited bids on a contract which included over 50 line items. Firms were asked to bid on each item and the firm with the lowest bid on the most line items was awarded the contract. During evaluation, each line item was weighted equally even though 14 line items accounted for over 75 percent of the contract billing. Thus, a bidder could bid low on inexpensive line items and high on expensive ones and still receive the contract even though his total bid may not be the lowest. The selected contractor was low bidder on only 4 of the 14 high-priced line items.
- While State Department overseas locations are not required to follow formal advertising procedures in awarding contracts, they are required to solicit bids and obtain as much competition as possible. Officials

at the Embassy in Vienna said they do not usually solicit bids for maintenance and repair contracts, but rather award the contract based on a firm's past performance. This same situation existed to a lesser degree at the Embassy in Paris. Limiting competition raises serious questions about the procurement process, and does not ensure that the goods and services are obtained most economically. Further, such practices increase the potential for collusion between procurement officials and contractors.

NEED FOR BETTER SEPARATION OF DUTIES

Effective internal controls require that no one person or section in an organization be involved in all aspects of procurement. While the Embassies in London, Rome, Madrid, and Vienna had procurement sections, the maintenance sections were primarily responsible for purchase order procurement including identifying the needed work, soliciting bids, recommending vendors for selection, and certifying that the work done was satisfactory and that invoices were proper for payment. A similar situation existed, to a lesser degree, at the Embassy in Paris. At the Embassy in Bonn, one person solicited and evaluated the bids, and recommended which contractor or vendor should be selected. Embassy officials recognized the inherent problems with lack of separation of duties. However, these officials said staffing levels and the inexperience of certain procurement personnel precluded complete separation of duties. The failure to adequately separate duties increases the potential for abusing the procurement process.

NEED TO INCREASE COMPETITION FOR PROCUREMENT BY PURCHASE ORDERS

State Department procurement regulations provide that purchases of less than \$10,000 may be accomplished by a purchase order rather than a contract. Nevertheless, such procurements are to be made on a competitive basis to the maximum practicable extent. While there are no firm criteria for what constitutes "maximum practicable extent," Department guidelines suggest that at least two bids be obtained for each purchase over \$500. Bids may be obtained in writing or orally, and the files should indicate the firms contacted and their bids.

The Embassies in Rome and Vienna did not document bid solicitation efforts, so we could not determine the extent of competition in selecting vendors. Embassy officials in Vienna said that they seldom solicit bids, but rather select firms they know. Embassy officials in Rome said they try to

introduce as much competition as possible. However, we noted in many cases, they did not solicit bids.

The following table shows, for selected purchase orders over \$500, the number of bids obtained at locations which documented bid solicitations. The statistics do not indicate a representative situation because the sample was not selected scientifically. Instead, the statistics are intended to show that lack of competition is prevalent.

<u>Location</u>	<u>Purchase orders sampled</u>	<u>Times only one bid obtained</u>
Athens	21	12
Frankfurt	22	17
London	20	14
Madrid	21	18
Paris	36	35

The most frequent reason given by embassy officials for obtaining only one bid was past experience with the vendor's ability to provide the needed goods or services. Embassy officials said that based on their knowledge of the local conditions, the vendors selected were competitive. However, without comparative bids this statement could not be substantiated.

NEED TO IMPROVE VERIFICATION PROCEDURES

✓ of goods & services procured

Effective procurement requires verification that goods and services are in accordance with the contract or purchase agreement.

- The Embassy in Vienna contracted for masonry work on a price-per-square-meter basis. Our review showed that the quantity of work billed to the embassy was overstated by about 20 percent. We brought this matter to the attention of officials who negotiated a \$2,000 reduction in the bill.
- The Embassy in Rome contracts for interior painting on a square-meter basis. Embassy officials said that about 25 years ago all their apartments were measured and these measurements are used by the contractor for billing. Thus, the Embassy only has to verify the

quality of work because the quantity is already known. We found; however, that the measurements were often inaccurate--understated by about 50 percent in some cases, overstated by about 100 percent in others. Embassy officials agreed to get accurate measurements.

- The Embassies in London and Athens contract with American embassy employees associations to provide guard, cleaning, and some maintenance services. In fiscal 1979, the estimated contracts were \$431,200 and \$709,433, respectively. The contract amount is based on personnel cost plus a small contract fee. The associations receive periodic equal installments based on the estimated yearly cost with the final payment being adjusted to account for the difference between actual costs and the amount already paid. However, the Embassies have little assurance that payments represent actual costs.
- The Embassy in Athens relies on an annual independent audit of the association for assurance that total yearly billings represent actual costs. In our opinion, the audit provides no such assurance because personnel under the contract are paid in cash and the auditors only verify that someone signed for each cash payment. They do not verify that the signatures are valid, that the personnel actually worked, that the salary amounts are correct, or that costs are charged to the proper account.
- The Embassy in London only recently started making contract payments to the association based on the estimated annual cost. Officials said they have yet to determine how the yearend adjustment between actual costs and previous payments will be made. In the past, the association billed based on actual costs which were seldom verified by the Embassy. The payments were made on the assumption that the association was billing for the proper amount.

In our opinion, many of the above issues indicate weaknesses in procurement and contracting at the embassies. When there is a lack of competition, lack of separation of duties, and only partially effective award and monitoring procedures, the potential for collusion and mismanagement of funds increases dramatically. Embassy officials began corrective actions or promised to do so after further study.

SUMMARY OF GAO OBSERVATIONS AT
SEVEN EMBASSIES AND TWO CONSULATES

ENCLOSURE III

ENCLOSURE III

	Athens	Bonn	Frankfurt	London	Madrid	Munich	Paris	Rome	Vienna
<u>Weaknesses</u>									
Lack of separation of duties	X	X	X	X	X	X	X	X	
Lack of control over receipt documents		X	X	X			X	X	
Deposits not made promptly	X	X	X	X					
Need for more aggressive actions to collect accounts receivable	X			X	X		X		
Cash disbursements in excess of limit	X	X	X	X	X		X	X	X
Cashier's accountability exceeded authorized advance	X			X			X		
Funds not always properly safeguarded	X	X	X	X	X	X	X	X	X
Unannounced verifications not performed	X	X	X	X	X	X	X	X	X
Subcashier advances not periodically reviewed	X	X	X	X	X	X	X	X	X
Need to improve controls over obligations	X			X	X		X		X
Need to better control use of foreign airlines	X			X	X		X		X
Need to improve controls over discounts		X							X
Need to improve contract award procedures		X					X		X
Need to better separate duties		X		X	X		X	X	X
Need to increase competition for procurement by purchase order	X		X	X	X		X	X	X
Need to improve verification procedures	X			X				X	X