NARCOTICS PROGRAM MANAGEMENT ISSUES

98-CI-004

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NARCOTICS PROGRAM MANAGEMENT ISSUES
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LIST OF ABBREVIATIONS

A	Bureau of Administration
A/OPR	Office of Operations, Bureau of Administration
BPA	Blanket Purchase Agreement
Defense	Department of Defense
FAAS	Foreign Affairs Administrative Support System
FELCN	Special Force for the Fight Against Narcotics (a Bolivian Government agency)
FSC	Charleston Financial Services Center
FMAR	Financial Management Activity Report
FMP	Bureau of Finance and Management Policy
FMS	Financial Management System
FSN	Foreign Service National
FY	Fiscal Year
GSO	General Services Officer
ICASS	International Cooperative Administrative Support Services System
INC	International Narcotics Control Program
INL	Bureau for International Narcotics and Law Enforcement Affairs
INL/RM	Office of Resource Management, Bureau for International Narcotics and Law Enforcement Affairs
L	Office of the Legal Adviser
M/FSI	Foreign Service Institute
NAS	Narcotics Affairs Section
OIG	Office of Inspector General
PER	Bureau of Personnel
PSC	Personal Services Contract
SDA	Suspense Deposit Abroad
Treasury	Department of Treasury

AUDIT REPORT 98-CI-004
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JANUARY 1998

I. EXECUTIVE SUMMARY

Purpose

We focused on the adequacy of management controls related to four areas under Bureau for International Narcotics and Law Enforcement Affairs (INL) field programs: (1) financial management and reporting systems, (2) staffing resources overseas, (3) headquarters' management support for and oversight of field programs, and (4) field controls over potentially vulnerable program support components such as food, fuel, and salary incentive payments.

Background

INL is responsible for managing the U.S. International Narcotics Control Program and funds a wide range of bilateral and multilateral programs to meet its international narcotics control policy objectives of reducing drug flows and creating a hostile international environment for narcotics trafficking. Since 1978, INL has managed over $1 billion in counternarcotics program funds. To administer its projects, INL has 16 narcotics affairs sections (NASs) overseas (including two that are regional) and a regional NAS located in Miami, Florida.

Results in Brief

Financial Management and Reporting: INL field managers did not consistently implement INL headquarters financial management systems, did not provide uniform financial reports to INL, and were unable to resolve unliquidated obligations prior to lapse of funds. At one NAS we found that almost $2 million in unliquidated obligations lapsed because field officers did not receive billing documentation from other Department elements or from other U.S. Government agencies. NAS will be required to pay related bills from currently available appropriations when and if bills are received.

Staffing Resources Overseas: INL could better use its personnel resources by incorporating some of its smaller one-officer NASs into regional NAS operations. This concept would be appropriate at single-officer NASs having annual program budgets of $1 million or less and would not necessarily diminish program oversight. Closing between one and five NAS country operations could constitute funds put to better use of between $100,000 and $800,000, including reprogramming personnel to other bureau priorities.

Headquarters Support For and Oversight of Field Programs: INL

needs to increase field assistance visits that provide valuable supervision over and assistance to NAS operations. The proposed schedule for field assistance visits has increased over previous years, but large country programs need to be accelerated.

Field Controls Over Potentially Vulnerable Program Support: INL has improved its field management controls over several narcotic program support components vulnerable to waste, fraud, and mismanagement. These include payment of salary supplements, procurement and maintenance of vehicles, warehousing of spare parts, and travel and per diem. Controls over fuel provided to host-country counternarcotics units require further strengthening.

Principal Findings

Inconsistent Use of Financial Management and Reporting Systems

INL receives its program funding as a separate appropriation under the Foreign Operations account. Due to the limitations of the Department's financial management system (FMS), INL developed a subsidiary financial management system to track bureau funds and expenditures in more detail. The bureau also developed the Financial Management Activity Report (FMAR) that enables NASs and INL headquarters to monitor the status of project implementation and available funding. However, INL has not required all field programs to implement FMARs consistently, and many NASs have developed their own local systems to record the necessary financial information. As a result, INL does not always receive the information it needs to monitor NAS activities.

Lapse of Program Funds

Almost $2 million in unliquidated obligations from fiscal year (FY) 1988-1990 appropriations managed by one NAS we visited lapsed at the end of FYs 1993-1996 because NAS officers did not receive documentation needed to clear the accounts in a timely manner. These unliquidated obligations represented funding reserved by the NAS to pay for narcotics program activities that were carried out as planned but for which the NAS did not receive billing prior to the end of the 5-year period during which the obligated funds could legally be expended. Three types of problems were noted: (1) missing bills for projects implemented by the Department of Defense (Defense), (2) incorrect financial data from the Charleston Financial Services Center (FSC), and (3) delayed liquidation of Department charges for overseas administrative support services. The NAS remains liable for these expenses and will have to pay them from currently available appropriations when bills are subsequently received.

Legal Authorities Have Changed

Both INL and the Bureau of Finance and Management Policy (FMP) continue to treat INL's annual funding as a fixed annual appropriation that requires that all funds be liquidated within 5 years after the end of

the fiscal year in which the funds are appropriated. If not, unliquidated funds will lapse and revert to the Department of Treasury (Treasury). Our review disclosed that INL's appropriation legislation for FY 1994 and beyond provides that its funds remain available until expended. Unless steps are taken to modify the Department's FMS to account for this new provision, control of INL funds may be erroneously returned to the Treasury.

Optimizing Resources

INL could optimize its personnel resources by merging some of its smaller one-officer NASs into regional NAS operations. To administer counternarcotics programs globally, INL has distributed its resources broadly. Our review disclosed that INL has not capitalized on the success of regional operations. We believe INL could incorporate some of its one-officer NASs with annual program budgets under $1 million into regional NASs. We project funds put to better use of between $100,000 and $800,000 under this concept by closing between one and five one-officer NASs and transferring the program functions to a regional NAS. Also, personnel could be reprogrammed to different bureau priorities.

More Field Assistance Visits Needed

Although INL has notably increased supervisory and assistance visits to the field, INL needs to further expand its planned schedule and provide for greater oversight of programs receiving over $100,000 in annual INL funding. We identified concrete program and financial benefits to posts provided by these visits.

Management of Narcotics Program Components has Improved

INL has improved management controls over procedures established to safeguard potentially vulnerable narcotics program components at the NAS programs we evaluated. Programs reviewed by OIG included the payment of salary supplements, control over vehicles and spare parts, management of travel and per diem payments, provision of food supplements, management of NAS Lima's revolving fund supporting coca eradication, and management of NAS warehouses. We identified some controls over fuel accountability which require strengthening.

Recommendations

INL agreed in concept with all final report recommendations. Initially, INL disagreed with some draft recommendations. OIG worked with INL to propose alternative solutions to the deficiencies identified in the final report. Our major recommendations in the final report are that:

- INL instruct posts administering a predetermined level of International Narcotics Control Program funding (to be established by INL) to use automated FMAR software developed by INL;

- INL, in cooperation with FMP, develop a strategy to correct billing problems related to Defense Department-implemented projects, incorrect data from the Charleston FSC, and delayed liquidation of overseas administrative support services charges;

- FMP establish procedures, consistent with the Department's FMS, to ensure the availability of INL appropriations until final liquidation;

- INL evaluate NASs with annual program budgets below $1 million to determine whether or not it is feasible to incorporate their country programs into regional NASs; and

- INL direct NAS La Paz to complete implementation of its new fuel control reporting and monitoring system and direct NAS Lima to develop a similar system.

Department Comments

We discussed our findings with INL officials and provided a draft version of this report to INL, FMP, the Office of the Legal Adviser (L), the Foreign Service Institute (M/FSI), the Bureau of Personnel (PER), and Embassies La Paz, Lima, Quito, Caracas, and Santo Domingo. Formal written comments received on this report have been included as appendices A-G.

In regard to the above recommendations:

- INL agreed that FMAR software should be a bureau standard, but disagreed on a minimum threshold amount for posts to implement the financial software. INL stated that the bureau should have the flexibility to decide if a standard system is warranted. OIG agreed with INL that management should have the prerogative to identify and justify those locations not requiring FMAR software. We clarified our recommendation to include more flexibility.
- INL reported that, in cooperation with FMP, billing problems related to INL programs overseas have been corrected.
- INL agreed that procedures should be established, consistent with FMS, to ensure availability of INL appropriations until liquidation. OIG agreed with INL that FMP should be the action office to implement the recommendation.
- INL did not agree with the draft report recommendation to evaluate small NASs for the possibility of regionalization, stating that our recommendation does not take into account other factors which may affect determination of resources to a country. Embassies Quito and Caracas strongly disagreed with the recommendation to regionalize

some small NASs, arguing for the necessity of having a physical presence in those countries to maintain close contact with host country counterparts. Upon further discussion, INL agreed to develop an alternative approach in periodically evaluating one-officer NASs for cost savings through regionalization.

- INL and Embassy La Paz reported that a new improved fuel control reporting and monitoring system had been implemented.

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II. PURPOSE AND SCOPE

Since FY 1978, INL has obligated over $1 billion provided under the Foreign Assistance Act of 1961, as amended (Public Law 87-195), to support counternarcotics activities abroad. These activities are administered primarily in the field by NAS offices located in 16 embassies around the world, and a regional NAS in Miami, Florida. The purpose of the review was to examine INL's management of its field program activities.

The review was performed as a follow up to earlier Office of Inspector General (OIG) audits of INL programs that noted weaknesses in NAS financial management[1] and fuel accountability.[2] In addition, there have been recent instances of fraud and inappropriate procurement activities associated with the program that indicated potential vulnerabilities in INL programs.

We focused on the adequacy of management controls related to four areas under INL field programs: (1) INL's financial management systems and reporting mechanisms, (2) staffing resources overseas, (3) INL's program management and oversight, and (4) management controls over potentially vulnerable narcotics program components. First, within INL's financial management systems and reporting mechanisms, we reviewed use of the INL's Financial Management Activity Report (FMAR), including the timely liquidation of program obligations.

The second issue we reviewed concerned INL staffing resources overseas. INL uses limited direct-hire resources and personal services contract (PSC) employees. Due to the limited authorization for direct-hire resources overseas, INL increasingly relies on NASs staffed by a single officer, regional NASs, and PSC employees. These overseas staffing options present special management challenges.

The third issue we examined was INL headquarters management and oversight of overseas programs. We reviewed INL management controls used to ensure that its programs are being carried out properly. INL's support and oversight systems include field assistance visits, training, and handbooks.

Finally, we reviewed management controls over those program components most likely to be vulnerable to fraud and waste. These include commodities such as fuel and food and program support costs such as travel and provision of incentive salary payments to host country personnel. These program components are more difficult to monitor and control than are durable program commodities such as aircraft, vehicles, boats, and other high dollar-value items that are subject to INL's structured end-use monitoring program.

Work for this review was conducted from July 1996 to April 1997. Fieldwork was performed at the U.S. embassies in Caracas, La Paz, Lima, Quito, Santo Domingo, and at INL's regional office in Miami, Florida. Throughout the review, we worked closely with INL

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[1] *Narcotics Affairs Sections Financial Management* (4-FM-006, January 1994).
[2] *Fuel Accountability in the Bolivian Counternarcotics Program* (6-CI-007, January 1996).

headquarters officials. We also interviewed officials from the Bureau of Administration (A), FMP, and the Office of the Legal Adviser (L).

The review was conducted by the OIG's Consular Affairs and International Programs Division of the Office of Audits. Major contributors to this report were David Wise, division director; Richard Astor, audit manager; Robin Schulman, auditor-in-charge; Sheree Moser, auditor; and Robert Retka, consultant.

This review was performed in accordance with generally accepted government auditing standards and included such tests and auditing procedures as were considered necessary under the circumstances.

III. BACKGROUND

International narcotics trafficking and organized crime are serious threats to the security and vital interests of the United States. In March 1996, the former Assistant Secretary for INL stated that no other foreign policy issues simultaneously threaten our internal and external interests so severely and persistently. Acknowledging this threat, President Clinton has issued explicit instructions to respond aggressively to international narcotics trafficking. Based on these instructions, the international narcotics control policy objectives of the United States are to reduce drug flows and create a hostile international environment for narcotics trafficking.

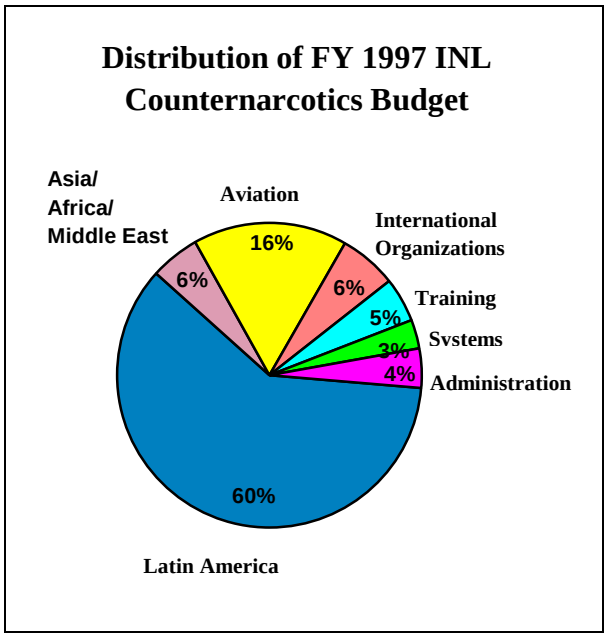
The U.S. International Narcotics Control Program (INC) was authorized in 1971 under section 481 of the Foreign Assistance Act of 1961, as amended, and the Department's Bureau of International Narcotics Matters was created in 1978 to manage the program. In July 1994, international crime was added to the bureau's portfolio, and the bureau was renamed the Bureau for International Narcotics and Law Enforcement Affairs.

INL's narcotics control program has two primary goals:

(1) use the full range of U.S. diplomacy to convince foreign governments of the importance and relevance of narcotics control to bilateral and multilateral relations and to promote cooperation with the United States, and

(2) employ the Bureau's various programs to help stop the flow of illegal drugs to the United States.

To reflect the President's increased commitment to counternarcotics efforts, INL's counternarcotics budget increased from $135 million for FY 1996[3] to $193 million for FY 1997, or 43 percent. INL funds a wide range of bilateral and multilateral programs to meet its objectives of increased emphasis on drug source countries by promoting alternative development, dismantling narcotics trafficking organizations, and interdicting drug shipments headed to the United States. For FY 1997, about $127 million of INL's $193 million counternarcotics budget was allocated to bilateral country programs and $31.5 million to interregional aviation support. INL also allots small amounts of its budget for INL programs carried out in countries around the



Total FY 1997 (Estimated) INL Counternarcotics Budget is $193 million

[3] This total includes $20 million in counternarcotics Economic Support Funds transferred to the INL account.

world. Of its remaining counternarcotics funding, INL allocated $12 million for drug control programs administered by international organizations and $9 million for counternarcotics training and demand reduction. An additional $6 million is allocated for automated systems support and $7.8 million for administrative expenses.

INL obligates most of its annual appropriation through bilateral agreements to support counternarcotics projects implemented jointly by the United States and foreign governments. To administer its projects, INL has NASs in many major drug producing and transit countries. INL has 16 NASs overseas (including two that are regional) and a regional NAS located in Miami. The 16 overseas NASs are shown on the following chart:

Table 1: Narcotics Affairs Section Locations at U.S. Embassies

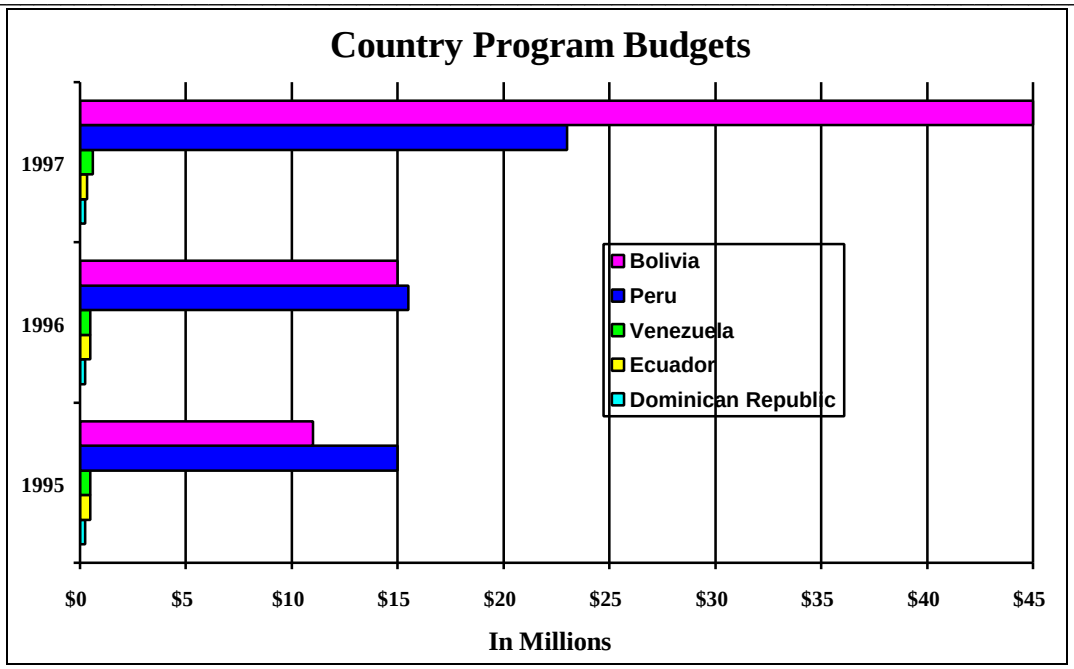
Europe	Caribbean	Latin America		Asia
Belgium	Bahamas	Bolivia	Mexico	Laos
Russia	Barbados	Brazil	Panama	Pakistan
		Colombia	Peru	Thailand
		Ecuador	Venezuela	
		Guatemala		

Eleven of the NASs are staffed by one Foreign Service officer and supported by one or more assistants. These one-officer NASs are primarily located in drug-transit zones (the Bahamas, Brazil, Ecuador, Guatemala, Laos, Pakistan, Panama, Thailand, and Venezuela). The NASs in Panama and Guatemala also serve as regional NASs. Panama has responsibility for programs in Costa Rica and Nicaragua while Guatemala oversees programs in Belize, El Salvador, and Honduras. INL is also establishing a regional NAS in Barbados in the summer of 1997.

Established in 1995, the Miami regional NAS is the only NAS located in the United States. The Miami regional NAS supports INL programs in Jamaica, Haiti, and the Dominican Republic. It also serves as a liaison to Puerto Rico, which houses offices for the Drug Enforcement Administration, the U.S. Customs Service, and the U.S. Coast Guard.

NAS Programs Reviewed

We reviewed NAS program activities in Bolivia, the Dominican Republic, Ecuador, Peru, Venezuela, and at the Regional NAS in Miami. As indicated in the following chart, the NAS country program budgets varied substantially. Bolivia and Peru have the first-and third-largest counternarcotics programs, with budgets of $45 million and $23 million, respectively, for FY 1997. (Colombia has the second-largest budget of $30 million for FY 1997.) Ecuador and Venezuela have one-officer NASs with significantly smaller program budgets. The smallest program we reviewed, administered by the Miami regional NAS, was in the Dominican Republic.



These country program budgets include administrative funds used to pay salaries, benefits, and other administrative expenses.

Bolivia

Bolivia is the world's third-largest producer of illicit coca and the second-largest producer of refined cocaine. The U.S. counternarcotics objectives in Bolivia are to: (1) promote strong, cohesive democratic institutions of government capable of stopping narcotics production and trafficking in Bolivia; (2) establish and encourage sustained economic growth and reduce the effects of the drug trade on the economy of Bolivia; and (3) strengthen and improve the efficiency of the Bolivian criminal justice system.

Between FYs 1996 and 1997, the NAS budget in Bolivia increased 200 percent, from $15 million to $45 million. This large increase was justified as providing additional funding for alternative, legitimate agricultural opportunities for Bolivian coca farmers and to support greater coca eradication efforts. Bolivia's NAS budget supports coca reduction programs, law enforcement operations, chemical control efforts, drug trafficking investigations and prosecutions, improved intelligence capabilities, and enhanced control of legal coca. The program also works to strengthen the Bolivian judicial system and law enforcement organizations charged with implementing Bolivia's anti-drug statute, develop economic alternatives to coca, and stabilize the economy.

NAS staffing in Bolivia consists of 6 direct-hire employees comprised of 4 American and 2 Foreign Service Nationals (FSNs), 23 locally hired PSC employees, 6 American PSC employees, and 4 employees from other U.S. Government agencies on detail. In addition, there are about 165 employees working for the program under contracts with the Bolivian government's Special

Force for the Fight Against Narcotics (known by its Spanish acronym FELCN) and 14 contractors supporting INL's air wing operations in Bolivia.

Peru

Peru is the world's largest producer of coca leaf, the raw material from which cocaine is refined. The NAS FY 1997 budget in Peru is $23 million, up almost $8 million (53 percent) from FYs 1995 and 1996.

The goal of the U.S. counternarcotics strategy in Peru is to reduce, and ultimately to eliminate, production of refined coca products for domestic abuse or for export to the United States or elsewhere. The NAS implements this strategy by helping the Government of Peru develop institutions to implement an integrated counternarcotics program, including law enforcement, sustainable alternative development, coca eradication, public awareness, and demand reduction. Specific NAS programs include training and equipping counternarcotics law enforcement air and ground units, strengthening the judicial system, and supporting legitimate agricultural activities in coca growing areas.

The NAS in Peru is staffed by 3 direct-hire Americans, 2 direct-hire FSNs, and 25 PSC employees (13 American and 12 foreign nationals). In addition, two employees from other U.S. Government agencies work on detail in the NAS.

Venezuela

Venezuela is a major transit country for cocaine, marijuana, and heroin destined for the United States and Europe and for chemicals diverted to Colombian drug laboratories. It has become a source country for illicit drugs with opium poppy cultivation on the border with Colombia. Venezuela is also a major center for drug money laundering.

The one-officer NAS in Caracas administers a relatively small program. For FY 1996 the budget was $500,000, and for FY 1997 the budget is $600,000. The country program is designed to strengthen the Venezuelan government's counternarcotics institutions, emphasizing law enforcement operations as well as policy development and coordination. The program attempts to improve the administration of justice in Venezuela through projects assisting the Venezuelan government's reform of its criminal justice system. In addition to the direct-hire officer, the NAS employs three locally-hired PSC employees.

Ecuador

Ecuador is a significant transit country for drugs and drug processing chemicals and a central point for drug money laundering. For FY 1997, the NAS program is funded at $350,000, down almost one-third from FYs 1995 and 1996. The U.S. objectives in Ecuador are to: (1) develop institutional capabilities to interdict illegal drugs and precursor chemicals, prosecute traffickers, seize drug assets, and reduce money laundering; (2) improve intelligence collection,

processing, and dissemination against major trafficking organizations; and (3) promote public awareness and education in the dangers of drug abuse.

The NAS program is designed to build the institutional capabilities of the Ecuadorian national police's anti-drug unit, particularly in the areas of intelligence collection and analysis and the interdiction of drugs and processing chemicals.

The NAS consists of one direct-hire narcotics affairs officer, an FSN, two PSC employees, and two part-time PSC secretaries. INL also funds a position located in the embassy's budget and fiscal section.

Miami Regional Narcotics Affairs Section and the Dominican Republic

The Miami regional NAS was established in August 1995 to take better advantage of the broad support and guidance that can be provided through a regional NAS system. INL envisioned using a NAS officer in Miami to serve primarily in a program management role advising and supporting the ambassadors and country teams on the development and implementing bilateral counternarcotics and anti-crime programs. The Miami NAS officer also carries out operational liaison activities with other U.S. Government agencies and host-country counterparts. The direct-hire officer is supported by a PSC assistant.

INL originally intended the Miami regional NAS to focus primarily on the Dominican Republic, Haiti, Aruba, the Netherlands Antilles, and Trinidad and Tobago, with secondary involvement with Cuba, the Cayman Islands, and the Turks and Caicos Islands. INL also planned to have the Miami regional NAS assume responsibility for programs in Jamaica when the NAS closed in the summer of 1996. These programs are funded through the Department's Latin America regional budget, which for FY 1997 is about $5 million. Ultimately, the Miami regional NAS portfolio was adjusted to cover the Dominican Republic, Haiti, and Jamaica. INL headquarters manages the remaining programs with plans to transfer some of the responsibility to the regional NAS in Barbados, due to open in late FY 1997.

We reviewed how the Miami regional NAS administers INL's program in the Dominican Republic. The Dominican Republic is a transshipment area for cocaine and marijuana. The U.S. program is focused on counternarcotics training, provision of law enforcement-related equipment, and demand reduction programs. The FY 1997 budget of $250,000 also funds programs in the areas of establishing money laundering controls, interdiction and law enforcement cooperation, and anti-corruption measures.

Embassy Santo Domingo had a one-officer NAS until 1994. Since the NAS closure in August 1994, a Department political officer and a PSC employee devote about one-third of their time to the NAS program.

IV. FINDINGS

A. FINANCIAL MANAGEMENT SYSTEMS

Since 1978, INL has managed over $1 billion in counternarcotics program funds. To administer its bilateral and multilateral programs, INL developed its own, more detailed financial management system, parallel to the Department's FMS, to track bureau funds and expenditures. Overall, we found that NAS program managers provided adequate oversight of programs and worked to identify and resolve management problems. Despite these efforts, we found that field personnel were not following INL financial management procedures consistently, and that NASs were encountering difficulties resolving unliquidated obligations. More specifically:

- NASs were not using INL's financial management and reporting system consistently;
- prior-year funding of about $2 million lapsed unnecessarily at the end of FYs 1993 through 1996;
- despite new congressional authorities beginning in FY 1994, INL and FMP have not adjusted accounting systems to maintain the availability of funds until expended; and
- NAS Caracas' lapsed program funds of $635,666 highlights confusion over accounting procedures for foreign government receipts originating from INL narcotics program funds.

Inconsistent Use of Financial Management and Reporting Systems

INL has not mandated that all field programs implement the FMAR in the same way, and many NASs have developed local systems to record financial information. INL receives its program funding as a distinct appropriation in the Foreign Operations account, separate from that of other Department activities. INL programs use the Department's FMS, which is designed to meet the information needs of the Department's allotment accounting system, rather than INL's project-based program. Due to FMS limitations, INL developed a subsidiary financial management system to track bureau funds and expenditures in more detail. A central component of this subsidiary system is the FMAR. If FMARs are produced according to INL's *Financial Management Handbook*, NASs can report on and INL headquarters can monitor the status of project implementation and funding. However, not all NASs are using the FMAR, and those that are using the report are not doing so uniformly. As a result, consolidated information is not available to INL managers in a consistent, reliable format.

Differences Between the Department's and the Bureau of International Narcotics and Law Enforcement Affairs' Financial Management Systems

The Department's FMS was not designed to handle INL's obligation procedures. INL managers believe FMS is neither accurate nor timely enough for them to manage program resources efficiently. Because of the limitations of FMS, INL developed a subsidiary financial management record-keeping system that meets INL's information needs. These subsidiary records capture project funding and expenditure information in the FMAR. INL officials stated that they process all transactions through FMS in the same manner as the rest of the Department.

The INL programming system for program obligation incorporates a two-stage obligation procedure prior to liquidation of funds. Following annual appropriation and apportionment of program funding, INL provides funds to field programs to support bilateral program activities. It allots these funds and authorizes embassy officials to sign bilateral agreements with the host government after reviewing specific project proposals. INL regards the signature of such bilateral agreements as the step that formally obligates the funds in question as authorized under the Foreign Assistance Act of 1961, as amended. This initial obligation step (the first stage) must occur during the fiscal year in which Congress appropriates the moneys. These agreements obligate large amounts of funds for broad purposes, called "bulk obligations."

Because international narcotics control programs take considerable time to negotiate and implement, INL is not able to complete all procurement actions relating to a specific agreement during the fiscal year in which it initially obligates funds. As a result, it records the total amount of the bilateral agreement as a bulk obligation and subsequently subobligates the funds (the second stage) by means of appropriate procurement actions as specific activity begins to occur on projects. INL managers record each of these subobligations as a new project obligation under FMS. To balance the books, INL deobligates or subtracts a corresponding amount from the bulk obligation for the new project and subsequent project funding.

The Financial Management Activity Report as a Management Tool

We found that the full management utility of the FMAR will not be realized unless NAS field offices manage program funds in accordance with the *Financial Management Handbook*, especially the procedures relating to establishing and closing individual subobligations. INL has taken steps to improve NAS financial management record-keeping. Most notably, INL financial management staff developed FMAR software for use by NAS field operations. This software enables NAS personnel to accurately record INL financial management data and to prepare the FMAR. INL staff who have field tested the newest edition of FMAR software believe that implementation in the field should be accompanied by instructions from INL on how to properly subobligate funds.

The FMAR can inform INL program managers quarterly of the status of each subobligation in terms of the funding initially subobligated, the amount liquidated, accruals (goods and/or services received but not yet paid for), and the balance of funds remaining in the subobligation account (the unliquidated obligation amount). If the NAS is following the

programming system requirements described in INL's *Financial Management Handbook* (preparing purchase authorizations for specific procurements, establishing individual subobligations to support each, and capturing subobligation information), it can produce the financial reports (FMARs) with relatively little difficulty. If not, report preparation is difficult and may not be accurate. The FMAR is more than a quarterly report to headquarters. The same financial information system that facilitates preparation of the FMAR provides NAS managers with essential day-to-day program management information regarding availability of funds and the status of program procurements.

NAS field offices developed several different systems to record the information needed to prepare FMAR reports. However, these field systems are not uniform and do not always agree with one another in recording program information or in reporting financial data for use by INL headquarters. In addition, we found NASs with inaccurate or untimely data extracted from FMS reports or no quarterly report submissions. For example, of the NAS operations we visited, one neither prepared an FMAR nor had up-to-date, informal financial records on the INL program money for which it was responsible. The other NASs had their own systems for keeping track of INL program funds that resembled but were not identical to one another. The result was that NAS financial records differed from post to post and did not provide consistent, comprehensive information to INL headquarters and NAS program managers in the field.

Due to the costs of establishing and maintaining an FMAR data base at a post, it would not be cost-effective to require posts receiving small amounts of INC funding to implement such a system. Our analysis of posts receiving INC funding between FYs 1992 and 1996 revealed that more than half (43 of 81) received average annual funding of $100,000 or less. We believe that it would be cost-effective only for posts with annual INC funding levels of more than $100,000 to develop FMAR data bases and use the INL-developed software.

> **Recommendation 1:** We recommend that the Bureau for International Narcotics and Law Enforcement Affairs require all posts annually administering more than $100,000 of International Narcotics Control Program funding to use automated Financial Management Activity Report software, and provide training and technical assistance as necessary.

INL agreed with the basic concept of the recommendation to use a standardized FMAR software, but INL did not want to set a minimum threshold amount in program funding for requiring software use. INL stated that the bureau should be allowed the flexibility to decide whether the standard system is either not warranted at NAS locations administrating more than $100,000 in annual INC funds, or another existing system is more applicable. OIG agrees that some flexibility is warranted. In addition, OIG believes that we are on common ground with INL in agreeing that substantial benefits can accrue by having as close to a standard financial program as possible, including transferability of skills for officers from assignment to assignment and the ability to consolidate or "roll up" data for both financial and management oversight. Therefore, INL's reply is considered responsive and the recommendation can be closed upon INL's submission of an action plan. The action plan should contain a detailed timetable for implementing the standardized FMAR application overseas, including appropriate training and technical assistance. Those locations administrating more than $100,000 in annual INC funds and

not implementing the standardized FMAR application should be identified, including the rationale for exclusion. INL did not formally respond to the portion of the recommendation to provide FMAR training and technical assistance, as necessary, but in a subsequent discussion agreed to implement this recommendation segment. Embassy Lima strongly supported the recommendation.

Lapse of Program Funds

Almost $2 million in unliquidated prior-year program obligations lapsed and control over these funds was returned to the Treasury from FY 1988-1990 appropriations at NAS Lima. As a result the NAS lost the use of these funds yet remained liable for the unliquidated obligations and will have to pay expenses related to them out of currently available funds if and when bills are received. Our review revealed that the funding lapsed after obligations remained unliquidated for up to 5 years even though the NAS carried out related project activities in a timely fashion. Funds were not liquidated in many instances because the NAS did not receive the documentation needed to liquidate the obligations, such as a bill from the vendor or, as was more typically the case, an advice of charge[4] from the Department. As a result, the program funds lapsed and authority was returned to the Treasury. We discovered three principal problems that caused the resulting lapse of funding:

- delayed billing for Defense-implemented narcotics controls efforts;
- inaccurate fiscal data from the Charleston FSC; and
- untimely liquidation of administrative support charges at overseas posts.

Delayed Billing from the Department of Defense

NASs have not received the billing information, primarily from Defense, needed to liquidate funds. INL obligates its counternarcotics program funds by signing bilateral agreements to support projects implemented with cooperating foreign governments. Program managers subsequently establish subobligations to support specific program procurements. When the Department undertakes a procurement for a NAS or otherwise pays a NAS expense, it does so using a funding citation provided by the embassy. The Department subsequently advises the embassy of the charges it has paid via the Payment and Collection Transfer Report (FS-477 report, known informally as the “advice of charge” report). Upon receipt of FS-477 reports, the embassy liquidates the established obligations related to the reported charges and the procurement cycle is complete. If the embassy does not receive an FS-477 advice of charge or a bill from a vendor, the embassy cannot liquidate the obligated balances being held to pay pending charges.

Obligations remaining unliquidated and lapsing at the end of 5 years totaled almost $2 million in Peru. The following NAS Lima unliquidated obligation balances lapsed 5 years following the end of FYs 1988 through 1991:

[4] An advice of charge is an electronic accounting document used to notify accountable posts of disbursements made or collections received against allotments they service.

Table 2	
Fiscal Year	**Unliquidated Balances (Dollars) that Lapsed Five Years After End of the Fiscal Year - NAS Lima**
1988	**$110,350**
1989	**50,903**
1990	**1,374,285**
1991	**421,922**
Total	**$1,957,460**

An examination of NAS Lima's FY 1991 funding as of September 30, 1996, indicated that the unliquidated obligations overwhelmingly represented activities undertaken by Defense in support of NAS Lima programs. Defense agencies periodically undertake counternarcotics activities in support of embassy efforts to improve host-country narcotics control capabilities. The NAS frequently funds Defense-implemented activities, such as training of host-country helicopter pilots and mechanics, out of INC moneys obligated under a bilateral narcotics control agreement with the host government. The NAS does not liquidate the funds held in the relevant account until it receives a bill from the Defense agency or an advice of charge from the Department. If the funds are not liquidated within 5 years, the FMS automatically returns the funds to the Treasury. If a bill for the training course or support activity in question is received after the funds have lapsed, the NAS is required to pay the bill using currently available funds.

The lapsed FY 1991 funds identified in Table 2 provide a good example of the problems arising from delayed billing for Defense-implemented counternarcotics activities. Between December 1990 and August 1992 the NAS obligated, among a broad range of program obligations, $421,922 in FY 1991 funds to pay for Defense-implemented narcotics control projects in Peru. As of September 30, 1996, NAS Lima, despite special efforts, had not received billing information to liquidate the obligations and the $421,922 reserved by the NAS to pay Defense-related expenses lapsed and were returned to the Treasury. The Department of Defense had implemented the training and other activities in a timely manner, yet failure to deliver related billings resulted in loss to the NAS of the FY 1991 funding and a continuing liability to pay related bills from currently available funds.

Inaccurate Fiscal Data from the Charleston Financial Services Center

NAS Lima documented numerous instances where FS-477 reports included references to transactions that the NAS either could not match to established obligations or had already asked the FSC to correct. NAS officials said they were spending an inordinate amount of time in identifying the subobligations in question and in communicating with FSC Charleston.

NAS Lima also documented similar problems relating to FY 1995 payroll costs for U.S. contractor personnel. According to NAS financial management staff, the FSC incorrectly entered these payroll charges as FY 1993 costs. When NAS Lima identified the errors and requested that the FSC correct them, the FSC continued to charge the FY 1995 personnel costs to FY 1993 obligations, generating an erroneous over-liquidation of FY 1993 charges that caused problems as the post was closing its books at the end of FY 1996. INL officials informed us that both the Bureau of Personnel (PER) and FMP must be involved in order to address the payroll problems since incorrect payroll information has to be corrected by PER before adjusted payroll information can go to FMP.

Untimely Liquidation of Administrative Support Charges

The Department treats INL-funded programs overseas as "other-agency" activities for purposes of recovering administrative costs from U.S. Government agencies supported by embassies abroad. In the past, the Department calculated and billed these costs in accordance with the provisions of the Foreign Affairs Administrative Support System (FAAS). The Department is now replacing FAAS with the International Cooperative Administrative Support Services System (ICASS).

Under FAAS, embassy administrative personnel and NAS offices around the world annually developed estimated FAAS charges reflecting the administrative support costs to be charged to the NAS. Following headquarters review of these estimates, INL informed each NAS of the amount it should subobligate from its current year appropriation to cover its agreed-upon FAAS charge. Once subobligated, NASs maintained funds in the appropriate subobligation account to cover the FAAS charges until they received an advice of charge from the Department through the FS-477 notification system.

According to an INL headquarters official, the Department historically was slow in processing FAAS charges, to the point that some NAS offices were unable to liquidate funds subobligated to pay FAAS charges incurred more than 5 years earlier. On September 30, 1994, for example, $44,385 of FY 1989 funding subobligated by NAS Lima in April 1989 to pay FAAS and Office of Foreign Buildings Operations charges remained unliquidated.

Recently, INL and FMP have made a concerted effort to liquidate long-standing narcotics program FAAS subobligations. Despite this effort, $42,118 subobligated by NAS Mexico City to pay FY 1991 FAAS charges remained unliquidated on September 30, 1996. INL and FMP need to continue their efforts to ensure that moneys subobligated to pay FAAS or ICASS charges are liquidated promptly.

Another ongoing OIG review is focusing on the use of the FS-477 reports and related problems that will impact ICASS payments. In addition, a special Department task force has been formed to resolve the issue of outstanding FS-477 charges, and steps are being taken so that FS-477 data will be more reliable in the future. The Bureau of Personnel will also need to work with overseas payroll to correct inaccurate personnel and financial data in a timely manner. The problems of unliquidated NAS obligations stemming from delayed Department of Defense billings, incorrectly posted payroll charges, and untimely processing of administrative support charges, however, still need to be addressed.

> **Recommendation 2:** We recommend that the Bureau of Finance and Management Policy, in coordination with the Bureau for International Narcotics and Law Enforcement Affairs (INL) and the Bureau of Personnel, develop a strategy to correct billing problems relating to INL program activities overseas. Corrective measures should address specifically the problems of: (a) delays in billing for Department of Defense-implemented narcotics control efforts, (b) incorrectly posted payroll charges made against INL funds, and (c) untimely processing of overseas administrative support charges.

INL agreed with the recommendation and reported that, in cooperation with FMP, billing problems related to INL programs overseas have been corrected. INL pledged to cooperate further with FMP and PER to resolve any additional systemic financial weaknesses. Based upon INL's response, the recommendation is considered closed. In OIG's continued monitoring of best financial practices and resolution of systemic financial weaknesses, we request to be informed of any further actions initiated by INL and other Department elements to strengthen overseas billing procedures.

Change in Legal Authorities

Our review revealed that since FY 1994 both INL and FMP have been erroneously treating INL's funding as a fixed annual appropriation requiring obligation of all funds during the fiscal year in which they were appropriated and liquidation within 5 years. INL is no longer subject to the 5-year limitation on liquidation of annual fixed appropriations since the bureau's FY 1994 and later appropriations have included a specific provision providing that the funds "shall remain available until expended if such funds are initially obligated before the expiration of their respective periods of availability." This means for funds to remain available until final expenditure, an obligation must be registered within the fiscal year the related funds are appropriated. Despite this new provision of law, FMS continues to treat INL funds as a regular fixed appropriation which expires unless liquidated within five years. Unless steps are taken to modify FMS to account for the new "available until expended" provision, funding remaining in unliquidated INL obligations will be returned to the Treasury at the end of 5 years. The new funds-availability provisions require that INL and FMP identify and implement financial management procedures that will, within the constraints of FMS, allow INL's FY 1994 and later appropriation obligations to remain on the books until liquidated or deobligated.

Recommendation 3: We recommend that the Bureau of Finance and Management Policy, in coordination with the Bureau for International Narcotics and Law Enforcement Affairs (INL), establish procedures consistent with the Department's Financial Management System to ensure that INL's FY 1994 and later appropriation obligations remain on the books until liquidated or deobligated.

INL agreed with the recommendation in the draft report but stated that FMP should be tasked with implementing procedures to ensure that INL's FY 1994 and later appropriation obligations remain active within the Department's FMS until liquidated or deobligated. FMP in its response to the draft report agreed with INL to take steps to address this issue. OIG modified the recommendation to include FMP as an action office. This recommendation can be closed with the establishment of obligation procedures reflecting the "no-year" funding changes authorized in the INL appropriation.

Lapsed Program Funds Stress Need of Guidance Over Foreign Receipts

Our review of financial management practices at NAS Caracas revealed confusion by the NAS, FMP, and INL over accounting procedures for foreign government receipts originating from INL narcotics program funds. We also identified that $635,666 in FY 1989 and 1991 NAS Caracas appropriations had lapsed, in part, due to placing some of these program funds in a Suspense Deposit Abroad (SDA) account which did not result in a legal expenditure of funds as envisioned by the NAS and INL. The FY 1989 and 1991 narcotics program funds were subject to a 5-year limitation on liquidation, as called for under 31 U.S.C. 1552(a), "Procedures for appropriation accounts available for definite periods." As a result, we believe that expenditures made from the FY 1989 program appropriation of $180,000 were not valid. Along with $455,666 in FY 1991 funds which were not spent, both the FY 1989 and FY 1991 program funds should be returned to the Treasury as miscellaneous receipts, as required under 31 U.S.C. 3302(b). Since the statutory authority for annual fixed appropriations may have been exceeded by expenditures made from the expired FY 1989 NAS program appropriation, a possible violation of the Anti-Deficiency Act, 31 U.S.C. 1341(a)(1), may have occurred. Funds already spent from the expired FY 1989 appropriation will need to be charged as expenses to appropriations legally available for expenditure.

In mid-1994, NAS Caracas was faced with the imminent loss of $180,000 in previously obligated FY 1989 program funds that were subject to automatic lapsing at the end of FY 1994. The funds remained unliquidated because the NAS, following obligation of the funds in FY 1989, had lost confidence in its Venezuelan National Guard counterparts and had frozen project spending. With INL concurrence, NAS Caracas decided not to expend project funds until it regained confidence in its counterparts and could define a plan for productively using the money. By September 1994, new counterpart personnel were working on the Venezuelan side, and the NAS defined a plan for using the frozen program funds productively. However, there was insufficient time for the NAS to initiate procurement actions, take receipt of goods and services, and pay vendors prior to September 30, 1994, the point at which the FY 1989 funds were scheduled to lapse.

Following consultation with INL headquarters, the NAS took several steps to what they believed would properly expend FY 1989 funds prior to automatic lapsing at the end of FY 1994. In September 1994, the NAS requested that the Treasury issue four checks totaling $180,000. The NAS took possession of these checks and secured them while the embassy negotiated a new bilateral agreement regarding use of the funds. That agreement was signed on August 31, 1995, by the Ambassador and the commanding general of the Venezuelan National Guard. In September 1995, the NAS delivered the checks it was holding to the Venezuelan authorities. A Venezuelan National Guard official endorsed the checks and returned them to the NAS. The NAS then took the checks to the embassy cashier who deposited them into an SDA account, treating them as Venezuelan Government funds. At the time of our review, the embassy was continuing to provide financial administration of FY 1989 SDA funds, as specified in the August 1995 memorandum of agreement. Because SDA accounts are treated as "no-year" funds, the post believed the FY 1989 funds would be available until expended.

According to the Foreign Affairs Handbook, deposit accounts (of which the SDA account is one) are, "for recording the receipt and disposition of funds by the Government in which its responsibility is limited to determining the proper account to which the funds should be transferred or, acting only as a fiscal agent or banker, paying out the funds in accordance with the desires of the depositors from whom such funds are received." According to FMP officials, the SDA account can be used legitimately to disburse and collect funds but not to administer them.

In 1996, facing a similar, but larger, problem relating to $455,666 in FY 1991 funds that were scheduled to lapse on September 30, 1996, NAS Caracas also proposed to INL to use the SDA account to maintain the availability of funds as it had done with the FY 1989 funds. INL consulted with FMP regarding the proposed use of the SDA mechanism. FMP advised against using the SDA account and researched the feasibility of transferring the unliquidated funds to the Department's working capital fund for expenditure after September 30, 1996. FMP ultimately concluded that use of the working capital fund was not possible. Despite FMP's instruction not to use the SDA mechanism, INL concluded that using the SDA account was not improper and concurred with NAS Caracas' proposal. Even though confusion existed over the use of the SDA account, L was not consulted on the matter.

NAS Caracas received, and as of April 1997 was still holding, U.S. Treasury checks for $455,666 issued against FY 1991 appropriated funds in September 1996. According to a January 1997 memorandum from the director, NAS Caracas, the NAS plans to establish SDA accounts for these funds as soon as the embassy concludes negotiations with Venezuelan authorities regarding their use and administration. As before, the plan is to have the Venezuelan officials endorse the checks and return them to the NAS. The NAS will then deposit the funds with the embassy cashier in the SDA account.

OIG's legal analysis is supported by L that the procedures used by NAS Caracas did not result in a legal expenditure of the funds in question. For the FY 1989 and FY 1991 funds to have been legally disbursed prior to the end of the statutory periods of availability, both issuance and delivery of the checks in question were required. Without delivery of the checks, the expenditures

were not effected. The use of the SDA account could not extend the then-statutory availability of the funds for expenditure.

NAS Caracas acted judiciously in withholding the moneys in question until an adjusted program plan was defined. The NAS acted responsibly in formally revising its plans for using the funds by signing new memoranda of understanding with the Government of Venezuela. However, despite these responsible actions, the procedures used by NAS Caracas to preserve the funds were improper. We believe that this case calls attention to the need for guidance in expending and accounting for all NAS program funds.

> **Recommendation 4:** We recommend that the Bureau for International Narcotics and Law Enforcement Affairs, in coordination with the Bureau of Finance and Management Policy and the Office of the Legal Adviser: (a) direct the Narcotics Affairs Section at Embassy Caracas (NAS Caracas) to return to the Treasury Department all Fiscal Year 1989 and 1991 funds used, or to be used, to establish suspense deposit abroad (SDA) accounts; (b) direct NAS Caracas to reconcile existing SDA accounts to identify funds already spent and charge these expenses to appropriations legally available for expenditure; and (c) determine appropriate accounting procedures for any moneys received in the future from foreign governments.

Based upon INL and L comments to the draft report, OIG revised sections of the draft report and recommendation segment (c). INL agreed with the L opinion that the FY 1989 and FY 1991 NAS Caracas funds in question had expired and should be returned to the Treasury. INL reported that FY 1991 funds have been sent to FMP for return to the Treasury. For FY 1989 NAS Caracas funds already spent from an expired appropriation, INL, L, and FMP will reconcile accounts and charge invalid expenditures to currently valid appropriations. In addition, FMP plans to update the SDA guidance governing the use of these accounts. This recommendation can be closed upon notification to OIG that FY 1989 NAS Caracas funds already spent have been charged to current appropriations and receipt of updated SDA guidance. According to an L official, INL, L, and FMP will review expenditures made from expired FY 1989 appropriations for a potential Anti-Deficiency Act violation. OIG should be notified on the results of this review.

B. OVERSEAS STAFFING MATTERS

Hiring and financial constraints have compelled INL and its NASs to develop innovative solutions to meet staffing requirements. According to INL officials, country programs with small budgets (at least $1 million) become one-officer NASs and are staffed by a single officer plus at least one support person. For even smaller country programs, INL has instituted regional NASs overseas and in the United States. In addition, NASs are increasingly relying on PSC employees and other types of contractors to provide technical expertise and augment its staffing. In response to concerns expressed by INL, we examined several issues regarding staffing resources overseas, including: (1) management controls associated with one-officer NASs, (2) the ability of regional programs to support NAS operations, and (3) INL's use of PSC employees.

Our review disclosed that: (1) INL could better optimize its scarce personnel resources by using regional programs in place of some one-officer NASs, (2) INL and its NASs are allowing PSC employees to operate as field cashiers without standard operating procedures, and (3) NAS La Paz is hiring local personnel to provide general administrative support in an inappropriate manner. In addition, we found that NAS La Paz took an innovative step and hired two internal financial specialists to review NAS program and financial activities. As the employees proved to be a good return on investment, other large NAS programs could benefit from creating similar positions.

Optimizing Resources Through Regional Programs

We believe that INL can better optimize scarce resources by shifting some of its smaller one-officer NASs into more cost effective regional programs. In 1994, INL's responsibilities expanded to include countering international criminal activities, but its overseas staff positions remained static. To administer counternarcotics programs globally, INL spread its resources broadly but thinly by establishing one-officer NASs. Although most one-officer NASs initially were designated to manage programs with budgets of $1 million or more, certain one-officer NASs now manage programs with substantially smaller budgets. At the same time, INL has experimented with regionalization of some NAS operations. However, INL has not sufficiently explored the feasibility of incorporating some of its lower-budget one-officer NASs into regional NAS programs. For example, we project funds put to better use of between $100,000 and $800,000 annually if INL were to close 1 or more of the five NASs in Latin America with budgets of $1 million or less and incorporate their programs into an expanded regional NAS program in Miami.

One-Officer Narcotics Affairs Sections

Given its limited personnel resources, we found INL needs to review its criteria for establishing and maintaining one-officer NAS programs. INL officials stated that once a country program's budget reached $1 million, INL established a NAS. INL funds a position and at least one assistant to perform narcotics related tasks, usually involving managing the expenditure of INL program funds. However, INL maintains one-officer NASs even when the program budget significantly decreases well below the $1 million threshold, mainly where narcotics and/or international crime issues are preeminent.

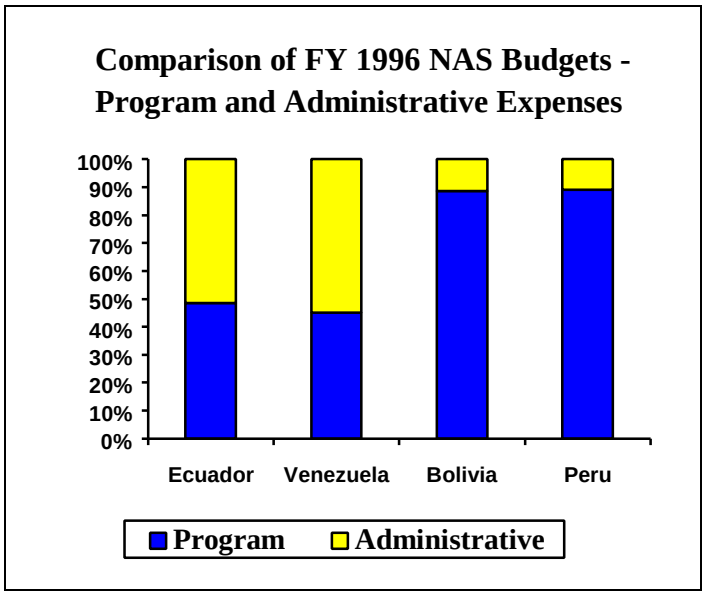
INL headquarters officials were concerned about management of its one-officer NASs which comprise 11 of INL's 16 NAS programs, with FY 1997 program budgets ranging from $350,000 in Ecuador to $3 million in Thailand. According to an INL official, one-officer NASs at overseas locations provide the opportunity to give attention to drug transit areas without requiring additional embassy resources. In particular, INL was concerned that officers in these small NASs were susceptible to being diverted to work unrelated to its narcotics and law enforcement duties. These NAS officers must balance financial and program management responsibilities with the reporting, coordination, and liaison responsibilities of being the head of a high-profile embassy division. INL also was concerned about administration of one-officer NASs given INL's unique accounting system and the inexperience of some of its officers.

We found that INL's concerns regarding NAS officers supporting non-INL activities were unfounded at the one-officer NASs we visited. Both officers in Quito and Caracas were fully engaged in INL-related work. Neither was spending significant time on non-narcotics activities. As for administration at one-officer NASs, we encountered a high level of dependence on PSC employees for financial and procurement activities, but no additional burdens were placed on the embassy financial management or administrative sections.

Comparatively High Administrative Costs

According to Department estimates, instituting or maintaining a one-officer NAS costs INL a minimum of $250,000 annually. INL pays the salary of the officer, the salary of a support person, the housing costs, the moving costs, the schooling costs, if any, for eligible children, and other post administrative support costs. As a result, administration expenses may rival the program itself, especially in NASs where the country program budgets have steadily decreased over the years. This situation occurred in Quito where the NAS FY 1996 program budget was $243,000, including the salary and benefits of the PSC employee assigned as a police advisor. In contrast, the administrative budget was about $257,000. The NAS in Caracas will face a similar situation as its program funds diminish. Likewise, the additional costs that will be incurred by NAS Caracas with the Department's new administrative support system, ICASS, may be too high for NAS Caracas to operate efficiently. Other one-officer NASs may face similar financial burdens in higher administrative support costs through ICASS.

As shown in the following chart, the administrative budget for the one-officer NASs we visited (Ecuador and Venezuela) was much larger proportionally than the administrative budget for the larger NASs visited (Bolivia and Peru).



An INL official stated that when the cost of administering the program exceeds the costs of the program budget itself, INL should close the NAS. INL has closed some of its one-officer

NASs; for example, the NAS in the Dominican Republic was closed in August 1994 because the program became much smaller and its responsibility for narcotics issues in Haiti decreased when the coup occurred. The NAS in Jamaica closed in the summer of 1996 because INL's counternarcotics priorities changed. The responsibility for both NAS programs was transferred to the Miami regional NAS.

Regionalization - A Viable Concept

Given its limited number of direct-hire positions and evolving priorities, INL should move towards regionalizing program operations. Regionalization is beneficial because it allows INL to maximize its resources and reduce administrative costs, without necessarily sacrificing program oversight. Some one-officer NAS programs may be good candidates for regionalization because they have smaller program budgets yet are administratively costly to operate. Although INL officials report mixed success with their regionalization attempts thus far, we believe regionalization can be successful under the right circumstances and with the proper operating procedures.

The Miami regional NAS was established in August 1995. In addition to the Dominican Republic and Jamaica, the Miami regional NAS is responsible for Haiti. All three embassies have someone who administratively supports the NAS program, at least on a part-time basis. In the Dominican Republic, for example, a PSC employee works about 30 percent of the time on NAS matters. Narcotics issues are otherwise handled by the political or economic officers at post. The Miami regional NAS officer generally visits each post monthly and provides trip reports and other management reports to INL.

Regionalization is a viable concept, at least in Miami. While in the Dominican Republic, the Miami regional NAS officer met with a variety of embassy officers and host government counterparts. Based on our observations, the regional NAS appeared to be effective in overseeing the program. In addition, the resident general services officer (GSO) and part-time PSC employee easily handled the small number of program procurements. INL officials working both in the program office and resource management division agreed that the Miami regional NAS is working well.

Officials in Embassy Santo Domingo, however, voiced concerns stating that the program is suffering and that closing the NAS conveys to the host government that the U.S. Government is less committed to the fight against drugs. Despite the embassy's concerns, a senior host government official from the Dominican Republic's Drug Control Agency disagreed, saying that he did not believe that the level of commitment from the U.S. Government had changed nor does he feel there is an absence of a U.S. presence. He stated that regionalization is justified under the current economic circumstances faced by the U.S. Government.

INL tried to regionalize the ongoing NAS programs in Panama and Guatemala but with much less success because in-country NAS program demands limited the ability of the NAS to carry out its regional functions. The NAS in Panama was supposed to oversee INL issues in Costa Rica and Nicaragua, and Guatemala was going to be the regional NAS for Belize, El

Salvador, and Honduras. According to INL officials, the U.S. ambassadors in Panama and Guatemala were not entirely supportive of the regionalization concept. As a result, the narcotics affairs officers did not regularly travel to their respective regional posts and therefore did not provide the type of oversight envisioned by INL. Nonetheless, INL is continuing to pursue the regionalization concept. The Barbados regional NAS (due to open in late FY 1997) will be responsible for INL programs in Barbados, St. Lucia, St. Kitts, Antigua, Grenada, St. Vincent, and Dominica.

A central benefit to regionalization is reducing INL administrative costs and maximizing use of its staff positions. With the closing of a NAS, INL could save the costs of salary, housing, utilities, education of children, and transferring of a NAS officer all of which total at least $250,000, for the first year of operation. We recognize total savings would be offset by instituting a regional NAS officer with annual salary and travel expenses totaling at least $100,000. We project that if INL closed its five one-officer NASs within the Bureau of Inter-American Affairs (all with budgets under $1 million) and put two additional regional NAS officers in place in Miami, the savings could be about $800,000 annually. Alternatively, INL could reprogram these positions to provide additional support to its larger programs, INL headquarters, or towards its international criminal justice responsibilities. In addition, a regional NAS would bring a broader perspective to the transnational issues of drugs and crime.

> **Recommendation 5:** We recommend that the Bureau for International Narcotics and Law Enforcement Affairs evaluate all narcotics affairs sections (NASs) with country program budgets below $1 million to determine whether or not it is feasible to incorporate the programs into regional NASs.

INL and Embassies Quito and Caracas disagreed with the recommendation stating that a variety of factors, other than the size of the program budget, should also be considered in determining the resources allocated to a region or a country. OIG does not disagree with this opinion, but continues to believe that $1 million is a fair benchmark for analysis of country programs which could be more economically performed through the already proven regionalization concept. As we noted in the report, INL historically has held the view that once a country program reached an annual threshold of $1 million then a NAS should be established. We recommend using this benchmark to trigger the evaluation of all cost saving options, including regional NAS programs, taking into account that program effectiveness should not be compromised. OIG held further discussions with INL concerning their response to our draft report. As a result, INL agreed to develop an approach to periodically evaluating one officer NASs for cost savings through regionalization. Accordingly, this recommendation is resolved and can be closed with the establishment of a periodic review to evaluate one officer NASs for cost savings through regionalization.

Personal Services Contract Employee Issues

We identified PSC employees in both Peru and Bolivia performing cashier-type functions without proper authorization. Subsequent to our review, the Department received authority to designate PSCs as overseas cashiers. In addition, NAS La Paz needs to convert positions

inappropriately funded through a contract with the Bolivian government to embassy PSC contract positions. This change will more accurately reflect the cost of administering the NAS program. Our review also identified how NAS La Paz strengthened program and financial management through the use of two management analyst positions. This innovation should be reviewed for possible benefits at other NAS locations.

The Foreign Assistance Act of 1961, as amended, provides authority for the Department to hire PSC employees. PSCs establish an employer-employee relationship between the Department and an individual for services performed personally by the contractor. Although there are certain functions that PSC employees are precluded from performing, PSC employees generally function and are treated in the same manner as direct-hire employees. INL uses two types of personal services contracts. The first involves contracts for secretaries, chauffeurs, and other program assistants with U.S.-dependent personnel or foreign nationals already residing in the host country. The second type of PSC is used to obtain the services of U.S. citizens or resident aliens, usually persons living in the United States, for technical functions such as aviation maintenance advisors, instructor pilots, field advisors, and communications advisors. As of March 1997, INL employed approximately 30 technical advisors for its field programs using this second type of PSC.

Use of Personal Services Contract Employees as Cashiers

In Peru and Bolivia PSC personnel employed by INL were acting as subcashiers to support field operations and had been doing so for years. Depending on program requirements, they managed petty cash on a revolving-fund basis, made low-cost procurements in support of field requirements using cash advances, and used dollar-denominated commercial checking accounts to make program-related procurements. This practice was viewed by INL and embassy officials as a practical necessity in remote areas in which INL implemented its programs. However, the Department did not, at the time of audit field work, have authorization from the Treasury Department to use PSC employees in this manner. Moreover, the PSC personnel acting as field cashiers had not been provided adequate training nor had they received adequate written guidance as to how they were to manage the imprest funds under their control. Now that the Department has received authority to designate PSCs as overseas cashiers, it should provide appropriate training and written instructions to guide them in carrying out these duties.

> **Recommendation 6:** We recommend that the Bureau for International Narcotics and Law Enforcement Affairs (INL) prepare standard operating procedures to guide overseas Narcotics Affairs Sections in the management of INL-funded revolving imprest funds. INL should disseminate this guidance by cable and incorporate it into its *Financial Management Handbook* and training materials.

INL's response to our draft report initially disagreed with the recommendation to develop additional procedures concerning INL-funded revolving imprest funds. INL agreed only to insert a section in its *Financial Management Handbook* stating that INL cashiers must follow Department and Treasury regulations and post guidance and procedures for cashier operations in INL programs. In further discussions with INL, OIG reiterated its position that given the unusual

operating environment of INL's field programs, simply referring to Department and Treasury regulations did not provide adequate guidance to field program managers and staff. INL subsequently agreed to develop the recommended standard operating procedures. This recommendation is resolved and can be closed with the establishment and distribution of those procedures.

Special Contract Employees in Bolivia

NAS La Paz is inappropriately employing through contracts with FELCN (the Spanish acronym of the Special Force for the Fight Against Narcotics), an entity of the Bolivian Ministry of the Interior, personnel who should be hired as embassy PSCs since they provide general program administrative support services. NAS La Paz's staffing complement includes 165 local employees working under FELCN contracts. While some of these employees implement FELCN project activities and are appropriately hired as FELCN contractors, others work in the embassy itself providing general NAS administrative support in a manner indistinguishable from embassy PSCs. FELCN employees do not appear in the NAS's annual administrative budget since funding for them is justified as a narcotics control project expense rather than a general administrative expense. This constitutes a misleading accounting practice. Moreover, FELCN employee salaries are set at 85 percent of the salaries of comparable embassy PSC employees (as an offset for additional benefits they receive as Bolivian Government employees), and they perceive their positions as less secure than embassy PSC employees. Both factors affect employee morale.

NAS La Paz officials stated that in their view embassy local PSC employees do not enjoy greater job security than do FELCN employees since both depend on funds annually appropriated by Congress. However, we observed that what matters most to employee morale is the perception by FELCN employees that their jobs are less secure.

> **Recommendation 7:** We recommend that the Bureau for International Narcotics and Law Enforcement Affairs, in coordination with Embassy La Paz, review the 165 contract positions currently funded by the Narcotics Affairs Section (NAS) through the Bolivian Government's Special Force for the Fight Against Narcotics to determine the continuing need for those current and future positions that provide general administrative support services to the NAS. We further recommend that all such positions be converted to embassy personal services contract positions and be funded from the NAS program development and support budget so as to reflect more accurately the cost of administering NAS programs.

INL and Embassy La Paz agreed with the recommendation, and the post has identified personnel under direct embassy or NAS supervision. These positions will be converted to embassy personal services agreements. This recommendation can be closed when the OIG reviews documentation that Embassy La Paz completed the aforesaid personnel actions.

Management Analyst Positions - A Valuable Innovation

NAS La Paz employs two financial management specialists, working under the direction of the NAS Administrative Officer, to strengthen program and financial management. We reviewed several reports prepared for the NAS and found them to be of high quality, examining specific program management problems. With an FY 1997 NAS budget in La Paz of about $45 million, the analysts have successfully reviewed suspected program irregularities to determine if such irregularities reflected fraud or mismanagement. For example, one of the analysts found discrepancies in the payment of salary supplements and per diem expenses. Overall, we believe the two analysts provide an excellent deterrent to fraud and mismanagement because field offices are aware of the possibility of a review of their programs at any time. Moreover, other NAS management staff do not have the time to undertake the in-depth program and financial reviews the financial management specialists can perform. In view of the usefulness of the management analyst positions as used by NAS La Paz, we believe that other large NAS programs could benefit from creating similar positions.

> **Recommendation 8:** We recommend that the Bureau for International Narcotics and Law Enforcement Affairs, in coordination with the appropriate embassies, review the feasibility of establishing management analyst personal services contract positions in its large narcotics affairs sections.

INL agreed with the recommendation. This recommendation can be closed when INL completes a review for the feasibility of establishing management analyst PSC positions in its large NAS programs.

C. PROGRAM MANAGEMENT AND OVERSIGHT

To manage its programs, INL has developed support and oversight mechanisms, such as field assistance team visits, a training program, and comprehensive handbooks. We followed up on previous OIG report recommendations made in these areas.[5] Although INL has taken steps to strengthen support and oversight of INL programs, we found areas where further improvements are needed. Specifically, we found that: (1) INL's field assistance visit schedule will not be sufficient to provide the supervision needed, (2) some NAS officers lacked training on financial and procurement procedures; and (3) not all NASs maintained copies of INL's handbooks, and one of the handbooks is outdated.

Increased Field Assistance Visits Needed

Although at the end of 1996 INL increased its planned number of field assistance visits after a notable decrease in previous years, INL needs to further expand its planned schedule and provide for annual visits to posts receiving at least $100,000 in annual INL counternarcotics

[5] *Narcotics Affairs Section Financial Management* (4-FM-006, January 1994) and *Bureau for International Narcotics and Law Enforcement Affairs* (I-96-01, October 1995).

funding. All of the posts we visited expressed the desire for field assistance visits because they value the expertise provided by the teams. These field assistance visits are conducted by INL's Office of Resource Management (INL/RM), sometimes accompanied by staff from the Bureau of Administration's Office of Operations (A/OPR) or other Department administrative offices. We observed the benefits of the supervisory visits, including improved operations and guidance and training as needed.

INL made only four field assistance visits in 1994, two in 1995, and three in 1996. Also, the NAS in Laos had not, at the conclusion of our fieldwork, received a field assistance visit. INL officials explained that competing priorities and staffing gaps prevented them from making the desired NAS visits. Recognizing their importance, INL increased its field assistance visits at the end of 1996 and established a schedule for future visits by its program operations and management systems staff.

We reviewed INL's FYs 1997-1998 field assistance visit schedule and found it a good start in providing INL oversight of NAS management and operations. According to the schedule, some of the visits will be made by the program operations division, some by the management systems division, and some jointly. Nonetheless, the planned field assistance visit schedule will not include sufficient visits to provide the supervision needed. For example, INL and A/OPR completed separate field assistance visits at the end of 1996 to Bolivia, which has a FY 1997 budget of $45 million. However, the next field assistance visit is not scheduled until June 1998, and the visit will be made by its management systems staff only. A/OPR's field assistance visit found erroneous procurement practices, such as the improper use of blanket purchase agreements (BPAs).[6] The A/OPR staff member assisted the NAS in putting together better operating arrangements and procedures. With such a large budget, it is essential that INL exercise greater oversight of the Bolivian program with yearly field assistance visits.

Even for NASs with smaller budgets, annual field assistance visits are a worthwhile investment. We found that some one-officer NAS directors lack financial management backgrounds and would benefit from the additional guidance from field assistance visits. In addition, any post responsible for annual INL program funds of at least $100,000 should receive a field assistance visit, especially those posts that no longer have a NAS but still administer NAS program money. NASs tend to administer programs differently, and we discovered that training alone does not ensure that NASs will implement their programs uniformly or correctly.

Recommendation 9: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs (INL) accelerate its field assistance visit schedule to a 2 year cycle, by an appropriate mix of program and financial staff, to each post where at least $100,000 of INL program money is spent annually.

[6] BPAs provide a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply.

INL disagreed with our draft report recommendation which called for annual field assistance visits. INL stated that annual field assistance visits would not be feasible without additional personnel and financial resources. Instead, INL proposed a two-year field assistance schedule. However, an INL official stated that staffing constraints could inhibit program and financial staff making visits within the two-year cycle. Instead INL proposed providing additional program management and financial management oversight from headquarters. We have modified our initial recommendation to acknowledge INL's two year visitation window. This recommendation can be closed with INL providing details on headquarters program and financial management oversight to supplement the two-year cycle of field assistance visits.

Improved Training in Finance and Procurement Needed

Because INL recognizes the importance of well-trained narcotics affairs officers, it provides a 2 week narcotics affairs officer orientation. The course covers a wide range of topics, including counternarcotics and crime strategy, financial management, and implementing agreements with host government counterparts. According to an INL official, the course is still evolving to appropriately include INL's law enforcement responsibilities. Although the course is broad, our review disclosed several problems that indicate INL should expand training in financial management and procurement. While conducting field work, we found that: (1) NAS officers did not always fully understand the intricacies of INL's financial management systems, (2) some NASs lacked knowledge of basic procurement procedures, such as BPAs, (3) one-officer NASs we visited almost entirely relied on support staff to conduct financial and procurement duties without having the knowledge to properly manage these activities, and (4) inappropriate procurement actions occurred in at least two NASs.

A 1993 OIG audit of NASs financial management[7] recommended that INL expand training material to include more emphasis on financial management, and procurement procedures and controls or, when appropriate, send narcotics affairs officers to more in-depth administrative training. At the time of the previous audit, approximately 2 days of the 2 week narcotics affairs officer training were spent on financial management, procurement, and end-use monitoring. As shown in the following chart, the current course syllabus indicates that only a little over 25 percent of the course, or about 2.5 days, is allocated to financial management, end-use monitoring, acquisition, and management controls.

[7] *Narcotics Affairs Sections Financial Management* (4-FM-006, January 1994).

Narcotics affairs officer duties are often devoted to the allocation, expenditure, and monitoring of program funds. Thus, INL's training should provide comprehensive exposure to the financial issues and problems likely to face NAS officers at post. Whereas some NAS personnel with administrative responsibilities have had extensive procurement and financial experience, some have not. Some NAS officers have had no previous experience with narcotics related financial activities, particularly with the differences between the Department's FMS and INL's financial system. It is paramount that NAS officers know how to manage INL funds within the Department's financial framework. One NAS officer noted the benefit of having had significant administrative experience. Conversely, a NAS administrative officer without an administrative background would be at a disadvantage.

We also found that since one-officer NASs receive little direct supervision, they must be able to independently apply the standardized training received to their unique overseas environments. One NAS officer in such a position stated that additional financial training would have been beneficial, having had only 1 week of narcotics related training 7 years earlier. Officers in the one-officer NASs we visited relied heavily on their FSN and part-time, intermittent, or temporary employees to handle the financial and procurement aspects of the program. Because the NAS officers did not always feel comfortable with financial and procurement procedures, the officers delegated responsibilities to other staff members without the ability to effectively monitor their activities.

We recognize that training alone is not going to prevent problems as demonstrated by unauthorized commitments entered into by one NAS post, and vehicle procurement mistakes at another. Both officers involved in these incidents had taken the 2 week NAS officer orientation training. Nonetheless, a redefined training course with greater emphasis on finance and procurement coupled with increased field assistance visits will reinforce the basic principles of NAS administration.

Recommendation 10: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs (INL), in consultation with the Foreign Service Institute (M/FSI), assess the financial and procurement needs of its officers and revise the narcotics affairs officer orientation course based on results of the assessment. INL should also, in consultation with M/FSI, make provisions for continuing officer training and professional development.

INL agreed with the intent of the draft report recommendation but stated that additional NAS officer financial and procurement training was not feasible. In subsequent discussions with INL on the response, we affirmed our position that NAS officers need the commensurate training to adequately manage INL funds within the Department's FMS. As a viable alternative, we acknowledged Embassy Lima's comments to this draft recommendation. Embassy Lima suggested expansion of financial management training within the 2 week NAS officer orientation training along with ongoing professional development. An INL official agreed to hold further discussions with INL and M/FSI on possible alternative solutions to our recommendation. An M/FSI official orally agreed with the recommendation and will work with INL in revamping financial management training. This recommendation is resolved.

Handbook Outdated

INL has developed two useful handbooks. The *Financial Management Handbook* covers financial planning, INL's programming system, budget execution and funds controls, financial reporting, and accounting systems and procedures. The *Procurement Policies and Procedures Handbook* provides information on the statutory, regulatory, and procedural mechanisms which govern how INL funds can be committed. Both handbooks contain information integral to implementing INL programs. Despite this, not all NASs have copies of these handbooks, and information in one of the handbooks is outdated.

We found that not all NASs have INL's handbooks; in fact, one NAS we visited duplicated our copy. An INL official claimed that the bureau makes every effort to ensure that all NASs have copies of the handbooks; however, sometimes the handbooks get lost. In addition, INL has not updated its *Procurement Policies and Procedures Handbook* since 1991. Subsequently, some procedures have changed. For example, the Department increased GSO contracting warrants to $250,000 in some embassies while the handbook states that the GSO contracting warrant is limited to $100,000.

Recommendation 11: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs update its handbooks and ensure that all its narcotics affairs sections have copies of the updated handbooks.

INL agreed with the recommendation and has updated its handbooks and is in the process of providing all NAS programs with the updated handbooks. This recommendation is considered closed.

D. POTENTIALLY VULNERABLE NARCOTICS PROGRAM COMPONENTS

While durable counternarcotics program commodities such as aircraft, vehicles, boats, computers, and other high-value items are subject to a structured end-use monitoring program administered by INL, a significant portion of each country program budget is used for consumable supplies and program support costs that are not as tightly monitored. Commodities such as fuel and food and program support costs such as travel and provision of salary supplements to host-country personnel are difficult to control in the field environment and are potentially vulnerable to fraud or misuse on the part of the end user and field personnel charged with their management.

INL has improved management controls over procedures established to safeguard potentially vulnerable narcotics program components, including provision of salary supplement payments, vehicles and spare parts, travel and per diem payments, food supplements, NAS Lima's revolving fund supporting coca eradication, and management of NAS warehouses. However, we identified some control weaknesses over fuel accountability which require strengthening.

Fuel Controls Need Strengthening

As part of our audit, we performed a followup review of fuel in Embassy La Paz identified in a previous OIG audit report, *Fuel Accountability in the Bolivian Counternarcotics Program* (6-CI-007, January 1996). While the NAS made some improvements in fuel storage, measurement, and security since the earlier audit, problems persisted relating to centralized reporting and monitoring. The narcotics control programs in Bolivia and Peru provide vehicle and aircraft fuel to host-country counterpart agencies. Provided in bulk quantities and stored in field tanks, fuel is inherently difficult to control. The OIG fuel accountability report recommended several improvements to the fuel support program managed by NAS La Paz. During this audit we learned that the eight recommendations had not been fully implemented, including a centralized fuel reporting and monitoring system. The NAS has since taken additional steps to implement a comprehensive reporting system. The fuel support program in Peru uses commercial fueling facilities for vehicle support and limits bulk fuel procurement and storage to jet fuel and aviation gasoline. We believe that NAS Lima should also implement a centralized reporting and monitoring system for the bulk fuel it provides to Peruvian counterparts.

Fuel Issues in Bolivia

Field work for the present audit disclosed that some problems previously identified had not been fully corrected. We were particularly concerned that the NAS fueling operations were not yet recording and monitoring fuel received and disbursed each month in a standardized manner, nor were they regularly reconciling this data with fuel stocks on hand by means of tank measurements. Field fueling locations were not reporting their monthly fuel reconciliation data to NAS La Paz, did not know fuel tank balances when we arrived, were unaware of discrepancies between predicted and measured fuel stocks, and could not readily explain the reason(s) for these discrepancies. Other continuing problems concerned fuel tank measurement rods that were difficult to read and unreliable pump meters. INL and NAS and embassy officials in La Paz

stated that not all the problems identified by OIG had been corrected due to a 5 month staffing gap in the NAS from January to May 1996.

Subsequent to field work for this review, NAS La Paz adopted procedures to enhance fuel accountability, including:

- the NAS administrative officer designed a new form to be used by field refueling operations to record beginning fuel balances, deliveries, disbursements, and ending fuel balances as well as spot-check reconciliations with actual tank balances;

- NAS La Paz decided to replace pumps at its major fueling operations after it concluded that continuing problems with fuel pump failures and inaccuracies could not be overcome by periodic maintenance and recalibration; and

- the NAS also agreed to buy new, calibrated tank-balance measuring rods.

Auditors and NAS Staff Check Fuel Tank Balance - Santa Cruz, Bolivia

Fuel Issues in Peru

The NASs in Ecuador and Venezuela exclude or severely limit the provision of fuel support to host-country counterpart agencies, thereby eliminating this area of management vulnerability. In Peru, the NAS provides fuel support directly from commercial vendors to end users to the extent possible. NAS field personnel oversee vehicle fuel support by controlling who is authorized to draw fuel from approved suppliers, limiting the number of vehicles that can be fueled, and reviewing receipts provided by the commercial vendor. NAS Lima buys aviation gasoline and jet fuel in bulk and transports it to forward operating locations where it is stored in bulk bladders or tanks and dispensed to program aircraft as needed. NAS aviation advisers control and monitor the ordering, delivery, and disbursement of aviation fuel.

Based on our review of the administrative procedures used by NAS Lima, we concur that vulnerabilities to fraud in the fuel program exist principally at the downstream end of the delivery and storage pipeline. NAS Lima officials stated that they are investigating the use of fixed-position metal tanks that could be secured more reliably. Officials agreed to take further steps to review its exposure to fuel fraud. In particular, we believe that NAS Lima should institute a monthly monitoring and reconciliation system for the aviation fuel that it buys and stores in bulk.

Recommendation 12: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs instruct the narcotics affairs section (NAS) in La Paz to complete implementation of its new fuel control reporting and monitoring system and instruct other NAS programs providing bulk fuel support to develop a similar system to include beginning fuel balances, deliveries and disbursements during the month, ending balances, evaporation allowances, and end-of-month measurements and reconciliations of fuel balances.

INL agreed with the recommendation, and Embassy La Paz reported that a new improved fuel control reporting and monitoring system was implemented. This recommendation can be closed upon INL action to instruct other NAS programs providing bulk fuel support to implement similar fuel control systems.

V. CONSOLIDATED LIST OF RECOMMENDATIONS

Recommendation 1: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs require all posts annually administering more than $100,000 of International Narcotics Control Program funding to use automated Financial Management Activity Report software, and provide training and technical assistance as necessary.

Recommendation 2: We recommend that the Bureau of Finance and Management Policy, in coordination with the Bureau for International Narcotics and Law Enforcement Affairs (INL) and the Bureau of Personnel, develop a strategy to correct billing problems relating to INL program activities overseas. Corrective measures should address specifically the problems of: (a) delays in billing for Department of Defense-implemented narcotics control efforts, (b) incorrectly posted payroll charges made against INL funds, and (c) untimely processing of overseas administrative support charges.

Recommendation 3: We recommend that the Bureau of Finance and Management Policy, in coordination with the Bureau for International Narcotics and Law Enforcement Affairs (INL), establish procedures consistent with the Department's Financial Management System to ensure that INL's FY 1994 and later appropriation obligations remain on the books until liquidated or deobligated

Recommendation 4: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs, in coordination with the Bureau of Finance and Management Policy and the Office of the Legal Adviser: (a) direct the Narcotics Affairs Section at Embassy Caracas (NAS Caracas) to return to the Treasury Department all Fiscal Year 1989 and 1991 funds used, or to be used, to establish suspense deposit abroad (SDA) accounts; (b) direct NAS Caracas to reconcile existing SDA accounts to identify funds already spent and charge these expenses to appropriations legally available for expenditure; and (c) determine appropriate accounting procedures for any moneys received in the future from foreign governments.

Recommendation 5: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs evaluate all narcotics affairs sections (NASs) with country program budgets below $1 million to determine whether or not it is feasible to incorporate the programs into regional NASs.

Recommendation 6: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs (INL) prepare standard operating procedures to guide overseas Narcotics Affairs Sections in the management of INL-funded revolving imprest funds. INL should disseminate this guidance by cable and incorporate it into its *Financial Management Handbook* and training materials.

Recommendation 7: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs, in coordination with Embassy La Paz, review the 165 contract positions currently funded by the Narcotics Affairs Section (NAS) through the Bolivian

Government's Special Force for the Fight Against Narcotics to determine the continuing need for those current and future positions that provide general administrative support services to the NAS. We further recommend that all such positions be converted to embassy personal services contract positions and be funded from the NAS program development and support budget so as to reflect more accurately the cost of administering NAS programs.

Recommendation 8: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs, in coordination with the appropriate embassies, review the feasibility of establishing management analyst personal services contract positions in its large narcotics affairs sections.

Recommendation 9: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs (INL) modify its field assistance visit schedule to a two-year cycle, by an appropriate mix of staff, to each post where at least $100,000 of INL program money is spent annually.

Recommendation 10: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs (INL), in consultation with the Foreign Service Institute (M/FSI), assess the financial and procurement needs of its officers and revise the narcotics affairs officer orientation course based on results of the assessment. INL should also, in consultation with M/FSI, make provisions for continuing officer training and professional development.

Recommendation 11: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs update its handbooks and ensure that all its narcotics affairs sections have copies of the updated handbooks.

Recommendation 12: We recommend that the Bureau for International Narcotics and Law Enforcement Affairs instruct the narcotics affairs section (NAS) in La Paz to complete implementation of its new fuel control reporting and monitoring system and instruct other NAS programs providing bulk fuel support to develop a similar system to include beginning fuel balances, deliveries and disbursements during the month, ending balances, evaporation allowances, and end-of-month measurements and reconciliations of fuel balances.