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Office of Inspector General
United States Department of State

ISP-21-11

Office of Inspections

November 2020

Management Assistance Report: Expendable Property Management Overseas

MANAGEMENT ASSISTANCE REPORT

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Summary of Review

OIG inspection reports have frequently highlighted embassy-specific improvements needed in managing overseas expendable property, but OIG initiated this review to take a Department-wide look at this issue. For this management assistance report (MAR), OIG reviewed 61 overseas inspection reports issued from October 1, 2016, to June 30, 2020, and identified 17 findings related to expendable property management issues. In these reports, OIG found that overseas posts did not account for all expendable property using the Department of State's (Department) mandated system of record, the Integrated Logistics Management System (ILMS).¹ Specifically, posts failed to track staff uniforms, automotive parts, and facility management expendable property—including contractor-provided spare parts and surplus construction materials and supplies—in ILMS. OIG highlighted several causes for this internal control issue overseas, including lack of management oversight, lack of training, competing priorities, and staffing shortages.

In this review, OIG identified Department-level issues that contributed to or caused the issues in expendable property management, including outdated guidance and insufficient internal controls procedures. Additionally, the Bureau of Administration's Property Management Division (PM) did not issue guidance on the receipt and accountability of surplus construction material and supplies. Finally, ILMS lacked an alert system to notify PM and overseas post managers of expendable property exclusions. OIG made three recommendations to the Bureau of Administration to address these issues. In its comments on the draft report, the Department concurred with all 3 recommendations. OIG considers all 3 recommendations resolved. The Department's response to each recommendation and OIG's reply can be found in the Recommendations section of this report. The Department's formal written response is reprinted in its entirety in Appendix B.

BACKGROUND

The Department is required to establish internal administrative controls that provide reasonable assurance that property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation under the Federal Managers Financial Integrity Act of 1982.² Department guidelines for asset management and internal controls are outlined in 14 Foreign Affairs Manual (FAM) 400 and 14 Foreign Affairs Handbook (FAH)-1, which also includes guidance on managing expendable personal property³ assets at posts.

¹ The Integrated Logistics Management System is an integrated web-based system that encompasses all Department supply chain functions in one system. It is designed to upgrade Department supply chain management by improving operations in purchasing, procurement, warehousing, transportation, property management, personal effects, and diplomatic pouch and mail.

² The Federal Managers Financial Integrity Act (FMFIA) of 1982 (Pub. L. No. 97-255), signed into law on September 8, 1982, amended the Accounting and Auditing Act of 1950 and requires ongoing evaluations and reports on the adequacy of each executive agency's systems of internal accounting and administrative control.

³ Personal property includes nonexpendable and expendable items. Nonexpendable refers to U.S. Government-owned and -leased personal property such as vehicles, furniture, equipment, appliances, and machinery. Expendable personal property is U.S. Government-owned property which, when used, is consumed, loses its identity, or becomes an integral part of another item of property. Examples of expendable property include office

PM oversees the development and issuance of logistics policies for all Department personal property, including \$88 million in expendable property at overseas posts in FY 2020. Additionally, PM provides domestic and worldwide oversight, guidance, training, and policy on personal property management operations, establishes internal control standards, and monitors compliance with the annual inventory and certification requirements.

Department guidance requires that each overseas post designate a property management officer, an accountable property officer, and a property disposal officer.⁴ The property management officer has overall responsibility for property management functions, including ordering, receiving, storage, accountability, and inventory.⁵ The accountable property officer has day-to-day responsibility for the custody, care, and safekeeping of property, as well as the annual inventory and certification reports. The property disposal officer has day-to-day responsibility for the disposal of property. This separation of duties ensures that no one individual controls all aspects of any property transaction. These officers work in coordination to ensure that adequate management controls are in place, including accurate accountability of expendable property in ILMS in accordance with 14 FAM 414.1 and 14 FAM 414.2-1a(2).

Despite Department requirements, OIG inspection reports repeatedly have found internal control issues in the management of expendable property. In addition, the *Inspector General Statement on the Department of State's Major Management and Performance Challenges for FY 2019* includes "Financial and Property Management" as a major Department challenge.⁶ Internal control issues that hamper the Department's ability to account for property in a complete, accurate, and timely manner align with this ongoing challenge of property management. This MAR sought to determine the underlying factors that contributed to or caused the issues in expendable property management and bring any associated systemic issues to the attention of Department senior leadership for corrective action.

FINDINGS

OIG reviewed 61 overseas inspection reports issued from October 1, 2016, to June 30, 2020, and identified 17 findings related to expendable property management issues. These findings

or automotive supplies and machine parts. The Property Management Division is responsible for managing both types of property.

⁴ Functional responsibility for a property management officer is inherent in the position of the management officer, and that of accountable property officer in the position of the general services officer. The property disposal officer should be an official other than the accountable property officer. However, at a small post where it is not possible to designate separate accountable property and property disposal officers, these responsibilities remain with the property management officer. See 14 FAM 411.2a, "Property Management Officer (PMO);" 14 FAM 411.2-2a, "Accountable Property Officer (APO);" and 14 FAM 411.2-3a, "Property Disposal Officer (PDO)."

⁵ 14 FAM 411.2-1b, "Property Management Officer (PMO)."

⁶ Each year, OIG identifies the most serious management and performance challenges facing the Department based on a review of that year's work and past work. See OIG, *Inspector General Statement on the Department of State's Major Management and Performance Challenges Fiscal Year 2019 3* (OIG-EX-20-02, January 2020).

generally involved overseas posts failing to account for all expendable property—such as staff uniforms, automotive parts, contractor-provided spare parts, and surplus construction materials—in ILMS as required. OIG found several causes for this, including lack of management oversight, competing priorities, and staffing shortages. Although some overseas posts have not yet had sufficient time to implement the recommendations made in the individual inspection reports, this MAR identified Department-level issues that should be addressed by the Bureau of Administration. The Department has a responsibility to ensure that overseas posts properly manage and record all expendable property in ILMS.⁷ Based on a review of the OIG inspection reports described above, and interviews with PM officials, OIG also identified Department-level issues that contributed to overseas posts' failure to include all expendable property in ILMS, as detailed below.

Department Had Outdated Guidance and Insufficient Internal Control Procedures for Expendable Property Management

OIG determined that outdated Department guidance and insufficient internal control procedures contributed to overseas posts not accounting for all expendable property in ILMS. For example, PM last updated guidance in 14 FAM 414.2-1 and 14 FAH-1 H-415.3 in May 2012 and August 2013, respectively. These outdated FAM and FAH guidelines incorrectly state that the Department had two approved systems for accounting for expendable property: ILMS and the Post Administrative Software System (PASS) Expendable Supplies Application. Upon the deployment of ILMS Expendables,⁸ the Department phased out the PASS Expendable Supplies application in 2016. In addition, instructions and internal control compliance questionnaires included in the Department's Annual Physical Inventory and Reconciliation and annual Chief of Mission Management Control Statement of Assurance did not include expendable property management.⁹

PM staff told OIG their priority was nonexpendable property management as it represented 97.2 percent of the Department's total personal property assets. The remaining 2.8 percent was categorized as expendable property. PM also reported that four long-term staffing vacancies and four short-term vacancies adversely affected its oversight and management of all assets. Nevertheless, PM still is responsible for worldwide oversight, guidance, training, policy on property management operations, development of internal controls standards, and approving business requirements and systems that account for all assets, as detailed in 1 FAM 215.2-2(a)(b). Outdated guidance and insufficient internal controls procedures could increase the risk of theft, mismanagement, and understatement of assets.

⁷ Federal Managers Financial Integrity Act of 1982, Pub. L. No. 97-255; 14 FAM 411.2a, "Responsibilities;" 1 FAM 215.2-2a, b, and c, "Property Management Division (A/LM/PMP/PM);" and 14 FAH-1 H-415.3a(2), "Approved Systems for Maintaining Accountable Property Records."

⁸ ILMS Expendable is an ILMS module used by the Department to manage expendable supplies.

⁹ Department form DS-582, Personal Property Management Report, is used to certify each overseas posts' physical inventory and reconciliation annually on March 15.

Recommendation 1: The Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, should update its expendable property management guidance and include internal control procedures governing expendable property management on its Annual Physical Inventory and Reconciliation and annual Chief of Mission Management Control Statement of Assurance compliance questionnaires. (A, in coordination with CGFS)

Property Management Division Did Not Issue Guidance on the Receipt and Accountability of Surplus Construction Material and Supplies

OIG found that PM did not issue specific guidance on the receipt, management, or accountability of surplus materials and supplies left over after overseas construction projects managed by the Bureau of Overseas Buildings Operations.¹⁰ This topic is not covered in either the FAM or the FAH. According to 1 FAM 215.2-2a-b, PM is responsible for worldwide oversight, guidance, training, policy on property management operations, development of internal controls standards, and approving business requirements and systems that account for assets. OIG determined that the lack of guidance on receipt and accountability of surplus construction materials and supplies led to confusion at some overseas posts. For example, after the completion of Embassy London's new chancery in 2019, the embassy received 6 shipping containers and 10 warehouse storage bays of materials and supplies from the contractor which embassy staff did not record in ILMS because they did not think it was required.¹¹ In addition, OIG found issues of unrecorded surplus construction materials and supplies in inspections of Embassies Accra, Ghana; Belgrade, Serbia; and Tirana, Albania.¹² PM staff told OIG that unrecorded construction materials and supplies were an issue at some overseas posts, but that the construction materials and supplies should be recorded in ILMS. However, without formal guidance setting forth a requirement to record and track surplus construction materials and supplies in ILMS, such materials are at increased risk of theft and mismanagement.

Recommendation 2: The Bureau of Administration, in coordination with the Bureau of Overseas Buildings Operations, should issue formal guidance on the receipt and accountability of overseas surplus construction materials and supplies. (Action: A, in coordination with OBO)

¹⁰ Overseas posts typically receive surplus construction materials and supplies in one of two ways. First, the construction contract could contain a clause stipulating any property acquired by or in the possession of the contractor under the contract which exceeds the full performance of the contract becomes property of the U.S. Government or a clause stipulating that extra materials and supplies become U.S. Government property. Second, contractors could donate surplus construction materials and supplies to posts, which upon acceptance become U.S. Government property.

¹¹ OIG, *Inspection of Embassy London and Constituent Posts, United Kingdom* (ISP-I-20-12, August 2020).

¹² OIG, *Inspection of Embassy Accra, Ghana* (ISP-I-17-17, June 2017); OIG, *Inspection of Embassy Belgrade, Serbia* (ISP-I-17-08A, January 2017); and, OIG, *Inspection of Embassy Tirana, Albania* (ISP-I-19-26, August 2019).

The Integrated Logistics Management System Lacked an Alert System to Notify the Property Management Division and Post Managers of Expendable Property Exclusions

The ILMS Expendables module did not have an alert or warning system to notify PM and post managers of possible exclusions or abnormal issuances of expendable property.¹³ This alert would serve as a safeguard to inform PM of a potential internal control issue—such as the issuance of large stocks of expendable property to a post section or employees—and enable the office to prevent or take corrective action at the time of the incident. In addition, ILMS lacked an automated function to alert PM and post property management staff when expendable property was not received using the final receipt function, as required in 14 FAH-1 H-312.4-3b(10).¹⁴ Such an alert would inform PM of a potential internal control issue—such as the purchase of expendable property where the final receipt function was not used or it was incorrectly received by another employee of the embassy—allowing PM and post managers to prevent or take corrective action at the time of the incident. Department guidelines in 14 FAM 414.2-1a(2), 14 FAM 446.1(2), and 14 FAH-1 H-415.3a(2) require that expendable property, including uniforms, be recorded in ILMS. According to 1 FAM 215.2-2a-b, PM is responsible for worldwide oversight, guidance, training, policy on property management operations, development of internal controls standards, and approving business requirements and systems that account for all assets. Absent alerts or warnings, overseas posts could fail to include all expendable property in ILMS, which could increase the risk of theft, mismanagement, and understatement of assets.

Recommendation 3: The Bureau of Administration should develop and implement a plan to add an alert capability to improve the internal control capability of the Integrated Logistics System Expendables module. (Action: A)

¹³ In the inspection of Mission India (OIG, *Inspection of Embassy New Delhi and Constituent Posts, India*, ISP-I-19-10, December 2018), OIG found Consulate General Kolkata’s property management staff incorrectly stopped tracking expendable inventory related to facility management in ILMS and issued the entire inventory of \$109,000 in ILMS to allow the facility management section to track its expendable property using a manual paper log system. An alert would warn PM of this type of action.

¹⁴ This function allows receiving clerks to confirm receipt of items at their final destination. It also automatically generates a Receiving and Inspection Report (DS-127) and automatically records the asset in ILMS.

RECOMMENDATIONS

OIG provided a draft of this report to Department stakeholders for their review and comment on the findings and recommendations. OIG issued the following recommendations to the Bureau of Administration. The Department's complete response can be found in Appendix B.¹

Recommendation 1: The Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, should update its expendable property management guidance and include internal control procedures governing expendable property management on its Annual Physical Inventory and Reconciliation and annual Chief of Mission Management Control Statement of Assurance compliance questionnaires. (A, in coordination with CGFS)

Management Response: In its November 5, 2020, response, the Bureau of Administration concurred with this recommendation.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that the Bureau of Administration updated its expendable property management guidance and included internal control procedures governing expendable property management on its Annual Physical Inventory and Reconciliation and annual Chief of Mission Management Control Statement of Assurance compliance questionnaires.

Recommendation 2: The Bureau of Administration, in coordination with the Bureau of Overseas Buildings Operations, should issue formal guidance on the receipt and accountability of overseas surplus construction materials and supplies. (Action: A, in coordination with OBO)

Management Response: In its November 5, 2020, response, the Bureau of Administration concurred with this recommendation.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that the Bureau of Administration issued formal guidance on the receipt and accountability of overseas surplus construction materials and supplies.

Recommendation 3: The Bureau of Administration should develop and implement a plan to add an alert capability to improve the internal control capability of the Integrated Logistics System Expendables module. (Action: A)

Management Response: In its November 5, 2020, response, the Bureau of Administration concurred with this recommendation.

¹ OIG faced delays in completing this work because of the COVID-19 pandemic and resulting operational challenges. These challenges included the inability to conduct most in-person meetings, limitations on our presence at the workplace, difficulty accessing certain information, prohibitions on travel, and related difficulties within the agencies we oversee, which also affected their ability to respond to our requests.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that the Bureau of Administration developed and implemented a plan to add an alert capability to improve the internal control capability of the Integrated Logistics System Expendables module.

APPENDIX A: OBJECTIVES, SCOPE, AND METHODOLOGY

This review was conducted from May 27 to September 4, 2020, in accordance with the Quality Standards for Inspection and Evaluation, as issued in 2012 by the Council of the Inspectors General on Integrity and Efficiency, and the Inspections Handbook, as issued by the Office of Inspector General (OIG) for the Department and the U.S. Agency for Global Media (USAGM).

The Office of Inspections provides the Secretary of State, the Chief Executive Officer of USAGM, and Congress with systematic and independent evaluations of the operations of the Department and USAGM. Consistent with Section 209 of the Foreign Service Act of 1980, this review focused on management of expendable property overseas.

OIG's specific inspection objectives were (1) what findings have been reported in OIG inspection reports from October 1, 2016, to June 30, 2020, regarding issues in expendable property management overseas; and (2) what underlying factors contributed to or caused the issues.

OIG reviewed all overseas inspection reports issued from October 1, 2016, to June 30, 2020. OIG used professional judgment, along with documentary, testimonial, and analytical evidence collected or generated, to develop its findings and actionable recommendations.

Paul Gilmer, Sergio Lagares, Michael MacDonald, and Timothy Wildy conducted this review.

Other report contributors include Ellen Engels and Caroline Mangelsdorf.

APPENDIX B: MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

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November 5, 2020

TO: OIG/ISP – Sandra J. Lewis

FROM: A/LM - John W. Dinkelman

SUBJECT: Response to Draft Management Assistance Report – Expendable Property Management Overseas – ISP-21-11

The Office of Logistics Management, Office of Program Management and Policy's, (A/LM/PMP) Property Management Division has reviewed the OIG draft Management Assistance Report: Expendable Property Management Overseas. We provide the following comments in response to the recommendations provided by OIG.

Recommendation 1: The Bureau of Administration, in coordination with the Bureau of the Comptroller and Global Financial Services, should update its expendable property management guidance and include internal control procedures governing expendable property management on its Annual Physical Inventory and Reconciliation and annual Chief of Mission Management Control Statement of Assurance compliance questionnaires. (Action: A, in coordination with CGFS).

Management Response: A/LM/PMP agrees that the Department's 14 FAM 414.2-1 and 14 FAH-1 H-415.3 incorrectly state that the Department has two approved systems for accounting for expendable property: ILMS and the Post Administrative Software System (PASS) Expendable Supplies application. The PASS Expendable Supplies application was phased out in 2016. A/LM/PMP will work with the Logistics Policy Unit (A/LM/POL) to remove references to the PASS Expendable Supplies application from 14 FAM.

A/LM/PMP concurs with the OIG recommendation to add expendable property questions to the Chief of Mission Management Control Statement of Assurance compliance questionnaires. The Property Management Division will develop the questions and work with CGFS to publish them.

A/LM/PMP agrees that worldwide oversight guidance and policy on property management operations, internal controls, business requirements and systems accounting for all assets are vital to Department operations. A/LM/PMP expendable property management guidance and internal control procedures are reflected in the current policy and procedures along with several management tools, i.e. Management Digest, Property Insight and Regional Digest, to maintain expendable property oversight. The Annual Physical Inventory and Reconciliation captures expendable property inventories and lists key data on expendable total value, overages and shortages on the Property Management Report DS-582. The minimum cost per item of expendable property does not reach the threshold for property survey board adjudication, however, when aggregated it could exceed the 1% threshold.

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Recommendation 2: The Bureau of Administration, in coordination with the Bureau of Overseas Buildings Operations, should issue formal guidance on the receipt and accountability of overseas surplus construction materials and supplies. (Action: A, in coordination with OBO.)

Management Response: A/LM/PMP agrees on the need for specific guidance on the receipt, management and accountability of facilities excess or surplus construction materials and spare parts left by the general contractor on a New Embassy Compound/New Consulate Compound (NEC/NCC) or Major Rehabilitation projects. The Property Management Division has conducted several meetings with OBO/CFSM/FAC and OBO/CFSM/CM to address the guidance gap.

On October 14, 2020, OBO/CFSM/CM issued CONSTRUCTION ALERT, A-2020-09, instructing Project Directors on NEC/NCC or Major Rehabilitation projects not to accept any excess construction materials and/or parts from the General Contractors or their subcontractors, if not required per contract specifications. Project Directors were also instructed to ensure the General Contractor fulfills the contract requirements to clean the project site at substantial completion. Additionally, on October 8, OBO/CFSM/FAC issued Maintenance Alert, MA #20-004, instructing Facility Managers to refrain from entering into any informal agreements with any contractors involved in the NEC/NCC or Major Rehabilitation projects which result in excess construction materials and parts being left on-site at the conclusion of projects. Excess or surplus materials or parts are in direct conflict with FAM requirements for expendable property and construction contract documents.

To address the receipt, management and accountability of construction materials and spare parts the General Contractor is contractually required to turn over to post at the completion of a NEC/NCC or Major Rehabilitation project. A/LM/PMP and A/LM/POL will clarify the guidance in 14 FAM and 14 FAH on managing property in stock to include language in OBO maintenance and construction alerts. We will draft additional procedural guidance to comply with applicable Federal Acquisition Regulations for contractor-held property that may become titled to the U.S. Government at the conclusion of construction contracts, including specific FAR contract clauses and contract language. Key elements of the guidance will include: 1) The Project Director is responsible for reviewing and approving the list of contractually required attic stock and spare parts prepared by the general contractor; 2) The Facility Manager or Operations and Maintenance Technical Coordinator (OMTC) at post is responsible to identify receiving point(s) and work with the Property Manager at post to identify storage locations; and 3) The Property Manager is responsible for recording the approved inventory in post's Integrated Logistics Management System (ILMS). A/LM will clear 14 FAM and 14 FAH updates through OBO, and request 14 FAM and 14 FAH updates be included or referenced in 15 FAM and 15 FAH. This shared responsibility for ensuring compliance with facility expendable property accountability in ILMS Expendables will reduce risk, improve data accuracy and annual inventory reporting.

Recommendation 3: The Bureau of Administration should develop and implement a plan to add an alert capability to improve the internal control capability of the Integrated Logistics System Expendable module. (Action: A).

Management Response: ILMS currently includes many reports and dashboards to help Posts identify anomalous behavior and possible internal controls issues. ILMS Analytics includes a monthly Management Digest that highlights key metrics from multiple modules

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within ILMS, including Expendables. The report includes six metrics about expendable supplies for each post. Two of these metrics would most likely have alerted Kolkata management to the anomalous data, where post stopped issuing large amounts of supplies (through the Inventory Value and Numbers of Items metrics that show six months of trends). Additionally, the GSO expendables clerk should be working with Financial Management staff to run monthly consumption reports for billing purposes. Supplies used for maintenance and repairs should be recorded and issued within the system. The Facility Manager, Financial Management Officer, and General Services Officer should be aware of any activity that is being processed offline.

The ILMS Analytics Expendables dashboard includes a metric that shows the percent of orders that were ordered through the replenishment process and received through Final Receipt and the put-away functionality. Post Management can also run a manual check in Expendables to identify supplies that are received manually through Express Receipt.

The ILMS Analytics and Expendables teams will review the existing metrics to see if there is a need to add more reports or alerts around Final Receipt usage and how to better monitor additions to expendable inventories.

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