

AUDITS

Senior Management Attention Needed to Ensure Effective Implementation of the Government Information Security Reform Act (01-IT-M-082)

In response to the Government Information Security Reform Act (GISRA), Public Law 106-398, OIG performed an independent evaluation of the information security program and practices of the Department. GISRA provides: (1) a comprehensive framework for establishing and ensuring the effectiveness of controls over information resources; and (2) a mechanism for improved oversight of Federal agency information security programs. The objective of our review was to determine whether the Department is effectively implementing key requirements of GISRA, including those pertaining to security planning and risk management, information security roles and responsibilities, training, and performance measures.

OIG's evaluation of the effectiveness of the Department's information security program found mixed results. Specifically, OIG concluded that information security weaknesses continue to threaten Department operations, both here and abroad. Both OIG and DS evaluation reports over the past 2 years identified weak information security management practices at dozens of overseas posts. For example, only 10 of the 35 posts in one geographic region reviewed by OIG security teams in 1999 and 2000 were reported to have adequate information security procedures in place. Further, according to OIG's survey questionnaire, although 59 percent of the Department's 371 systems are reported to have completed risk assessments, only 10 percent are reported to have security plans, as required by GISRA. We recommended that the Chief Information Officer (CIO), in coordination with DS, develop a strategy and timetable for ensuring that all of the Department's systems/applications address each of the key system security elements identified in the report.

The Department has made progress in implementing a key GISRA provision—establishing the agency's CIO as the central management focal point for information security activities. On August 20, 2001, the Deputy Secretary of State issued a Delegation of Authority to the CIO to administer the Department's information

security program. The CIO's new role as the administrator of this program establishes the central management focus on information security that is required by the law and puts the Department in a better posture to protect information technology assets from security risks.

OIG also found that the Department has not developed performance measures for its information security program, which are required by both GISRA and GPRA. In response to a draft of this report, the Under Secretary for Management's office said that by October 15, 2001, the Bureau of Information Resource Management, working with DS, would develop measurable and meaningful performance measures for the Department's information security program. This is important, because without usable performance measures, the Department is unable to assess the adequacy and effectiveness of information security policies and procedures and is hindered in its efforts to implement a results-based information security management program. We recommend that the CIO ensure that program managers develop and use GPRA and GISRA performance measures in support of the Department's information systems security program.

Review of the Overseas Wireless Program (01-FMA-M-053)

OIG reviewed the Department's implementation of the Overseas Wireless Program (OWP) to determine the degree to which the OWP has improved the security environment at overseas posts. The specific objectives of this review were to determine whether: (1) the goals and objectives of the OWP were clear and achievable, (2) posts' Emergency Action Plans (EAPs) effectively integrated the OWP, and (3) the Department obtained the best value to the Government in the procurement of products and services. OIG also assessed the degree of IRM's compliance with the GISRA in implementing the OWP.

The Department initiated the OWP in October 1998 in response to the terrorist attacks on U.S. Embassies Nairobi and Dar Es Salaam and to address prior OIG security inspections that recommended strengthening the Department's overseas radio programs. OIG observed that the OWP program has improved the security environment overseas by creating dedicated Emergency & Evacuation (E&E) radio networks, adding encryption capability as a security enhancement, and providing newer and more robust equipment. IRM officials have generally established clear goals for the program and have worked vigorously for implementation. IRM officials have also incorporated performance measures into the OWP. Officials in the field

had differing opinions on how an E&E network with OWP equipment should work and some skepticism that it was even necessary in some posts where risks are perceived as lower. The OWP has not always led to fully implemented E&E programs overseas. IRM's plans to perform follow-up visits to OWP posts should help address these concerns, but the regional bureaus and post management must take action as well.

Major recommendations include the one that IRM re-examine E&E radio distributions to specific posts, and that the regional bureaus stress to posts the importance of fully incorporating E&E procedures concerning the OWP into the posts' EAPs.

Critical Infrastructure Protection: The Department Can Enhance Its International Leadership and Its Own Cyber Security (01-IT-R-044)

OIG reviewed U.S. Government efforts to ensure critical infrastructure protection (CIP) for the United States and our allies in conjunction with a President's Council on Integrity and Efficiency assessment of implementation at several departments and agencies of Presidential Decision Directive 63. Pursuant to this directive, the Department is responsible for developing and implementing a CIP plan to protect its critical facilities and information systems, and for serving as Foreign Affairs Functional Coordinator. OIG's assessment concluded that the Department has made progress in meeting these responsibilities, but that further work remains to be done.

Specifically, OIG reported that the Department's:

- International outreach strategy is unnecessarily constrained, and, does little to encourage the development of preventative measures needed to protect global critical infrastructure;
- The CIP plan provided a suitable framework for addressing minimum-essential infrastructure. However, the plan does not address potential cyber vulnerabilities in foreign operations or in interagency connections (e.g., between the Foreign Service National Payroll System and the Treasury Department); and
- Policies and programs concerning information security training awareness were not sufficient to ensure that employees are properly trained to protect the agency's information systems.

OIG has made a number of recommendations to strengthen the Department's approach to CIP planning. Among other actions, the Department should:

- Assess the vulnerability of the Department's foreign operations to cyber-based disruptions;
- Conduct security controls evaluations of all minimum-essential cyber infrastructures at least once every 3 years;
- Strengthen information security training policies and procedures through changes to appropriate sections of the Foreign Affairs Manual; and
- Expand the Department's international outreach approach to include a wide range of friendly countries requesting such assistance.

Review of Overseas Medical Operations (O1-HR-M-036)

OIG reviewed the Department's overseas medical operations. OIG found that overseas medical professionals do a commendable job of providing health care and advice under difficult conditions. Additionally, the Office of Medical Services (MED) is currently working on several major initiatives to improve the health of Foreign Service employees and their family members. Nevertheless, OIG found several areas in which the Department could improve its management of the overseas operations. For example, MED did not ensure that all clearances were updated after medical evacuations. As a result, there are employees at posts whose clearances are still pending. OIG also found that MED did not have adequate controls over all of its drugs and supplies. At the posts visited by OIG, controls to prevent the theft or misuse of narcotics and other controlled items were generally adequate. However, noncontrolled drugs and supplies were not always safeguarded. Finally, MED did not maintain copies of Post Medical Capabilities Reports and trip reports submitted by Regional Medical Officers. Thus, MED did not have an up-to-date picture of the conditions at all of its overseas health units.

OIG found that the Department did not ensure complete and timely tracking of reimbursements for overseas hospitalizations. In these cases, employees are expected to file claims with their insurance carriers and then reimburse the Department. MED and the Bureau of Financial and Management Policy are not applying existing controls to ensure complete and timely reimbursement. Consequently, the Department has almost \$1 million in open accounts receivable for FYs 1996-1999. OIG made several recommendations to improve the Department's performance in this area.

Need to Improve Internal Controls in the Miami Passport Office (01-FMA-M-040)

OIG examined some serious deficiencies in the cashiering operations at the Miami Passport Office as a result of an investigation requested by the Department's Bureau of Consular Affairs (CA). While OIG has initiated a more thorough review of other domestic passport operations, including cashiering, OIG identified some internal control weaknesses related to cashiering that were brought to management's immediate attention.

Overall, OIG found that internal control over cashiering at the Miami Passport Office to be deficient. OIG found that a number of requirements included in the CA policy manual were not being followed, such as reconciling receipts and proper closeout procedures. In addition, OIG believes some issues were not sufficiently covered in the manual, such as training and reconciliation of bank statements.

CA has already made a number of improvements to internal controls at the Miami Passport Office, including modifying the automated cash register system and providing additional training. OIG commends these actions, and has provided additional recommendations that we believe will further improve internal controls at this facility.

Information Technology Vulnerability Assessment at the Charleston Financial Service Center (01-FMA-R-078)

The Government Management Reform Act of 1994 (Public Law 103-356) requires that the Department's principal financial statements be audited annually. These audits require, among other components, an assessment of the adequacy of the internal control process for recording, accumulating, and reporting financial data. This, in turn, requires an assessment of the security of the automated systems that process financial data. At OIG's direction, independent external computer specialists performed a vulnerability assessment of information technology at the Charleston Financial Service Center.

Overall, the review found that the information technology security posture at the Charleston Financial Service Center was excellent. The information systems security

officer immediately corrected technical vulnerabilities identified during the assessment and immediately strengthened security engineering processes that required improvement. The recommendations contained in this report will serve only to enhance further the information technology security posture and strengthen security engineering practices.

Review of Selected Awards to Project Harmony, Inc., for Activities in New Independent States (01-FMA-R-O80)

As part of an overall effort to review Freedom Support Act assistance to the New Independent States (NIS), OIG examined 20 grants totaling about \$15 million awarded by the former United States Information Agency (USIA) and the Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) to Project Harmony, Inc. OIG reviewed costs claimed for FY 1995 through July 30, 2000. The primary purpose of this audit was to determine whether Project Harmony adequately (1) accounted for Federal funds, (2) complied with applicable Federal laws and regulations related to the terms and conditions of the agreement, and (3) evaluated its NIS programs. At the request of the INL grants officer, OIG also reviewed the grantee's indirect cost structure and methodology for claiming reimbursement of indirect expenses. OIG found the following:

- Project Harmony did not adequately account for Federal funds. Specifically, the grantee did not record or allocate administrative costs to Federal grants based on actual costs incurred. The grantee also overcharged Federal awards for travel costs that were not actually incurred. OIG noted inaccuracies and inconsistencies between the financial data recorded in the grantee's official accounting records and the amounts reported in the certified financial reports and its annual single audit reports. As a result, we questioned costs totaling approximately \$8,127,683 million. Of that amount, \$272,297 was unallowable under terms and conditions of the grant and, \$7,855,386 was classified as unsupported because of either inadequate or no documentation.
- Internal controls were deficient. Weaknesses included inadequate cash controls, bank balances that exceeded insured amounts, lack of written accounting policies and procedures, and a lack of separation of duties within the organizational structure.

- Project Harmony did not comply with applicable regulations and agreements. For example, Project Harmony failed to meet requirements for cost sharing, timesheets, travel expense reports, and indirect costs. There were also inadequate property control records and incomplete personnel records.

OIG recommended that the Bureau of Educational and Cultural Affairs and INL require Project Harmony to reimburse the Department for unallowable costs and provide additional documentation for the unsupported costs. In addition, the grant officer should continue monitoring Project Harmony to ensure accountability of Federal funds and compliance with grant regulations.

Survey of the Worldwide Purchase Card Program – Domestic Operations (01-FMA-M-081)

OIG performed a survey of the domestic operations of the Department's Worldwide Purchase Card Program (WPCP). The objectives of this survey were to determine how effectively the Department has implemented the WPCP domestically and whether the WPCP was achieving cost savings. OIG also examined whether the Department has established appropriate performance goals and measures in accordance with GPRA in regards to the WPCP. OIG also analyzed overall statistical trends in the WPCP from FY 1996 through FY 2000.

OIG found that the WPCP has experienced rapid growth and Department customers have received goods and services more quickly as a result of the program. The Department has also established performance measures for the WPCP in accordance with GPRA—cost savings, increases in the dollar amount of purchase card transactions, and increases in the number of purchase cardholders. Also, for those transactions where OIG found sufficient documentation to analyze the procurements, Department personnel have generally complied with Department regulations in using purchase cards.

However, OIG found that some program improvements were needed. While the number of cardholders has dramatically increased, part of this growth was apparently in purchase card users who made infrequent or no transactions. Also, about 12 percent of the domestic transactions reviewed by OIG lacked required documentation for OIG to verify independently that the purchases were properly made and reconciled in a timely manner. Further, responsible officials interviewed by OIG had not conducted required annual reviews of their offices' WPCP operations. OIG also

found that the Department's method for determining cost savings—the reduction in the number of paper purchase orders processed—does not necessarily capture the actual administrative cost reductions that have occurred. Finally, OIG found inappropriate procurement practices that, if changed, could yield additional cost savings for the Department.

Recent Department guidance on the WPCP should help address the documentation and annual review issues, but our report recommends that additional steps be taken. Our report also contains recommendations for the Department to examine low purchase card usage, clarify its reporting on cost savings from the program, and explore additional cost avoidance measures.

Review of Awards to Iraqi National Congress Support Foundation (01-FMA-R-092)

OIG, in conjunction with the Bureau of Administration, Office of Acquisitions, examined two grants totaling about \$4.3 million awarded by the Department's Bureau of Near Eastern Affairs (NEA) to the Iraqi National Congress Support Foundation (INCSF). OIG reviewed costs incurred for the period March 31, 2000, through May 30, 2001, to determine whether INCSF (1) had adequate controls to ensure that Federal funds were properly accounted for and spent for the intended purpose of the agreements, and (2) complied with applicable Federal laws and regulations. OIG found that:

- Significant improvements in accountability were needed to ensure that Federal funds were properly accounted for and spent for the intended purpose of the agreements. We found that INCSF's accounting system was not integrated to identify, collect, process, and promptly report financial information. For example, the London and Washington offices used substantially different accounting systems, charts of accounts, and bases of accounting that prevented consolidation of organization-wide financial statements.
- Internal controls were deficient. Weaknesses included a lack of signature authority by INCSF leadership for a separate bank account at the Washington office as required by INCSF bylaws; lack of written accounting policies and procedures; lack of separation of duties within the organizational structure; and bank balances that exceeded insured amounts.
- INCSF did not comply with applicable regulations and agreements. As a result, OIG questioned costs totaling about \$2.2 million. Of that amount, \$113,794 was

unallowable under terms and conditions of the agreement and \$2,107,093 was classified as unsupported because of either inadequate or no documentation. Unallowable costs, for example, included legal and court costs incurred for breach of contract related to its office space in a residential building. Other issues included noncompliance with U.S. tax reporting requirements and Office of Management and Budget Circulars and Federal Travel Regulations, including lack of adequate timesheets, and inadequate property management and personnel management.

OIG recommended that the NEA grants officer require INCSF to reimburse the Department for unallowable costs and provide additional documentation for the unsupported costs.

Review of Financial Management Issues at the Organization for Economic Cooperation and Development (OI-FMA-M-O93)

In response to a request from the then Chairman, Subcommittee on Commerce, Justice, State, and the Judiciary of the Senate Committee on Appropriations, OIG conducted a review of financial management issues at the Organization for Economic Cooperation and Development (OECD). The request noted concerns raised by the work of an outside audit firm, as well as reported allegations of missing bank accounts and cash.

OIG was asked to assess the magnitude of the problems and to review the OECD's progress in implementing financial management reforms. OIG assessed the extent, scope, methodology, and results of the audit firm's work, as well as a subsequent audit performed by another outside audit firm of OECD's FY 2000 balance sheet. Subsequent to issuing its draft report, the audit firm advised the OECD that while OECD's accounting was out of date and lacked clear standards, the term "misappropriation" in the draft report meant misclassification, not unauthorized expenditure. Further, the firm auditing OECD's FY 2000 balance sheet identified no such problems. In addition, OIG conducted extensive interviews of OECD and U.S. Mission officials, and reviewed and analyzed relevant reports and documents. OIG did not conduct an audit of OECD accounts, however.

OIG found no evidence of misappropriation of funds or fraud within OECD accounts, or missing bank accounts, either as a result of OIG work or the work of the outside audit firms.



OECD Chancery

OECD has made significant progress in strengthening its internal controls over OECD operations and accounting procedures, including the implementation of a new financial system. OECD recognizes that there is work yet to be done to complete the reforms. In addition to the reforms already underway, OIG recommended that the U.S. Mission seek to have OECD institutionalize annual external audits of its financial statements to

include the balance sheet, income statement, and statement of cash flows. OIG also recommended that OECD establish an audit committee, and expand and refine the internal audit function. The former Ambassador to the U.S. Mission communicated these recommendations to the Secretary-General and the OECD Council on June 18, 2001, in her farewell remarks.

Foreign Service Retirement and Disability Fund Financial Statements for FY 2000 (01-FMA-R-014)

An independent external contractor audited the Foreign Service Retirement and Disability Fund's (FSRDF) Financial Statements for FY 2000 to report on whether the financial statements are fairly presented, to determine whether the FSRDF has an internal control structure that provides reasonable assurance of achieving internal control objectives, and to determine whether FSRDF complied with applicable laws and regulations. FSRDF is a trust fund that provides pensions to retired and disabled members of the Foreign Service. For FY 2000, FSRDF reported assets of \$10.7 billion and an actuarial unfunded pension liability of \$669.5 million.

The contractor found that the financial statements were presented fairly in all material respects. The audit did not identify any internal control weaknesses or instances of noncompliance with laws and regulations that were considered necessary for disclosure.

Review of the Accounting System of Delphi International, Inc. (01-FMA-M-048)

OIG reviewed the accounting system of Delphi International, Inc., (Delphi), a grantee of the Department's Bureau of Educational and Cultural Affairs (ECA). OIG examined the accounting system utilized by Delphi to record costs under grants awarded by the former USIA. OIG also reviewed activity related to Delphi's procedures for requesting cash advances under Federal grants. The review was made solely to assist the Department in evaluating the adequacy and accuracy of Delphi's accounting system and appropriateness of its requests for advances. Specifically, ECA requested this review to assist in making a determination as to whether to place this grantee on the Department of Health and Human Services' Payment Management System.

OIG concluded that Delphi's accounting system was basically adequate for accumulating and reporting costs incurred under Federal grants. OIG did note, however, inaccuracies between the financial data recorded in the grantee's official accounting records and the amounts reported in the quarterly financial reports. In addition, the analysis of Delphi's requests for cash advances disclosed significant variances between the amounts requested and the corresponding amounts incurred in the period covered by the request. Therefore, OIG is recommending that the ECA grants officer not place Delphi on the Payment Management System.

Review of Inter-Con Security Systems, Inc. Billing Procedures Under the U.S. Department of State Contract No. S-OPRAQ-96-0569 (01-FMA-M-051)

At the request of the OIG, certified public accountants reviewed Inter-Con Security Systems, Inc. (Inter-Con) billing procedures under Department Contract No. S-OPRAQ-96-0569. Under the contract awarded on May 6, 1996, Inter-Con provided uniformed armed and unarmed guard services to DS for Department offices and facilities in the greater Washington, D.C., area and other domestic locations. The contract was a "time and materials" contract with an estimated amount of \$68 million between January 6, 1997, and June 5, 2001. This limited scope review disclosed the erroneous payment of higher rates than required under the contract for

request orders designated as temporary additional services. OIG estimated that overpayments could total \$4.6 million since the start of the contract.

United States Information Agency's Balance Sheet as of September 30, 1999 (01-FMA-R-083)

OIG's independent external contractor audited the USIA balance sheet as of September 30, 1999, to report on whether the balance sheet fairly presented the financial position in accordance with generally accepted accounting principles. The audit also examined whether USIA had an internal control structure that provided reasonable assurance of achieving internal control objectives and complied with applicable laws and regulations. This audit was limited to the portion of USIA that was transferred to the Department as of October 1, 1999.

The contract audit found that the balance sheet was presented fairly in all material respects, except for the Fund Balance with Treasury account. The audit found that USIA was unable to reconcile the fund balance from the general ledger to the fund balance reported by the Department of Treasury and therefore used the amount reported by the Department of Treasury on its financial statements. In addition, the report identified concerns about USIA's financial and accounting system, which are both an internal control weakness and an issue of noncompliance with several laws and regulations including the Budget and Accounting Procedures Act and the Federal Managers' Financial Integrity Act.

INVESTIGATIONS

Conflict of Interest

OIG conducted an investigation into allegations that a former U.S. Ambassador violated conflict of interest laws by contacting a United States embassy on behalf of his new employer within the first year after he retired from the Department. As a result of the investigation, the former Ambassador signed a settlement agreement with the Department of Justice, Public Integrity Section, and has paid the U.S. Government \$10,000 to resolve allegations that he violated federal post-employment restrictions. (99-006)

Employee Misconduct

OIG conducted an investigation into allegations that a senior Department employee violated nepotism regulations by attempting to intervene in a promotion decision on behalf of a family member. As a result of the investigation, the Bureau of Human Resources issued a Letter of Reprimand that is to remain in the employee's official personnel folder for one year. (01-013)

Customs Violation

OIG conducted an investigation into allegations that a Foreign Service Officer transported monetary instruments in excess of \$10,000 into the United States in violation of 31 U.S.C. Section 5316(a). This matter was declined for criminal prosecution and referred to the Bureau of Human Resources. The Bureau of Human Resources issued a Letter of Admonishment to the employee. (96-067)

Visa Fraud

OIG opened an investigation in September 2000, based upon information developed in a proactive investigation that an immigration attorney in New York was involved in the submission of multiple fraudulent applications to the Diversity Immigrant Lottery (DV) Program. The New York office of the Immigration and Naturalization Service (INS) was advised of this information, and agreed to participate in the investigation.

Record reviews established that the immigration attorney had submitted multiple DV applications on behalf of clients for several years, using slight variations in the spelling of the name on each application. The reviews also established that a substantial number of the attorney's clients had been selected as "winners" of the lottery. The investigating agents recorded conversations between the immigration attorney and two separate cooperating informants.

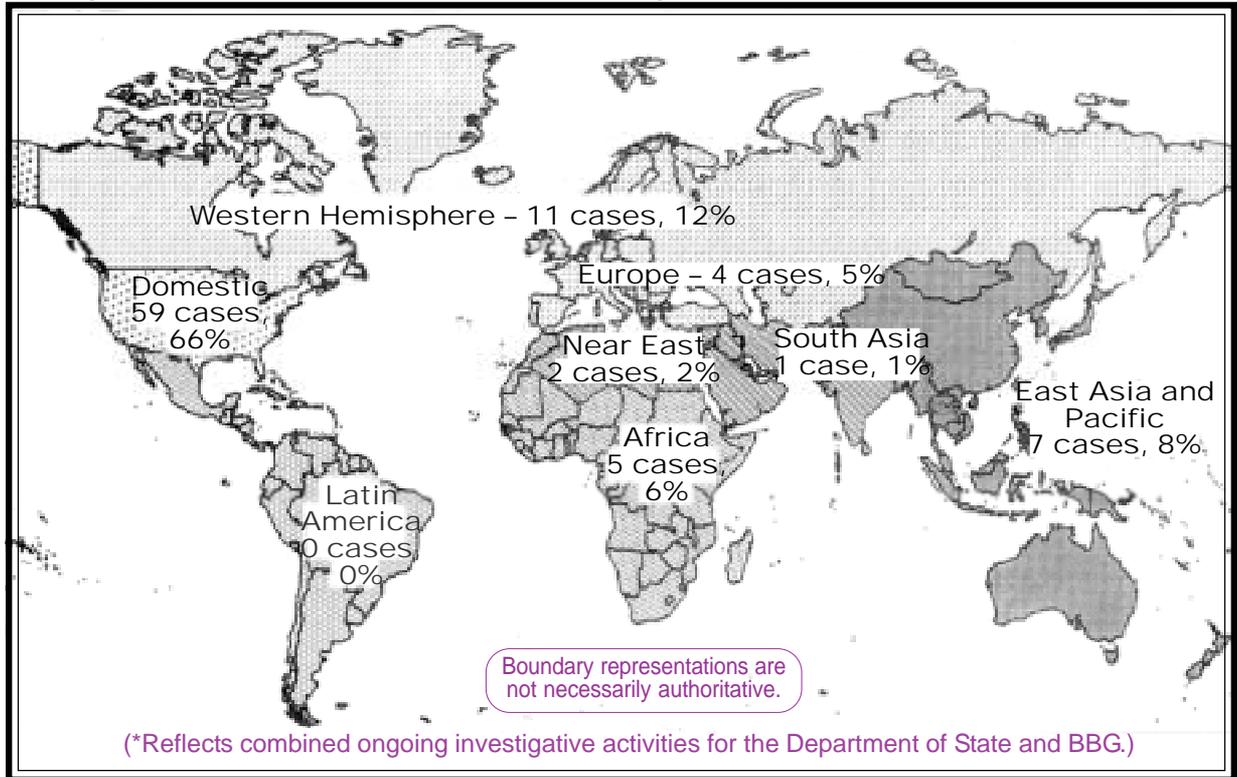
On August 20, 2001, the attorney was arrested on felony charges of visa fraud, mail fraud, and conspiracy. A search warrant for his office was executed on the same date. Resolution of these criminal charges was pending at the end of this reporting period. (00-095)

OIG Special Agents Commended for Interagency Assistance

OIG special agents received a letter of appreciation from the Deputy Inspector General of the Department of Defense lauding the "extraordinary professionalism and dedication" the agents displayed while providing assistance following the terrorist attack at the Pentagon on September 11, 2001. The letter noted the agents' tireless efforts, working around the clock in hazardous material protective gear, to identify victims and to recover evidence essential to the criminal investigation of the attack.

On another, unrelated matter, two OIG special agents responded to a request for investigative assistance this past April from the Inspector General of the Peace Corps. In a letter of appreciation, the Peace Corps Inspector General praised the timely, thorough, and professional manner in which the special agents conducted the highly sensitive investigation, which was concluded in June.

Geographic Distribution of Investigations*



In January 2001, OIG opened a joint investigation with INS, Newark, NJ, predicated upon information provided by a cooperating informant, who indicated that a Turkish national residing in New Jersey was charging customers \$5,000 to \$6,000 for documentation that would enable them to receive C-1/D-1 transit/crewmen visas.

The investigation determined that two associates of the Turkish national, operating in Miami, FL, had generated numerous letters to U.S. consulates falsely stating that a cruise line had contracted to employ various aliens as crewmen. The people who produced these letters used the letterhead of a cruise line that had not operated in the United States for some time. Numerous aliens fraudulently obtained visas and entered the U.S. through this scheme. On August 9, 2001, the Turkish national was arrested on felony charges, and a search warrant for his office was executed. He agreed to cooperate in the investigation. (01-021)

OIG opened a joint investigation in January 2001 with INS and the SSA, Office of Inspector General, based upon information that substantial numbers of foreign nationals from several African countries had been providing passports containing counterfeit work-authorized visas to Social Security offices in the Richmond and

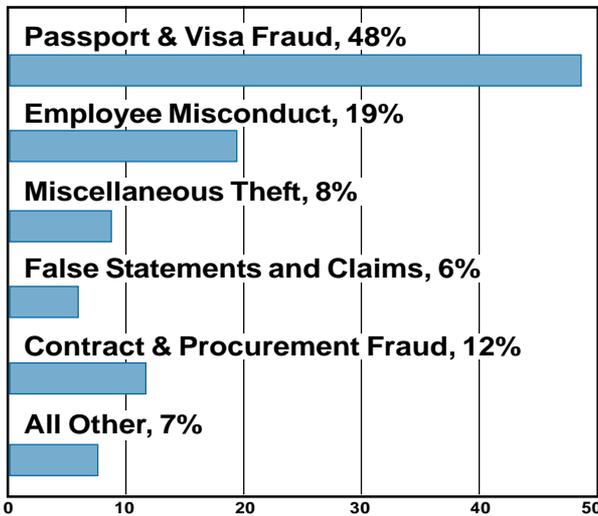
Norfolk, Virginia areas, in order to obtain work-authorized Social Security cards. The investigating agents conducted record reviews that identified approximately 80 such foreign nationals who had presented these counterfeit visas to Social Security offices.

The investigation developed evidence that a Guinean national residing in Virginia was involved in the sale of these counterfeit visas. On June 12, 2001, this person was indicted on seven felony charges of visa fraud, and of shielding illegal aliens from detection. He subsequently provided a videotaped confession, and pleaded guilty to visa fraud on September 14, 2001. As part of the plea agreement, this person agreed not to contest removal from the U.S. after serving any sentence. Sentencing was pending at the end of this reporting period. (01-031)

Theft

In October 2000, the OIG opened a joint investigation with the U.S. Customs Service based upon information that an employee was stealing Department computer hardware/software and selling it overseas. Customs provided OIG with computer hard drives that the employee had previously tried unsuccessfully to mail overseas. A forensic review of the computers' hard drives by the Customs Cybertech Office identified various classified documents on one of the hard drives.

Types of Cases*



(*Reflects combined ongoing investigative activities for the Department of State and BBG.)

Subsequent record reviews determined that the employee in question had made numerous false statements on his application for federal employment. Specifically, it was determined that the employee had not received an honorable discharge from the military, had not obtained a degree from the academic institution listed on the application form, and had previous felony arrests for theft.

In January 2001, OIG obtained and executed a search warrant on the employee's house. The warrant resulted in the seizure of several computer-related items, software and documentation. The employee was interviewed and admitted to computer and property thefts valued at approximately

\$20,000. However, the employee stated that he was not aware that the stolen hard drive contained classified information. The employee also admitted to making false statements concerning the background information he provided to the Department to obtain employment.

On June 5, 2001, in the U.S. District Court of the District of Columbia, the employee pleaded guilty to one count of theft of government property and unauthorized removal of classified materials. Sentencing has been scheduled for October 11, 2001. (01-012)

Follow Up Actions:

Embezzlement

OIG conducted an investigation into allegations that a Foreign Service officer wrote bad checks to the U.S. embassy where the officer was assigned. The total monetary loss to the government was determined to be \$14,713. The officer was sentenced in U.S. District Court on January 9, 2001, to 3 years of supervisory probation, 4 months of home detention, and full restitution to the U.S. Government. On September 5, 2001, the officer was notified by the Director General of the Foreign Service of being “separated from employment” with the Department of State. (*See OIG Semiannual Report October 1, 2000, to March 31, 2001, pp 47-48*) (99-037)

Visa Fraud

OIG opened an investigation in April 1998, based upon information that officers of a company based in Northern Virginia were engaged in a large-scale scheme to defraud the EB-5 investor visa program. Under this program, U.S. immigrant visas may be issued to foreign nationals who invest at least \$500,000 in a business that creates jobs in high unemployment areas of the United States.

This joint investigation with INS and IRS developed evidence that company principals had been involved in submitting numerous fraudulent visa petitions, as well as other false statements to the Government, and that they had taken funds

obtained from alien customers, which were to be invested, for their own use. Little, if any, money was invested in U.S. businesses, and few, if any, jobs were created.

In August 2000, the two principal officers of the company were charged in a 61-count indictment with visa fraud, conspiracy, money laundering, false tax returns, failure to file, and bankruptcy fraud. The defendants represented themselves in a bench trial (no jury) during March and April 2001. The Government estimated that the defendants took in approximately \$21 million through this scheme. On August 16, 2001, the Court found the defendants guilty of all charges in the indictment. Sentencing is scheduled for November 2, 2001.

An immigration attorney in Miami, FL, who had been involved with these two principal officers in some aspects of this scheme, pleaded guilty to one felony count of visa fraud, and agreed to cooperate in the investigation. He testified as a Government witness at trial. In April 2001, he was sentenced to 14 months' imprisonment, was fined \$2,000, and was ordered to make restitution of \$838,500 to clients he had defrauded in connection with this scheme. (*See OIG Semiannual Report, April 1 to September 30, 2000, pp. 30-31*) (98-079)

OIG has been conducting a joint investigation with INS, IRS, and the SSA, Office of Inspector General, since August 1999, based upon information that a network of people was engaged in a scheme involving visa fraud, alien smuggling, and money laundering. This group, operating in several parts of the United States and in the Czech Republic, was engaged in a conspiracy to profit from the employment of unauthorized alien workers in the United States.

The investigation determined that the group assisted foreign nationals in obtaining nonimmigrant visas from U.S. Consulates by misrepresenting the true purpose of the travel, and by providing fraudulent documentation in support of visa applications. Once in the United States, many of these foreign nationals were provided with counterfeit H1-B visas, which authorize employment. These fraudulent visas were then used to obtain Social Security cards and other identity documents.

Four Czech nationals, who had been living in the United States, entered guilty pleas to felony charges in U.S. District Court in Norfolk, Virginia, in February 2000. One of these people, who had pleaded guilty to conspiracy to launder monetary instruments, was sentenced to 84 months' incarceration, and was ordered to forfeit \$136,763 in seized assets. The other three people received lesser sentences.

In March 2001, a Slovak national was charged in a 15-count indictment with visa fraud, money laundering, wire fraud, and inducement of an alien to enter the United States illegally. In June 2001, this person was arrested in the Czech Republic in

connection with these charges. His extradition to the United States was pending at the end of this reporting period.

In June 2001, two Slovak nationals residing in Florida were arrested, and subsequently pleaded guilty in Norfolk, Virginia, to charges of knowingly employing ten or more aliens. Sentencing for both people was pending at the end of this reporting period.

On July 25, 2001, a naturalized U.S. citizen residing in Florida was indicted on charges of conspiracy to launder monetary instruments. An associate of this person, also residing in Florida, was indicted on charges of inducing aliens to enter or reside in the United States. (*See OIG Semiannual Report October 1, 2000, to March 31, 2001, p. 52-53*) (99-072)

In October 2000, OIG opened a joint investigation with INS, based upon information that a Costa Rican national residing in New Jersey was manufacturing and selling machine-readable visas from his residence. Based upon evidence developed in an undercover operation, the investigators obtained a search warrant for this person's residence. During the execution of this warrant, the subject's computer was seized, along with account ledgers, counterfeit visas, social security cards, and other documentation and equipment. On November 1, 2000, the subject was charged with felony violations of visa fraud, immigration document fraud, and social security fraud. He was ordered detained without bail. On May 31, 2001, he pleaded guilty to several felony counts of document fraud. On September 28, 2001, the subject was sentenced to 19 months of incarceration, and three years of supervised probation. (*See OIG Semiannual Report, October 1, 2000 to March 31, 2001, p. 48*) (01-002)

OIG opened a joint investigation with INS in January 2000, based upon information that student visas had been issued to a substantial number of Chinese nationals, based upon fraudulent certifications that these people were students at a university in New England. The university advised that these people were in fact, not students, and that the documents were fraudulent.

The investigation determined that a group of Chinese nationals based in New York was operating this scheme. Evidence showed that this group had obtained fraudulent student visas for approximately 300 foreign nationals by providing fraudulent certifications purporting to show attendance at more than 20 different universities and colleges. The group was also involved in obtaining fraudulent visas by preparing false petitions for employment. In November 2000, two Chinese nationals were arrested in New York on charges of visa fraud in connection with this scheme. On July 17, 2001, one of these persons pleaded guilty to a felony charge of visa

fraud; sentencing was pending at the end of this reporting period. Plea negotiations were continuing with the other people. (See *OIG Semiannual Report, October 1, 2000 to March 31, 2001, p. 50*) (00-036)

Theft

OIG opened an investigation in June 1999 based upon information provided by DS indicating that a passport examiner at the New York Passport Agency had been involved in the theft of passport fees. The OIG investigation determined that the employee had used several different methods to steal application fees over a period of approximately two years. The passport examiner was terminated from employment in August 1999.

In July 2000, the former employee was charged with a felony violation of theft of public money. On March 26, 2001, this person pleaded guilty to this charge in U.S. District Court for the Southern District of New York. On July 27, 2001, the former employee was sentenced to four months of home detention, three years of probation, and \$21,000 in restitution. (See *OIG Semiannual Report, October 1, 2000 to March 31, 2001, p. 54*, and *OIG Semiannual Report, April 1 to September 30, 2000, p. 32*) (99-059)

Hotline



The OIG Hotline, operated by the Office of Investigations, is a prompt, effective channel for employees and others to report incidents of fraud, waste, abuse, and mismanagement to the Inspector General. Below is a summary of Hotline activity for the agencies for which OIG has oversight.

Total allegations received	172
Held for action within OIG	42
Referred to other offices for action	117
Not substantiated – no action necessary	13

APPENDIX 1: INVESTIGATIVE ACTIVITIES¹

Workload		Total Judicial Actions	46
Cases pending 3/31/01	109	<i>Criminal</i>	
New cases opened	21	Prosecutive referrals	8
Cases closed	41	Prosecutive declinations	8
Cases pending 9/30/01	89	Prosecutive dismissals	0
Preliminary inquiries pending 3/31/01	22	Acquittals	0
Prelim opened	51	Indictments ²	11
Prelim closed	54	Convictions	10
Prelim converted to cases	4	Sentencings	6
Preliminary inquiries pending 9/30/01	19	Time sentenced	16 months
		Time probation	14 years
Total Administrative Actions	8	Court-ordered fines	\$12,500
Admonishments	0	Court-ordered restitutions	\$376,834
Counseling	0		
Curtailment	0	<i>Civil</i>	
Demotions	0	Referrals	1
Reimbursements	0	Declinations	2
Reprimands	1	Complaints	0
Resignations	0	Judgments	0
Suspensions	1	Court-ordered fines	0
Terminations	0	Recoveries	0
Administrative referrals	6	Total judgments and recoveries	0
PFCRA ³ referrals	0		
Savings	0		

Administrative recoveries ⁴	\$ 0
Judicial recoveries ⁵	\$ 389,334
Total Investigative Recoveries	\$ 389,334

¹ This appendix reflects investigative statistics for the Department of State only. Please see page 79 for investigative statistics related to BBG.

² Indictments included formal criminal charges brought against a subject. The manner in which charges are brought varies from country to country.

³ Program Fraud and Civil Remedies Act.

⁴ Includes recoveries from administrative actions, such as reimbursements and savings.

⁵ Includes recoveries from judicial actions, including court-ordered fines and restitutions and civil judgments and recoveries.

The statistics and narrative case descriptions of investigative activities appearing in this Semiannual Report to the Congress are the result of reports received from prosecutive and administrative authorities. The final actions may be changed at a later date by individual use of administrative and judicial appeals processes.

APPENDIX 2: REPORTS ISSUED

Security

01-SIO-R-061	Audit of the Department's Background Investigations	8/01
01-SIO-R-085	Audit of the State Department's Anti-Terrorism Assistance Program	9/01
01-SIO-R-043	Embassy Phnom Penh, Cambodia	5/01
01-SIO-R-042	Embassy Hanoi and Consulate General Ho Chi Minh City, Vietnam	6/01
01-SEC-R-005	U.S. Diplomatic Posts in the Bureau of European Affairs	6/01
01-SIO-R-044	Embassy Bandar Seri Begawan, Brunei	7/01

Security Annexes

01-FP-R-011/A	Sarajevo, Bosnia-Herzegovina	4/01
01-FP-R-012/A	Embassy Bratislava, Slovakia	4/01
01-FP-R-020/A	U.S. Interests Section, Havana, Cuba	5/01
01-FP-R-021/A	Embassy Sofia, Bulgaria	4/01
01-FP-R-022/A	Embassy Caracas, Venezuela	4/01
01-FP-R-025/A	Embassy Dar es Salaam, Tanzania	4/01
01-FP-R-026/A	Embassy Nairobi, Kenya	4/01
01-FP-R-047/A	Embassy Djibouti, Djibouti	7/01
01-FP-R-049/A	Embassy Asmara, Eritrea	6/01
01-FP-R-056/A	Embassy Montevideo, Uruguay	7/01
01-FP-R-057/A	Embassy Lima, Peru	9/01
01-FP-R-058/A	Embassy Asuncion, Paraguay	7/01
01-FP-R-063/A	Embassy Accra, Ghana	9/01

Inspections

01-FP-M-045	Review of Implementation of the Federal Voter Assistance Program	9/01
01-FP-R-046	Inspection of Embassy Algiers, Algeria	6/01
01-FP-R-047	Inspection of Djibouti, Republic of Djibouti	7/01
01-FP-R-049	Inspection of Embassy Asmara, Eritrea	6/01
01-FP-L-055	Review of Diplomatic Mail and Pouch Support for the Federal Voter Assistance Program	9/01
01-FP-R-056	Inspection of Embassy Montevideo, Uruguay	7/01
01-FP-R-057	Inspection of Lima, Peru	9/01

01-FP-R-058	Inspection of Embassy Asuncion, Paraguay	7/01
01-HR-R-060	Compliance Followup Review of the Inspections of the Bureau of Human Resources and The Foreign Service Institute	9/01
01-FP-R-063	Inspection of Embassy Accra, Ghana	9/01
01-FP-R-065	Inspection of Embassy Libreville, Gabon	9/01
01-FP-R-066	Inspection of Embassy Lome, Togo	9/01
01-FP-PM-087	Review of Mission Counternarcotics Activities in Bolivia/Ecuador	9/01
01-FP-R-090	Inspection of Embassy Budapest, Hungary	9/01
01-FP-R-091	Inspection of Embassy Warsaw, Poland	9/01

Audits

01-FMA-R-014	Foreign Service Retirement and Disability Fund Financial Statements for FY 2000	4/01
01-HR-M-036	Review of Overseas Medical Operations	7/01
01-FMA-M-040	Need to Improve Internal Controls in the Miami Passport Office	8/01
01-IT-R-044	Critical Infrastructure Protection: The Department Can Enhance Its International Leadership and Its Own Cyber Security	6/01
01-FMA-M-048	Review of the Accounting System of Delphi International, Inc.	6/01
01-FMA-M-051	Review of Inter-Con Security Systems, Inc. Billing Procedures Under the U.S. Department of State Contract No. S-OPRAQ-96-0569	6/01
01-FMA-M-053	Review of the Overseas Wireless Program	7/01
01-FMA-R-078	Information Technology Vulnerability Assessment at the Charleston Financial Service Center	9/01
01-FMA-R-080	Review of Selected Awards to Project Harmony, Inc., for Activities in the New Independent States	9/01
01-FMA-M-081	Survey of the Worldwide Purchase Card Program - Domestic Operations	9/01
01-IT-M-082	Senior Management Attention Needed to Ensure Effective Implementation of the Government Information Security Reform Act	9/01
01-FMA-R-083	United States Information Agency's Balance Sheet as of September 30, 1999	9/01
01-FMA-R-092	Review of Awards to Iraqi National Congress Support Foundation	9/01

APPENDIX 3: SAVINGS & MORE EFFECTIVE USE OF RESOURCES

Table I
INSPECTOR GENERAL ISSUED AUDIT REPORTS¹
WITH QUESTIONED COSTS²

	Number of Reports	(Dollars in Thousands)	
		Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	9	7,067	385
A1. Adjustment	0	0	0
A2. Adjusted Balance	9	7,067	385
B. Which were issued during the reporting period	2	10,348	9,963
Subtotals (A2 + B)	11	17,415	10,348
C. For which a management decision was made during the reporting period – based on formal administrative or judicial appeal			
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision has been made by the end of the reporting period	11	17,415	10,348
Reports for which no management decision was made within 6 months of issuance	9	7,067	385

¹ Includes audit reports issued by the Office of Audits and by the Office of Security and Intelligence Oversight.

² Questioned costs are costs that are questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such costs are not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Table II
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE¹

	Number of Reports	Dollar Value (in thousands)
A. For which no management decision has been made by the commencement of the reporting period	5	1,541
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	5	1,541
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management	0	0
– based on proposed management action		
– based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	5	1,541
Reports for which no management decision was made within 6 months of issuance	5	1,541

¹ A “recommendation that funds be put to better use” is a recommendation by the OIG that funds could be used more efficiently if Department management took actions to implement and complete the recommendations, including: reductions in outlays; deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; costs not incurred by implementing recommended improvements related to the operations of the Department, a contractor, or a grantee; avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified.

APPENDIX 4: RESOLUTION OF REPORTS & RECOMMENDATIONS

PREVIOUSLY REPORTED SIGNIFICANT AUDIT RECOMMENDATIONS¹ PENDING FINAL ACTION²

Report Number	Rec. Number	Report Title Recommendation Summary	First Reported
3-PP-014		<i>Maintenance and Repair of Buildings Overseas</i>	3/31/94
	1.	Develop a system to identify and monitor the worldwide backlog of maintenance and repair deficiencies, including determining an acceptable level for the backlog and periodically updating the backlog for corrective action taken, additional deficiencies identified, and improved cost estimates.	
93-A-34/ ARR-95-08		<i>Grants Management Followup</i>	3/31/95
	5.	Require monthly reporting requirements on the project's status.	
	6.	Ensure that data in the grants system is reconciled with data in other grant-related systems.	
APR-96-07		<i>Exchange Visitor Information System</i>	3/31/96
	3.	Determine the feasibility of electronically transmitting J Visa data from sponsor organizations to the EVIS database at USIA.	

¹ Includes audit recommendations reported as significant in semiannual reports prior to September 30, 2000, on which Department management has agreed to take corrective action but for which those actions are not yet complete.

² Final action is recorded when a proposed course of action in response to a recommendation has been accepted by OIG and completed by management to OIG's satisfaction.

SUMMARY OF AUDIT REPORTS WITHOUT MANAGEMENT DECISION FOR MORE THAN SIX MONTHS

Management of Secure Communications (SIO/A-97-15), March 1997

Summary: OIG made 22 recommendations to the Director General of the Foreign Service and the Director of Personnel (now Human Resources) to require personnel, like IM specialists staff, who hold positions with access to bulk quantities of sensitive information to undergo a special counterintelligence screening process prior to each assignment. Three of the recommendations remain unresolved, which were assigned to the Director General of the Foreign Service.

Reason Unresolved: The Director General of the Foreign Service has not responded, formally or informally to the report and subsequent follow-up inquiries.

To be resolved by: December 2001

Management of Sensitive Compartmented Information Access (SIO/A-98-49) September 1998

Summary: OIG made four recommendations to the Assistant Secretary for Intelligence and Research and the Director General of Personnel to document policy and procedures on how INR will process SCI access requests, arbitrate waivers and disputed decisions to include DS and the Bureau of Personnel (now Human Resources), and develop a reliable process for determining when SCI access authorizations terminate. Three of the four recommendations remain unresolved, which were assigned to the Assistant Secretary for Intelligence and Research.

Reason Unresolved: INR had advised OIG of its plan to respond to these recommendations. However, due to the Secretary of State's transfer of authority for protection of SCI material from INR to DS, INR responded that it no longer has primary responsibility for these recommendations. In recent correspondence to DS and INR, OIG requested that DS work with INR to reach resolution for these recommendations.

To be resolved by: December 2001

Protective Services (SIO/A-99-29), June 1999

Summary: OIG made 25 recommendations to improve the protection provided to visiting dignitaries and foreign missions in the United States; 24 recommendations were made to DS, and 3 of these, which address centralizing all functions for the protection of foreign missions, transferring the authority for the ambassador's protective detail, and implementing a policy restricting the number of days that agents work, remain unresolved.

Reason unresolved: DS has not responded to these recommendations since October 1999.

To be resolved by: December 2001

Overseas Telephone Systems Security Management (SIO/A-00-01), November 1999

Summary: OIG made 19 recommendations to find solutions to overseas telephone security risks; 12 of these remain unresolved. Two of the unresolved recommendations were

SUMMARY OF AUDIT REPORTS WITHOUT MANAGEMENT DECISION FOR MORE THAN SIX MONTHS

assigned to the Chief Information Officer, and 10 of the unresolved recommendations were assigned to DS.

Reason unresolved: OIG is working with DS and with the Chief Information Officer to reach resolution on all of the recommendations.

To be resolved by: December 2001

North/South Center (ARR-94-03), March 1994

Summary: OIG recommended that USIA seek reimbursement of \$1,507,261 in questioned costs, approximately \$1 million of which resulted from an inequitable allocation of indirect costs to the Center. The Department of Health and Human Services, which has audit cognizance, established new indirect cost rates.

Reason unresolved: The Department deferred action on about \$480,000 in remaining questioned costs pending further consultation with the Bureau of Educational and Cultural Affairs and awaiting additional information from the bureau.

To be resolved by: December 2001

International Institute of Wisconsin (CG-96-01), September 1996

Summary: OIG made recommendations on questioned grant costs totaling \$46,636 and internal controls and noncompliance issues.

Reason Unresolved: The Department is seeking clarification and documentation from the grantee.

To be resolved by: December 2001

Review of Indirect Costs Rates Proposed by the Institute of International Education (CG-99-015), May 1999

Summary: OIG made recommendations on questioned costs totaling \$1,054,098 that resulted from an inequitable allocation in indirect costs.

Reason Unresolved: The Department deferred a decision on the questioned costs pending completion of the appeal process.

To be resolved by: Unknown, Under appeal.

Sale and Leaseback Arrangement Proposed by the Institute of International Education (CG-99-016), May 1999

Summary: OIG made recommendations on the sale and leaseback arrangement proposed by the grantee that did not constitute a sale and leaseback within the meaning of the OMB cost principles and projected Funds Put to Better Use of \$4,300,000 over the life of the lease.

Reason Unresolved: The Department deferred a decision pending completion of the appeal process.

To be resolved by: Unknown; under appeal.

SUMMARY OF AUDIT REPORTS WITHOUT MANAGEMENT DECISION FOR MORE THAN SIX MONTHS

Washington Workshops Foundation (CG-99-025), September 1999

Summary: OIG made recommendations on questioned costs totaling \$913,000 and internal controls and compliance issues.

Reasons Unresolved: The Department is seeking clarification from the grantee.

To be resolved by: December 2001

ACLS Supporting the Vietnam Fulbright Economics (CG-99-026), October 1999

Summary: OIG made recommendations on questioned costs totaling about \$1.1 million and internal controls and compliance issues.

Reason Unresolved: The Department is seeking clarification and additional documentation from the grantee.

To be resolved by: December 2001

Town Affiliation Association of the U.S. (00-CG-019), July 2000

Summary: OIG made recommendations on questioned costs totaling about \$908.812 and internal controls and compliance issues.

Reason Unresolved: The Department is reviewing additional documentation provided by the grantee.

To be resolved by: December 2001

The American Councils for International Education (00-CG-032), September 2000

Summary: OIG made recommendations on questioned costs totaling \$1,186,847 and compliance issues.

Reason Unresolved: The Department is seeking clarification and additional documentation from the grantee.

To be resolved: December 2001

