



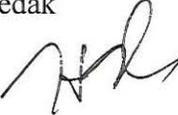
United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

AUG 15 2011

MEMORANDUM

TO: DCIO/BMP – Janice J. Fedak

FROM: OIG – Harold W. Geisel 

SUBJECT: Report on *Audit of Replacement of Aging Desktop Workstations at the Department of State With Funds Provided by the American Recovery and Reinvestment Act* (AUD/CG-11-31)

The subject report is attached for your review and action. As the action office for Recommendation 1, please provide your response to the report and information on actions taken or planned for the recommendation within 30 days of the date of this memorandum. Actions taken or planned are subject to followup and reporting in accordance with the attached compliance response information.

The Office of Inspector General (OIG) incorporated your comments as appropriate within the body of the report and included them in their entirety as Appendix C.

OIG appreciates the cooperation and assistance provided by your staff during this audit. If you have any questions, please contact Evelyn R. Klemstine, Assistant Inspector General for Audits, at (202) 663-0372 or Richard Astor, Director, Division of Contracts and Grants, at (703) 284-2601 or by email at astorr@state.gov.

Attachments: As stated.

cc: IRM/BMP/SPO/SPD – (b) (6)
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**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Audit of Replacement of Aging Desktop Workstations
at the Department of State With Funds Provided by
the American Recovery and Reinvestment Act**

**AUD/CG-11-31
August 2011**

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United States Department of State
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Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

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Major Contributors to This Report11

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Acronyms

| | |
|--------------|---|
| Department | Department of State |
| FAM | Foreign Affairs Manual |
| GITM | Global Information Technology Modernization program |
| IPA | independent public accountant |
| IRM | Bureau of Information Resource Management |
| IT | information technology |
| OIG | Office of Inspector General |
| Recovery Act | American Recovery and Reinvestment Act of 2009 |

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Executive Summary

The American Recovery and Reinvestment Act of 2009¹ (Recovery Act) included \$600 million in funding for infrastructure improvements at the Department of State (Department) and established new reporting requirements related to the award and use of Recovery Act funds to promote transparency and accountability. The Recovery Act also included mandates for the Department's Office of Inspector General (OIG) to provide oversight and audits of programs, grants, and activities funded by the Act.

This audit report, one of several reports being issued by OIG on the use of Recovery Act funds by the Department, presents the results of a project for replacing aging desktop workstations (computers and monitors) for which Recovery Act funds of \$13 million² were spent as part of a total \$33.5 million investment in the Department's Information Technology (IT) Platform. This particular project was part of the Department's Global Information Technology Modernization (GITM) program, which provides a 4-year modernization cycle to ensure that every domestic and overseas classified and unclassified system is modernized.

The objective of this audit was to determine whether the Department's project for replacing desktop workstations met its planned objectives and complied with Recovery Act requirements while ensuring that Recovery Act funds were used only for their intended purposes.

OIG found that the Bureau of Information Resource Management (IRM) administered Recovery Act funds effectively to meet GITM program goals and requirements. The replacement desktop workstations were appropriately procured, shipped, and installed as planned, and all funds for the project were expended and used for authorized purposes.³ OIG also determined that a money-saving, competitive "reverse auction" process⁴ was used by Bureau of Administration acquisition officials to procure the equipment, resulting in savings of approximately \$950,000, and OIG found that the expected outcomes from the Department's program plan were achieved.

OIG identified a cost-savings measure for the GITM program. Computer monitors are replaced on a 4-year schedule and could be extended to a 6-year schedule without adversely impacting operational efficiency. OIG estimates that moving to a 6-year replacement cycle for computer monitors could result in an annual savings of \$587,000.

OIG recommended that IRM revise the 4-year replacement schedule for computer monitors provided through the GITM program to a 6-year schedule.

In its response to the draft report (see Appendix C), IRM agreed with the recommendation, stating that it would begin implementation in FY 2012. Based on the response,

¹ Pub. L. No. 111-5.

² The \$1.2 million of the \$13 million was spent to provide technical support services for the replaced workstations.

³ Only existing IRM funds (that is, non-Recovery Act funds) were spent to ship and install the new workstations.

⁴ The reverse auction process is an online bidding process in which potential contractors bid against each other to win business.

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OIG considers the recommendation resolved, and it will be closed pending review and acceptance of documentation for the actions OIG specified.

Background

On February 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act of 2009, which provided \$787 billion for tax relief (\$288 billion), state and local fiscal relief (\$144 billion), Federal social programs (\$244 billion), and infrastructure (\$111 billion).

As part of the \$111 billion in infrastructure funding, the Department received and is overseeing \$600 million that was invested in three primary areas: Diplomatic and Consular Programs, Capital Investment Fund, and the International Boundary and Water Commission. This \$600 million includes a funds transfer of \$38 million to the United States Agency for International Development. The IT Platform, within the Capital Investment Fund, represents \$33.5 million, as shown in Table 1.

Table 1. Program/Activity and Recovery Act Funds

| Program/Activity | Amount (In 000s) |
|---|-----------------------------|
| Diplomatic and Consular Programs | \$ 90,000 |
| Hard Skills Training Center | \$ 70,000 |
| Passport Facilities | \$ 15,000 |
| National Foreign Affairs Training Center | \$ 5,000 |
| Capital Investment Fund | \$290,000 |
| Data Center | \$120,000 |
| IT Platform | \$ 33,500 |
| Cyber Security | \$ 98,500 |
| Transfer to U.S. Agency for International Development | \$ 38,000 |
| International Boundary and Water Commission Construction | \$220,000 |
| Total | \$600,000 |

Source: Department of State.

The project to replace aging desktop workstations (computers and monitors) used \$13 million in Recovery Act funds as part of a total of \$33.5 million committed to improve the Department's IT Platform. The Department's GITM program provides a 4-year modernization cycle to ensure that every domestic and overseas classified and unclassified system meets required standards to execute the diplomatic mission worldwide. As described in the Department's Recovery Act External Program Plan, dated July 10, 2009, for using Recovery Act funds, the project will replace 12,852 antiquated workstations essential for classified and unclassified processing domestically and at 285 overseas embassies and consulates. It will also provide technical support services to establish responsive and knowledgeable customer support for deployed technologies. It is further expected that the new workstations will increase operational efficiencies, lower overall maintenance costs, and strengthen the security posture for computer systems throughout the Department. IRM is responsible for meeting program

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objectives and requirements and for administering Recovery Act funds to replace the desktop workstations.

Along with the funding received by the Department, the Recovery Act mandates that Offices of Inspector General provide oversight and audits of programs, grants, and activities funded by the Recovery Act. OIG has undertaken audits related to Recovery Act funding of Department programs and activities to minimize the risks of inefficient or improper actions that could put taxpayers' money at risk.

Objective

The objective of this audit was to determine whether the Department's project for replacing desktop workstations met its planned objectives and complied with Recovery Act requirements while ensuring that Recovery Act funds were used only for their intended purposes.

Audit Results

Recovery Act Funds Were Managed Effectively

OIG found that IRM achieved expected project outcomes and complied with Recovery Act requirements. OIG also determined that the requirement to procure the equipment was competed using the reverse auction process, which resulted in savings to the Department of approximately \$950,000.

OIG accounted for all the computers shipped to the locations sampled, as shown in Table 2, and determined that controls for receiving, storing, and shipping the desktop workstation equipment were effective. All computers were accounted for, but 11 (2 percent) of 546 computers did not have numbered Department property stickers, as required by the *Foreign Affairs Manual* (FAM).⁵

Table 2. Posts Sampled That Received Desktop Workstations

| Receiving Post | Computers Shipped | Computers Accounted for |
|-----------------------|--------------------------|--------------------------------|
| Addis Ababa | 48 | 48 |
| Bangkok | 206 | 206 |
| Brussels | 86 | 86 |
| Kuala Lumpur | 37 | 37 |
| Rome | 93 | 93 |
| Tunis | 3 | 3 |
| Vatican City | 10 | 10 |
| Vienna | 63 | 63 |
| Total | 546 | 546 |

Source: OIG analysis.

⁵ 14 FAM 413.5, "Receiving Action," requires a bar code label to be immediately affixed to accountable, nonexpendable property upon receipt. All missing bar code labels were subsequently affixed to the equipment before the OIG audit team left post.

Funds Were Expended as Planned, and Cost Savings Were Realized

OIG found that Recovery Act funds of \$13 million planned for the desktop workstation replacement program were spent as planned and that projected costs savings were realized by using an established bulk procurement methodology. The specific method used by the Department, according to Bureau of Administration officials, was the reverse auction—an online bidding process in which potential contractors bid against each other to win business. According to the Department’s Recovery Act External Program Plan, reverse auctions have been found to be significantly less expensive per item than buying the items from comparable General Services Administration schedules.

The Department has a contract with FedBid.com for the use of its online tool to conduct reverse auctions. Under the contract, this service is free to the Department, and the winning vendor pays FedBid.com 3 percent of the winning bid, up to a maximum of \$10,000. Because of the competition generated by this type of auction, the Department generally obtains a savings of approximately 7 percent and sometimes as great as 10 percent. Also, more than 80 percent of Department contracts using reverse auctions are awarded to small businesses, which helps the Department meet its small business contracting goals.

Replacement Cycle for Computer Monitors Should Be Extended To Save Money

During OIG’s fieldwork, three post Information Management Officers stated that the 4-year GITM refresh rate for computer monitors was likely unnecessary and could be extended to 6 years without negatively impacting the diplomatic mission. These officials agreed that the 4-year refresh rate for desktop computers was appropriate but not necessary for the accompanying computer monitors.

A December 2008 directive⁶ from the Office of Surface Mining Reclamation and Enforcement, U.S. Department of the Interior, provided guidance regarding the request, approval, acquisition, inventory, and disposal of IT assets. Specifically, the directive established a timeline for monitors to be replaced every 5 years but not to exceed 8 years. The directive further noted the importance of Capital Planning Investment Control as a “systematic process for selection, control, and evaluation of IT investments” and that this process “is mandated by the Clinger-Cohen Act of 1996, which requires Federal agencies to use a disciplined process to acquire, use, maintain, and dispose of [IT] assets.” In addition, a European Commission study⁷ determined that the average economic lifetime for LCD (liquid crystal display) monitors was 6 years. Therefore, if the Department were to use a 6-year refresh rate for computer monitors, it would achieve significant savings over the long term by adopting this standard as part of refresh guidance on governing IT hardware replacement.

⁶ Directive Systems, “Hardware and Software Management,” U.S. Department of the Interior (No. IT-2, Dec. 9, 2009).

⁷ “Personal Computers (desktops and laptops) and Computer Monitors” (IVF Report 07004), IVF - Industrial Research and Development Corporation (Sweden, Aug. 2007), p. 68.

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Based on FY 2010 acquisition and shipping costs, OIG determined that the annual cost savings by implementing a 6-year replacement cycle for computer monitors would be \$586,704, as shown in Table 3.

Table 3. Potential Cost Savings by Extending the Monitor Refresh Cycle

| 4-Year Cycle | | 6-Year Cycle | | Savings |
|--|---------------------|--|---------------------|----------------------------|
| 8,008 Monitors Needed Each Year | Annual Costs | 5,339 Monitors Needed Each Year | Annual Costs | Annual Cost Savings |
| Purchasing Costs | \$1,409,408 | Purchasing Costs | \$939,664 | \$469,744 |
| Shipping Costs | <u>\$350,704</u> | Shipping Costs | <u>\$233,744</u> | <u>\$116,960</u> |
| Total per year | \$1,760,112 | Total per year | \$1,173,408 | \$586,704 |

Source: OIG analysis using FY 2010 acquisition and shipping cost data from IRM.

Recommendation 1. OIG recommends that the Bureau of Information Resource Management revise the 4-year replacement schedule for computer monitors provided through the Global Information Technology Modernization program to a 6-year schedule.

IRM Response: IRM agreed with the recommendation, stating that beginning in FY 2012, the Department would place the new 22-inch monitors the Department plans to deploy on a 6-year cycle.

OIG Analysis: Based on the response, OIG considers the recommendation resolved. The recommendation can be closed pending OIG’s review and acceptance of documentation showing that IRM has implemented the 6-year replacement cycle beginning in FY 2012.

Scope and Methodology

The purpose of this audit was to determine whether the Department of State project for replacing desktop workstations met its planned objective and complied with American Recovery and Reinvestment Act of 2009 (Recovery Act) requirements. This audit is one of two audits conducted by the Department of State (Department), Office of Inspector General (OIG), to examine Recovery Act-funded improvements to the Department's Information Technology (IT) Platform. The other audit has a similar objective, but it pertains to a \$10 million expenditure to replace telephone systems at three diplomatic posts. Additionally, an independent public accountant (IPA) under contract to OIG is auditing other Recovery Act projects under the Department's Capital Investment Fund, including projects to construct data centers and improve cyber security.

OIG conducted this audit from May 2010 through March 2011 in accordance with generally accepted government auditing standards. Those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

Audit work was performed in Washington, D.C., at the Bureaus of Administration and Information Resource Management (IRM).

At the Bureau of Administration, OIG interviewed officials to learn the specifics of the process used to procure the desktop workstations and later determined whether that process was in compliance with Federal regulations. For its review, OIG examined internal planning documents and assessments of project progress and reviewed all 14 purchase orders for the Recovery Act-funded equipment to determine whether funds were spent as intended.

At IRM, OIG interviewed officials and reviewed supporting documentation related to Recovery Act obligations and expenditures for the desktop workstations. OIG also met with IRM officials to learn of IRM's procedures for receiving, warehousing, and then shipping the workstations and to obtain property serial numbers and schedules for shipping the workstations and related equipment to various diplomatic facilities worldwide. OIG visited the Department's warehouse in Springfield, VA, where workstations are stored before they are shipped to various domestic and overseas posts. At the warehouse, OIG assessed the Department's inventory controls and its safekeeping of equipment. In addition, OIG reviewed IRM's monitoring of established schedules, including any delays and their impact.

To accomplish audit fieldwork steps involving property verification, installation, and a review of inventory records, OIG judgmentally selected eight overseas posts based on the number of desktop workstations being replaced. The criteria for selection of the eight posts also included geographical considerations, such as the ability to accomplish fieldwork steps and meet objectives for other OIG Recovery Act audits while at those posts. The eight posts and the number of desktop workstations shipped to them are as follows: Addis Ababa (48), Bangkok

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(206), Brussels (86), Kuala Lumpur (37), Rome (93), Tunis (3), Vatican City (10), and Vienna (63).

While at these overseas posts, OIG tried to locate all Recovery Act-funded computers that had been shipped to ensure that serial numbers matched those numbers listed on shipping manifests and that each computer had been properly recorded into post inventory records with numbered Department property stickers attached. OIG discussed any relevant findings with post officials before leaving a post.

During the audit, OIG partnered with an IPA that was under contract to OIG for audits of other Recovery Act-funded projects concerning IT. The IPA performed audit procedures to determine whether:

- Funds were awarded and distributed in a prompt, fair, and reasonable manner.
- Recipients and uses of all funds were transparent to the public and the public benefits of the funds were reported clearly and accurately and in a timely manner.
- The program had taken action to identify and mitigate instances of fraud, waste, error, and abuse.

To ensure the accuracy and completeness of program plans and financial records, the IPA performed the following actions:

- Reconciled balances on financial records within the Department's Global Financial Management System (GFMS) with information contained in the Recovery Act weekly financial activity reports posted by the Department as of the end of FY 2010 and additional interim dates.
- Analyzed year-end obligation totals for the IT Platform operations portion of the Capital Investment Fund that includes the Global Information Technology Modernization program.
- Verified that Recovery Act funds for each project were tracked and reported separately from other funds.

Work Related to Internal Controls

To assess the adequacy of internal controls related to the weekly financial activity reports, the accountability of Recovery Act funds, and the monitoring of projects to avoid cost overruns and delays, the IPA performed the following actions:

- Obtained an understanding of processes and procedures.
- Reviewed source documentation and other types of evidence to confirm the adequacy of stated controls.
- Compared weekly report balances with details and reconciled differences in the Department's GFMS.
- Reviewed internal reports related to the compilation of balances and amounts for reporting to the public.

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- Determined that separate Treasury Account Symbols were established for Recovery Act programs.
- Verified proper approval over transactions involving Recovery Act funds.

Tests for Data Reliability

To assess data reliability, the IPA selected a testing sample and performed the following procedures:

- Reviewed contract files to determine whether contracts were competitively awarded and at fixed cost.
- Tested to determine whether particular contracts were disclosed and listed within a separate section on Recovery.gov if such contracts were determined to have been awarded noncompetitively or not at fixed price.
- Compared weekly financial activity report balances with underlying schedules and GFMS details.

Use of Computer-Processed Data

The IPA used GFMS details and reconciling schedules to compare the balances reported in GFMS with information contained in the Recovery Act weekly financial activity reports posted by the Department. The IPA determined that GFMS data and schedules were reliable based on a selected sample and testing of internal controls involving the weekly reporting process.



United States Department of State

Washington, D.C. 20520

July 20, 2011

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MEMORANDUM

TO: OIG – Howard W. Geisel

FROM: IRM/BMP/SPO – DeAnne Bryant 

SUBJECT: Draft OIG Report on the Audit of Replacement of Aging Desktop Workstations at the Department of State with Funds Provided by the American Recovery and Reinvestment Act

Thank you for the opportunity to provide a response to the subject report, *Audit of Replacement of Aging Desktop Workstations at the Department of State With Funds Provided by The American Recovery and Reinvestment Act (AUD/11-XX - June 2011)*. This memorandum is to inform you that IRM agrees with Recommendation 1 in the subject report. Additionally, there are several clarifications IRM would like to make in reference to the OIG Report as noted below.

Recommendation 1: OIG recommends that the Bureau of Information Resource Management revise the 4-year replacement schedule for computer monitors provided through the Global Information Technology Modernization program to a 6-year schedule.

IRM Response (06/2011): IRM agrees with the recommendation to revise the monitor replacement life-cycle from 4 to 6 years. Starting in FY2012, the new 22-inch monitors that GITM will deploy will be placed on a 6-year modernization cycle.

Clarification on Funding: The OIG report states that “This audit report, one of several reports being issued by OIG on the use of Recovery Act funds by the Department, presents the results of a project for the replacement of aging desktop workstations (computers and monitors) for which \$13 million in Recovery Act funds was spent as part of a total \$33.5 million investment in the Department’s Information Technology (IT) Platform.”

IRM Response (06/2011): These statements indicate that all of \$13M received by IRM was used to fund workstations, however, IRM used \$1.2M to fund technical support and the remaining \$11.8M for purchasing and receiving computers and monitors for a total of \$13M.

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Clarification on Procurement and Shipping: The OIG report states that “The replacement desktop workstations were appropriately procured, shipped, and installed as planned, and all funds for the project were expended and used for authorized purposes.”

IRM Response (06/2011): The statement indicates that shipping and installation were also completed using ARRA-provided funds. IRM notes that ARRA provided funds were used solely for the procurement and receipt of the equipment prior to being sent to US missions overseas. Only existing (non-ARRA) program funds were expended to cover the shipping and installation processes.

Clarification on Inventory Tracking: The OIG report states that “OIG accounted for all of the computers shipped to the locations sampled, as shown in Table 2, and determined that controls for receiving, storing, and shipping the desktop workstation equipment were effective. All computers were accounted for, but 11 (2 percent) of 546 computers did not have numbered Department property stickers, as required by the Department’s Foreign Affairs Manual (FAM).

IRM Response (06/2011): IRM notes that it is the responsibility of the post GSO and/or IT staff to affix the required property stickers on received equipment.

cc: DCIO/BMP – [REDACTED]
IRM/BMP/SPO/SPD – [REDACTED]
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