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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Report of Inspection

Bureau of Administration,
Office of
Commissary and Recreation
Staff

Report Number ISP-I-06-35, May 2006

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KEY JUDGMENTS

- The Office of Commissary and Recreation Staff (CR) delivers timely, high-quality services to approximately 130 commissary and recreation associations worldwide. This small office effectively performs its core functions, keeping associations financially viable and operating in compliance with Department of State (Department) regulations.
- The Central Commissary and Recreation Fund (Central Fund), a \$3.3 million fund established to support commissary operations overseas, needs better oversight from its board of directors. The board and the assistant secretary for administration must be prepared to make difficult decisions about the future financing of the office in view of persistent operating deficits in the fund.

The inspection took place in Washington, DC, between January 3 and February 17, 2006. Bohdan Dmytrewycz (team leader), Arne B. Baker (deputy team leader), Olukemi A. Adebisi, and Richard M. Jones conducted the inspection.

OVERVIEW

CR is charged with monitoring regulatory compliance and providing operational support to 130 commissary and recreation associations in U.S. embassies throughout the world. CR consists of eight full-time, direct-hire positions reporting directly to the Deputy Assistant Secretary for Operations within the Bureau of Administration. The office budget was \$901,376 for FY 2005.

The Office of Inspector General (OIG) found that customer satisfaction with CR services is very high among the commissary associations surveyed. OIG noted a serious lapse in oversight of the Central Fund and identified several areas for improvement. OIG also noted that associations and posts universally recognized the value of CR services in promoting morale and quality of life for overseas employees. CR does an admirable job in ensuring that the associations remain viable and offers support services to keep them so.

The primary function of the office is to ensure compliance with regulations contained in 6 FAM 500. The office is divided into accounting and operations teams that conduct site visits and review annual compliance reports, semiannual financial reports, and annual or biennial audits. Equally important are efforts by the office to train managers of overseas associations and support those associations by identifying potential vendors to supply products to overseas commissaries. Through partners in the Bureau of Administration and the Department of Defense, CR also finds effective and affordable means to transport goods to posts. The office staff reviews financial reports to ensure compliance with regulations and to promote the economic viability of associations. CR also offers management advice to association managers and senior management officials at overseas posts.

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CORE FUNCTIONS

THE CENTRAL COMMISSARY AND RECREATION FUND

CR is funded by a combination of appropriated funds from the Department's Diplomatic and Consular Programs appropriation and a one-half-percent levy on commissary sales of member associations. The funds from the levy, gifts from associations, and funds held in escrow from defunct associations are deposited into the Central Fund, an interest-bearing account held in a commercial bank. Funds deposited in the Central Fund currently total approximately \$3.3 million, including \$1.77 million in monies held in escrow for posts with defunct associations.

Under 6 FAM 515 the purposes of the Central Fund and its duties are specified as follows:

The purpose of the Central Commissary and Recreation Fund is to provide financial assistance, primarily in the form of loans, to employee associations abroad. In addition, the fund supports the operations of the Office of Commissary and Recreation Staff (A/OPR/CR), including the monitoring of associations' activities to ensure that they are in compliance with the charters approved by the Department; the development of standardized support systems (i.e., accounting systems, reporting formats, operating procedures, and internal controls); the provision of TDY on-site assistance; the organization of regional conferences; the location of insurance and bonding firms; and the preparation of employee association training manuals.

A board operating under bylaws established by the Assistant Secretary for Administration must make policy regarding the use of funds and approve an office's operating budget. Although the fund has existed since 1966 and the bylaws were last revised in 1995, the board has not met since 1999. Except for two loans, CR has disbursed funds from the Central Fund primarily to pay CR operating expenses. Using money from the Central Fund without board approval, while not illegal, creates the perception that the office may be using the funds for purposes

other than the welfare of overseas commissaries. OIG provided two informal recommendations and one formal recommendation on the issue to strengthen oversight.

Recommendation 1: The Bureau of Administration should convene the Central Commissary and Recreation Fund's board of directors and implement measures to manage the fund in accordance with the bylaws, including a review of expenditures since 2000. (Action: A)

Table 1: Long-Term Funding for CR

Year	Revenue	Expense	Increase (Decrease) in Fund Balance
1996	\$801,853	\$632,389	\$169,464
1997	838,429	461,581	376,848
1998	1,046,393	474,938	571,455
1999	658,105	594,626	63,479
2000	506,110	565,391	(59,281)
2001	536,596	780,907	(244,311)
2002	381,611	793,575	(411,964)
2003	332,935	870,733	(537,798)
2004	293,813	951,657	(657,844)
2005	533,772	901,376	(367,604)

Source: Office of Commissary and Recreation Staff

The office has received funding over the years from a mix of appropriated and nonappropriated sources. In May 2005, the Bureau of Administration made a policy decision to pay salaries and expenses for two positions from appropriated funds. Even with this action, CR staff estimate that the Central Fund will be exhausted by mid-2009. Although the total number of associations has not significantly changed in the past decade, Central Fund income declined from \$801,855 in 1996 to \$533,772 in 2005. Total expenses increased from \$632,389 to \$901,376 during the same period. The fund's income has declined due to the closure or reduction in operations of the two largest associations in Manila, the Philippines, and Bonn, Germany, and because many other associations have experienced reduced incomes. This long-term trend has eroded the financial stability of the Central Fund. Since 2000, the fund has accumulated net losses of \$2.2 million.

To ensure the long-term financial viability of the Central Fund, difficult decisions must be made. These could include raising the Central Fund's levy rate, reducing staff levels in CR, increasing the number of positions supported by appropriated funds, or seeking to include office operations under the International Cooperative Administrative Support Services system. As noted, among the policy decisions that must be made is determining the level of staffing for CR. The office has operated effectively with seven full-time employees, despite a vacancy for the past 19 months. A decision point is at hand, based on the need to decide whether to fill the eighth position, the coming end of fund liquidity in 2009, and the mid-2006 due date to prepare the Bureau Performance Plan for FY 2008. These factors provide a nexus to determine the duties, functions, and the sources of funding for the office before the Central Fund runs dry.

Recommendation 2: The Bureau of Administration should develop a strategy to address the resource shortfall in the Central Fund and include the strategy in its fiscal year 2008 Bureau Performance Plan. (Action: A)

THE "ALGIERS" MONEY

Until the late 1980s, commissary and recreation associations were routinely used as government contractors to provide non-personal services. Included in typical contracts were provisions for any liabilities for employee severance or retirement plans. The Algiers Embassy Employees' Association set aside contingency funds to cover these liabilities in the early 1990s. When the Department forced embassies to cease such contracting practices, the Algiers association terminated its employees and paid appropriate severance. At about that same time, the Algiers embassy's staffing levels were permanently reduced by a post evacuation, and the association downsized accordingly. When all accounts were reconciled, \$287,513 remained. The sum involved was returned to the Department and deposited into the Central Fund, where it remains. CR staff has not been able to resolve the status of these monies. Some believe that the money should be returned to the Treasury, while others believe that the overage cannot be directly tied to any contract and therefore was an accumulation of revenues in excess of operating expenses, which now can be used for the routine fund operations.

Recommendation 3: The Bureau of Administration, in coordination with the Bureau of Resource Management and the Office of the Legal Adviser, should resolve the status of the Algiers Embassy Employees Association's employee severance funds. (Action: A, in coordination with L and RM)

Commissary and Recreation Association Oversight

CR is responsible for monitoring overseas commissary and recreation associations to ensure that they comply with audit and reporting regulations described in 6 FAM 500. The staff does so by analyzing reports, maintaining spreadsheets, and conducting site visits. OIG found that the monitoring and analysis function was performed in a professional manner, but that improvements could be made to ensure more consistent oversight. For example, 17.5 percent of posts had not submitted their annual compliance statements for 2005 at the time of the inspection, according to CR internal records. Among the common management controls issues at posts are weaknesses in inventory, cash management, liability insurance, and hiring as well as cross-subsidies from temporary lodging operated by commissaries. Generally, CR strongly urges posts to obtain a management letter as a supplement to their annual audits that discuss non-financial management controls. Many posts cannot obtain these additional services because of limitations in host countries' accounting standards.

OIG found that, in cases of tardy reports or requirements to amend charters, subsequent actions were to be undertaken at the discretion of the office director. The bureau does not have written guidance outlining the procedures for addressing delinquent reports. Although a small, efficient office does not need detailed internal standard operating procedures, a standard process should be implemented to ensure consistency and compliance with regulations when dealing with outside entities where action or lack of it may have significant repercussions. A standard process should be implemented to ensure consistency and compliance with regulations. The lack of clear guidance in addressing these situations is unacceptable. The Bureau of Administration should have procedures for regularly informing senior management of delinquencies in the submission of required reports.

Recommendation 4: The Bureau of Administration should establish written guidance for the Office of Commissary and Recreation Staff that describes the actions that result when a commissary and recreation association fails to submit charter revisions, financial reports, or audits in a timely fashion. (Action: A)

CR has a limited travel budget and cannot always determine from reports if an association is fully complying with regulations. For example, a handful of associations operate temporary quarters for U.S. government employees on official travel. CR has not visited every post due to a lack of travel funds, but needs to provide closer oversight of these operations to ensure compliance with provisions that prohibit cross-subsidy of post operations. The Department routinely sends management personnel to many posts. OIG made an informal recommendation that CR provide to those offices a checklist of important CR issues to verify during assistance visits.

ASSOCIATION REPORTING REQUIREMENTS

All officially chartered employee associations must provide management reports to CR. These reports include an annual compliance certification statement signed by the chief of mission, semiannual financial statements, and an annual independent audit. For the 48 associations having annual sales of less than \$120,000, the audit is performed every other year. CR has a mini-association program that allows for smaller boards of directors and provides waivers of liability insurance for small employee associations. During the survey phase of this inspection, several employee associations said the audit requirements for very small associations imposed significant costs on their operations. A professional audit for an association with \$10,000 in sales, for example, could cost \$3,000, or a third of sales. OIG informally recommended that CR establish a "micro-association" program to waive audit requirements for the 18 associations having annual sales of less than \$25,000 a year. The risks of fraud or waste for small associations whose collective sales amount to less than 1 percent of overall Department commissary revenues is outweighed by audit costs for these entities.

TRAINING

Training new association managers is one of CR's core functions. At many posts, eligible family members serve as commissary managers, and turnover among association managers is approximately 18 percent annually. New managers need training in stock control, cashiering and accounting, marketing, ordering procedures, employee management, and relations with boards of directors. CR has developed comprehensive training materials. OIG made an informal recommendation that CR combine the various modules into a handbook for new managers.

MANAGEMENT CONTROLS

CR received acceptable scores on the Bureau of Resource Management's risk assessment analysis, which was performed just prior to this inspection. OIG reviewed the office's revenue and procurement cycle processes. As part of its overall bureau responsibilities, the Bureau of Administration has established sound procedures to monitor CR's management controls. In addition, the Central Fund receives an annual independent audit. Except for the effect on the control environment of having an inactive Central Fund board of directors, as discussed earlier in this report, CR has demonstrated a commitment to governmental internal control standards.

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FORMAL RECOMMENDATIONS

Recommendation 1: The Bureau of Administration should convene the Central Commissary and Recreation Fund's board of directors and implement measures to manage the fund in accordance with the bylaws, including a review of expenditures since 2000. (Action: A)

Recommendation 2: The Bureau of Administration should develop a strategy to address the resource shortfall in the Central Fund and include the strategy in its fiscal year 2008 Bureau Performance Plan. (Action: A)

Recommendation 3: The Bureau of Administration, in coordination with the Bureau of Resource Management and the Office of the Legal Adviser, should resolve the status of the Algiers Embassy Employees Association's employee severance funds. (Action: A, in coordination with L and RM)

Recommendation 4: The Bureau of Administration should establish written guidance for the Office of Commissary and Recreation Staff that describes the actions that result when a commissary and recreation association fails to submit charter revisions, financial reports, or audits in a timely fashion. (Action: A)

INFORMAL RECOMMENDATIONS

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

Reporting requirements for very small associations require a biennial audit that can be costly to perform.

Informal Recommendation 1: The Bureau of Administration should establish a program for "micro-associations" to waive audit requirements for the small associations.

By-laws for the Central Fund, and accompanying language in the Foreign Affairs Manual, have not been revised since 1995 and include obsolete language.

Informal Recommendation 2: The Bureau of Administration should revise the bylaws of the Central Commissary and Recreation Fund's board of directors and Volume 6 of the Foreign Affairs Manual.

By-laws for the Central Fund call for the board of directors to have 14 board members, an unwieldy total that is drawn from a variety of offices in the Department and from other foreign affairs agencies.

Informal Recommendation 3: The Bureau of Administration should reduce the total membership of the Central Commissary and Recreation Fund's board of directors from 14 to a more manageable number.

CR does not have sufficient travel funds to visit many posts. Other offices in the Department send management personnel on travel, and these employees could be asked to look into specific issues on CR's behalf.

Informal Recommendation 4: The Bureau of Administration should prepare checklists for use by Department employees who are traveling on temporary duty, so that the employees can provide insight into the local employee association on CR's behalf.

CR has developed comprehensive training materials that are useful to new managers, but these manuals are located at different places on the CR web site.

Informal Recommendation 5: The Bureau of Administration should consolidate manager-training materials into a management handbook.

PRINCIPAL OFFICIALS

	Name	Arrival Date
Assistant Secretary	Frank Coulter, acting	4/2005
Deputy Assistant Secretary for Operations	Steven J. Rodriguez, acting	7/2005
Director, Office of Commissary and Recreation Staff	Annette R. Cocchiaro, acting	11/2005

ABBREVIATIONS

Central Fund

Central Commissary and Recreation Fund

CR

Office of Commissary and Recreation Staff

OIG

Office of Inspector General

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of Federal programs
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