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STATE DEPARTMENT'S PROCUREMENT OF  
SILVERWARE FOR OVERSEAS MISSIONS

Statement of  
Joan M. McCabe  
Associate Director, National Security and  
International Affairs Division

Before the  
Legislation and National Security Subcommittee  
Committee on Government Operations  
House of Representatives



Mr. Chairman, Members of the Subcommittee:

I am pleased to be here to discuss our recent report on the State Department's purchase of silverware for its overseas missions.<sup>1</sup> Our examination focused on the Department's silverware needs, procurement procedures, and inventory controls.

Our review disclosed a number of problems in the management of the program, which is carried out by the Department's Office of Foreign Buildings Operations (FBO). We found that the Department had not adhered to procurement regulations in contracting for the silverware; that FBO's records and its inventory controls were inadequate; and that the Department was not following its regulations regarding the disposal of silverware.

#### BACKGROUND

Since 1979, FBO has purchased about 72,000 pieces of sterling silverware at a cost of over \$2 million. Silverware, as well as glassware and china, is provided to ambassadors, deputy chiefs of missions, and consuls general for use in carrying out their representational duties. Funds for the procurement of silverware are obtained through the Department's Acquisition and Maintenance of Buildings Account--the same account that funds the construction, furnishing, and maintenance of various embassy facilities overseas.

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<sup>1</sup>Procurement: State Department's Purchase of Silverware for Overseas Missions, (Mar. 1987, GAO/NSIAD-87-47)

Prior to 1979, FBO had purchased four different patterns of silverware. In 1979 FBO decided to standardize on one pattern rather than continue to maintain the different ones. FBO estimated that over 156,000 pieces of silverware would be needed to complete this standardization program.

To ensure that the continuity of the standardized pattern could be maintained indefinitely, FBO planned to obtain ownership of the tools and dies used to manufacture the silverware and to provide them to manufacturers who successfully bid on future contracts to supply silverware to the Department. Previously, ownership of tools and dies had remained with the manufacturer.

PROCUREMENT REGULATIONS  
WERE NOT FOLLOWED

The Department conducted a negotiated procurement to initiate the standardization program. In February 1979, the Department solicited offers from 11 firms for manufacturing the new pattern called "Embassy Scroll". Four companies submitted offers. The two low offers were rejected because the patterns offered were unacceptable. The two remaining companies--Towle Silversmith and Lunt Silversmith--were asked to submit best and final offers. The low bid of \$190,100 was submitted by, and the contract was awarded to, Lunt Silversmith Company of Greenfield, Massachusetts. On April 1, 1979, the Department entered into a 6-year contract, renewable each year with certain escalation provisions. The contract was subsequently extended for 15 months and expired on June 30, 1986.

Although the Department originally intended to obtain ownership of the tools and dies for the manufacture of the Embassy Scroll pattern, this has not happened. The Department entered into a contract which did not secure the government's rights to the tools and dies, even though the solicitation for bids sent to all prospective offerors indicated that was a requirement. The solicitation provided that offerors should either indicate the cost to the government to purchase the tools and dies or include a statement that if the contract is terminated or production of the pattern is discontinued the title to the tools and dies would pass to the government.

Lunt Silversmith submitted an offer which was not directly responsive. Lunt's proposal stated that it was prepared to absorb the entire cost of tools and dies and, if for any reason, Lunt permanently discontinued production of the Embassy Scroll pattern, all tools and dies would be made available to the government at no charge.

The language of Lunt's proposal differed materially from the solicitation language. Lunt offered to make the tools and dies available only in the event that it should permanently discontinue production of the pattern, and not if the State Department contract was simply terminated as the solicitation stated. This was an important distinction because Lunt Silversmith intended to sell Embassy Scroll to commercial customers as well as the Department of State.

In accepting Lunt's offer, the Department violated Federal Procurement Regulations which prohibit an agency from accepting a proposal that is inconsistent with requirements of the solicitation without giving all prospective bidders an opportunity to compete on the same basis. The Department should have either required Lunt to revise its proposal to comply with the solicitation or the Department should have revised and reopened the solicitation so that all prospective bidders would have been aware of the change.

Notwithstanding the seemingly clear terms of Lunt's offer, throughout our review FBO officials we talked with took the position that the contract provided for government ownership. As of last week the FBO director told us that FBO now recognizes Lunt's ownership of the tools and dies. The procurement agent, who negotiated and prepared the contract, said the acceptance of Lunt's language regarding ownership was an oversight. At this point, we do not know what impact Lunt's ownership of the tools and dies will have on future procurements.

#### OTHER PROBLEMS IN FBO'S MANAGEMENT OF THE SILVERWARE PROGRAM

FBO needs to improve its internal controls and enforce established procurement regulations and procedures concerning physical inventories, reconciliations, reporting, and authorized allowances. For example, FBO regulations require an annual inventory, reconciliation, and report of silverware held at each overseas post and at the contractor's plant. In our review of FBO's records,

however, we found that many such reports were several years old and did not reflect shipments of replacement pieces to the posts.

According to FBO records and the official responsible for the silverware program, the last physical inventory FBO conducted at the contractor's plant was in 1981, even though its regulations require an annual inventory. We visited the contractor's plant in September 1986, inventoried the silverware held for the Department, and found that the quantities differed significantly from FBO's records. The quantities held by the contractor exceeded the amounts shown in FBO's records. FBO officials were unable to provide a reconciliation of the differences but informed us that the differences may have been due to in-transit orders--orders posted to FBO records but not yet shipped from the contractor's plant.

We also found problems with State's program to dispose of excess silverware. FBO had instructed overseas posts to dispose of existing silverware when the Embassy Scroll was received. According to the instructions the posts were to either sell the old pattern silverware or return it to FBO. Proceeds from sales were to be deposited in the excess property account, and notification concerning the sale and the deposit were to be forwarded to FBO.

Missions were not adhering to these instructions. While at several overseas locations on other assignments, we briefly examined their silverware inventories. All five locations we visited which had

received the new pattern had also kept the old pattern and consequently had silverware in excess of the authorized allowances.

This concludes my prepared remarks. I will be happy to respond to any questions you may have.