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Report of Inspection

Bureau of Administration's Office of Logistics Operations and Office of Program Management and Policy

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KEY JUDGMENTS

- The relatively new deputy assistant secretary for the Bureau of Administration's Office of Logistics Management (A/LM) has the opportunity to increase effectiveness and substantially reduce costs to the Department of State (Department) and should do so by implementing the organizational, policy, and regulatory changes outlined in this report.

- A/LM has responsibility for worldwide programs, such as property management, maximum use of the International Through Government Bills of Lading (ITGBL) for shipments worldwide, and full use of purchase cards by bureaus and missions. However, A/LM does not have the necessary authority or enforcement mechanisms to ensure that the programs are fully implemented. The Office of Inspector General (OIG) inspection team estimates that implementation of these programs, plus full utilization of the Hagerstown, MD, storage facility, could result in significant savings for the Department.

- There are serious deficiencies in the Department's management and oversight of about $1.2 billion of nonexpendable property and motor vehicles valued at $300 million. Present policies and practices encourage laxity, resulting in some organizations writing off shortges of property valued at over $1 million without any research to determine the cause of the shortages. In addition, the Department's Property Survey Board, which is responsible for assigning responsibility for shortages, has not convened for several years. Some property disposal reports were found by the OIG team to be inaccurate, and shortages were identified in a substitute category, although the items should have been reported as missing.

- A/LM manages, operates, and establishes procedures for all diplomatic pouch and mail functions; however, policy responsibility for these functions resides nominally in the Bureau of Information Resource Manage ment (IRM). This fragmentation is a vestige of Department reorganizations dating back ten years. Policy responsibility for these functions should be transferred to the Bureau of Administration.

- A/LM's Diplomatic Pouch and Mail (DPM) Division is functioning well. A/LM's implementation of the DPM module of the Integrated Logistics Management System (ILMS) has resulted in efficiencies and improved tracking. A new, performance-based contract for all pouch and mail operations should also result in efficiencies.

The inspection took place in Washington, DC, between September 5 and December 11, 2006, and in Frankfurt, Germany, between September 23 and 27, 2006; Antwerp, Belgium, between September 28 and October 13, 2006; Baltimore, MD, September 26 and October 6, 2006; Miami, FL, between October 16 and 26, 2006, and Iselin, NJ, between October 30 and November 9, 2006. Alan Berenson (team leader), Marjorie Lynch (deputy team leader), Merwin Blust, Maria Cunningham, Jacqueline James, Iris Rosenfeld, and Katherine Schultz conducted the inspection.

CONTEXT

The A/LM Office of Logistics Operations (OPS) and A/LM Office of Program Management and Policy (PMP) were established by the Under Secretary for Management in December 1996. (Two other major offices of the Bureau of Administration – A/LM's Office of Acquisitions and the Office of the Procurement Executive — were previously inspected by OIG.) Operational responsibilities are situated in PMP and OPS and cover all aspects of transportation and travel. This includes the receipt, storage, and shipment of household effects and official shipments; materials management for headquarters activities as well as expendable and nonexpendable supplies and equipment worldwide; regional logistics programs such as the Secure Expedited Logistics Program, the European Logistics Support Office (ELSO), and the five domestic Despatch Agencies (DA); the DPM operation; and the worldwide purchase card program.

Most PMP functions have not recently, if ever, been inspected by OIG. The last OIG inspection that addressed some OPS functions (warehousing and claims) took place in 1993, before the creation of the present organization.

The two offices have over 600 employees, including direct hires, contractor employees, and locally employed (LE) staff in Antwerp and Frankfurt. Funding totaled over $110 million in FY 2005. Items in storage, excluding personal household effects, are valued at about $60 million.

ILMS was initiated in 1998, as part of business process reengineering, and implemented the Department's first enterprise-wide supply chain management system by deploying its transportation module in early 2006. ILMS is in the eighth year of its projected 20-year lifecycle and has expended approximately $100 million of its planned $250-million baseline. Users of ILMS reported problems, but the OIG inspection team lacked the resources for a full review of ILMS.

EXECUTIVE DIRECTION

A/LM's deputy assistant secretary assumed his duties just over a month before the start of this inspection and has operational responsibility for all of the Department's logistics activities. The transportation, warehousing, property management, and mail and pouch functions are all in transition because of the required phase-in of ILMS. As with most new systems, this implementation is not always going smoothly. In addition, logistics management until recently did not receive the attention it deserved from the Department. The OIG inspection team identified several deficiencies.

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ORGANIZATIONAL STRUCTURE

A restructuring of PMP and OPS is needed to align the organizations with their responsibilities. Several PMP divisions and/or branches, in particular, could be reassigned. There is little, if any, organizational cohesion. Perceptions exist that the organization was designed to justify high pay grades. Little of PMP's work meets the definitions of program management and policy.

A/LM's largest division – DPM – is primarily an operational one, although policy responsibility for pouch and mail operations rests with IRM. The Purchase Card Unit is also operational, but OPE is responsible for purchase card policy. The Department's purchase card operations, however, could readily be moved to the Office of Acquisitions Management. The Policy Branch's role is questionable because travel and transportation policy and motor vehicle management are addressed by the OPS Transportation and Travel Management (TTM) Division. Furthermore, A/LM's Property Management Branch is ineffective, and the OIG team recommended addressing organizational structure. In addition, property management and controls, as discussed in the property management section of this report, need considerable strengthening.

TRANSPORTATION OPERATIONS

Each year, over 6,300 Department employees, Foreign Service and Civil Service, are transferred between Washington and overseas embassies and between embassies abroad. In FY 2006, the Department spent approximately $80 million transporting employees' household effects to and from posts of assignment. In addition to direct shipping costs, the Department incurs substantial indirect costs through its handling of these shipments. A/LM's six DAs employ a staff of 114 to arrange the packing, storage, shipment, and delivery of household effects and personal automobiles.

DESPATCH AGENCIES

The DAs effectively manage the outbound and inbound transportation of supplies, official vehicles, household effects, and personally owned vehicles for the Department and other federal agencies having a presence at U.S. missions abroad. A/LM has five domestic DAs, plus the Antwerp DA. The domestic DAs are in Baltimore, Miami, and Iselin (New York Despatch Agency) and in Seattle, WA, and Brownsville, TX. Each has differing responsibilities and handles a different mix of shipment types. The OIG inspection team conducted site visits to the Antwerp, Baltimore, Miami, and New York/New Jersey locations.

Four of the domestic DAs are part of the Regional Logistics Centers, while Baltimore is under TTM's oversight, although there are no convincing reasons for this difference. The reasoning for the difference is based on the premise that Baltimore handles the personal effects of employees while the other DAs deal with official shipments. However, Baltimore does ship official vehicles as well, and other DAs are responsible for some personal shipments. For example, the New York DA handles unaccompanied air baggage for employees arriving at JFK Airport. The Miami DA handles personal shipments to and from Central and South America, except for shipments to Mexico, which are handled by the Brownsville DA. The Antwerp DA processes personally owned vehicles and household effects. (The Baltimore DA is discussed later in this section.)

The DAs recover costs for transportation, administration, and for contractor-run consolidated receiving points (CRP) through the working capital fund. The costs for shipments depend primarily on the destination and mode of transportation.

CRP warehouses are the staging areas for shipments. Supplies, household effects, and such, are received at the CRPs, consolidated by destination and packed into 20-foot and 40-foot containers for outbound shipments. The DAs, in coordination with the missions, determine when to consolidate and ship. For inbound freight, the CRPs unload containers and hold the contents for pick up by DA-arranged truckers.

The DAs are responsible for negotiating discounted rates for motor, ocean, and air freight services and intermodal types of transportation. Some DAs contract for the services of freight forwarders, both to book transportation on ocean vessels and to clear shipments through U.S. Customs. They argue that the fees paid to freight forwarders are worth the cost because of the salary savings achieved by operating with fewer staff members. Other DAs use direct-hire employees to negotiate with ocean-vessel companies and to clear customs. These DAs are convinced that employees obtain better shipping rates than freight forwarders, avoid the forwarders' fees, and establish a rapport with the U.S. Customs Service that facilitates the clearance process.

Both of the above methods appeared to work. The question is, which is better, or do differing responsibilities require differing approaches? Another factor for consideration is the use of ITGBLs, as discussed later in this report. Maximizing ITGBL use will reduce the workload of DAs handling household effects. Because logistics management is a technical area and nonprofessionals lack the credentials to adequately evaluate it, outside experts should be consulted to determine the optimum methods of operation and to identify areas where costs may be reduced. In addition, consultant experts could address the Baltimore-specific issues discussed in the following section.

Recommendation 1: The Bureau of Administration should contract with outside transportation consultants for a management review of the organization and structure of the Office of Logistics Operations, Office of Program Management and Policy, and the Despatch Agencies. (Action: A)

The Baltimore DA successfully manages the shipment of household effects, personally owned vehicles, and official vehicles. Its workload is cyclical and heavily concentrated in the summer transfer season for Foreign Service officers. Since 1994, annual data show the same high levels of activity during June through August, lesser but substantial levels for May and September, and minimal levels during the remaining months. For FY 2005, the Baltimore DA processed about 6,000 shipments in July, 4,000 in September, and 2,000 in February. Consequently, for months, the staff members have less than full-time work but are paid for full-time employment.

The staff consists of 14 authorized direct-hire positions and one contractor. Most of its work does not require that a staff member be physically present at the port or the CRP. Such non-location-specific work could be done in Washington, DC, about 40 miles away. For example, the transportation specialist responsible for shipping personally owned vehicles said TTM counselors in Washington do not provide information about vehicles but tell transferring employees to phone the Baltimore DA. The DA staff members frequently have traced delays in the processing of personal vehicle shipments to customers' failure to provide adequate documentation. If a vehicle counselor were in Washington to advise transferring employees, misunderstandings would be less likely, and there would be more efficient processing.

As many as three positions would need to remain in Baltimore, however, to deal in person with U.S. Customs and the CRP. Office space could be greatly reduced in Baltimore, reducing leasing fees that now total $100,000 a year. In addition, if the DA staff moved to Washington they could assume other responsibilities during the slow months and earn their salaries for all months of a year.

Recommendation 2: The Bureau of Administration should reduce staffing at the Baltimore Despatch Agency, transferring personnel not required to provide location-specific operations in Baltimore to Washington, DC. (Action: A)

International Through Government Bill of Lading

For most shipments of employee household effects, A/LM uses a multistep process known as the "direct procurement method." Using this method, A/LM contracts separately for each segment of a shipment such as packing and crating of household effects, trucking the shipment to the port, consolidating effects with other shipments, transporting the shipment by ocean or air, trucking it to a local contractor for delivery, and unpacking it at the destination residence. A variation of this method used by some DAs involves freight forwarders booking ocean vessels and arranging customs clearance. Depending on the destination, the direct procurement method requires A/LM offices in Washington, the DAs, and the ELSO to contract for, coordinate, and monitor the shipments. In FY 2005, 68 percent of eligible shipments were dispatched using direct procurement.

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A/LM only uses the "door-to-door" system, also known as ITGBL, for less than 32 percent of the shipments eligible to use the system. Under the ITGBL, A/LM uses contracts awarded by the General Services Administration to employ a single company to handle all segments of a shipment. For most destinations overseas, ITGBL shipments are cheaper than the direct procurement method. In FY 2005, the Department would have saved $670,000 if all household effects had been shipped by ITGBL on those routes where ITGBL was available and cheaper than direct procurement. Employees also benefit when their effects are shipped by ITGBL because one company is responsible for any loss, damage, or delay. Damage claims payments also can be higher and are settled within 30 days. Employees can monitor their shipments using the web-based tracking systems of the ITGBL transportation companies, just as they now use A/LM's Where Is My Shipment? system.

Greater use of the ITGBL would trim indirect support costs because the contract shipping company would carry out a substantial portion of the work now handled by A/LM offices. Contracting with one ITGBL contractor, rather than the several contractors employed using direct procurement, reduces and simplifies the transportation orders and payments processed by A/LM. A/LM employees spend substantial amounts of time coordinating shipments as they move from one contractor to another and answering inquires from employees about their shipments. Under ITGBL, this workload also would be shifted largely to the shipping company. If ITGBL were used to the fullest extent, A/LM could reduce several of the 114 positions and downsize the facilities now involved in managing the transportation of household effects. Previous studies of A/LM transportation practices estimated that staff and facility cutbacks would save $200 to $1,200 per shipment. Based on this amount, the OIG inspection team estimates a total indirect cost savings of $500,000. ($200 multiplied by 2,500 ITGBL eligible shipments.)

The Department began the ITGBL program in 1992. Although these shipments have increased over the years, only 32 percent of shipments were shipped by ITGBL in FY 2005 over routes where the service was available. During the past few years, A/LM has campaigned to enlarge the ITGBL program but has focused on overseas posts rather than the Bureau of Human Resources (HR), which controls all post assignment transportation. HR was receptive to A/LM's recent proposals to expand the ITGBL program and is working with A/LM to implement the program worldwide, but both offices expect missions will not use ITGBL extensively unless required.

Recommendation 3: The Bureau of Administration, in coordination with the Bureau of Human Resources, should mandate policies and procedures to ship employee household effects using the International Through Government Bill of Lading system wherever it is available and less costly than the direct procurement method. (Action: A, in coordination with HR)

Packing Materials

In September 2005, the Department of Agriculture published regulations requiring that U.S. imports of unmanufactured wood articles comply with International Standard for Phytosanitary Measures No. 15. The standard was established under the International Plant and Protection Convention to reduce the risk of introduction and/or spread of quarantine pests associated with wood packaging materials without impeding international commerce. The International Plant and Protection Convention is a multilateral treaty signed by 134 countries to harmonize regulations governing imports that could affect U.S. forests and crops.

Based on these regulations, the Department sent out worldwide instructions requiring that all wood packaging materials containing goods being imported into the United States have an approved international mark certifying treatment to meet the standard. In addition, the instructions referred to a web site listing all affected countries with similar wood importation restrictions and the effective date of the restrictions.

A year later, the Department has yet to establish procedures to ensure that wood packaging materials comply with the standard. During FY 2006, the Antwerp DA paid over $160,000 to repack shipments received in containers made of noncompliant wood. The shipments were received from missions and DAs in the United States. Some repacking costs are necessary for shipments originating in countries where treated wood is unavailable.

Recommendation 4: The Bureau of Administration should establish procedures requiring compliance with International Standard for Phytosanitary Measures No. 15 for all shipments from countries where treated wood is available. (Action: A)

Conversely, one mission told the OIG team that shipments transiting through the Antwerp DA were repacked unnecessarily. The mission verified that a specific shipment had been packed with wood that met the standard and had photographs

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showing the International Standard for Phytosanitary Measures No. 15 stamp on the wood. The OIG team inquired about this particular shipment in Antwerp and found that it had not been inspected. ELSO personnel are physically checking approximately 80 percent of the shipments that contractors have designated as noncompliant before approving repacking, but they are not checking all shipments. The DA returned to the mission the funds used for repacking.

Recommendation 5: The Bureau of Administration should require that European Logistics Support Office personnel physically inspect shipments that the contractor claims do not comply with International Standard for Phytosanitary Measures No. 15 before authorizing the contractor to repack the shipments. (Action: A)

Recommendation 6: The Bureau of Administration should recover from the contractor repacking charges that were imposed in instances where repacking was unnecessary because the wood used met the standard. (Action: A)

Storage of Employees' Household Effects

All Foreign Service or Civil Service Department employees serving at missions overseas are authorized to store or ship 18,000 pounds of household effects. When an overseas post provides government-owned furniture and appliances, employees are allowed to ship only 7,200 pounds to their post of assignment. Depending on the location of the employee's residence or post of assignment, the remaining 10,800 pounds are stored at U.S. government warehouses at Antwerp, Belgium; Hagerstown, MD; or at 19 commercial storage facilities in the Washington, DC, area. In October 2006, the Department stored approximately three million pounds of household effects at Antwerp, 10 million pounds at Hagerstown, and 16 million pounds at commercial facilities in the Washington area.

The Hagerstown warehouse has sufficient space to store 15 million pounds of household effects, but an average of only nine million pounds of effects were stored there during the past six years. If the Hagerstown warehouse were filled to capacity and an additional six million pounds of effects stored there, rather than at commercial facilities, overall storage costs of the Department would be reduced by approximately $2 million annually. Almost all of the costs of the Hagerstown warehouse are fixed costs that the Department pays each year, regardless of how much is stored at the warehouse. Any household effects stored at the Hagerstown facility, rather than at a commercial storage facility, reduces the Department's storage expenses accordingly.

The Hagerstown facility has not been used to capacity because of A/LM's application of Department regulations. According to 14 FAM 621.1a., "the storage of effects is authorized at the Department's designated facilities located in the Washington, DC metropolitan area for employees transferring from Washington, DC, or whose effects are located in Washington which are approved for storage. For transfer and appointments from other U.S. locations, storage of effects is authorized at Hagerstown, Maryland."

Based on this regulation, A/LM uses Washington metropolitan-area storage companies for the household effects of employees who reside within a 50-mile radius of downtown Washington at the time they are relocated. Effects of employees who reside elsewhere in the United States are stored in Hagerstown, as are the effects of employees stationed abroad of the Bureaus of Western Hemisphere and East Asian and Pacific Affairs. Application of these regulations by A/LM, coupled with the geographic distribution of employee residences, causes most effects to be stored at commercial storage companies.

At 14 FAM 620, the relevant policies and practices are recorded. They were established in 1988, when logistics officers were concerned about the amount of damages to and losses of employee effects stored at commercial storage companies, especially when a company went out of business. The Hagerstown warehouse was established as a pilot program to determine whether a government facility could provide a more stable storage environment that would reduce employee claims and the relocation costs arising from storage company closures.

Responding to shipping industry concerns, Congress required OIG to review the Hagerstown facility. OIG issued two reports that found storage costs at Hagerstown were higher than those of commercial storage companies and recommended the pilot program be discontinued unless its higher cost was offset by improvements in security and lower employee claims. The Department then contracted with the Department of Transportation to further evaluate the pilot warehouse program. That evaluation found that, in some cases, the Hagerstown storage costs were cheaper.

Based on Department of Transportation recommendations, the Department continued to store effects at Hagerstown, and by 1994 the warehouse was filled almost to capacity. Because additional space was available there, an accounting firm was hired to review the cost-effectiveness of the Hagerstown warehouse. The accounting firm found that Hagerstown storage costs were less than those of Washington-area storage companies and recommended that the warehouse be expanded. It also found that, during the previous five years, the Department had paid no claims for loss or damage to effects at Hagerstown but had paid $760,000 for damages at commercial storage companies.

A/LM next doubled the size of the warehouse to 200,000 square feet. In 2001, A/LM again doubled the size of the warehouse to 400,000 square feet to accommodate the household effects of 1,200 new employees, primarily from the Bureau of Diplomatic Security (DS). Increased Department staffing added about 2 million pounds of effects to the facility but still left it only 66-percent full. The 323 new employees the Department expects to hire over the next two years will add only 1.2 million pounds if all their effects are stored at Hagerstown.

The OIG team reviewed claims and cost data provided by A/LM and found that Hagerstown continues to provide a safe and secure storage location. In FY 2006, A/LM paid 28 employee claims for damaged goods stored at commercial facilities but paid only three claims for damages at Hagerstown.

Recommendation 7: The Bureau of Administration should establish and implement policies and procedures to make certain that employee household effects are stored at the Hagerstown warehouse to the maximum possible extent. (Action: A)

Aggregate Rate - A Key Component of the Integrated Logistics Management System

The aggregate rate billing system developed by A/LM charges customers a single bill for each shipment. The rate includes a charge for the shipment's weight and a surcharge for administrative overhead. Because they could not combine all charges from a variety of transportation entities into one bill, customers often ended up using more expensive transport services. With each entity billing separately, customers could receive seven or more bills for the same shipment. Establishing an obligation that was close to the actual bill was difficult, if not impossible, and funding for the service was not fully utilized because unliquidated obligations were not deobligated and went unused.

The concept of a single shipping rate for each mission is based on historical data. A/LM realized that the weight of some shipments, usually heavy construction material but also some household effects, was much heavier than the aggregate rate. Conversely, there were significant overcharges for some small shipments. These shipments, identified when the shipment is initiated, are billed using actual rates. Within ILMS, the aggregate rate is changed to the actual rate.

Aggregate rate is an efficient billing system as long as the rate is correct. A/LM is aware of how critical a correct figure is to ensuring that a proper and fair average rate is used. One review of the system has occurred since it was put into use in April 2006, and A/LM plans to continue to conduct periodic internal reviews of it.

Personal Property Claims

The Personal Property Claims office has four employees and adjudicates claims that employees file against the U.S. government for loss or damage to personal property, in accordance with the Military Personnel and Civilian Employees Claims Act of 1964. For FY 2006, the claims office processed 268 claims totaling $318,425.

The OIG team did not find significant problems in the claims office. Over the past year, TTM has improved its operations. For example, the office's web page was redesigned to make it more user friendly, and TTM established a tracking system for claims processing. TTM has also implemented new processes to expedite claims processing. The online EZClaims process lets employees prepare and submit personal property claims, and the Fast Track system is an accelerated process for adjudicating and processing property claims of under $1,000. TTM requires the processing of Fast Track claims within five days after submission, and claims greater than $1,000 are to be processed within 30 days.

Although the claims office does all it can to expedite claims processing, TTM should send out occasional reminders to employees regarding the availability of the web page and other information to keep employees informed about the process. The lack of proper documentation from employees is a reason that some claims take longer to process. TTM should also provide employees with periodic status reports on submitted claims, when necessary. The OIG team made informal recommendations on these issues.

Commercial Claims

A staff of three in TTM's Rates Management Branch prepays for audit processing of invoices for transportation-related claims from commercial firms. The audit staff reviews the bills and, upon approval, payments are processed in Power Track, an automated system that sends the payment through a U.S. bank to the vendor in three to five days. This process audits work orders that the DA staff agents create in ILMS to pay bills, sent by providers through Power Track, and it audits vouchers the audit staff uses to collect the aggregate rate that TTM customers, such as HR and other bureaus and overseas posts, use to pay providers. At the beginning of FY 2006, TTM began requiring all of its vendors to use Power Track. This will replace hard-copy vouchers, which can still be generated in ILMS if needed.

Under 41 C.F.R. 102-118.10, the prepayment audit process is defined as:

> *a thorough review and validation of transportation related bills. The audit must examine the validity, propriety, and conformity of the charges with tariffs, quotations, agreements, or tenders, as appropriate. Each agency must ensure that its transportation audit procedures prevent duplicate payments and only allow payment for authorized services, and that the transportation service provider's bill is complete with required documentation.*

Prior to implementation of ILMS in travel management operations, the prepayment audit process had significant weaknesses. Some vouchers were being paid through Power Track but were later found by Global Financial Services-Charleston (GFSC) to have errors, such as having no fiscal data or an incorrect amount paid to the vendor. Fortunately, GFSC staff caught the errors and initiated collections from the vendors.

The new automated process should strengthen controls over the payment process but is not without problems. Currently, interface issues between Power Track and ILMS need to be addressed. These issues appear to result from incompatibility between some of the fields in the two systems, which causes transactions to default into the "auto exception" mode of Power Track. This requires the audit staff to make the adjustments manually. The staff is working diligently to keep up with the corrections in order for the vendors to be paid promptly, but this effort requires a great deal of extra work. Once the corrections are made, the vendors are paid through Power Track. Although the system has been in place since April 2006, GFSC did not report problems with it similar to the problems found with the hard-copy vouchers described above. The Rates Management Branch is working closely with the ILMS contractor to address these problems, which have not caused late payments to vendors but could do so if the problems are not fixed quickly.

Recommendation 8: The Bureau of Administration should correct the interface problems between the International Logistics Management System and the Power Track system. (Action: A)

Controls Needed Over Collections

Transportation management specialists in the travel advisory section arrange for the packing and shipping of employees' household effects through contractor shipping companies. Under the terms of their contracts, the shipping companies are required to weigh each shipment and record the weight in ILMS within five days of pack out. The specialists monitor the reported weight and, if the shipment exceeds the weight limits specified in the Foreign Affairs Manual, request the employee to either lighten the shipment or pay the cost of shipping the excess weight.

If the employee decides to ship the excess weight, the specialist computes the cost and delays the shipment until receiving the required payment from the employee. When payment is received, the specialist usually records it in a computer system, but this action is not mandatory. The specialist then deposits the payment in a folder located on the desk of a contracted transportation counselor and records the payment on a check register. About once a week, the counselor sends the payments through a Department account at Citibank to GFSC. The check register is discarded every six months, and there are no written procedures governing these payments.

According to 4 FAH-3 H-321, only a U.S. disbursing officer or a Class B cashier or subcashier are authorized to receive these collections. For domestic locations, 4 FAH-3 H-396.1 states that the Main State cashier and the Bureau of Consular Affairs' cashiers are authorized to accept cash collections. If a collection must be made at another domestic location, the Bureau of Resources Management must grant authorization. The supervisor of the transportation advisory section said its collection procedures were established by GFSC, but GFSC officials did not know about these procedures and could not provide a written authorization.

The procedures used by the travel advisory section do not comply with 4 FAH-3 H-396, which requires adequate internal controls over collections. Without these controls, there is no assurance that collections for overweight shipments are properly recorded, protected, and deposited.

Recommendation 9: The Bureau of Administration, in coordination with the Bureau of Resource Management, should establish and implement the controls required for collections of payments received from employees for overweight shipments. (Action: A, in coordination with RM)

SUPPLY MANAGEMENT

The Bureau of Administration recognizes there are problems in supply management and is taking some actions to address them. This move has primarily been driven by the independent audit of the Department's FY 2005 financial statements, in which personal property was identified as a material weakness. Although serious deficiencies in management controls over personal property continue to exist, the Department's corrective actions were sufficient for the independent auditor and the Management Control Steering Committee to reclassify the material weakness as a reportable condition.

Property Management

PMP's managing director is the Department's designated property manager and is responsible for establishing policy for the management and control of the Department's personal property, reviewing property management program operations, developing and implementing property management regulations and procedures, and, as stated in 14 FAM 423.2, providing guidance on receipt, storage, property accountability, inventory management, property utilization, and disposal.

The Department's management and oversight of about $1.2 billion of nonexpendable property are weak. Present policies and practices encourage laxity, resulting in some organizations writing off shortages of property valued in excess of $1 million without submitting evidence any research was done to determine the cause of the shortages. Compliance with required annual certification of inventory reconciliations is not enforced. In the past three years, several bureaus and posts did not submit their certifications. The lack of inventory reconciliations creates greater risk of the loss of accountable property. Although the regulations require penalties for noncompliance, no actions have been taken.

Recommendation 10: The Bureau of Resource Management, in coordination with the Bureau of Administration, should establish procedures in the Foreign Affairs Manual to require that all bureau and office heads, and chiefs of mission assure in their management controls certifications that an inventory was conducted and reconciled with property records and that the results were submitted. (Action: RM, in coordination with A)

As part of the section on property accountability responsibilities, 14 FAM 426 requires annual physical counts of all inventories of accountable property be done by trained personnel who are independent of the principal custodial officer. It also requires that the results be reconciled with property records. However, these inventories are not being conducted properly. For example, one bureau with a total inventory of $18 million has transferred items valued at over $14 million, items that could not readily be found, to its disposal report when the inventory was taken. It should have reported shortages of these items. The OIG team determined that many items in that disposal report were still in service. The team also found that the items were transferred to an invalid disposal report when the bureau could not further reconcile the inventory prior to submitting its certification. The certification therefore did not accurately report the result of the inventory. Penalties for improper certifications are discussed in 14 FAM 421.4-2(B). During the inspection, the bureau in question initiated corrective actions that include performing a new physical inventory.

Recommendation 11: The Bureau of Human Resources should evaluate employees' submission and approval of invalid inventory certifications to determine whether disciplinary action is warranted against them and, if so, whether it should be applied. (Action: HR)

In addition, annual inventories in several A/LM warehouses are not being conducted, and property records do not exist, virtually eliminating inventory controls. Two of the locations that store stock items for the Secure Expedited Logistics Program produce stock-levels reports but do not conduct or maintain inventories. Although required by contract, the contractor responsible for warehouse operations in Antwerp does not maintain or conduct inventories of any household effects, privately owned vehicles, and stock items, including items stored for the Defense Attaché System Support Office. Warehouse operators, either direct-hire or contractor employees, are required to conduct annual physical inventories, reconcile the results with the property records, and maintain records of ownership of all property in a facility, under 14 FAM 425.5g.

Recommendation 12: The Bureau of Administration should perform physical inventories and maintain property records in all warehouse operations. (Action: A)

When shortages are found after an inventory, the applicable rules are in 14 FAM 426.2(c) for domestic bureaus and 14 FAM 416.5-1(B) for posts overseas. They state that, if a shortage does not exceed one percent of the total value of the inventory, the accountable property officer or the property management officer may authorize an inventory adjustment if that officer is satisfied that efforts to reconcile have been reasonable and sufficient. This procedure has resulted in adjustments by bureaus even when shortages exceeded $1 million dollars. However, there is little, if any, evidence of efforts being made to investigate or resolve the shortages. One bureau consolidates and reports all property issued to posts overseas that was purchased with program funds. Although the consolidated amount of that bureau's total shortage did not exceed one percent of the consolidated inventory, the individual posts involved did have shortages of from four to 28 percent.

The use of the one-percent criteria to authorize adjustments is inappropriate, misleading, and has been interpreted by offices, bureaus, and posts to mean that nothing needs to be done to explain shortages when the value of the shortage is less than one percent. The Property Survey Report Form (DS-310) and Property Disposal and Survey Report Form (DS-312) are only required to be submitted to the Property Survey Board when the shortages exceed the one-percent criteria. The regulatory criteria should be withdrawn, and completed Forms DS-310 and DS-312 should be submitted for all shortages, regardless of amount. Additionally, 14 FAM 416.5-1(B)b requires that a copy of the survey reports be forwarded to OIG's Office of Investigations when shortages exceed one percent. Although seven bureaus and 17 posts had shortages greater that one percent in 2005, the Office of Investigations received only two reports.

Recommendation 13: The Bureau of Administration should revise regulations to eliminate the criteria allowing the authorization of adjustments when shortages total less than one percent of the stated inventory value and, when a shortage exists, instead require all domestic and overseas entities to submit either the applicable Property Survey Report or Property Disposal Authorization and Survey Report with the inventory certification. (Action: A)

Recommendation 14: The Bureau of Administration should instruct posts and bureaus to submit a copy of the property survey reports to the Office of the Inspector General's Office of Investigations. (Action: A)

The Department's Property Survey Board, responsible for reviewing shortages, has not convened since 2001 although shortages exceeding one percent have been reported in inventory certifications for the last three years. At the time of the inspection, the Department did not have a Property Survey Board in place, despite the requirement in 14 FAM 428.2.

Recommendation 15: The Bureau of Administration should establish a Property Survey Board. (Action: A)

Recommendation 16: The Bureau of Administration should instruct the Property Survey Board to meet to examine and resolve property shortages when property survey reports are submitted. (Action: A)

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A/LM management believes that serious deficiencies in controls over personal property will continue to exist until a viable, effective, worldwide, asset-management system is in place. A/LM is actively pursuing this goal.

Motor Vehicles Branch

The Motor Vehicles Branch, comprised of a branch chief, four full-time inventory management specialists, and one contractor handling administrative work, is responsible for managing the Department's 7,705-vehicle worldwide fleet, valued at approximately $300 million in FY 2006. A typical workday for the staff is spent corresponding with its assigned missions by e-mail or telephone and placing orders for International Cooperative Administrative Support Services (ICASS) vehicles and waiver requests. Many of the staff members are actively involved in special projects and other requirements brought about by recent reviews of property management in the Department.

The branch's responsibilities include managing an annual budget of approximately $4 million for the replacement of vehicles abroad; central inventory management of the Department's overseas vehicle fleet of program, ICASS, and DS vehicles; three annual vehicle reports for the Department (the Motor Vehicle Survey, Vehicle Inventory Reconciliation and Certification, and State-Program Vehicle Replacement); and annual mandatory reporting to the General Services Administration on the Department's overseas fleet. Other responsibilities include providing policy and

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regulation interpretation and guidance to its customers and initiating changes to policy in accordance with statutes and regulations. While the motor vehicles branch is responsible for oversight and inventory management of the overseas motor vehicle fleet, many aspects of the program are decentralized. For example, ICASS councils and the DS control the fleet size and composition of their associated vehicles at posts and are responsible for the vehicles' replacement programs.

A longstanding problem in the Department is the inventory reconciliation of the overseas motor vehicle fleet, as evidenced by numerous OIG inspection and audit reports issued for more than a decade. This continues to be a source of frustration for many missions, due to the time their staffs expend trying to keep the inventory records current. Motor Vehicles Branch and mission officials agree that the problems primarily arise because documentation associated with posts' purchase and/or disposal of ICASS vehicles never reaches the branch, for the staff to update its records. This is compounded by the substantial growth in the fleet over the years, although the number of staff in the branch has remained constant. On the other hand, the inventory for program vehicles does not have the same problems because the Motor Vehicles Branch creates the record in the database at the time of purchase. Inaccurate records for motor vehicles cause several problems. These include the lack of assurance that all post vehicles are accounted for, inaccurate recording of the Department's assets on its financial statements, and resource implications for vehicle fleet size, operation, and maintenance.

During the inspection, the Office of the Under Secretary for Management advised several posts to provide the Motor Vehicles Branch with the data to update the Department's official asset system for the FY 2006 financial statements. The data were critical because the Management Control Steering Committee was to decide whether to designate personal property in the Department as a material weakness in the Department's Federal Managers' Financial Integrity Act reporting. During the inspection, the committee instead designated personal property as a reportable condition for financial statement purposes.

Branch officials acknowledged that maintaining a centralized motor vehicles database in Washington has been a challenge, primarily because motor vehicles management is decentralized. The Motor Vehicles Branch does not have oversight of all vehicles purchased by posts, but it has plans to improve the process. For example, in the annual reconciliation notice to posts, posts are told to scan the documents into an e-mail that will go directly to Motor Vehicles Branch staff and improve the receipt of documentation. Also, the branch has implemented a tracking system for inventory submissions.

The Department's worldwide motor vehicles operations are in flux because several studies over fleets and operations are underway. The Bureau of Administration's management expects changes in management and policy to result from these studies. Department officials in various offices and bureaus shared with the OIG team numerous ideas for improving motor vehicles management and Bureau of Administration officials shared informal suggestions on how to restructure the management of the overseas motor vehicles fleet to improve operations and efficiency.

One Bureau of Administration suggestion is for missions, rather than the Motor Vehicles Branch, to manage the ICASS inventory, eliminating a layer in the process. However, this would require posts to be able to create inventory records in ILMS. Recently, posts gained access to the inventory but they cannot yet make changes. Once ILMS is implemented at posts, it is supposed to provide posts with real-time access to the inventory, eliminating the need to send documentation between posts and the branch. However, there is no specific date for the implementation.

Another idea under consideration is to allow posts to purchase and manage program vehicles, a function the Motor Vehicles Branch currently performs. However, both of these proposals require ILMS capability at overseas posts. In addition, a policy change is required to allow posts to purchase vehicles directly from the General Services Administration. This plan would also require decisions on how the funds should be allocated from the Bureau of Resource Management to the posts and how the vehicle replacement program will be handled for program vehicles, which are almost exclusively vehicles for chiefs of mission.

There is a consensus among Department officials that, in any reorganized structure, the Motor Vehicle Branch should continue its oversight role. For example, these officials believe that some entity should ensure the accuracy of inventory records, answer policy questions, and coordinate reporting requirements and special inquires from outside entities such as Congress or the Office of Management and Budget. The OIG inspection team agrees.

Ancillary Operations at the European Logistical Support Office – Antwerp

In addition to performing its primary missions as a CRP and DA, ELSO also operates the Expedited Logistics Program (ELP), a consumables program that is working well, and an office supply program. The ELSO staff strives for maximum customer support and satisfaction.

The ELP provides an online catalog for posts to order certain essential items from the ELSO warehouse, including complete rooms of furniture and major appliances such as air conditioners, stoves, refrigerators, and freezers. At any given time, items in stock are valued at $1.5 million. ELP "sales" to posts are valued at about $10 million annually. The Regional Procurement Support Office in Frankfurt purchases most items. In theory, the items staged in ELSO are ready for "immediate" shipment, greatly reducing the order and shipping times. Also, missions can obtain items at reduced shipping costs. There are problems, however, with the operation of the program, which is not being administered using supply management procedures. Rather, ELSO is using a transportation module. Because supply management procedures are not used, high-demand items are not in stock and slow moving items with little demand are available. There was about five years supply of one type of furniture valued at over $400,000 on hand at the time of the inspection. The LE staff is not using the procedures prescribed in 14 FAH-1 H-210 to compute demand data and future needs. The LE staff member managing ELP is trying hard to make the program work but has had no supply management training.

Recommendation 17: The Bureau of Administration should implement supply management procedures prescribed by the Department for the operation of the Expedited Logistics Program and provide necessary training for the personnel involved. (Action: A)

The office supply program was implemented in 2003 to allow posts to obtain office supplies through a General Services Administration-sponsored outlet in Germany. The program has not succeeded. Posts expressed dissatisfaction with the outlet's "fill or kill" policy; namely, the practice whereby, if the item is in stock, the order is filled and, if not, the order is cancelled. In addition, many items, particularly paper, can be obtained through the Regional Procurement Support Office at lower prices. Posts, including the joint management office that supports the three missions in Brussels, said they preferred to order office supplies directly from the United States through the General Services Administration. In FY 2006, ELSO processed only 19 orders. The investment in time and cost does not justify continuing the program.

Recommendation 18: The Bureau of Administration should terminate the office supply program at the European Logistical Support Office. (Action: A)

Secure Expedited Logistics Program Requirements

In the past, delivery of equipment such as copiers, faxes, shredders, plastic office accessories, and safes for use in secure areas of missions was inordinately slow. In fact, the time from order to shipment to delivery routinely exceeded a year. Customer satisfaction was low as well. To reduce delivery times for these items, since most items could be procured in Western Europe, A/LM established a Secure Regional Distribution Hub at Consulate General Frankfurt in February 2006. Missions in Europe, the Middle East, Africa, and parts of Asia can order items through the secure warehouse in Frankfurt.

The program is not meeting its potential. Little of the warehouse space was in use in September 2006, and shipments were minimal. A major obstacle to the program's success is a final determination of whether host-national employees can be involved in the procurement process. Present staffing of the warehouse in Frankfurt consists only of a cleared American Foreign Service officer on a tour of duty, and an LE U.S. citizen with a security clearance.

Recommendation 19: The Bureau of Administration, in coordination with the Bureau of Diplomatic Security, should employ locally hired, cleared, U.S. citizens for the Secure Expedited Logistics Program in Frankfurt. (Action: A, in coordination with DS)

Responsibility for the various elements of the program rests with three different organizations. DS is responsible for security, including policy and guidelines; IRM is responsible for technical inspections; and A/LM is responsible for logistics activities. The three bureaus advised that they are working on procedures for the procurement, storage, and issuance of equipment.

Purchase Cards

Purchase cards are not used for most domestic or overseas micropurchases (purchases below $3,000 overseas and $2,500 domestically). The administrative savings possible through using a purchase card for procuring commercial items are significant, compared to traditional methods. Without full utilization of this tool, the Department fails to realize potential, significant, annual savings resulting from reduced administrative costs. PMP has operational responsibility for the purchase card program, and policy responsibility lies with OPE. Both PMP and OPE actively promote purchase card use and provide training at Foreign Service Institute and annual general services officer conferences.

There are legitimate reasons why the purchase cards can at times not be used. For example, some countries do not have the infrastructure. However, other reasons for failing to use the cards are questionable, such as the restrictive measures imposed by mission personnel.

In FY 2005, there were 129,448 purchase card transactions. This improved on FY 2000, when there were only 67,035 purchase card transactions. The increased usage over the period demonstrates that the program has been effective. However, there is potential usage that the Department could tap to obtain greater efficiencies in purchasing**.** There were 1,448 cardholders in FY 2005, thus cardholders only averaged 89 purchases each for the year, or a little more than seven a month. Increased use by every cardholder could result in significant savings.

There is no firm basis with which to determine the potential universe of micropurchases for which purchase cards can be used. The Department does not maintain readily identifiable and usable data. However, at a medium-sized mission inspected in FY 2006, where there was considerable reluctance to use the card, there were over 12,000 cash transactions below the purchase card ceiling. The use of purchase cards is not feasible for some cash payments; for example, for the minimal amounts of local currency often required to pay vendors for small purchases at overseas posts. Nonetheless, by expanding purchase care use to other missions, projected savings worldwide would be significant.

Recommendation 20: The Bureau of Administration should mandate a policy and procedures for using purchase cards for all micropurchases and designate the exceptions where doing so is not feasible. (Action: A)

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DIPLOMATIC POUCH AND MAIL

DPM's operations are functioning well. Implementing the DPM module of ILMS has resulted in efficiencies and improved customer service. A new performance-based contract for all DPM operations should result in added efficiencies. However, Army Post Office (APO) and Fleet Post Office (FPO) operations are in flux. As of FY 2008, the Department of Defense (DOD) will cease billing operations at most APOs at diplomatic missions. The Department needs to create a billing, collection, and payment system to replace DOD's system. Ultimately, DOD wants these APOs to be Department-managed operations.

DPM must work within ICASS budget constraints. To the dismay of posts and DPM, implementation of the Diplomatic Post Office (DPO) program has been suspended indefinitely by the ICASS budget committee. The program was created to improve mail service to posts that solely rely on diplomatic pouches.

Diplomatic pouch and mail service is a logistics management function; however, policy responsibility is assigned to IRM, an anomaly resulting from past Department reorganizations. The issue of responsibility for unclassified pouch operations overseas, however, was not within the scope of the OIG inspection.

DPM receives, sorts, processes, and dispatches classified pouches. The Diplomatic Courier Service within DS transports classified pouches, and the OIG team did not review courier operations. Relations between DPM and the courier service are good.

DPM and the Department should be commended for their response in 2001 to the anthrax contamination of the unclassified pouch facility. Despite having to vacate the facility, limited operations resumed within two weeks, and most services resumed within two months. Following a massive decontamination and cleanup process, the unclassified facility was reoccupied in early 2005 and new security and screening procedures and environmental testing were implemented to ensure security and safety.

Overview

The entire foreign affairs community depends on DPM's services, as reflected by the magnitude of DPM's operations. DPM's budget for FY 2006 was approximately $49 million. This included $23 million from ICASS for DPM services. Of this, $12.5 million was for air cargo transportation of unclassified pouches. (DS for transporting classified pouches.) Most of the remaining ICASS funds are for contractors, rent, and guards at the unclassified pouch facility, ILMS deployment, and mail safety.) DPM also received $26 million in Diplomatic and Consular Program funds, which largely paid for the Department's ICASS share for pouch and mail services ($12.3 million), reimbursed DOD for the Department's share of APO and FPO services ($7 million), and paid charges from the U.S Postal Service for postage and fees for domestic mail operations ($1 million).

In FY 2006, DPM shipped and received 260,331 classified and unclassified pouches, with a combined weight of approximately 6,000 tons. About 75 percent of pouches are unclassified.

DPM has 36 authorized direct-hire employees (four Foreign Service and 32 Civil Service) and employs 108 cleared U.S. contractors. Contractors are employed at both the unclassified and classified pouch facilities and staff the Department's domestic mail operations. DPM is considering expanding the use of contractors at the classified facility.

For unclassified pouches, the average cost per kilogram shipped was $4.17 in FY 2006. Costs can be as high as $20 per kilogram. DPM's selection of commercial carriers is based on negotiated rates, transit times, and reliability. FY 2006, air transportation costs were approximately $900,000 less than in the initial ICASS budget request, due to rate renegotiations. DPM monitors carrier performance and determines the reasons for any problems, such as delayed, misrouted, or damaged pouches. For FY 2006, average cycle time for processing and delivery was 7.2 days, including 2.9 days for transit.

Accomplishments

The 2003 implementation of the ILMS pouch and mail module is a success story. ILMS is used by DPM managers and employees at the unclassified and classified pouch facilities and by DS couriers in Washington and at the six courier hubs overseas. By automating work that had been performed manually, ILMS has created

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efficiencies. For example, ILMS generates advance shipping notices to posts via e-mail. Previously, posts were notified by cable, and DPM employees had to prepare up to 50 cables per day. To date, the Bureau of Administration has installed the system at only ten posts. Other posts may track pouch status via a search function on the DPM web site. DS officials told the OIG team that ILMS helps them more accurately determine other agency costs for courier services.

Since 2002-2003, receipt and payment of pouch transportation invoices have been handled through Power Track, which works well for DPM in part due to the uniformity of DPM's transactions. Power Track saves DPM staff from manually processing about 220 invoices monthly.

In 2003, DPM initiated the Answerperson function on its web site, and it responds to inquiries from posts and receives up to 50 e-mails daily. Additionally, DPM created a Customer Satisfaction survey on its web site that receives about 45 responses per month. The majority of customers rate service as good.

Performance-based Contracting

In April 2006, DPM awarded a performance-based contract for all pouch and mail services (including domestic mail service). The contract is for one year and has four option years, with a maximum cost of $6 million per year. DPM also established performance measures and indicators and a quality assurance plan for the contract. Due to the financial incentives inherent in a performance-based contract, the contractor is identifying workflow process improvements and more cost-effective methods for meeting performance objectives. In seeking innovations, the contractor had a mail-management consultant review domestic mail operations. The consultant will also review unclassified pouch operations. The director of the Department's Office of Acquisitions said the contract was among the Department's best.

Pouch and Mail Policy Responsibility

Pouch and mail operations are a logistics management/supply chain function related to the flow and transport of items. However, although DPM is responsible for pouch and mail operations, IRM is responsible for pouch and mail policy; at overseas posts, the pouch and mail function is the responsibility of IRM staff. Clearly, however, pouch and mail functions are not related to information systems or information technology, the core IRM responsibilities.

The fragmentation of pouch and mail operations and policy is a remnant of the Department's organization structure and predates the creation of IRM. Prior to that, DPM policy and operations were assigned to the Office of Communications within the Bureau of Administration. Upon creation of DS in the late 1980s, the diplomatic couriers were moved to that bureau. The unclassified pouch function remained in the Office of Communications until that office was incorporated into the then-new IRM in the mid-1990s. Pouch and mail operational responsibilities, however, remained in the Bureau of Administration, while the policy and overseas functions remained in IRM.

In reality, DPM is in charge of policy and operations. Although IRM staff remains responsible for the pouch and mail function overseas under 5 FAM 120, there is no relationship between IRM and DPM. The FAM does not the give the Department's Chief Information Officer any authority or responsibility for pouch and mail and instead delegates this function to the Assistant Secretary for Administration (1 FAM 210 and 270). Although the pouch and mail policy section of the FAM and the Pouch and Mail Handbook are found in IRM sections of those rules (5 FAM 310 and 5 FAH 110, respectively), they were written and are revised by A/LM/DPM. Logically, they belong under 14 FAM - Logistics Management.

Recommendation 21: The Under Secretary for Management should direct the transfer of all policy responsibility for pouch and mail from 5 FAM 310 and 5 FAH 10 to 14 FAM/FAH with corresponding responsibility to the Bureau of Administration. (Action: M)

Army Post Office/Fleet Post Office

The Department and other federal agencies overseas have benefited from the APO and FPO system for decades. There are 72 U.S. missions (125 posts) with APO service, which is managed and operated by DOD's Military Service Postal Agency (MSPA). APOs are branches of the U.S. Postal Service (USPS); customers pay domestic U.S. postal rates and are subject to USPS regulations. DOD's closure of APOs is not new. MSPA has raised the plan intermittently over the past five years, reiterating that its core function is to transport mail to military installations. It does not consider delivery to and from diplomatic posts to be a primary responsibility.

The issue intensified during FY 2005, and in September 2006 DOD informally notified the Department that it would discontinue APO billing operations for approximately 55 missions by the end of September 30, 2006. MSPA, without notification to the Department, missions, or USPS, also changed its automated system in a way that virtually paralyzed APOs. Negotiations between the Department and MSPA followed, resulting in a formal agreement on September 29, 2006, for the Department to take over financial responsibility for postal operations at the 55 posts as of October 1, 2007. The Department and MSPA have created a team that is working on a detailed transition plan. DOD wants to ultimately transfer all management responsibility for these APOs to the Department, which would have to convert the APOs to Department-managed postal operations.

Although affected employees are concerned about a conversion, DPM's preliminary research indicates that the impact on missions will be minimal. Like APOs, the Department's postal operations will be branches of the USPS and, in most respects, will function like APOs. At most missions, APOs are staffed by non-DOD employees and the same personnel (mostly LE staff) will continue their duties. In October 2006, DPM asked the posts most likely to be affected by the change to submit detailed information on any anticipated impact on their resources.

The biggest challenge is the Department's assumption of financial responsibility for the function from DOD. Agency costs for APO services are not part of ICASS. Rather, USPS tracks the cost of transporting APO mail and then bills MSPA for the total governmentwide costs (approximately $10 million for FY 2006). In turn, MSPA each quarter collects reimbursement from each agency's Washington headquarters. After the conversion in FY 2008, USPS will bill governmentwide costs to the Department. The Bureau of Resource Management will need to implement a system to pay USPS and will also need to bill and collect reimbursement from other agencies. The new system will have no effect on posts. Some Department officials believe ICASS is the most logical billing and payment mechanism; however, at the time of the inspection, there was no consensus on this among the agencies.

Recommendation 22: The Bureau of Resource Management, in coordination with the Bureau of Administration, should establish and implement a system to pay the U.S. Postal Service and bill and collect reimbursement from other agencies for postal service provided to posts being converted to Department-managed postal operations. (Action: RM, in coordination with A)

The Department anticipates the conversion will save about $1.4 million annually. DPM information shows that MSPA has been overcharging some agencies and undercharging others because its billing calculations are based on a flawed methodology and outdated statistics. Currently, MSPA charges the Department 70 percent ($7 million) of the total cost to the government, based on old estimates of agencies' overseas presence. Under an accurate fair-share system based on ICASS counts, the Department's charges will be approximately 56 percent ($5.6 million). The Department of Homeland Security, which did not exist when the cost allocations were developed, will face significant charges under the new system. Furthermore, DPM estimates that the U.S. Agency for International Development's costs will increase about 80 percent while the Department of Commerce's costs will be reduced about 70 percent. Under the current allocations, MSPA charges the Department of Justice, whose overseas presence has grown steadily since 2001, less than it charges the National Science Foundation. Additionally, DOD, which does not bill itself under the current system, will owe about $3 million per year under a fair-share system.

Diplomatic Post Office Program

The Department created the DPO program in FY 2003 to provide posts without APOs (i.e., posts solely dependent on diplomatic pouches) with mail service comparable to that provided by APOs. (The reduced level of mail service at non-APO posts is a factor in calculating hardship differentials.) Seventy-five U.S. missions overseas (125 posts) are pouch-only posts. DPOs are funded by ICASS and, as APO equivalents, are considered USPS branch offices. Compared to pouches, DPOs provide a faster, more flexible, and cheaper method for delivering mail.

The DPO program was successfully implemented in FY 2004 at 16 pilot posts. In late 2005, DPM requested that ICASS fund an additional 30 DPOs and anticipated opening DPOs at most pouch-only posts by FY 2009. The cost to operate a DPO is $30,000 to $40,000 annually, depending on factors such as the size of the post, local transportation costs, and resource impact.

Citing cost constraints and competing priorities, the interagency ICASS Budget Committee, with the concurrence of the Department's regional bureaus, did not approve DPM's funding request. DPOs are considered a nonessential service. To the disappointment of missions and DPM, the program was suspended indefinitely in December 2005. (Suspension of the DPO program has no effect on the conversion of APOs to Department-run postal operations.)

Funding of the 16 existing DPOs will continue. Other missions that want to establish DPOs may do so using their own ICASS funds. As of November 2006, one post, Embassy Stockholm, had done so after determining that ICASS costs would not be significantly higher. For some posts, operating a DPO may cost less than using commercial mail services. For instance, Embassy Budapest, one of the pilot project's posts, is saving money. As of October 2005, three additional posts were considering establishing DPOs; however, most missions said they lack sufficient funds.

Bulk Shipments

DPM recognizes that it is a service provider and that pouch and mail services are an important quality of life factor for employees overseas. Nevertheless, the primary purpose of the pouch system is as a mail service not an expedited air cargo tool. DPM is not funded to pay shipping and transportation costs for bulk orders of official procurements (such as supplies from the General Services Administration) or bulk personal shipments. Also, some employees use pouch shipments to circumvent household effects regulations. Bulk orders should be transported through DAs, although rare exceptions are made, such as for authorized emergency shipments. The average cost of transporting a bulk shipment via pouch is approximately $500; however, costs range into the thousands of dollars. These shipments have increased, particularly due to the popularity of Internet shopping. The Department's repeated cables and reiteration of FAM regulations (14 FAM 310) have resulted in a small decrease in volume; however, to contain costs, DPM is now enforcing the regulations more aggressively. As of September 2006, official procurements and bulk personal shipments must be funded before they are shipped to posts. DPM will hold these shipments, notify posts and employees, and return the shipments to the sender unless payment is received within 14 days. A detailed cable on this was sent to all posts in October 2006 (State 169076).

Automation

The two letter-sorting machines at the unclassified pouch and mail facility are outdated, frequently malfunction, do not perform properly, require intensive maintenance, and cannot sort mail for domestic Department addresses. Also, large envelopes and magazines must be sorted manually. New machines cost approximately $500,000 each and would need to be funded by ICASS. In light of budget constraints, DPM has not raised the issue with the ICASS Budget Council. Currently, much manual labor is spent on packing/unpacking, sorting, and moving pouches and bulk items. Automation would allow the Department's pouch and mail operations to function more like their commercial counterparts but would require significant funds.

HUMAN RESOURCE MANAGEMENT

Leave Administration

Supervisory officials improperly authorized the use of sick leave for a PMP employee to extend her service time beyond her actual departure date from the office. The employee's last day in the office was August 19, 2006. However, her resignation was effective on November 11, 2006. Prior to departing, the employee submitted her resignation along with post-dated leave slips requesting use of over 200 hours of accrued sick leave.

The employee circumvented 3 FAM 3427, which generally requires documentation for more than three days of sick leave, by inserting requests of one or two days of annual leave after every three days of sick leave. The responsible supervisor signed and submitted these leave slips to the timekeeper in every pay period between August 19, 2006, and November 11, 2006. When the time and attendance reports were submitted to the office director for approval, the director failed to review and disapprove the improperly authorized sick leave. Under 3 FAM 4510, the Department should review the actions of all employees who were involved in allowing the former employee to improperly use sick leave.

Recommendation 23: The Bureau of Administration, in coordination with the Bureaus of Human Resources and Resource Management, should recover the payments made for the improperly claimed and paid sick leave from the employee who used it. (Action: A, in coordination with HR and RM)

Recommendation 24: The Bureau of Administration should establish management controls to ensure that only properly authorized leave is approved by supervisors and that the time and attendance reports are properly reviewed and approved by the responsible officer. (Action: A)

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Recommendation 25: The Bureau of Human Resources should review all actions pertinent to this specific case and take applicable disciplinary actions against employees involved in the recording, authorization, certification, and approval of the sick leave involved. (Action: HR)

Equal Employment Opportunity

Interviews with the entire staff at the Baltimore DA and observations by the OIG team revealed the staff there has low morale, and there is a widespread perception of unfair management practices. The OIG inspection team observed that the office atmosphere was strained and tense. Individuals told the team they did not know where to go with their complaints. Managers said there are plans for an outside consultant to conduct an on-site team-building course. While this is a positive move, it is insufficient to address the depth of the problems. The Baltimore DA does not have an Equal Employment Opportunity coordinator, nor does it have Equal Employment Opportunity information available and posted (3 FAM 1514-1b3). In addition, the other domestic DAs also lack these matters. The Bureau of Administration has two Equal Employment Opportunity representatives, but they are in Washington. Employees in disparate locations need on-site coordinators to inform and support them.

Recommendation 26: The Bureau of Administration should appoint and train an Equal Employment Opportunity coordinator for each domestic U.S. Despatch Agency and ensure that Equal Employment Opportunity information is available and posted. (Action: A)

Logistics Management Specialty

New technology and changes in supply chain management and logistics operations require frequent updating of skill levels. Training is often overlooked in the day-to-day rush to meet customers' needs. Foreign Service general service officers complete a 10-week course at the beginning of their careers, but LE staff members receive sporadic training. The Department could reduce its expenses for this function by developing mandatory education requirements, a certification program, and a specific functional skill code for worldwide logistics management.

A/LM conducts briefings as part of Foreign Service Institute courses and holds regional training overseas in the areas of purchase cards, property management, and transportation. These activities should be continued and expanded to bring the most current logistics information and competencies to the staff at all missions and to develop a certification program. By combining a functional skill code (3 FAH-1-2623.2) with an established education and certification program, the Department could develop a highly competent staff that is aware of industry best practices and can achieve greater efficiencies and cost savings within logistic management operations.

Recommendation 27: The Bureau of Human Resources, in coordination with the Bureau of Administration, should establish a logistics management function skill code and a logistics certification program for logistics professionals worldwide. (Action: HR, in coordination with A)

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FORMAL RECOMMENDATIONS

Recommendation 1: The Bureau of Administration should contract with outside transportation consultants for a management review of the organization and structure of the Office of Logistics Operations, Office of Program Management and Policy, and the Despatch Agencies. (Action: A)

Recommendation 2: The Bureau of Administration should reduce staffing at the Baltimore Despatch Agency, transferring personnel not required to provide location-specific operations in Baltimore to Washington, DC. (Action: A)

Recommendation 3: The Bureau of Administration, in coordination with the Bureau of Human Resources, should mandate policies and procedures to ship employee household effects using the International Through Government Bill of Lading system wherever it is available and less costly than the direct procurement method. (Action: A, in coordination with HR)

Recommendation 4: The Bureau of Administration should establish procedures requiring compliance with International Standard for Phytosanitary Measures No. 15 for all shipments from countries where treated wood is available. (Action: A)

Recommendation 5: The Bureau of Administration should require that European Logistics Support Office personnel physically inspect shipments that the contractor claims do not comply with International Standard for Phytosanitary Measures No. 15 before authorizing the contractor to repack the shipments. (Action: A)

Recommendation 6: The Bureau of Administration should recover from the contractor repacking charges that were imposed in instances where repacking was unnecessary because the wood used met the standard. (Action: A)

Recommendation 7: The Bureau of Administration should establish and implement policies and procedures to make certain that employee household effects are stored at the Hagerstown warehouse to the maximum possible extent. (Action: A)

Recommendation 8: The Bureau of Administration should correct the interface problems between the International Logistics Management System and the Power Track system. (Action: A)

Recommendation 9: The Bureau of Administration, in coordination with the Bureau of Resource Management, should establish and implement the controls required for collections of payments received from employees for overweight shipments. (Action: A, in coordination with RM)

Recommendation 10: The Bureau of Resource Management, in coordination with the Bureau of Administration, should establish procedures in the Foreign Affairs Manual to require that all bureau and office heads, and chiefs of mission assure in their management controls certifications that an inventory was conducted and reconciled with property records and that the results were submitted. (Action: RM, in coordination with A)

Recommendation 11: The Bureau of Human Resources should evaluate employees' submission and approval of invalid inventory certifications to determine whether disciplinary action is warranted against them and, if so, whether it should be applied. (Action: HR)

Recommendation 12: The Bureau of Administration should perform physical inventories and maintain property records in all warehouse operations. (Action: A)

Recommendation 13: The Bureau of Administration should revise regulations to eliminate the criteria allowing the authorization of adjustments when shortages total less than one percent of the stated inventory value and, when a shortage exists, instead require all domestic and overseas entities to submit either the applicable Property Survey Report or Property Disposal Authorization and Survey Report with the inventory certification. (Action: A)

Recommendation 14: The Bureau of Administration should instruct posts and bureaus to submit a copy of the property survey reports to the Office of the Inspector General's Office of Investigations. (Action: A)

Recommendation 15: The Bureau of Administration should establish a Property Survey Board. (Action: A)

Recommendation 16: The Bureau of Administration should instruct the Property Survey Board to meet to examine and resolve property shortages when property survey reports are submitted. (Action: A)

Recommendation 17: The Bureau of Administration should implement supply management procedures prescribed by the Department for the operation of the Expedited Logistics Program and provide necessary training for the personnel involved. (Action: A)

Recommendation 18: The Bureau of Administration should terminate the office supply program at the European Logistical Support Office. (Action: A)

Recommendation 19: The Bureau of Administration, in coordination with the Bureau of Diplomatic Security, should employ locally hired, cleared, U.S. citizens for the Secure Expedited Logistics Program in Frankfurt. (Action: A, in coordination with DS)

Recommendation 20: The Bureau of Administration should mandate a policy and procedures for using purchase cards for all micropurchases and designate the exceptions where doing so is not feasible. (Action: A)

Recommendation 21: The Under Secretary for Management should direct the transfer of all policy responsibility for pouch and mail from 5 FAM 310 and 5 FAH 10 to 14 FAM/FAH with corresponding responsibility to the Bureau of Administration. (Action: M)

Recommendation 22: The Bureau of Resource Management, in coordination with the Bureau of Administration, should establish and implement a system to pay the U.S. Postal Service and bill and collect reimbursement from other agencies for postal service provided to posts being converted to Department-managed postal operations. (Action: RM, in coordination with A)

Recommendation 23: The Bureau of Administration, in coordination with the Bureaus of Human Resources and Resource Management, should recover the payments made for the improperly claimed and paid sick leave from the employee who used it. (Action: A, in coordination with HR and RM)

Recommendation 24: The Bureau of Administration should establish management controls to ensure that only properly authorized leave is approved by supervisors and that the time and attendance reports are properly reviewed and approved by the responsible officer. (Action: A)

Recommendation 25: The Bureau of Human Resources should review all actions pertinent to this specific case and take applicable disciplinary actions against employees involved in the recording, authorization, certification, and approval of the sick leave involved. (Action: HR)

Recommendation 26: The Bureau of Administration should appoint and train an Equal Employment Opportunity coordinator for each domestic U.S. Despatch Agency and ensure that Equal Employment Opportunity information is available and posted. (Action: A)

Recommendation 27: The Bureau of Human Resources, in coordination with the Bureau of Administration, should establish a logistics management function skill code and a logistics certification program for logistics professionals worldwide. (Action: HR, in coordination with A)

INFORMAL RECOMMENDATIONS

Informal recommendations cover matters not requiring action by organizations outside of the inspected unit and/or the parent regional bureau and are not be subject to the OIG compliance process. However, any subsequent OIG inspection or on-site compliance review will assess the mission's progress in implementing the informal recommendations.

Personal Property Claims

Some Department employees feel that the claims process takes too long. Therefore, they are reluctant to file personal property claims when there is damage to their household effects. One reason for claims-processing delays is that employees do not send the proper documentation to the claims office.

Informal Recommendation 1: The Bureau of Administration should send out periodic notices to employees, reminding them of the availability of the claims web page and other information describing the claims process.

Some employees believe that the claims office does not provide feedback on the status of claims, particularly those that take a long time to process.

Informal Recommendation 2: The Bureau of Administration should provide employees with periodic status reports on submitted claims.

Several property reports submitted by bureaus reported missing desktop and laptop computers that may contain sensitive employee personal information that had been maintained by the Department. No action was taken to determine whether sensitive information was contained in any of the missing equipment, loss of which could adversely impact the Department and its employees.

Informal Recommendation 3: The Bureau of Administration should coordinate with the Bureau of Diplomatic Security to implement a course of action regarding the missing information processing equipment.

PRINCIPAL OFFICIALS

	Name	Arrival Date
Assistant Secretary	Rajkumar Chellaraj	06/2006
Deputy Assistant Secretary for Logistics Management	Will H. Moser	07/2006
Director for Logistics Operations	Steven G. Hartman	05/2006
Director for Program Management and Policy	Cecilia Coates	06/1998

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ABBREVIATIONS

A/LM	Bureau of Administration/Office of Logistics Management
APO	Army post office
CRP	Consolidated receiving point
DA	Despatch Agency
Department	Department of State
DOD	Department of Defense
DPM	A/LM Diplomatic Pouch and Mail Division
DPO	Diplomatic Post Office
DS	Bureau of Diplomatic Security
ELP	Expedited Logistics Program
ELSO	European Logistics Support Office
FPO	Fleet post office
GFSC	Global Financial Services - Charleston
HR	Bureau of Human Resources
ICASS	International Cooperative Administrative Support Services
ILMS	Integrated Logistics Management System
IRM	Bureau of Information Resource Management
ITGBL	International Through Government Bill of Lading
LE	Locally employed
MSPA	Military Service Postal Agency
OIG	Office of Inspector General
OPS	A/LM Office of Logistics Operations

~~SENSITIVE BUT UNCLASSIFIED~~

PMP	A/LM Office of Program Management and Policy
TTM	A/LM Transportation and Travel Management Division
USPS	United States Postal Service