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

# Report of Inspection

## **Inventory Controls for Nonexpendable Property at Embassy Beijing**

**Report Number ISP-I-07-06, November 2006**

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## TABLE OF CONTENTS

KEY JUDGMENTS .....	1
CONTEXT .....	3
Embassy Originally Failed to Take Corrective Measures. ....	4
Embassy Subsequently Responded with Initiatives .....	4
Warehouse Security is Major Concern .....	6
Embassy Initiatives in Response to Latest Review .....	8
FORMAL RECOMMENDATIONS .....	9
INFORMAL RECOMMENDATION .....	11
ABBREVIATIONS .....	13

## KEY JUDGMENTS

- Embassy Beijing is a large, complex, and busy mission where the hostile counterintelligence environment is a challenge for the American staff. Over the years, administrative personnel responsible for property management have often lacked experience, had competing responsibilities that limited their attentiveness to problems, and perhaps most importantly, were not held accountable by their American supervisors.
- Much, if not most, of the post's inventory shortages are likely due to poor inventory records. Yet the possibility of substantial theft cannot be dismissed. Unqualified and/or untrustworthy locally hired employees have periodically been fired over the years. Locally hired employees also are aware of the deficiencies in the property management system and that there is little chance that occasional, limited pilferage will be detected, identified, or result in punishment.
- Embassy senior management has firmly placed a high priority on correcting long-standing property management deficiencies. Actions taken and planned should significantly reduce inventory shortages, and a new administrative team has the experience and commitment to get the job done.
- According to officials in the post's general services office (GSO) and regional security office (RSO), there are plans to add a second guard post at the compound and to make the closed-circuit television (CCTV) cameras and alarm system operational. All agree that warehouse security must improve.

Office of Inspector General (OIG) inspector **(b) (6)** conducted this review during the course of leading OIG's security inspection of the new embassy compound (NEC) in Beijing between August 10 and 30, 2006. At the conclusion of this inspection, the OIG team briefed the deputy chief of mission and key staff on its findings, and all of OIG's recommendations were accepted by post management. The embassy has a plan in place to implement OIG's recommendations.



## CONTEXT

This review was initiated at the request of Ambassador Clark T. Randt, Jr. in his June 23, 2006, memorandum to the Inspector General of the State Department. The memorandum outlined deficiencies in Embassy Beijing's property management system, enumerated initiatives underway, and identified plans for improving inventory controls. The Ambassador requested that OIG investigate current and past property management practices to independently determine accountability and responsibility for the embassy's poor property management.

Concurrent with his request to OIG, Ambassador Randt requested that the Bureau of Administration review embassy procedures and make further recommendations. The bureau plans a site visit in early FY 2007 to review inventory controls and provide tailored training to locally employed and American staff.

Prior to departing for Beijing, the OIG inspector reviewed workpapers associated with its most recent management inspection report on Embassy Beijing (ISP-I-04-36A, September 2004), reviewed Embassy Beijing property management reports for 2002 through 2005, examined pertinent Notification of Inventory Shortfall reports (Form DS-132), and discussed inventory controls with Bureau of Administration personnel. At post, the OIG inspector interviewed officials of the GSO, RSO, and Property Survey Board; reviewed pertinent investigative reports; and visited the Dashanzi warehouse, where most nonexpendable property is stored.

A June 5, 2003, internal memorandum to the embassy's administrative counselor identified significant inventory control problems at Embassy Beijing, including inventory shortages that totaled \$541,474 in 2002. The shortages involved items ranging from computer equipment to household items. The memorandum did not rule out the possibility of malfeasance, and an RSO investigative report was inconclusive on that score. However, the memorandum attributed most of the shortage to poor recordkeeping, particularly regarding property disposition procedures (i.e. items that were sold, discarded, or otherwise disposed of but not properly recorded). Property disposition reports were not available, and there were no property inventories on file for 95 percent of residences. Therefore, it cannot be said with certainty whether the missing inventory was properly disposed of, but not properly recorded, or was lost due to malfeasance.

As a result of the 2002 inventory shortages, the embassy reported that it initiated a wide range of corrective measures to ensure proper control over nonexpendable property. The inventory shortage reported for 2003 was \$124,070, and that for 2004 was \$18,739. Embassy Beijing determined that the 2003 and 2004 inventory reports were not credible because the documentation supporting those inventories was not accurate and disposal reports were missing.

## **EMBASSY ORIGINALLY FAILED TO TAKE CORRECTIVE MEASURES**

The OIG inspector learned from the GSO staff that corrective inventory measures were never implemented from 2003 through 2004, including the measures OIG recommended in its 2004 inspection report. Inventory items in the 2003 and 2004 inventory reports were falsely reported as being in stock when actually the items had been lost, disposed of, or stolen. Local-hire staff may have felt compelled to “find the missing items” and, fearing the anger of their American supervisors, may have incorrectly reported that the items were found. As these items were actually not in stock, the more accurate 2005 inventory identified a shortage of \$379,782.

The GSO/property management staff is taking tangible action to improve the Nonexpendable Property Application (NEPA) inventory system by eliminating items that should not be serialized in the system (i.e. items must meet dollar thresholds) and by disposing of items through the normal disposition system. The number of NEPA items held by the mission has been significantly reduced. The GSO staff has advised locally hired employees that all items in the warehouse must have a NEPA sticker unless the item is awaiting disposal. An OIG spot check of items in the warehouse showed this policy appears to be in effect.

## **EMBASSY SUBSEQUENTLY RESPONDED WITH INITIATIVES**

A number of important actions undertaken since August 2005 and identified in Ambassador Randt’s memorandum are underway, but some have not been implemented. Several items warrant particular attention:

- The recommendation to have the consular/GSO rotational position changed to a straight two-year GSO position to improve accountability is still under consideration.

- Plans to heat the warehouse, allowing employees to be fully productive during winter months, have not yet been implemented.
- The post is moving to terminate employment of a second supervisory warehouse employee due to his inability to perform his required duties.
- Plans to hire a dedicated, secure, receiving clerk to allow the GSO/property officer to devote more time to oversight and supervision have not been approved.

The embassy should continue to implement the corrective measures enumerated in Ambassador Randt's memorandum to the Inspector General and to implement OIG's recommendations from its 2004 inspection report.

There have been longstanding concerns about theft and collusion at the Dashanzi warehouse. Allegations of malfeasance have been made repeatedly over the past three years. In January 2006, the GSO supervisor presented the RSO with concerns that theft and collusion were occurring at the warehouse. The RSO's investigation was inconclusive but did find friction among locally hired employees and determined that some employees' responses were less than candid. During OIG's visit, employees said there was fraud by local warehouse employees, but none expressed first-hand knowledge of criminal activity. Thus, the situation calls for continuous American oversight.

**Recommendation 1:** Embassy Beijing should obtain a full-time, onsite, cleared American supervisor for warehouse operations. (Action: Embassy Beijing)

A significant concern lies with the large amount of high-value information technology items, such as laptops, printers, and monitors that are missing. Many of these items were recently entered into the inventory and were not scheduled for disposal for several years; therefore, it is unlikely they were appropriately disposed of. The post's Property Survey Board said the amount of information technology equipment unaccounted for over the past two years is very troubling. The information technology equipment is currently stored on open shelves in the warehouse and should, at a minimum, be placed in a locked cage. Also post was storing 100 percent of its unclassified equipment in the warehouse. A more prudent approach would be to store a lesser amount to meet current operational needs, while storing the majority of equipment in the secure Erban warehouse on the embassy annex compound.

**Recommendation 2:** Embassy Beijing should store high-value and desirable information technology equipment securely. (Action: Embassy Beijing)

## **WAREHOUSE SECURITY IS MAJOR CONCERN**

At the warehouses, physical and procedural security is lax. The main warehouse has about 3,600 square meters of capacity and eight large roll-down doors. All supplies there are stored on open steel shelves, including items designated for the Ambassador's residence. At the rear of the warehouse and on the loading dock, large quantities of patio furnishings are in boxes. The warehouse doors are usually left open all day in the summer and locally purchased Chinese-manufactured padlocks secure the doors at night. Therefore, it is unlikely that there are positive key-control and lock-down procedures in place after the close of business.

**Recommendation 3:** Embassy Beijing should replace the padlocks on the warehouse doors with Bureau of Diplomatic Security-approved, high-security padlocks and implement procedures to properly control the locks and keys. (Action: Embassy Beijing)

Although there are CCTV cameras situated around the perimeter of the warehouse, none are connected to any monitors or recording devices. The local guard should be able to monitor the CCTV cameras. Also the warehouse is wired for an alarm system, but the system is not connected.

**Recommendation 4:** Embassy Beijing should connect the closed-circuit television cameras at the warehouse to a digital video recorder in a protected security container and provide camera monitors for the local guards. (Action: Embassy Beijing)

**Recommendation 5:** Embassy Beijing should connect the installed alarm system for the warehouse and ensure that the alarms are monitored by the local guards and remotely monitored at the embassy. (Action: Embassy Beijing)

A perimeter fence with barbed wire surrounds the three-building complex, yet there are holes under the fence line that are nearly big enough to allow entry by an intruder. There is also an approximately 10-foot section of the fence where the outrigger and barbed wire have been pushed down or removed, allowing easy and undetected access onto the warehouse compound. Outside and immediately adjacent to this compromised fence section is what appears to be a dormitory for workers at a nearby company. There are also some locally obtained lighting fixtures along the fence line, but they provide insufficient lighting.

**Recommendation 6:** Embassy Beijing should enhance the warehouse perimeter fence line by reinstalling its barbed wire. (Action: Embassy Beijing)

**Recommendation 7:** Embassy Beijing should replace the substandard perimeter lighting at the warehouse compound. (Action: Embassy Beijing)

Although a local guard is on duty 24 hours a day all week at the perimeter pedestrian/vehicle entrance, the guard's effectiveness is questionable. In addition, there is no procedure for spot-checking departing vehicles to be sure that items are not being improperly removed from the warehouse or to deter the inappropriate removal.

**Recommendation 8:** Embassy Beijing should institute a system of spot checks by warehouse staff of departing vehicles. (Action: Embassy Beijing)

The guard roves the warehouse grounds every half hour, and the guard log is consistent with this assertion. The warehouse has an electronic guard-monitoring system. Additional guard coverage is needed to roam the compound.

**Recommendation 9:** Embassy Beijing should add a second guard at the warehouse to act as a rover. (Action: Embassy Beijing)

Embassy Beijing might also find it useful to install hidden web-cam cameras in the warehouse to covertly monitor warehouse activities. Recently at the NEC site, this technique revealed an employee stealing cellular phones. The employee was fired. The OIG team made an informal recommendation to address this matter.

## **EMBASSY INITIATIVES IN RESPONSE TO LATEST REVIEW**

To improve Embassy Beijing's property management, the GSO initiated the following actions:

- Processed the purchase of the eight high-security locks recommended by the RSO.
- Processed the purchase of seven warehouse gates that will be used when the roll-up doors are not monitored.
- Planned with the facilities maintenance office the construction of a secured storage area within the warehouse.
- Researched possible electronic key control devices to improve control and the audit trail.
- Accelerated the engineering service center's efforts to complete the work needed on the CCTV cameras.

## FORMAL RECOMMENDATIONS

- Recommendation 1:** Embassy Beijing should obtain a full-time, onsite, cleared American supervisor for warehouse operations. (Action: Embassy Beijing)
- Recommendation 2:** Embassy Beijing should store high-value and desirable information technology equipment securely. (Action: Embassy Beijing)
- Recommendation 3:** Embassy Beijing should replace the padlocks on the warehouse doors with Bureau of Diplomatic Security-approved, high-security padlocks and implement procedures to properly control the locks and keys. (Action: Embassy Beijing)
- Recommendation 4:** Embassy Beijing should connect the closed-circuit television cameras at the warehouse to a digital video recorder in a protected security container and provide camera monitors for the local guards. (Action: Embassy Beijing)
- Recommendation 5:** Embassy Beijing should connect the installed alarm system for the warehouse and ensure that the alarms are monitored by the local guards and remotely monitored at the embassy. (Action: Embassy Beijing)
- Recommendation 6:** Embassy Beijing should enhance the warehouse perimeter fence line by reinstalling its barbed wire. (Action: Embassy Beijing)
- Recommendation 7:** Embassy Beijing should replace the substandard perimeter lighting at the warehouse compound. (Action: Embassy Beijing)
- Recommendation 8:** Embassy Beijing should institute a system of spot checks by warehouse staff of departing vehicles. (Action: Embassy Beijing)
- Recommendation 9:** Embassy Beijing should add a second guard at the warehouse to act as a rover. (Action: Embassy Beijing)



## INFORMAL RECOMMENDATION

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

Embassy Beijing does not have hidden web-cam cameras in the warehouse to covertly monitor warehouse activities.

**Informal Recommendation 1:** Embassy Beijing should install hidden web-cam cameras in the warehouse.



## ABBREVIATIONS

CCTV	Closed-circuit television
GSO	General services office
NEC	New embassy compound
NEPA	Nonexpendable Property Application
OIG	Office of Inspector General
RSO	Regional security office

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