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

Office of Audits

Independent Accountants' Report on Audit of Department of State Compliance With Transparency and Reporting Requirements of the American Recovery and Reinvestment Act

Report Number AUD/CG-10-22, June 2010

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Kearney & Company, P.C., performed this audit under Department of State, Office of Inspector General, Contract No. SAQMMA09D0002, and by acceptance the report becomes a product of the Inspector General.



**Harold W. Geisel
Deputy Inspector General**

6/21/2010

Date

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U.S. DEPARTMENT OF STATE

Audit of Department of State Compliance With Transparency and Reporting Requirements of the American Recovery and Reinvestment Act

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March 19, 2010

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Kearney & Company, P.C. (Kearney) is pleased to submit this performance audit report related to the evaluation of the Department of State's (The Department's) compliance with the transparency and accountability reporting requirements of the American Recovery and Reinvestment Act (ARRA) of 2009. This engagement was the second in a series of reports conducted by the Office of Inspector General, Office of Audits (OIG/AUD) on the integrity of data reported by the Department and recipients of ARRA funding. This performance audit was designed to meet the objectives identified in the Objectives section and Appendix A, Scope and Methodology of this report.

We conducted this performance audit from January 21, 2010 through March 19, 2010, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of our performance audit and the related findings and recommendations.

We would like to thank the Department Offices involved for their cooperation during the course of this engagement.



Kearney & Company, P.C.

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EXECUTIVE SUMMARY

At the request of the Office of the Inspector General (OIG), U.S. Department of State (Department), Kearney & Company, P.C. (Kearney), evaluated the Department's compliance with the transparency and accountability reporting requirements of the American Recovery and Reinvestment Act (Recovery Act) of 2009. These transparency and accountability reporting requirements were established by the February 18, 2009, Office of Management and Budget (OMB) Memorandum M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (OMB M-09-10), and the April 3, 2009, OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (OMB M-09-15).

As a basis for our performance audit, we used OMB M-09-10 and OMB M-09-15 to assess compliance with Recovery Act reporting requirements. We reviewed and tested internal controls surrounding the reporting of Recovery Act activities. (The scope and methodology are detailed in Appendix A.)

We found that the Department had effectively implemented policies and procedures at the Department bureau and office levels. Specifically:

- Transparency and reporting requirements, such as data quality reviews of recipient financial information, were adequately addressed.
- Department-wide risk management plans and measures were implemented to reduce the vulnerability of unauthorized use of Recovery Act funds.
- Budget execution is compliant with OMB regulations.
- Procurement actions have appropriate controls covering contract solicitation, post-award procedures, and contract monitoring. (The testing of policies and procedures is detailed in Appendix B.)

While the Department has taken significant steps to implement and execute these policies and procedures, we noted several challenges that the Department must address to ensure that Recovery Act objectives are met. Specifically:

- Data quality review policies and procedures need strengthening.
- Required Recovery Act clauses were missing or were not added to contract documents in a timely manner, resulting in reporting errors.
- Recovery Act awards were not properly reported in the Federal Procurement Data System (FPDS).

In addition, we found that inaccurate reporting of U.S. Department of Justice (DOJ) funds received caused a \$925,160 overstatement in obligations and outlays reported on the agency

weekly reports. The Bureau of Resource Management, Deputy Chief Financial Officer (DCFO), agreed to correct the reporting errors on subsequent weekly reports.

To improve internal controls and ensure that Recovery Act objectives are met, we recommend that:

- The Office of Management Policy, Rightsizing and Innovation (M/PRI) coordinate with contracting officers in the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM), the Foreign Service Institute (FSI), and the International Boundary and Water Commission (IBWC) to establish Department-wide standard operating procedures for data quality reviews of recipient data.
- AQM implement additional reconciliation controls to validate recipient reports.
- AQM implement additional review procedures to ensure Recovery Act contract clauses are included timely in Recovery Act contracts.
- DCFO implement additional internal controls over Recovery Act data reported on public Websites and in FPDS.
- DCFO clarify inter-agency fund Recovery Act reporting procedures.

On May 26, 2010, M/PRI, with input from AQM, DCFO, FSI, and IBWC, responded to the report and indicated agreement with the report's five recommendations (the response is in Appendix C).

BACKGROUND

The Recovery Act was signed into law by President Obama on February 17, 2009. The Act includes measures to modernize the Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those individuals in greatest need.

The Department seeks to use Recovery Act funds to create and save jobs, repair and modernize domestic infrastructure crucial to the safety of American citizens, enhance energy independence and reduce global warming by "greening" the Department's facilities, and expand consular services offered to American taxpayers.

Every taxpayer dollar spent on the economic recovery is subject to unprecedented levels of transparency and accountability. The Recovery Accountability and Transparency Board is responsible for coordinating and conducting oversight of Federal spending to prevent waste, fraud, and abuse. One way to fulfill these responsibilities is by monitoring the accountability objectives of the law by ensuring the following:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Funds are used for authorized purposes, and every step is taken to prevent instances of fraud, waste, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Programs meet specific goals and targets and contribute to improved performance on broad economic indicators.

The Recovery Act also established new reporting requirements related to the awarding and use of funds to promote transparency, which will help drive accountability for the timely, prudent, and effective spending of Recovery Act dollars. Challenges associated with the new reporting requirements include developing the systems and infrastructure for collecting and reporting the required information, educating recipients about the reporting requirements, assessing the quality of the reported information, and using the collected information effectively to monitor and oversee Recovery Act programs and performance.

The Department received just over \$600 million related to Recovery Act funds. The breakdown of those funds is shown in Table 1.

Table 1. Breakdown of Recovery Act Funds

Project	Project Description *	Funding (\$ in thousands)
Hard Skills Training Center	Construct a training facility capable of supporting hard skills security-related training for the Department and the wider foreign affairs community.	70,000
Passport Facilities	Construct five new passport agencies (Vermont, Buffalo, El Paso, Atlanta, and San Diego), and expand services at two existing locations (Portsmouth and Hot Springs).	15,000
National Foreign Affairs Training Center	Construct additional classroom and training capacity for information technology (IT), tradecraft, and language training in order to ensure that personnel being assigned overseas have the specific IT and tradecraft skills and language training needed to perform essential job functions.	5,000
Data Center	Build an enterprise data center in the Western United States, and consolidate all domestic servers into four enterprise data centers. The program will provide a highly available, scalable, and redundant data center infrastructure that will substantially reduce the Department’s risk and provide for future IT growth.	120,000
IT Platform		33,500
Diplomatic Facility Telephone System Replacement	The Department will replace antiquated telephone systems at a number of diplomatic missions	10,000
Replacement of Aging Desktop Computers	This project will replace antiquated computers essential for classified and unclassified processing domestically and at 285 overseas embassies and consulates.	13,000
Mobile Computing	This project will provide technological improvements to the	10,500

Project	Project Description *	Funding (\$ in thousands)
	Department of State Mobile Computing Platform, increase the number of employees who have mobile access, and ensure continuity of operations for services such as passports and visas.	
Cyber Security		98,500
Tools To Guard Against and Track Cyber Attacks	This project is an effort to reduce the potential for successful cyber attacks against the Department.	64,205
Strengthen Computer Hardware (H/W) Security Testing and Forensic Investigations	This project will purchase new laboratory tools and electrical systems to strengthen and modernize the secure inspection processes that safeguard the Department's computer equipment (that is, any device that uses a computer chip) from hackers, terrorists, and inside/outside physical hardware attacks.	4,000
Safeguarding Citizens – Computer Security Systems	This program will deploy state-of-the-art computer security systems to the Department headquarters building and embassies worldwide.	25,366
Expanded Cyber Education	This project develops and delivers courses to enable the general Department of State work force and persons with specific cyber security management responsibilities to protect against these new cyber threats.	4,929
U.S. Agency for International Development (USAID)**		38,000
OIG***		2,000
IBWC	Recovery Act funding will be applied to the Rio Grande Flood Control System project to evaluate, through environmental assessments and geo-technical investigations, needed repairs and/or rehabilitation of deficient portions of the flood control systems.	220,000
Total		602,000

* Project descriptions from the chart are contained in the Department of State Recovery Act External Program Plan.
 ** Reporting and accountability for funds transferred to USAID are the responsibility of USAID. This funding was not included in the scope of our audit.
 *** OIG-related funding is reported in the Inspector General's monthly report, not in agency reports. This funding was not included in the scope of our audit.

OBJECTIVES

We reviewed selected Department processes to determine whether Recovery Act reporting and data quality applications were in compliance with relevant Federal and Departmental guidance. The primary objectives of the audit were the following:

- Assess Department compliance with financial and reporting requirements contained in the Recovery Act, including relevant OMB memorandums and Federal Acquisition Regulation (FAR) sections.

- Ensure the Department is meeting Recovery Act and OMB requirements for transparency and reporting, information collection and dissemination, budget execution, risk management, and contract awards.
- Assess and test the design and effectiveness of data quality review procedures to identify and prevent material omissions and significant reporting errors.
- Determine the accuracy and completeness of data reported through the federalreporting.gov portal, the Recovery.gov¹ Website, and other Websites.

We conducted this performance audit from January through March 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

AUDIT RESULTS

We found that the Department had effectively implemented policies and procedures at the Department bureau and office levels. Specifically:

- Transparency and reporting requirements, such as data quality reviews of recipient financial information, were adequately addressed.
- Department-wide risk management plans and measures were implemented to reduce the vulnerability of unauthorized use of Recovery Act funds.
- Budget execution is compliant with OMB regulations.
- Procurement actions have appropriate controls covering contract solicitation, post-award procedures, and contract monitoring. (The testing of policies and procedures is detailed in Appendix B.)

However, we noted several challenges that the Department must address in order to ensure that OMB-imposed Recovery Act objectives are met and Recovery Act-related information is posted to publicly reported Websites timely and accurately. We noted the following specific findings:

¹ Recovery.gov is the U.S. Government's official Website, providing easy access to data related to Recovery Act spending and allowing for the reporting of potential fraud, waste, and abuse.

Finding 1 - Data Quality Review Policies and Procedures Need Strengthening

Recipient Reported Data

We found that the Department was not keeping proper documentation associated with reviews of the required recipient reports, as well as any follow-up to comments given to the recipients regarding the content of the quarterly reports. We also noted inconsistencies between data reported by recipients and data in the Global Financial Management System (GFMS²). Specifically, documentation provided did not show how the number of jobs retained and/or created or the funds received were reviewed for accuracy by the Department. In addition, we noted differences between funds reported as received by the recipient and GFMS expenditures. For 41 of 105 first quarter FY 2010 recipient reports, we noted differences totaling \$14.9 million between the amount reported as received and GFMS expenditures. The Department contract expenditures as of December 31, 2009, were \$50.5 million, creating a variance of 29.5 percent. Department management stated that differences can occur because of the delay from when the contractor sends an invoice to the Department and when the Department makes payment. We believe this explanation is plausible for a portion of the noted errors, but it does not give reasons for such a high variance.

We did note that IBWC kept a review checklist, which was a required attachment to all vendor-submitted reports. This checklist was cited within IBWC's standard operating procedures (SOP) and noted throughout quarterly report testing. This checklist was also associated with IBWC's risk management program pertaining to Recovery Act-funded contracts that involve extensive examination of all bidding contractors, which is performed by IBWC's Internal Audit (IA) Office. This examination of all bidding contractors includes a review of the contractor's financial statements and information submitted by the prospective contractor to find evidence of several eligibility criteria determined by the IA Office. However, we noted that the IBWC checklist did not include a review of the number of jobs created or retained. Similar documentation was not used in data quality reviews conducted by AQM and FSI. Evidence of data quality reviews conducted should show what fields were reviewed and how the data was tested for accuracy. In addition, communication with the vendor (issue identified and whether it was resolved or uncorrected) should be documented. For four of eight AQM first quarter FY 2010 data quality reviews tested, we noted that the Department provided the download from Recovery.gov showing that the Agency Reviewed Flag was marked as "Y," which indicates that the specific field was reviewed by a designated agency official. However, AQM stated that formal data quality reviews of the selected recipient reports were not performed. Since this analysis was performed during the first recipient review period and was not found for any recipient reports tested in the first quarter of FY 2010, we determined that the current

² GFMS is the Department's accounting system of record and is the primary source used to develop the financial statements and to support budgetary processes. GFMS provides a single integrated system, single information source, standard transactions, and consistent editing and reporting, all of which send and receive information from posts, bureaus, and serviced agencies; the Department of the Treasury; and OMB.

Department process ensures that reviews are conducted on all recipient reports submitted. However, internal controls need strengthening to ensure that reporting errors are identified during the reviews and are corrected.

Monitoring of Uncorrected Errors

During the audit, we noted that bureau and office contracting officers (CO) submitted comments to seven recipients that involved incorrect Treasury Account Symbols (TAS). This issue spanned nine separate contracts, as four of the contracts involved two different vendors. We noted that one of the 105 first quarter FY 2010 recipient reports overstated the award amount by \$1 million (total Department contracts awarded were valued at \$230 million). The bureau and office COs identified the error during the review period and submitted comments to the recipient. However, these issues were not corrected by the recipient within the review period, and the Department did not report the uncorrected error in the award amount to OMB, as required by the December 18, 2009, OMB Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* (OMB M-10-08).

Recommendation 1

We recommend that the Office of Management Policy, Rightsizing and Innovation (M/PRI) coordinate with contracting officers in the Office of Acquisitions Management, the Foreign Service Institute, and the International Boundary and Water Commission to develop written comprehensive standard operating procedures (SOP) for both Department of State-level and bureau-level activities based on an evaluation of component-developed processes, component characteristics, and best practices of other Federal agencies. Specifically, SOPs related to recipient data reviews should

- Ensure that internal Department Recovery Act transactions are properly documented and clearly identified as Recovery Act activity in the supporting documentation.
- Ensure proper implementation of OMB M-10-08 to
 - Document and implement procedures for reviewing jobs created or retained.
 - Employ a coordinated approach for identifying noncompliant recipients and addressing any systemic and chronic reporting problems.
 - Report material omissions and uncorrected significant errors.
- Document and enforce records management policies for data quality and reporting initiatives, including the possible use of a standard form checklist to capture evidence of data quality reviews.

M/PRI Response - M/PRI concurred with the recommendation, stating that it “will work with AQM, FSI and IBWC to develop a common SOP, which will detail the process by which the Department . . . handles weekly reporting, ad hoc reporting, and quarterly recipient reporting.” M/PRI further stated that because OMB provides “online reporting tools

designed to assist agencies in reporting,” it does not believe that “a duplicative paper-based review is necessary or in keeping with the intent of Recovery Act reporting.”

Recommendation 2

We recommend that the Office of Management Policy, Rightsizing and Innovation (M/PRI), pursuant to the action taken for Recommendation 1 to develop written standard operating procedures, determine whether sufficient resources have been assigned to ensure that Recovery Act objectives are met. If not, M/PRI should contact specific Department of State entities to formulate an action plan to provide contracting officer coverage for data quality reviews of recipient data.

M/PRI Response – M/PRI concurred with the recommendation, stating that based on the results of the second quarter FY 2010 recipient report, it “believes all offices have satisfactory staff to complete the necessary data quality reviews of recipient data.” M/PRI stated that it will continue to provide oversight of AQM, FSI, and IBWC contracting offices that conduct data quality reviews of recipient data “as long as such reporting is mandated by OMB to ensure that coverage is sufficient.”

M/PRI Additional Comments Related to Findings 1 and 2 – In its response, M/PRI stated that “a significant feature” in managing Recovery Act funds is the use of the “central, government-wide reporting database (Federalreporting.gov), in which data is available” to the public, Congress, OMB, GAO, vendors, and agencies. According to M/PRI, the Department “is able to draw daily reports of recipient data, including all vendor content, our comments, and responses thereto,” from this database.

M/PRI stated that the “glitches” noted in the audit were “system-start up errors” and that based on its experience with the second quarter FY 2010 reporting period, “the issues have been resolved” and that the system “now accurately indicates when/if a specific report is reviewed.” M/PRI further stated, “There is no requirement by OMB to maintain a duplicate set of records to record reviews, and we believe this finding runs contrary to the intent of the central database.”

According to M/PRI, AQM examines “[e]very element of every report submitted . . . including accuracy of funds.” M/PRI further stated that it can demonstrate how it downloads data for vendor reports and that it uses “advanced formulas and pivot tables” to compare data. M/PRI “agree[d]” that there were “difficulties” in following up on reporting errors during the first reporting period but that “the new business processes” in AQM have improved follow-up. M/PRI also noted that “there is no requirement” in OMB Memorandum M-10-08 to report uncorrected errors to OMB or the Recovery Board.

Regarding jobs, M/PRI stated that “there is no requirement” for the contracting officer to review job numbers for accuracy but that if the job numbers “appear to be greater or less than

the number warranted by the size or scope of the transaction,” the OMB requirement is to “encourage recipients to make corrections that ensure accurate data reporting.” M/PRI further stated that if the contracting officer questions the number of jobs created and the vendor insists that the vendor’s number is correct, the contracting officer has “recourses for investigation,” such as referring the matter to OIG for investigation if “fraud or other ill intent is suspected.”

OIG Reply

Since audit fieldwork ended on March 12, 2010, which was prior to the second quarter FY 2010 period of review, any changes made by AQM during that period were outside the scope of the audit. Any changes in the process and improvements made by the Department can be submitted to OIG during the compliance process. We agree that documentation does not have to be in hard-copy form, and a checklist was included for the Department’s consideration to show what IBWC was using. However, documentation should show how the data elements of the recipient reports were reviewed. OMB’s online tool allows agencies to flag the recipient report as reviewed, and it documents comments made to the recipient. However, the tool does not show how the data was reviewed. If analyses and comparisons are being performed on downloaded data and are readily available upon request, the analyses and comparisons would be sufficient documentation of a review being performed.

Regarding the requirement to report uncorrected errors to OMB, the Department should consider, for its quality assurance and transparency procedures, the information provided in OMB M-10-08 (para. 3.1, “Significant Errors”), which states:

If the recipient did not make the requested correction(s) for the current reporting period, or submit a reasonable explanation of why the data was not incorrect, then the award report is to be considered to have significant errors. For these significant errors, agencies shall complete a template on a MAX Community web page (Federal access only) by providing the requested data fields to be corrected, the comment requesting correction, the data that in the agency’s estimate best corrects the error, or why the recipient did not correct the data or supply a reasonable explanation that required no further action by the agency.

The MAX community web page is managed by OMB. This is the target reference in the part of the finding that states, “The Department did not report the uncorrected error in the award amount to OMB, as required by the December 18, 2009, OMB Memorandum M-10-08.”

Finally, the finding and recommendation focus on jobs created/retained and on the lack of documentation provided to support the required reviews. Accuracy, as referenced, was implied as “defined by OMB.” However, jobs created is one of the fields that an agency is

required to review to identify significant errors. We agree that OMB requires that the number be reviewed only for reasonableness; however, the Department did not provide documentation during the audit showing how jobs created or retained were reviewed. Additionally, guidelines were not developed to assist reviewers in determining “reasonableness.” Errors in jobs created or retained are considered to be significant errors, and OMB requires agencies to report uncorrected errors and to not merely “encourage recipients to make corrections that ensure accurate data reporting.”

OIG considers Recommendations 1 and 2 resolved, pending receipt and review of information that details the process by which the Department addresses weekly reporting, ad hoc reporting, and quarterly recipient reporting.

Finding 2 – Required Recovery Act Clauses Were Missing or Were Not Added to Contract Documents in a Timely Manner, Resulting in Reporting Errors

Our audit determined that required Recovery Act clauses stated in FAR section 52.204-11 were not added to six Recovery Act-funded contracts at the point of contract inception, as required by OMB M-09-10. In addition, three Recovery Act-funded contracts were not properly tracked as a result of this omission.

According to OMB M-09-10, agencies must ensure, for all contracts involving Recovery Act funds, the inclusion of “terms and conditions in contract documents necessary for effective implementation of Recovery Act data collection and accountability requirements.”

In addition to OMB M-09-10, the Department should insert specific contract clauses relating to the Recovery Act in the original contract documents. The purpose of these clauses is to identify the contract as a Recovery Act-funded activity and to establish the various requirements for both the contractor and the Department. These required clauses are stated in FAR section 52.204-11.

We found three of 142 GFMS contracts in which the required Recovery Act language and clauses were not included in the original contract documentation, and the Department was not aware that the contracts were Recovery Act funded. In these cases, the language was included in a subsequent modification, which was issued after the date of the original contract. We noted an additional three of 142 GFMS contracts in which the designated CO was in the process of inserting the required Recovery Act clauses in a contract modification issued subsequent to contract inception. Of the six contract errors identified, three contracts, totaling \$1.6 million in award value, had associated outlays totaling \$1 million, resulting in data reporting errors. For these three contracts, the related contractors did not submit the required quarterly reports because the Department had not inserted the required Recovery Act clauses.

Ultimately, this error resulted in material omissions in fourth quarter FY 2009 and first quarter FY 2010 vendor reports submitted to OMB. The control number used by M/PRI to ensure that

all recipients had reported included only CO known contracts instead of all contracts receiving Recovery Act funds. This error also resulted in incomplete Recovery Act data being reported in FPDS and posted to USASpending.gov.

Recommendation 3

We recommend that the Office of Acquisitions Management (AQM) (a) implement additional internal controls to verify that a quarterly report is submitted for all contracts meeting OMB thresholds and that are listed in GFMS for which the related contractors have not issued a final report and (b) implement additional controls Department of State-wide to ensure that all contracts charged to Recovery Act funds are reviewed to verify that the contracts contain required Recovery Act clauses in accordance with the Federal Acquisition Regulation (section 52.204-11).

M/PRI Response

M/PRI, responding for AQM, concurred with the recommendation.

OIG Reply

The draft report originally contained identical recommendations addressed to the contracting offices in AQM, FSI, and IBWC. However, based on M/PRI's request, the three recommendations have been changed into a single recommendation (No. 3), which is addressed only to AQM. The recommendations in the draft report have been renumbered to reflect this change. Based on the response, OIG considers Recommendation 3 resolved, pending receipt and review of an action plan to implement the recommendation.

Finding 3 – Recovery Act Awards Were Not Properly Reported in FPDS

We determined that the Department was not properly reporting Recovery Act obligations within FPDS and that the subsequent posting to USASpending.gov was inaccurate. Specifically, there were missing or misidentified entries within FPDS for contracts overseen by FSI and AQM. We did not note any errors involving FPDS entries for contracts overseen by IBWC. IBWC implemented additional internal controls by having its internal auditor perform reconciliations between FPDS and supporting Recovery Act contract data during both quarterly recipient reporting periods.

OMB M-09-10 states, "Recovery Act award obligations will be reported according to the current procedures for [USASpending.gov]." In terms of actions specific to contracts, OMB M-09-10 further states: "Information will be reported to USASpending.gov through FPDS. When entering data in FPDS on any action (including modifications) funded by the Recovery Act, agencies must enter the Treasury Account Symbol (TAS) in the *Description of Requirement* code."

During our audit, we downloaded data on Recovery Act activity for the Department from USASpending.gov and compared it with data in the Department's contract listing. We noted five contracts overseen by FSI that did not have any corresponding award entries posted on USASpending.gov. FSI officials stated that technical problems with FPDS experienced by FSI caused missing and erroneous data fields for all FSI contracts. We also noted 12 contracts overseen by AQM that were not posted to USASpending.gov. These contracts either were not entered into FPDS or were not properly identified as Recovery Act awards.

Recommendation 4

We recommend that the Bureau of Resource Management, Deputy Chief Financial Officer (DCFO), implement additional internal controls and perform periodic reviews and reconciliations of GFMS data posted to the Federal Procurement Data System and USASpending.gov to ensure that data is accurate and includes all of the appropriate and correct Treasury Account Symbols and Treasury Account Fund Symbol codes pertaining to Recovery Act activities in accordance with OMB M-09-15.

RM Response

M/PRI, responding for RM, concurred with the recommendation.

OIG Reply

Based on the response, OIG considers Recommendation 4 resolved, pending receipt and review of an action plan to implement the recommendation.

Finding 4 – DOJ Funds Received Were Not Reported Accurately on Weekly Agency Reports

We determined that the Department was not accurately reporting Recovery Act funds transferred from a separate Federal agency. Specifically, funding under a reimbursable agreement with DOJ was not accurately reported on the Department's required weekly financial and weekly activity reports.

OMB M-09-15 states: “[A]ll agencies receiving Recovery Act funds will submit the following information to OMB, representing cumulative, year-to-date recovery activity by Treasury Account: Total Obligations and Gross Outlays, as defined in this section. These amounts should be updated by COB Tuesday for all activity through the previous Friday.”

During our audit, we noted that the Department was accountable for reimbursable funds of \$925,160 from DOJ. The Department accurately reported on its own funds, but it incorrectly reported obligations and outlays for funds received from DOJ. Instead of reporting actual obligations and outlays, the Department reported the total amount of funds received from DOJ. In addition, actual DOJ activity was incorrectly included in the reported Department activity for Fund 19-0112; therefore, both obligations and outlays were overstated by \$925,160 on the December 31, 2009, weekly report. The Department corrected the weekly report to show actual

obligations and outlays, and Department officials stated that the Department will work to ensure that DOJ activity is not included in Department activity for Fund 19-0112 for subsequent weekly reports.

Recommendation 5

We recommend that the Bureau of Resource Management, Deputy Chief Financial Officer (DCFO), ensure that any inter-agency funds received are accurately reported according to OMB M-09-15 and that the DCFO clarifies that all Recovery Act funds transferred to the Department of State from other agencies are to be included in weekly financial and activity reports.

RM Response

M/PRI, responding for RM, concurred with the recommendation.

OIG Reply

Based on the response, OIG considers Recommendation 5 resolved, pending receipt and review of an action plan to implement the recommendation.

Scope and Methodology

As a basis for Kearney and Company’s performance audit, the audit team used Office of Management and Budget (OMB) Memorandums M-09-10 and M-09-15 to determine whether the Department of State was in compliance with American Recovery and Reinvestment Act fund reporting requirements. Kearney reviewed Recovery Act activity through December 31, 2009, including 142 contracts awarded, \$232 million in obligations, and \$49 million in outlays.* Kearney also conducted interviews with individuals from the three contracting offices in charge of reviewing recipient reporting—the Office of Acquisitions Management (AQM), the Foreign Service Institute (FSI), and the International Boundary and Water Commission (IBWC).

We conducted this performance audit from January through March 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To meet the performance audit objectives, the audit team took the following actions:

- Performed walkthroughs and interviews to gain an understanding of the Department’s processes related to Recovery Act funds and to determine whether the Department had documented standard operating procedures (SOP) relating to Recovery Act funds.
- Tested a sample of 20 of 91 quarterly recipient reports for the fourth quarter of FY 2009 and 20 of 105 quarterly recipient reports for the first quarter of FY 2010 that pertained to Recovery Act-funded contracts overseen by AQM, FSI, and IBWC. Each report was tested for proper compliance with OMB regulations as outlined in OMB M-09-10 and OMB M-09-15.
- Verified that all weekly agency reports were submitted and were in compliance with OMB regulations as outlined in OMB M-09-10 and OMB M-09-15.
- Tested a sample of 20 of the 45 weekly agency reports submitted through December 31, 2009, on the Website recovery.gov for proper compliance with OMB regulations as outlined in OMB M-09-10 and OMB M-09-15.
- Tested a sample of 45 expenditures that pertained to Recovery Act-funded contracts during 2009 to ensure that the selected transaction was a valid and complete expenditure and was properly classified under the Recovery Act.
- Performed a full reconciliation to compare contract award amounts and expenditures reported in fourth quarter FY 2009 and first quarter FY 2010 recipient reports, the Global Financial Management System (GFMS) contract listing, GFMS expenditures through

* Obligations and outlays reviewed included contracts and administrative expenses.

December 31, 2009, and USASpending.gov data to ensure that reported Recovery Act data was accurate and complete.

- Tested a sample of 20 of 142 contracts, which represented greater than 75 percent of the total value of all Recovery Act contracts during 2009, to gain assurance that all Recovery Act-funded contracts were in compliance with Recovery Act and OMB regulations.
- Reviewed risk management policies and procedures for the Department to determine whether the policies and procedures were in compliance with OMB requirements.
- Obtained the Agency Recovery and Program plan and ensured that it was in compliance with OMB regulations.
- Ensured that the Department had established unique Treasury Account Fund Symbols for all Recovery Act funding and ensured that all funds were clearly distinguishable from non-Recovery Act funds in all agency financial systems.

Testing of Policies and Procedures

The Department of State effectively implemented policies and procedures at the Department bureau and office levels. The results of substantive testing of Department policies and procedures for transparency and reporting, risk management, budget execution, and actions specific to award types are as described.

Transparency and Reporting

The Department addressed several key areas relating to transparency and reporting, including weekly reporting, award-level transaction data feeds, agency recovery plan/program-specific plans, Website requirements, and quarterly reporting.

- The Department is performing data quality reviews and delivering the required weekly financial and activity report and funding notification report. This oversight includes a multi-level review of weekly reporting by the contracting office and the Office of Management Policy, Rightsizing and Innovation (M/PRI), of which the latter has oversight for all Recovery Act activity. Both content and technical reviews are performed on the weekly agency reports, and all documentation must be certified by the Department's Senior Accountable Official, the Undersecretary of State for Management, prior to submission to OMB for posting on Recovery.gov. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.
- The Department has established separate Treasury Account Fund Symbols (TAFS) within the Federal Procurement Data System (FPDS). These TAFSs were communicated to the appropriate contracting offices within the Department with the understanding that they were to be used for all transactions pertaining to Recovery Act-funded activities. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.
- The Department has directed each office involved with Recovery Act activities to develop and execute a program-specific plan. These program-specific plans, along with the Department's External Program Plan, are available for public review on Recovery.gov. Both of these actions are in compliance with regulations pertaining to agency recovery plan/program-specific plans within OMB M-09-10 and OMB M-09-15.
- The Department has designed and launched a separate section of its own Website that is dedicated to Recovery Act-funded activities, which is consistent with regulations outlined in OMB M-09-10 and OMB M-09-15. The Website address is www.state.gov/recovery.
- The Department's contracting offices are performing data quality reviews of the recipient quarterly reports submitted on federalreporting.gov. These reviews include communication of any issues, questions, or other comments by the related contracting officer (CO) to the vendor's contracting officer's representative (COR). In addition, the

CO follows up with the recipients regarding issues identified by the COR. Also, the designated reviewers have access to the Website federalreporting.gov, which contains all of the vendor-supplied information, to ensure that only the appropriate individuals can make comments or issue questions involving the vendor-supplied information. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.

Risk Management

The Department has implemented and executed two levels of risk management plans: one for Department-wide risk management and one for each individual bureau involved with Recovery Act activities.

- The Department has established the Undersecretary of Management as the Senior Accountable Official. In addition, the Department has leveraged several preexisting offices and committees for oversight functions, including the Management Control Steering Committee, the Senior Assessment Team, and the Office of Inspector General (OIG). Implementation of the Recovery Act is an agenda item when these committees and offices meet. The identification and resolution of any issues in management or internal controls are overseen by these committees. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.
- The Department has undertaken measures with the intention of reducing the risk that funds would be used for unauthorized purposes or invite fraud, waste, and/or abuse. These measures include financial reporting and funds control and audits, reviews, and other risk management activities by the Department. In addition, the Department requires all Assistant Secretaries (with input from their senior management and ambassadors) to perform risk assessments and provide an annual statement of assurance related to Recovery Act programs. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.
- The Department requires that all offices follow, at a minimum, standards in the Federal Acquisition Regulation (FAR) for risk management pertaining to contract solicitation and monitoring. The Foreign Service Institute (FSI) and the International Boundary and Water Commission (IBWC) have each developed a separate risk management program:
 - IBWC has developed a risk management program pertaining to Recovery Act-funded contracts that involves extensive examination of all bidding contractors and which is performed by IBWC's Internal Audit (IA) Office. This examination of all bidding contractors includes review of the contractor's financial statements and information submitted by the prospective contractor to find evidence of several eligibility criteria determined by the IA Office. IBWC's Internal Auditor used the OMB risk management criteria to develop a risk-assessment plan and crafted two tactical audits, introduced new supplemental controls, conducted

fraud training, and required financial disclosures to address those risks. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.

- FSI has instituted and executed a risk management plan that involves multi-level oversight of all Recovery Act-funded contracts. The first level of oversight is completed by an experienced CO, and the second level is completed by FSI's Director of Acquisitions. Since several contracts under FSI involve construction on FSI's main campus, all oversight is performed at FSI and any questions or concerns are addressed directly to the on-site contractor's representative. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.

Budget Execution

The Department has implemented and executed several programs associated with budget execution of Recovery Act-funded activities.

- The Department has created TAFSS within FPDS that are specifically assigned to Recovery Act activities. These TAFSSs, which are different from TAFSSs used for transactions that occur during the normal course of business, are designed to distinguish Recovery Act-funded transactions from other non-Recovery Act transactions. In addition, the Department has established and required use of separate internal fund codes and associated point limitations to discretely track, report, and control Recovery Act funds. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.

Actions Specific to Award Types

While OMB regulations span multiple types of Recovery Act-funded activities, the Department awarded only contracts, as opposed to grants or loans, as of December 31, 2009. The three main programs pertaining to Recovery Act-funded contracts that the Department has implemented and executed are contract solicitation, post-award procedures, and contract monitoring.

- The Department has required that all bureaus follow FAR (Part 5, "Publicizing Contract Activities") requirements for pre-solicitation and award notices. Once this information is posted on fbo.gov, all remaining communication involving contract solicitation is completed by the assigned CO. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.
- The Department has required that the CO post a notice to the public on the Department's Recovery Act Website linked to the appropriate section on Recovery.gov once bidding is complete and an award has been made to a contractor. This notice is required for all

Recovery Act-funded contracts with a value over \$500,000. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.

- The Department has required that COs or their approved representatives become responsible for monitoring contracts in order to ensure contract performance and to ensure that requirements are being followed. We noted these activities to be compliant with regulations set forth in OMB M-09-10 and OMB M-09-15.

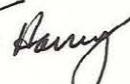


United States Department of State

Washington, D.C. 20520
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MAY 26 2010

Mr. Harold W. Geisel
Inspector General (Acting)
Office of the Inspector General (OIG)
United States Department of State
SA-3, Room 8100
2121 Virginia Ave. N.W.
Washington, D.C. 20520

Dear Mr. Geisel: 

Thank you for your March 10th letter regarding the audit of the implementation of funds that the Department of State received under the American Recovery and Reinvestment Act of 2009 (ARRA).

I, along with staff from the Office of Acquisitions Management, the Foreign Service Institute, and the International Boundary and Water Commission, have read your findings and recommendations, and are pleased to respond to Recommendations 1 – 7 (Attachment 1). We have also commented on two of your findings.

Please contact me if you have any questions or concerns.

Sincerely,


Marguerite Coffey
Director
Office of Management Policy,
Rightsizing and Innovation

Attachment: Responses to the Draft Report on *Audit of Department of State Compliance With Transparency and Reporting Requirements of the American Recovery and Reinvestment Act*

cc: OIG – Richard Astor
A/LM/AQM – Cathy Read
FSI/EX – Catherine Russell
IBWC – Edward Drusina
RM/DCFO – Chris Flaggs

Attachment 1

Finding 1 – Data Quality Review Policies and Procedures Need Strengthening

Recipient Reported Data

We found that the Department was not keeping proper documentation associated with reviews of the required recipient reports, as well as any follow-up to comments given to the recipients regarding the content of the quarterly reports. We also noted inconsistencies between data reported by recipients and data in the Global Financial Management System (GFMS2). Specifically, documentation provided did not show how the number of jobs retained and/or created or the funds received were reviewed for accuracy by the Department.

Response:

A significant feature in the management of Recovery Act funds is the use of a central, government-wide reporting database (Federalreporting.gov), in which data is available to the public, to Congress, to the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the vendors, and the agencies. From this database, the Department is able to draw daily reports of recipient data, including all vendor content, our comments and responses thereto.

We believe that the glitches noted in the audit were system-start up errors, and based on our experience with the Q2 FY2010 reporting period, the issues have been resolved. The system now accurately indicates when/if a specific report is reviewed. There is no requirement by OMB to maintain a duplicate set of records to document reviews, and we believe this finding runs contrary to the intent of the central database.

Every element of every report submitted is now examined by the Office of Acquisitions Management (AQM), including accuracy of funds. We can demonstrate how we download data for all vendor reports, and we use advanced formulas and pivot tables to compare our data. Copies of Department data are available upon request.

We agree that during the first reporting period (Q4, FY2009), there were difficulties following up on reporting errors. We believe the new business processes in AQM have improved follow-up. We would also like to state that

there is no requirement in OMB memo M-10-08 to report uncorrected errors to OMB or the Recovery Board.

Regarding jobs, there is no requirement for the contracting officer to review job numbers for accuracy. When jobs numbers appear to be greater or less than the number warranted by the size or scope of the transaction, the OMB requirement is to “encourage recipients to make corrections that ensure accurate data reporting.” If the contracting officer questions the number of jobs created, and the vendor insists that their number is correct, the contracting officer has several recourses for investigation. For suspected fraud or other ill intent, the matter would be referred to the OIG for investigation.

Recommendation 1:

We recommend that the Office of Management Policy, Rightsizing, and Innovation (M/PRI) coordinate with contracting officers in the Office of Acquisitions Management (AQM), the Foreign Service Institute (FSI), and the International Boundary and Water Commission (IBWC) to develop written comprehensive standard operating procedures (SOP) for both Department of State-level and bureau-level activities based on an evaluation of component-developed processes, component characteristics, and best practices of other Federal agencies. Specifically, SOPs related to recipient data reviews should

- Ensure that internal Department Recovery Act transactions are properly documented and clearly identified as Recovery Act activity in the supporting documentation.
- Ensure proper implementation of OMB M-10-08 to
 - Document and implement procedures for reviewing jobs created or retained.
 - Employ a coordinated approach for identifying noncompliant recipients and addressing any systemic and chronic reporting problems.
 - Report material omissions and uncorrected significant errors.
- Document and enforce records management policies for data quality and reporting initiatives, including the possible use of a standard form checklist to capture evidence of data quality reviews.

Response:

Concur. M/PRI will work with AQM, FSI and IBWC to develop a common SOP, which will detail the process by which the Department of State handles weekly reporting, ad hoc reporting, and quarterly recipient reporting. However, as OMB

provides online reporting tools designed to assist agencies in reporting, we do not believe a duplicative paper-based review is necessary or in keeping with the intent of Recovery Act reporting.

Recommendation 2:

We recommend that the Office of Management Policy, Rightsizing, and Innovation (M/PRI), pursuant to the action taken for Recommendation 1 to develop written standard operating procedures, determine whether sufficient resources have been assigned to ensure that Recovery Act objectives are met. If not, M/PRI should contact specific Department of State entities to formulate an action plan to provide contracting officer coverage for data quality reviews of recipient data.

Response:

Concur. Based on Q2 FY2010 recipient reporting results, M/PRI believes all offices have satisfactory staff to complete the necessary data quality reviews of recipient data. M/PRI will continue to provide oversight of AQM, FSI and IBWC contracting offices conducting data quality reviews of recipient data for as long as such reporting is mandated by OMB to ensure that coverage is sufficient.

Finding 2 – Required Recovery Act Clauses Were Missing or Were Not Added to Contract Documents in a Timely Manner, Resulting in Reporting Errors

Our audit determined that required Recovery Act clauses stated in FAR section 52.204-11 were not added to six Recovery Act-funded contracts at the point of contract inception, as required by OMB M-09-10. In addition, three Recovery Act-funded contracts were not properly tracked as a result of this omission.

At the onset of reporting in mid-2009, a few transactions were assigned to contracting officers unfamiliar with ARRA requirements. AQM has undertaken repeated outreach and education efforts, ensuring that all staff is familiar with requirements and that all contracts are currently up to date. In addition, AQM relies on the program office to follow ILMS ARIBA instructions for requisitioning process, including identification of all Recovery Act transactions in the procurement request. As a result of finding the three previously unknown ARRA orders, AQM asked that the ILMS helpdesk issue a reminder to all ARIBA system users. Resource Management has also agreed to provide a GFMS quarterly report to AQM in order to compare records.

Recommendation 3:

We recommend that contracting officers in the Office of Acquisitions Management (AQM) (a) implement additional internal controls to verify that a quarterly report is submitted for all contracts meeting Office of Management and Budget (OMB) thresholds and that are listed in the Global Financial Management System (GFMS) for which the related contractors have not issued a final report and (b) implement additional controls Department of State-wide to ensure that all contracts charged to Recovery Act funds are reviewed to verify that the contracts contain required Recovery Act clauses in accordance with the Federal Acquisition Regulation (section 52.204-11).

Response:

Concur. We would like this recommendation to be addressed to the responsible office, the Office of Acquisitions Management (AQM), rather than individual contracting officers. Since Q1 FY2010, AQM has begun a daily extract from Federalreporting.gov that is sent to FSI and IBWC for review. In addition, the Department has submitted to OMB a MasterFile List of all awards subject to Section 1512 reporting requirements. The list of recipient reports is compared against the MasterFile for completion.

We ask that the OIG consider combining recommendations 3, 4, and 5 into one recommendation.

Recommendation 4:

We recommend that contracting officers in the Foreign Service Institute (FSI) (a) implement additional internal controls to verify that a quarterly report is submitted for all contracts meeting Office of Management and Budget (OMB) thresholds and that are listed in the Global Financial Management System (GFMS) for which the related contractors have not issued a final report and (b) implement additional controls Department of State-wide to ensure that all contracts charged to Recovery Act funds are reviewed to verify that the contracts contain required Recovery Act clauses in accordance with the Federal Acquisition Regulation (section 52.204-11).

Response:

Concur. Controls are already in place. Due to a limitation of personnel who are allowed to review data posted on Recovery.gov (total of three staff per Agency), contracting officers at FSI do not have access to the quarterly reports. As noted in the response to Recommendation 3, AQM sends to FSI an excel spreadsheet, which is extracted from the quarterly report in Recovery.gov on a daily basis during the reporting period, and FSI contracting officers review this printout for accuracy. If during the reporting period it is noted that a contractor has failed to

report, FSI sends the contractor a reminder email regarding the requirement to report.

Recommendation 5:

We recommend that contracting officers in the International Boundary and Water Commission (IBWC) (a) implement additional internal controls to verify that a quarterly report is submitted for all contracts meeting Office of Management and Budget (OMB) thresholds and that are listed in the Global Financial Management System (GFMS) for which the related contractors have not issued a final report and (b) implement additional controls Department of State-wide to ensure that all contracts charged to Recovery Act funds are reviewed to verify that the contracts contain required Recovery Act clauses in accordance with the Federal Acquisition Regulation (section 52.204-11).

Response:

Concur. IBWC will submit a report documenting reviews of recipient reporting on a quarterly basis in compliance with OMB guidance. In addition, the report will include a reconciliation report between the Global Financial Management System (GFMS), FPDS, and FedBizOps for all open contracts expected to report each quarter. The Department will ensure that contracts charged to Recovery Act funds will continue to be closely reviewed to ensure each contain the required Recovery Act clauses in accordance with the Federal Acquisition Regulation (section 52.204-11). This will be accomplished through the established peer review process per Policy and Procedures Manual, May 6, 2010. The reviews will be documented, dated, and filed as required.

Finding 3 – Recovery Act Awards Were Not Properly Reported in FPDS

Recommendation 6:

We recommend that the Bureau of Resource Management, Deputy Chief Financial Officer, implement additional internal controls and perform periodic reviews and reconciliations of Global Financial Management System data posted to the Federal Procurement Data System (FPDS) and USASpending.gov to ensure that data is accurate and includes all of the appropriate and correct Treasury Account Symbol and Treasury Account Fund Symbol codes pertaining to Recovery Act activities in accordance with Office of Management and Budget Memorandum M-09-15.

Response:

Concur. Resource Management has included ARRA reporting within the scope of its data quality plan, and will enhance internal controls and perform the referenced reviews and reconciliations.

Finding 4 – DOJ Funds Received Were Not Reported Accurately on Weekly Agency Report

Recommendation 7:

We recommend that the Bureau of Resource Management, Deputy Chief Financial Officer (DCFO), ensure that any inter-agency funds received are accurately reported according to Office of Management and Budget Memorandum M-09-15 and that the DCFO clarifies that all Recovery Act funds transferred to the Department of State from other agencies are to be included in weekly financial and activity reports.

Response:

Concur. Resource Management has updated the format and content of weekly reports to separately disclose obligations and outlays for Department of Justice (DOJ) activity and ensure the amounts are not included for Fund 19-0112.

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