



Office of Inspector General

United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Semiannual Report to the Congress

October 1, 2006, to March 31, 2007



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EXECUTIVE SUMMARY

The auditors, inspectors, investigators, and other professionals in the Office of Inspector General (OIG) promote effective management, accountability, and positive change in the Department of State (Department), the Broadcasting Board of Governors (BBG), and the foreign affairs community. They provide leadership to:

- promote integrity, efficiency, effectiveness, and economy;
- prevent and detect waste, fraud, abuse, and mismanagement;
- identify vulnerabilities and recommend constructive solutions;
- offer expert assistance to improve Department and BBG operations;
- communicate timely, useful information that facilitates decision-making and achieves measurable gains; and
- keep the Department, BBG, and the Congress fully and currently informed.

This report summarizes work carried out by OIG during the period October 1, 2006, through March 31, 2007, which included the issuance of 44 reports of audits, inspections, and other reviews with recommendations to improve Department and BBG programs and operations. A full list of reports issued during this period can be found in Appendix 2.

Iraq/Afghanistan Oversight

OIG received an allocation of \$1.3 million from the FY 2005 Supplemental and \$1.7 million from the FY 2006 Supplemental for oversight related to Iraq and Afghanistan. Thus far in FY 2007, OIG has received no such funding. Nevertheless, OIG has performed work in those areas.

An interagency assessment of the Afghanistan Police Training and Readiness Program, conducted jointly with the Department of Defense OIG, judged that the U.S.-funded program to train and equip the Afghan National Police (ANP) was generally

well conceived and well executed. However, long-term U.S. and international assistance and funding, at least beyond 2010, will be required to institutionalize the police force and establish a self-sustaining program. Obstacles to establishing a fully professional ANP included no effective field training officer program, illiterate recruits, a history of low pay and pervasive corruption, and an insecure environment. Building the ANP requires a comprehensive, integrated approach that encompasses leadership training, sustaining institutions and organizations, and oversight and internal control mechanisms, as well as long-term commitment from coalition and international partners. Management of the police training contract was problematic and required more effective coordination between Department contract managers and the Combined Security Transition Command-Afghanistan, which is responsible for executing ANP training programs. The report observed that until the Afghan criminal justice system — including law enforcement, judiciary, and corrections — matures and is synchronized and coordinated from the national to the local level such that laws are standardized and uniformly applied, the ANP will function more as a security force than a law enforcement organization.

OIG and the Special Inspector General for Iraq Reconstruction (SIGIR) jointly performed an audit of a \$188.7-million contract task order that provided civilian police training support in Iraq. The report concluded that poor contract administration by the Bureau of International Narcotics and Law Enforcement Affairs (INL) and the Bureau of Administration's Office of Acquisitions Management (A/LM/AQM) had resulted in millions of dollars put at unnecessary risk. The review identified \$36.4 million for weapons and equipment that could not be accounted for because invoices were vague and there was insufficient backup documentation, costs of about \$43.8 million for manufacturing and temporary storage of a residential camp that had never been used, and expenditure of \$4.2 million in unauthorized work associated with the residential camp.

The House Appropriations Subcommittee on State, Foreign Operations, and Related Programs held a hearing in February 2007 on audit and oversight activities related to Iraq. Inspector General Howard J. Krongard testified with the Inspector General of the U.S. Agency for International Development and SIGIR on OIG's oversight activities in Iraq. Inspector General Krongard also testified, along with the Comptroller General, the Acting Inspector General of the Department of Defense, and SIGIR, at a January 2007 House Armed Services Committee hearing on audits of reconstruction and support activities in Iraq.

Having undertaken to the Iraqi Inspectors General and Embassy Baghdad, during his September 2006 visit to Iraq, to identify someone experienced in the U.S. Inspector General community to become Senior Advisor to the Iraqi IGs, Inspector General Krongard identified such a person, who was hired by the Iraq Reconstruction Management Office and relocated to Baghdad.

Financial Management

OIG issued six reports related to the Department's financial statements and the International Cooperative Administrative Support Services' financial statements, and two reports on financial systems performed in conjunction with the financial statement audits. The Chief Financial Officers (CFO) Act, as amended, requires that Department and BBG financial statements be audited. At the November 15, 2006, deadline imposed by the Office of Management and Budget (OMB) for issuing audited financial statements, the independent external auditor retained by OIG was unable to express an opinion on the 2006 and restated 2005 financial statements because the Department was unable to provide complete financial statements or respond to requests for evidential material in a timely manner. The Department later provided complete financial statements and adequate documentation to support the amounts reported. The independent external auditor satisfied themselves that the restated 2006 and 2005 financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. The independent external auditor did not report any material weaknesses, but did find reportable conditions related to internal control deficiencies and instances of noncompliance with selected provisions of applicable laws and regulations involving the Department's financial systems.

OIG also conducted six indirect cost rate reviews, all but one of which found that the indirect cost rates reported by the various grantees complied with applicable regulations. OIG found that one grantee's indirect cost rates for FYs 2002-05 did not comply with federal regulations or its own internal organizational policy. OIG questioned indirect costs totaling \$5,652,439 and direct costs totaling \$176,244.

Security of People and Facilities

One of the most crucial challenges for the Department and BBG continues to be providing for the protection of people and facilities. During this semiannual reporting period, OIG issued five classified security annexes in conjunction with management reviews of embassies and constituent posts in Kyiv, Minsk, Moscow, Vienna, and Warsaw. Summaries of the annexes are provided in a classified annex to this report.

An inspection of the Bureau of Diplomatic Security's (DS) Office of Training and Performance Support (TPS) found that the office was well managed and generally successful in meeting the bureau's training goals. However, new training requirements for all U.S. government employees assigned to Iraq and Afghanistan had placed enormous stress on TPS's administrative and financial infrastructure.

An audit of the Emergency Preparedness Program at the Department's Washington, DC, facilities found that the Department had not clearly defined specific roles and responsibilities, developed policies and procedures to guide the program, nor complied with all related federal regulations and directives. Facility Emergency Action Plans at some Washington metropolitan facilities either did not exist or were outdated or noncompliant, and some facilities lacked emergency escape route signage and markings. OIG recommended corrective actions to address these shortcomings.

Inspections of Department Missions and Programs

During this reporting period, OIG issued management inspection reports for embassies in Kyiv, Minsk, Moscow, Vienna, and Warsaw, as well as the U.S. Mission to the Organization for Security and Cooperation in Europe and the U.S. Mission to International Organizations in Vienna. During the course of its overseas inspections, OIG identified a number of best practices as well as potential cost efficiencies and other improvements, which are described in the Inspections section of this semiannual report.

OIG also inspected several offices in the Department's Bureau of Administration and the International Broadcasting Bureau's Office of Engineering and Technical Services (IBB/E) at the BBG. The inspection of the Bureau of Administration's

Office of Acquisitions Management (A/LM/AQM) and Office of the Procurement Executive (A/OPE) observed that, despite the best efforts of their managers and staff, the procurement function in the Department was approaching a crisis as its workload had grown dramatically while staffing had remained relatively static. A pilot program to move local guard contracting from overseas posts to A/LM/AQM and other regional offices has already resulted in cost savings, and experience so far indicates that worldwide savings could be in the millions of dollars.

OIG also reviewed and published reports on a wide range of management issues. *In the National Interest: Diplomatic Transformation on our Southern Border* identified the need for additional positions at border posts to allow them to focus on cross-border problems that have a direct impact on U.S. business interests, environmental safety, quality of life, and border security between the United States and Mexico.

The *Compliance Follow-up Review of the Inspection of the U.S. Section of the International Boundary and Water Commission* (USIBWC) concluded that since the original inspection in March 2005, USIBWC, under the Acting Commissioner, had conscientiously and assertively complied with OIG recommendations and dramatically improved the culture of the organization, although compliance had been hampered in several instances by circumstances beyond the control of USIBWC and the Department.

A review of *Inventory Controls for Nonexpendable Property at Embassy Beijing* noted that locally hired employees were aware of deficiencies in the embassy's property management system. Embassy senior management has placed a high priority on correcting long-standing deficiencies, and actions taken and planned should significantly reduce inventory shortages.

An OIG review of *The Department of State's Role in the Promotion of U.S. Business Interests Abroad*, undertaken in response to a request from the Committee on Small Business of the U.S. House of Representatives, reviewed the Department's support of U.S. businesses seeking opportunities abroad, its cooperation with the Commerce Department's U.S. & Foreign Commercial Service (US&FCS) and other U.S. government agencies that support U.S. investment and business activities abroad, and the promotion of U.S. business interests by U.S. embassies and consulates that are not staffed by US&FCS personnel. Since 2004, when OIG recommended that the Department prepare a plan for staffing and supporting posts that do not have US&FCS officer positions, the Department has improved the training and orientation of officers who support the commercial function, communication and information technology links between non-US&FCS posts and the US&FCS posts that support their efforts, and the performance standards of non-US&FCS Partnership posts. However, strengthening of the commercial function remains a work in progress.

Information Technology

During this semiannual reporting period, OIG's Office of Information Technology (OIG/IT) worked with the Office of Inspections as part of larger multidisciplinary teams inspecting posts in Kyiv, Minsk, Moscow, Vienna, and Warsaw, as well as offices within the Bureau of Administration, DS, and the BBG's International Broadcasting Bureau. The teams evaluated information management and information security operations to assess their effectiveness; reviewed systems documentation such as system security plans, risk assessments, and certification and accreditation packages; and made recommendations to address identified issues and vulnerabilities. The issues identified during this cycle of inspections will be reassessed later this year during OIG's next Federal Information Security Management Act review.

Law Enforcement

OIG's Office of Investigations (OIG/INV) addresses allegations of waste, fraud, abuse, and mismanagement related to Department and BBG programs, investigates and reports to the Department of Justice possible violations of criminal law, and is committed to assisting each agency with preventing fraud. During this semiannual period, OIG conducted investigations in the areas of visa malfeasance and fraud, contract fraud, passport fraud, embezzlement, and employee misconduct that resulted in five convictions and more than \$1 million in fines and recoveries. In addition, OIG conducted a proactive initiative for the detection and elimination of fraudulent Federal Employees Compensation recipients from the Department. OIG identified instances where benefits were being paid to ineligible dependents and spouses, resulting in cost avoidances of \$270,000 during this reporting period.

International Broadcasting

During this reporting period, OIG conducted a review of the awards that BBG's Middle East Broadcasting Networks, Inc. (MBN), made to three contractors to determine whether the awards, totaling about \$9.3 million, were competed in compliance with OMB circulars as required by the grant agreement. OIG found that MBN did not compete awards to the three contractors reviewed or adequately document its procurement activities, although nothing came to OIG's attention to indicate favoritism, fraud, or other procurement improprieties related to these awards. MBN

later developed a draft *Corporate Policies and Procedures Manual*, which requires contract competition in compliance with OMB requirements and addresses many of the procurement competition deficiencies noted in the report.

The audit of BBG's financial statements resulted in an unqualified opinion on BBG's financial statements for FYs 2006 and 2005, but identified internal control weaknesses relating to BBG's payroll documentation, accounts receivable balance, property records, undelivered orders, grants management, and government purchase cards and instances of noncompliance with selected provisions of other applicable laws and regulations involving BBG's financial management systems.

An inspection of the IBB/E judged it to be a productive organization with an enviable reputation for responsiveness and accomplishment, but which was not getting as much as it should from its capable staff. OIG noted that IBB/E should communicate more effectively to internal and external audiences, involve its highly intelligent employees in planning for the future, and value the management and leadership skills among its supervisors.

Inspector General Activities

In October 2006, Inspector General Howard J. Krongard participated in the International Intelligence Review Agencies' Conference on "Balancing National Security and Constitutional Principles within a Democracy" in Cape Town, South Africa. The Inspector General also traveled with inspection teams to Havana, Cuba, and Caracas, Venezuela, where he met with all agencies present at the mission and others in the host country.

In his role as Chairman of the Board of External Auditors of the Organization of American States (OAS), Inspector General Krongard conducted the Board's review which led to the issuance of the OAS 2006 audited financial statements and the Board's report which he presented to the Secretary General. As Inspector General of BBG, Inspector General Krongard attended a meeting of the Broadcasting Board of Governors.

Inspector General Krongard addressed the President's Council on Integrity and Efficiency on the work and challenges of being Inspector General at the Department and the BBG. Among other foreign visitors, the Inspector General met with the Chief Justice of the Supreme Court of Iraq.



Inspector General Krongard was welcomed by the local authorities in Maracaibo, Venezuela.

CONGRESSIONAL ACTIVITIES AND OUTREACH

Testimony

During this reporting period, Inspector General Krongard testified before the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs regarding audit and oversight activities related to Iraq; and before the House Armed Services Committee during its hearing on audits of reconstruction and support activities in Iraq.

Congressional Mandates and Requests

In response to legislative mandates and requests from Congress, OIG conducted the following reviews during this semiannual period. Classified work undertaken at the request of Congress is addressed in a separate classified annex to this semiannual report.

- In response to a request from the House Committee on Small Business, OIG reviewed the Department's support of U.S. businesses seeking overseas opportunities and its cooperation with other U.S. Government agencies that support U.S. investment and business activities abroad. (ISP-I-07-21)
- As mandated by the National Defense Authorization Act for Fiscal Year 2000, Public Law 106-65, Title XIV, Section 1402, OIG issued a review of the Department's export controls. (AUD/IP-07-01)
- Also as mandated by the National Defense Authorization Act for Fiscal Year 2000, Public Law 106-65, Title XIV, a joint review was conducted with the OIGs of the Departments of State, Commerce, Defense, Energy, and Homeland Security, and the Central Intelligence Agency to assess the effectiveness of the U.S. Government's export control policies and practices with respect to preventing the transfer of sensitive U.S. technologies and technical information to China. The interagency review identified areas needing improvement to promote a more effective system of controls over exports to China.
- As mandated by the Chief Financial Officers Act of 1990, Public Law 101-576, as amended, OIG directed and monitored the following financial statement audits and other work conducted by an independent external auditor:

- o Independent Auditor's Report on the Department of State's FY 2006 & 2005 Financial Statements (AUD/FM-07-12)
- o Independent Auditor's Report on the Department of State's Restated FY 2006 & 2005 Financial Statements (AUD/FM-07-12A)
- o Agreed-Upon Procedures for Federal Intragovernmental Activity & Balances (AUD/FM-07-09)
- o Independent Auditor's Report on the Department's Special-Purpose Financial Statements (AUD/FM-07-10)
- o Audit Report on the International Cooperative Administrative Support Services' 2005 & 2004 Financial Statements (AUD/FM-07-18)
- o Management Letter Related to the Audit Report on the International Cooperative Administrative Support Services' 2005 & 2004 Financial Statements (AUD/FM-07-17)
- o Audit of the Broadcasting Board of Governors' FY 2006 & 2005 Financial Statements (AUD/FM-07-08)
- o Management Letter Related to the Broadcasting Board of Governors' 2006 and 2005 Financial Statements (AUD/FM-07-07)

OIG staff responded to inquiries or provided briefings to congressional staff on OIG work related to Iraq oversight, Department earmarks, Internet misuse, and reviews of Department contractors.

Outreach and Media Assistance

During this semiannual period, OIG responded to various media inquiries about work it performed and other related matters.

Senior OIG officials made presentations to the Department's Ambassadorial Seminars and A-100 Junior Officer classes and provided briefings to outgoing ambassadors and deputy chiefs of mission. OIG employees also made presentations to classes, seminars, briefings, and workshops, including Foreign Service Institute courses for financial management, human resources management, and administrative management officers.

Legislation Monitored

OIG reviewed and monitored the John Warner National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364), which expanded oversight responsibilities of the Special Inspector General for Iraq Reconstruction to include funds appropriated for reconstruction in Fiscal Year 2006. OIG also reviewed and monitored the Iraq Reconstruction Accountability Act of 2006 (Public Law 109-440), which subsequently amended Public Law 109-364 to extend the end-date for SIGIR.

Implementation of the Government Performance and Results Act and the President's Management Agenda

For each mission and bureau inspected, OIG reviews mission and bureau performance plans and rightsizing issues. At the U.S. Mission to International Organizations in Vienna, the mission had requested, and the OIG team supported, the immediate reinstatement of a public affairs officer position identified for elimination, to avoid disruption of the mission's crucial public diplomacy effort. OIG's inspection of Embassy Warsaw found they had placed considerable emphasis on rightsizing, but budget cuts required further reductions.

OIG's review *In the National Interest: Diplomatic Transformation on our Southern Border*, found that to bring more coherence and organization to the border liaison process, additional staff was needed to assist in responding to border incidents, participate in the border liaison meetings, design public outreach programs, and report on the full range of border issues. OIG recommended that Embassy Mexico City establish a mid-level border affairs officer position at each of the five consulates located on the border.

In its review of IBB/E, OIG found that the Information Technology Directorate had no internal strategic plan, and BBG's strategic plan for 2002-2007 included scant information regarding technology goals for the Directorate. OIG recommended that the office develop an annual strategic plan for the Information Technology Directorate, aligned with the BBG's strategic plan and the Engineering Performance Plan, which includes specific, measurable steps toward agreed-upon goals that can be discussed, funded, and periodically reviewed by managers.

The OIG survey of the Student Loan Repayment Program (SLRP) found that the Department did not have performance measures needed to demonstrate the SLRP's impact on recruitment and retention, as required by the Government Performance

and Results Act of 1993, although the program was deemed by the Department to be a human capital success. OIG recommended that HR review management controls for SLRP in accordance with the FAM and develop performance measures in accordance with GPRA to ensure more effective operations of the Department's SLRP.

U.S. Department of State



United States Department of State
and the Broadcasting Board of Governors

Inspector General

April 30, 2007

MEMORANDUM

TO: The Secretary

FROM: OIG – Howard J. Krongard *HJK*

SUBJECT: Semiannual Report to Congress, October 1, 2006, to
March 31, 2007

I am pleased to transmit to you the Office of Inspector General's (OIG) Semiannual Report to the Congress for the period ending March 31. This report is required by the Inspector General Act of 1978, as amended, and covers the work of this office during the period indicated. The Act requires that you transmit the report to the appropriate committees of the Congress by May 31, together with any comments you may wish to make.

OIG activities during the reporting period focused on key issues affecting the programs and operations of the Department and BBG, including Iraq/Afghanistan oversight, financial management, protection of people and facilities, inspections of overseas missions and domestic programs, and information technology. These activities and our achievements are summarized in this report, along with the required statistical data.

AUDITS

Iraq Oversight

Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support (AUD/IQO-07-20)

OIG and SIGIR jointly reviewed a \$188.7-million contract task order that provided civilian police training support in Iraq. The report concluded that poor contract administration by INL and A/LM/AQM resulted in millions of dollars put at unnecessary risk. About \$36.4 million for weapons and equipment, including armored vehicles, body armor, and communications equipment, could not be accounted for because invoices were vague and there was insufficient backup documentation. The contractor did not maintain a complete list of items procured or properly establish property management policy guidance or accountability procedures.

The report also identified costs of \$43.8 million for manufacturing and temporary storage of a residential camp that had never been used. In addition, \$4.2 million was spent for unauthorized work associated with the residential camp.

INL and the contractor agreed to implement proper inventory controls and records and to locate and control the \$36.4 million of equipment procured under the task order. In addition, the contracting officer was directed to seek contract reimbursement for the \$4.2 million of unauthorized work associated with the residential camp. Lastly, INL was asked to present a plan to the U.S. Ambassador to Iraq for review and approval on the use of the residential camp to house police trainers, as originally intended, or make arrangements to dispose of the camp.

Financial Management

Independent Auditor's Report on the Department of State's 2006 and 2005 Financial Statements (AUD/FM-07-12) and Independent Auditor's Report on the Department of State's Restated 2006 and 2005 Financial Statements (AUD/FM-07-12A)

At the November 15, 2006, deadline imposed by OMB for issuing audited financial statements, the independent external auditor retained by OIG was unable to express an opinion on the 2006 and restated 2005 financial statements. The Department was unable to provide complete financial statements or respond to requests for evidential material in a timely manner, and the independent external auditor was not able to perform other auditing procedures to satisfy themselves as to the accuracy of the 2006 and restated 2005 financial statements in time to meet the OMB deadline.

During FY 2006, the Department became aware of material amounts of real property that had not been reported properly in its 2005 financial statements. As a result, the Department restated the 2005 balances and activity. The independent external auditor's prior report on the 2005 financial statements should not be relied on.

The Department later provided complete statements and adequate documentation to support the amounts reported. The independent external auditor satisfied themselves that the restated 2006 and 2005 financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. The independent external auditor did not report any material weaknesses but did find reportable conditions on deficiencies in the Department's internal controls and instances of noncompliance with selected provisions of applicable laws and regulations involving the Department's financial management system and with financial systems, which did not substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996.

Independent Auditor's Report on the Department's Special-Purpose Financial Statements (AUD/FM-07-10)

OIG engaged an independent external auditor to audit the Department's reclassified balance sheet as of September 30, 2006, and the related reclassified statements of net cost and changes in net position for the year then ended. As discussed above, the independent external auditor was unable to express an opinion on the Department's 2006 and 2005 financial statements as of the November 15, 2006, deadline imposed by OMB. The Department's general-purpose financial statements are the source of the amounts presented in the special-purpose financial statements; thus the independent external auditor was not able to express, and did not express, an opinion on the Department's 2006 special-purpose financial statements. The special-purpose financial statements are used by the Department of the Treasury to prepare Governmentwide financial statements. Since restated or updated financial information cannot be entered into Treasury's on-line system following the deadline, the independent external auditor did not perform any additional work in order to issue an opinion on the special-purpose financial statements.

Independent Auditor's Report on the Application of Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances (AUD/FM-07-09)

Under OIG's direction, an independent external auditor performed required procedures solely to support the process of eliminating FY 2006 intragovernmental activity/balances. The independent external auditor determined whether the items identified in the reconciliation schedule were properly recorded at year's end, reported differences due to nonreporting by trading partners, and identified and included copies of audit findings related to this area. The independent external auditor noted a material difference of \$1,239,493,000 between the Department and the Department of Defense, which was caused by Defense nonreporting. The Department confirmed the amount reported. Defense indicated that it is limited in its ability to track trading partner information due to a legacy system. The independent external auditor did not note any other discrepancies.

Information Technology Vulnerability Assessment of the Regional Financial Management System (AUD/FM-07-13)

OIG contracted with an independent external auditor to audit the Department's 2005 principal financial statements. OIG's independent external auditor engaged a subcontractor to perform a vulnerability assessment of the Department's Regional Financial Management System (RFMS). During its assessment, the subcontractor found the physical security related to this application to be generally acceptable; however, it found that the overall security posture of RFMS needed improvement. The subcontractor identified weak and missing system- and application-level logging and also found that Windows Active Directory had not been fully implemented. In addition, the subcontractor recommended regular unrestricted automated vulnerability scans.

Information Technology Vulnerability Assessment of the Integrated Logistics Management System (AUD/FM-07-06)

OIG contracted with an independent external auditor to audit the Department's 2005 principal financial statements. OIG's independent external auditor engaged a subcontractor to perform a vulnerability assessment of the Department's Integrated Logistics Management System (ILMS). The subcontractor found the overall security posture of ILMS, including physical security, to be reasonable, but additional improvements were needed, including regularly performing unrestricted automated vulnerability scans.

The Department had developed and documented formal operating procedures and guidelines for ILMS, including those related to access control, segregation of duties, incident response, and configuration/change management. Operating procedures and guidelines were adequate, but many remained untested. The subcontractor identified weaknesses related to unnecessary active services, untimely patching of applications, and inappropriate default configurations and found that the Department had not fully implemented the Windows Active Directory. The subcontractor made recommendations to address these issues.

Audit of the International Cooperative Administrative Support Services' 2005 and 2004 Financial Statements (AUD/FM-07-18)

The independent external auditor issued an unqualified opinion on International Cooperative Administrative Support Services' (ICASS) financial statements as of September 30, 2005 and 2004. The independent external auditor brought to management's attention concerns about the recording of personal property (including related depreciation expenses and accumulated depreciation) and the Department's information system security, both of which were considered to be material weaknesses. In addition, the independent external auditor noted that the Department's financial and accounting system was inadequate, which was included as both a reportable condition and an issue of noncompliance with several laws and regulations.

Management Letter Related to the Audit of the International Cooperative Administrative Support Services' 2005 and 2004 Financial Statements (AUD/FM-07-17)

During the audit of the ICASS 2005 and 2004 financial statements, the independent external auditor identified an internal control weakness relating to timeliness of ICASS' financial reporting. The independent external auditor recommended that ICASS take appropriate action to address this weakness. The independent external auditor also identified general internal control weaknesses in the Department's financial management systems, which are used by ICASS for processing and recording transactions and have an impact on ICASS. The general internal control weaknesses were related to accounts receivable, overseas accounts payable, and the Anti-Deficiency Act.

Contracts and Grants

Review of the Institute of International Education's Indirect Cost Rates for Fiscal Years 2002-2005 (AUD/CG-07-25)

At the request of the Bureau of Educational and Cultural Affairs (ECA), OIG conducted a review of the indirect costs reported by the Institute of International Education, Inc., and Affiliate (IIE) for fiscal years ending September 30, 2002 through 2005. OIG's primary purpose was to determine whether IIE's indirect costs for the years reviewed complied with applicable federal laws and regulations. OIG found that IIE's reporting of indirect costs did not comply with federal regulations and IIE's internal organizational policy. Specifically, IIE was not following required accounting principles in reporting its severance costs, was making severance payments to current and former employees in excess of established organizational policy, and was including other unallowable costs in its indirect cost pools. As a result, OIG questioned indirect costs totaling \$5,652,439 and direct costs totaling \$176,244.

OIG recommended that ECA require IIE to establish a consistent accounting approach for reporting severance payments, identify additional severance overpayments for FYs 2002-2004, reimburse the Department for all overpayments related to severance pay and other unallowable costs, adjust the indirect cost pools to exclude the unallowable costs, and recompute the indirect cost rates. Also, OIG recommended that A/LM/AQM negotiate and establish a final indirect cost rate agreement with IIE after IIE has taken the appropriate actions.

Review of the Center for Cultural and Technical Interchange Between East and West, Inc.'s, Indirect Cost Rates for Fiscal Years 1999 Through 2005 (AUD/CG-07-15)

In coordination with A/LM/AQM, OIG conducted a review of the Center for Cultural and Technical Interchange Between East and West, Inc.'s, (East-West Center) indirect cost rates for the fiscal years ending September 30, 1999 through 2005. OIG's objective was to provide recommended final rates for those seven years for reimbursing costs incurred under awards made to East-West Center by the Department.

OIG found that the indirect cost rates reported by the East-West Center in its annual audit reports for the stated periods complied with applicable regulations. Moreover, tracing components of the indirect cost rates to the audited financial statements did not disclose any matters that significantly affected the indirect cost rates. OIG recommended that A/LM/AQM use the recommended rates for purposes of determining the final costs incurred by East-West Center during the fiscal years ended September 30, 1999, through September 30, 2005, inclusive.

Further, under OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, East-West Center is required to submit indirect cost rate proposals to the Department within six months after the close of each East-West Center fiscal year. For fiscal years 1999 through 2005, inclusive, the East-West Center did not submit final indirect cost proposal packages in accordance with the circular. OIG recommended that A/LM/AQM require East-West Center to submit final indirect cost rate proposals to the Department within six months after the close of each East-West Center fiscal year.

Independent Accountant's Report Agreed-Upon Procedures on PAE Government Services, Inc., Invoices Under Contract No. SLM-AQM-03-C0033, September 14, 2004, Through November 14, 2005 (AUD/CG-07-14)

OIG contracted with an independent external auditor to perform agreed-upon procedures on invoices submitted by PAE Government Services, Inc. (PAE), under Department Contract No. SLM-AQM-03-C0033, for the period of September 14, 2004, through November 14, 2005. The objective was to assist the Department in evaluating the invoices under the contract's terms and conditions and applicable federal procurement regulations. Although the independent external auditor noted addition errors in the cumulative totals on some invoices, these errors did not result in underbillings or overbillings on individual invoices. Nonetheless, these errors could result in the availability of contract funds being misstated. The independent external auditor also found that the contractor overbilled for one position on an invoice; however, the amount was not material. OIG recommended that the cognizant Department contracting officer's representative notify the contractor about the errors identified in the invoices submitted under the contract and direct the contractor to make the appropriate changes in its billing process to prevent similar errors on future invoices.

Agreed-Upon Procedures on Indirect Cost Rates Proposed by the National Endowment for Democracy (AUD/CG-07-02)

As part of the overall audit of the National Endowment for Democracy (NED), OIG contracted with an independent external auditor to perform agreed-upon procedures on indirect cost rates submitted by NED for the years ended September 30, 2004, and September 30, 2005. The objective was to provide recommended final rates for those two years for use in reimbursing costs incurred under awards made to NED by the Department. The independent external auditor took no exceptions to the proposed rates. The independent external auditor recommended that the Department use the proposed rates for purposes of determining the final costs incurred by NED during the years ended September 30, 2004, and September 30, 2005, under awards made by the Department to NED.

Agreed-Upon Procedures on Indirect Cost Rates Proposed by the National Democratic Institute for International Affairs (AUD/CG-07-05)

As part of the overall audit of NED, OIG contracted with an independent external auditor to perform agreed-upon procedures on indirect cost rates submitted by the National Democratic Institute for International Affairs (NDI) for the year ended September 30, 2005. The objective was to provide recommended final rates for that year for use in reimbursing costs incurred under awards made to NDI by the Department. The independent external auditor took no exceptions to the proposed rates. The independent external auditor recommended that the Department use the proposed rates for purposes of determining the final costs incurred by NDI during the year ended September 30, 2005, under awards made by the Department to NDI.

Agreed-Upon Procedures on Indirect Cost Rates Proposed by the Center for International Private Enterprise, Inc. (AUD/CG-07-04)

As part of the overall audit of NED, OIG contracted with an independent external auditor to perform agreed-upon procedures on indirect cost rates submitted by the Center for International Private Enterprise, Inc., (CIPE) for the years ended September 30, 2004, and September 30, 2005. The objective was to provide recommended final rates for those two years for use in reimbursing costs incurred under awards made to CIPE by the Department. The independent external auditor took no exceptions to the proposed rates. The independent external auditor recommended that the Department use the proposed rates for purposes of determining the final costs incurred by CIPE during the years ended September 30, 2004, and September 30, 2005, under awards made by the Department to CIPE.

Agreed-Upon Procedures on Indirect Cost Rates Proposed by the International Republican Institute (AUD/CG-07-03)

As part of the overall audit of the NED, OIG contracted with an independent external auditor to perform agreed-upon procedures on indirect cost rates submitted by the International Republican Institute (IRI) for the years ended September 30, 2004, and September 30, 2005. The objective was to provide recommended final rates for those two years for use in reimbursing costs incurred under awards made to IRI by the Department. The independent external auditor took no exceptions to the proposed rates. The independent external auditor recommended that the Department use the proposed rates for purposes of determining the final costs incurred by IRI during the years ended September 30, 2004, and September 30, 2005, under awards made by the Department to IRI.

International Programs

Review of Export Controls (AUD/IP-07-01)

To respond to the National Defense Authorization Act reporting requirement for FY 2006, this review was part of an interagency effort, which included the OIGs for the Departments of State, Commerce, Defense, Energy, and Homeland Security, and the Central Intelligence Agency. The Department of State OIG was responsible for publishing and distributing the 2006 interagency report.

This review assessed the effectiveness of the Department's export control policies and practices with respect to preventing the transfer of sensitive U.S. technologies and technical information to the People's Republic of China. The Bureau of Political-Military Affairs, Directorate of Defense Trade Controls (PM/DDTC) is charged with controlling the export and temporary import of defense articles and defense services covered by the U.S. Munitions List. It has among its primary missions taking final action on license applications for defense trade exports and handling matters related to defense trade compliance, enforcement, and reporting.

OIG found that although PM/DDTC followed its policies and procedures before issuing a license, there were cases where its end-use checks, conducted either before or after issuing the licenses, resulted in "unfavorable determinations." Unfavorable means that PM/DDTC found derogatory, incomplete, or inaccurate information in the license application or there was a violation of export control policies and procedures.

OIG recommended that PM/DDTC reassess its licensing policies and procedures and report to OIG the changes it planned to make to reduce and eliminate unfavorable postlicense end-use checks. OIG also recommended that PM/DDTC establish performance measures that detail the benchmarks and timeframes for reducing and eliminating unfavorable postlicense end-use checks.

Opportunities to Improve the Department of State Student Loan Repayment Program (AUD/IP-07-19)

OIG conducted a survey of the Student Loan Repayment Program (SLRP), which the Department identifies as an effective recruitment and retention tool. OIG found

that the Bureau of Human Resources (HR) did not have all of the necessary management controls to administer the program, as stipulated by Chapter 2 of the Foreign Affairs Manual (FAM). For example, OIG found that HR managers could not automatically identify the SLRP participants who had not complied with their service agreements, nor could they automatically determine whether the Department had received the correct amount of reimbursements owed. HR did not have performance measures needed to demonstrate the SLRP's impact on recruitment and retention, as required by the Government Performance and Results Act (GPRA) of 1993, although the program was deemed by the Department to be a human capital success. OIG recommended that HR review management controls for SLRP in accordance with the FAM and develop performance measures in accordance with GPRA to ensure more effective operations of the Department's SLRP.

Attestation Review of Annual Accounting of Drug Control Funds by the Department of State (AUD/IP-07-16)

OIG reviewed the FY 2005 detailed accounting submission to the Office of National Drug Control Policy (ONDCP) Director by the Bureau of International Narcotics and Law Enforcement Affairs (INL). INL's Resource Management Office prepared the submission in compliance with the ONDCP circular, Annual Accounting of Drug Control Funds, dated April 18, 2003. OIG conducted its review in accordance with attestation standards established by the American Institute of Certified Public Accountants as specified in Section 7 of the ONDCP circular. As the scope of a review is substantially less than an examination, which expresses an opinion on the submission, OIG did not express such an opinion. No matters came to OIG's attention that caused OIG to believe that the assertions did not, in all material aspects, reliably represent the FY 2005 obligation data presented in the accounting submission.

Security and Intelligence

Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Department of State (AUD/SI-07-27)

OIG audited the Emergency Preparedness Program at the Department's Washington, DC, metropolitan facilities to determine whether it had a program that complied with federal regulations and had developed and distributed plans for each facility to all personnel. The Department had a program that was not fully implemented. It had not clearly defined specific roles and responsibilities, developed policies and procedures to guide the program, or complied with all related federal regulations and directives.

Additionally, the Department had not effectively implemented its Facility Emergency Action Plans at all Washington metropolitan facilities. Specifically, the plans were either nonexistent or were outdated or noncompliant. Lastly, not all Washington, DC, metropolitan area facilities had emergency escape route signage and markings. This shortcoming was highlighted during the September 11, 2001, terrorist attack on the Pentagon.

OIG recommended, among other things, that the Department clearly define and codify the roles and responsibilities of bureaus and offices involved in the Emergency Preparedness Program, establish policies and procedures, comply with federal regulations and directives, establish Facility Emergency Action Plans, and install appropriate escape route signage and markings at all Washington facilities.

INSPECTIONS

AFGHANISTAN PROGRAM REVIEW

Interagency Assessment of Afghanistan Police Training and Readiness (ISP-IQO-07-07)

An interagency assessment of the Afghanistan Police Training and Readiness Program, conducted jointly with the Department of Defense OIG, judged that the U.S.-funded program to train and equip the Afghan National Police (ANP) was generally well conceived and well executed. However, long-term U.S. and international assistance and funding, at least beyond 2010, will be required to institutionalize the police force and establish a self-sustaining program. Obstacles to establishing a fully professional ANP included no effective field training officer program, illiterate recruits, a history of low pay and pervasive corruption, and an insecure environment.

Building the ANP requires a comprehensive, integrated approach that encompasses leadership training, sustaining institutions and organizations, and oversight and internal control mechanisms. In addition, building an effective ANP program will require a long-term commitment from coalition and international partners. Premature withdrawal from this commitment will compromise the progress already accomplished and put at risk the U.S. goal to establish a professional police force embracing the values and practices of community policing and the rule of law.

Until the Afghan criminal justice system, including law enforcement, judiciary, and corrections, has matured and is synchronized and coordinated from the national to the local level such that laws are standardized and uniformly applied, the ANP will function more as a security force than as a law enforcement organization.

Management of the police training contract was problematic and required more effective coordination between Department contract managers and the Combined Security Transition Command-Afghanistan, which is responsible for executing ANP training programs. The procurement pipeline to Afghanistan for ANP equipment

was slow, but was improving. There was inadequate accountability for equipment after it was turned over to the ANP, because the ANP logistics system was not yet effective. The ANP needed to establish and implement an effective end-to-end internal controls process.

DOMESTIC

In the National Interest: Diplomatic Transformation on our Southern Border (ISP-I-07-02)

Cross-border problems have a direct impact on U.S. business interests, environmental safety, quality of life, and border security. The U.S. embassy in Mexico and the Bureau of Western Hemisphere Affairs emphasize border issues in their strategic plans. However, neither has dedicated sufficient staff or attention to the coordination of those issues. Border posts need additional positions to allow them to focus on solving the problems.

With looming increases in consular workload and in demands on consular resources over the next five years, there is a need to address nonconsular issues and their priority in the operations of the border posts. If nonconsular issues are not properly managed now, it will be impossible to do so once the wave of U.S. passport and nonimmigrant visa applications hits the border.

The decision to assign regional security officers to each border consulate has improved the security of the consulates and enhanced the coordination of cross-border law enforcement issues that in turn affect bilateral commercial development.

Compliance Follow-up Review of the Inspection of the U.S. Section of the International Boundary and Water Commission (ISP-C-07-04)

OIG conducted a compliance follow-up review (CFR) of the U.S. Section of the International Boundary and Water Commission (USIBWC). The original inspection report, issued March 2005, contained 22 recommendations. The CFR determined

that USIBWC, under the Acting Commissioner, has conscientiously and assertively complied with OIG's recommendations for which it had responsibility. Moreover, it has acted on OIG's informal recommendations and dramatically improved the culture of the organization. Compliance has been hampered in several instances by circumstances beyond the control of USIBWC and the Department.

The CFR made a recommendation that the Department seek legislation making USIBWC an entity of the Department. The CFR also made three recommendations to improve USIBWC's security.

Inspection of the Bureau of Diplomatic Security, Directorate for Training, Office of Training and Performance Support (ISP-I-07-05)

OIG found the Bureau of Diplomatic Security's Office of Training and Performance Support (TPS) was well managed and generally successful in meeting the bureau's training goals. New training requirements for all U.S. government employees assigned to Iraq and Afghanistan had placed enormous stress on TPS's administrative and financial infrastructure. The office had done a commendable job of maintaining its highest priority programs during a time of budget uncertainty, but several core training programs had not kept pace with ongoing equipment acquisition and operational needs. TPS had also outgrown its current office space at its Northern Virginia facilities, was rapidly reaching maximum capacity at facilities in West Virginia, and needed better facilities for technical security training programs.

Inspection of the Bureau of Administration's Office of the Procurement Executive, Office of Acquisitions Management, and Office of Small and Disadvantaged Business Utilization (ISP-I-07-12)

The procurement function in the Department was approaching a crisis, despite the best efforts of managers and staff in the Bureau of Administration's Office of Acquisitions Management (A/LM/AQM) and Office of the Procurement Executive (A/OPE). The acquisition and federal assistance workload has grown dramatically in the past five years in dollars and complexity, but the professional contracting staffing has remained relatively static.

A/OPE provides policy guidance and support on contracting and federal assistance to Department employees worldwide. In response to critical weaknesses in overseas procurement identified in the early 1990s, A/OPE has focused much of its energy on overseas procurement activities. It now needs to turn its attention to A/LM/AQM, where 80 percent of the Department's contracting dollars are spent.

A/LM/AQM was struggling to keep pace with an ever-increasing workload, made more complex by a proliferation of changes in the policies and regulations that govern the federal acquisition process. Acquiring additional staff to meet these requirements has become a problem because the pool of qualified federal procurement specialists has dwindled in recent years. There is also great pressure on A/LM/AQM to award building contracts expeditiously, and A/LM/AQM has repeatedly risen to the occasion. The amount of money involved — \$2.4 billion in FY 2005 — calls for care and prudence in the contracting process.

Few areas of procurement call so obviously for reform as local guard contracting, estimated to cost the Department approximately \$218 million. Budgetary pressures appear to be forcing change, and the cost savings could total millions of dollars if contracting is done by A/LM/AQM rather than by individual posts overseas (see sidebar).

Potential Cost Savings for Local Guard Contracting

A/OPE, DS, and A/LM/AQM have implemented a pilot program to move local guard contracting from individual posts to A/LM/AQM and other regional offices, as appropriate. At the time of the inspection, six local guard contracts had been awarded by A/LM/AQM. Cost savings have already resulted, and experience so far indicates that worldwide savings could be in the millions of dollars. A/LM/AQM contracting officers have unlimited contracting authority and are in a position to solicit offers for more than one post, thereby creating economies of scale. Furthermore, A/LM/AQM has the capability to award multiple, large-scale contracts using individual task orders for local guard programs in specific countries. Overall contract management also needs to improve. The number of contract modifications, averaging 1,500 a year, could be reduced; expensive, short-term contract extensions could be minimized; and multi-country contracts could be awarded. OIG recommended that the Department establish a plan to progressively consolidate local guard contracting in A/LM/AQM.

The Department of State's Role in the Promotion of U.S. Business Interests Abroad (ISP-I-07-22)

In response to a request from the House Committee on Small Business, OIG reviewed the Department's support of U.S. businesses seeking opportunities abroad as well as its cooperation with the Commerce Department's U.S. & Foreign Commercial Service (US&FCS) and other U.S. government agencies that support U.S. investment and business activities abroad. The review focused primarily on the role of the Bureau of Economic, Energy, and Business Affairs' (EEB) Office of Commercial and Business Affairs and the promotion of U.S. business interests by U.S. embassies and consulates that are not staffed by US&FCS personnel.

Since 2004, when OIG formally recommended that EEB prepare a plan for staffing and supporting posts that do not have US&FCS officer positions, there has been steady progress toward the goal of strengthening what had previously often been ad hoc management of the commercial function at many U.S. embassies and consulates. The Department had improved the training and orientation of officers who support the commercial function, communication between non-US&FCS posts and US&FCS posts that support their efforts, and the performance standards of non-US&FCS Partnership posts. The Department had also collaborated with the US&FCS to improve information technology links between US&FCS and non-US&FCS posts. However, strengthening of the commercial function remains a work in progress. There are a number of areas where EEB's planning had not yet reached the implementation stage and where recommended procedural changes could improve performance.

OVERSEAS MISSIONS

Inspection of Embassy Warsaw and Consulate General Krakow, Poland (ISP-I-07-01A)

Embassy Warsaw skillfully managed U.S.-Polish relations, which had entered a delicate stage since Poland's formation of a coalition government that includes partners from its minority parties. The mission was successfully maintaining traditionally close and cooperative relations with Poland while reaffirming U.S. positions of principle. Leadership of the mission was effective in conducting relations with Poland.

There were deficiencies with the consulate general building in Krakow, as identified in OIG's inspection report on Embassy Warsaw five years ago. The Bureau of Overseas Buildings Operations (OBO) plans to begin construction of a new office building in FY 2008, and this plan must be implemented as a matter of urgency.

The consular renovation project at Embassy Warsaw was funded but lagged because of conflicting assignment of responsibilities between the Department of State's Washington, DC, headquarters and the embassy. OBO in Washington needed to appoint a single project director with overall responsibility and a site construction manager to oversee implementation.

BEST PRACTICE: Pre-positioning of MK1 Nerve Agent Injector Kits

Issue: An ample supply of MK1 nerve agent injector kits is needed to protect embassy employees in case of a chemical/biological attack.

Response: Embassy Warsaw has pre-positioned an ample supply of MK1 nerve agent injector kits in unlocked but sealed wall cabinets that are strategically located throughout the chancery and annex buildings. A large laminated card written in English and Polish is affixed to the front of the cabinet and has photos of the injector and its use and some instructions and symptoms indicating levels of exposure to a nerve agent. In some cases, Quick 2000 chemical-biological escape hood respirators are placed on top of the cabinets.

Result: The embassy has better protected its employees.

Inspection of Embassy Minsk, Belarus (ISP-I-07-13A)

Under the direction of the Ambassador and deputy chief of mission, Embassy Minsk's political/economic section and public affairs section are deeply engaged in supporting Belarusian groups struggling to bring democracy and respect for human rights to the last Soviet-style dictatorship in Europe.

The chancery is slated for a long-delayed renovation and expansion, but it will occur no earlier than FY 2008. OIG inspection reports in 1994 and 2002 noted problems with the building. Those problems have not been resolved. The building, located next door to the Russian Embassy and occupied for decades by Soviet troops, is overcrowded and dysfunctional.

The public affairs section has a vibrant outreach program that presents positive information on the United States. Its grants program helps sustain the Belarusian independent media. Twelve American Corners provide a window on America in all major population centers.

Inspection of Embassy Moscow, Russia, & Constituent Posts (ISP-I-07-15A)

Embassy Moscow has been influential in improving the tone of bilateral relations and the degree of access to Russian Government policymakers, despite the continuing policy disputes between Russia and the United States. The Ambassador has astutely focused Washington policymakers' attention on areas where the U.S. and Russian Governments can find common ground.

The Ambassador has made public diplomacy a missionwide priority. The public affairs section is implementing every public diplomacy tool to support the effort, including innovative use of its 32 American Corners and American Centers.

The Ambassador values close interagency cooperation and is determined to streamline a mission that has grown too large. So far, most reductions have affected only Department offices. To continue this rightsizing, other agencies will also need to reduce staffing. Security-driven restrictions on the use of Russian national employees force the Department to use cleared American staff for many jobs normally performed by Foreign Service nationals, creating extra layers of administrative processing and increasing operating costs. Nonetheless, management operations are very well run, providing good support.

The embassy produces an impressive volume of valued, quality economic and political work, but a growing number of positions in these areas are filled by entry-level officers who arrive without sufficient language or tradecraft training, forcing the mission to divert resources from production to internal training. The embassy, however, runs an excellent immersion language training program.

BEST PRACTICE: Russian language immersion program

Issue: Officers do not always have the necessary language skills to work effectively in Russia, particularly on sensitive policy issues. The embassy also has hired eligible family members to work in areas requiring excellent language skills.

Response: In 2000, the embassy began using the training facilities of a Russian institute located in the city of Tver, about 100 miles from Moscow. Students stay with Russian families — immersion training at its best. Students attend the program for one week to two months, depending on language need and the amount of time they can be away from their work. The program is funded with a grant (\$130,000 in FY 2006) from the Foreign Service Institute, supplemented by embassy funds. Because the Foreign Service Institute only provides a maximum of 24 weeks of language training to entry-level officers, this program helps bring them up to the level required to do their jobs.

Result: The program has trained between 26 and 38 people annually, a total of about 145 since its inception. This program is so highly regarded that 11 Foreign Service Institute students have paid their own way to Tver to take supplemental training. The benefits of the training are universally applauded.

Inspection of Embassy Kyiv, Ukraine (ISP-I-07-17A)

Embassy Kyiv has strong leadership, with a complex set of goals and representation by a number of U.S. Government agencies. The embassy has a keen understanding of the complicated and rapidly evolving political and economic situation in the Ukraine and good working relations across the political spectrum. Its commentary on such issues as the evolving state of Ukraine's relations with the European Union, North Atlantic Treaty Organization, and Russia was extensive, timely, and well appreciated by Washington end-users.

A new embassy compound was scheduled to be constructed on land that was purchased during the inspection visit. Although the post needed a full-time fraud prevention manager to meet a rising rate of increasingly sophisticated visa fraud, it otherwise had adequate American staffing. Staffing levels should be examined, as all units plan to collocate into the new embassy compound; therefore, some staffing reductions should be feasible.

Inspection of Embassy Vienna, Austria (ISP-I-07-18A)

Embassy Vienna is a well-managed mission that has maintained a close focus on overlapping counterterrorism issues. The Ambassador has moved Embassy Vienna toward more efficient operations by employing new communication technology for more effective, less costly telephone service and initiating a management efficiency committee to identify ways to streamline operations. OIG found a best practice involving the use of taxi credit cards to reduce the use of vehicles in the motor pool and cut costs.

Embassy Vienna pursues a broad public diplomacy program with active involvement by the Ambassador, who has placed a high priority on the expansion of academic exchanges. The embassy's electronic information outreach program is robust.

BEST PRACTICE: Taxi Credit Card

Issue: Several years ago Embassy Vienna's joint management office reduced the size of the motor pool by reducing the number of drivers and vehicles. Consequently, some Foreign Service officers and other officials were not provided with sufficient transportation for official business.

Response: The joint management office contracted with a taxi company and issued taxi credit cards for each section's exclusive use. The passenger gets and signs a receipt for each trip and the receipts are used for end-of-the-month reconciliation with the embassy's bill. The cards include relevant telephone numbers, and the operator is requested to send a "cab charge taxi." The waiting time is about three to five minutes; often less time than the waiting time for a motor pool vehicle dispatched from the motor pool garage. The operator will also respond to requests for first class cars for representational needs and for English-speaking drivers.

Result: Using the taxi service is quick, convenient, and efficient. The cost savings are approximately \$300,000 to \$500,000 annually.

Inspection of U.S. Mission to the Organization for Security and Cooperation in Europe (ISP-I-07-19A)

The Ambassador, deputy chief of mission, and other staff of the U.S. Mission to the Organization for Security and Cooperation in Europe (USOSCE) were carrying out the important work of multilateral diplomacy to promote democratic development, human rights, conflict resolution, and monitoring of arms control agreements in the still problematic Eurasian region. USOSCE's ability to maintain an activist role on behalf of democratic transitions, human rights, and conflict prevention in Central Asia and Southeastern Europe will be determined by the level of funding the U.S. government provides to USOSCE. However, continued funding of USOSCE at adequate levels and its sources of future funding was in question.

USOSCE cannot carry out its mission effectively if it undergoes further staffing cuts. The expanded use of interns and eligible family members could help the mission manage its heavy workload.

Inspection of the U.S. Mission to International Organizations in Vienna (ISP-I-07-20A)

The U.S. Mission to International Organizations in Vienna (UNVIE) had effectively worked to advance a key U.S. national security objective, preventing the spread of dangerous weapons and technologies. The mission successfully secured, in February 2006, reporting to the United Nations Security Council by the International Atomic Energy Agency Board of Governors of Iran's failure to abide by its nuclear safeguards program, long a major U.S. objective.

UNVIE pursued an aggressive public diplomacy program to address key mission themes with a variety of international and Austrian audiences. OIG identified a best practice that improved the justification, management, and evaluation of public diplomacy programs. The Department recently designated the post's public affairs officer (PAO) position for elimination in 2007. Reinstatement of this position is necessary for the continued success of UNVIE's public diplomacy mission.

BEST PRACTICE: Public Diplomacy Proposal Assessment Chart

Issue: UNVIE runs a very active public diplomacy program geared to promoting U.S. positions on high-priority issues. Public diplomacy program opportunities often appear on very short notice, and an evaluation of the program's merit against Mission Performance Plan priorities, available resources, and other program commitments is not always easy.

Response: Drawing on a functional assessment model used by the PAO in the private sector, the mission developed what it calls the "ABC chart" for evaluating all elements of a public diplomacy program proposal, from the concept through final evaluation. Evaluation criteria include the audience profile (A); audience behavioral goals, such as better understanding of an issue (B); and program content (C). The criteria also include Mission Performance Plan theme justification, resource requirements, and post-program evaluation. The ABC chart provides a one-page overview of each program initiative that is valuable in the mission's assessment of Mission Performance Plan performance.

Result: The Ambassador and the entire mission have adopted the ABC chart as an evaluation tool for maintaining a focused and efficient public diplomacy program. The chart has helped the mission prioritize its public diplomacy efforts and make most effective use of limited human and budgetary public diplomacy resources.

Inventory Controls for Nonexpendable Property at Embassy Beijing (ISP-I-07-06)

Over the years, Embassy Beijing administrative personnel responsible for property management have often lacked experience, had competing responsibilities that limited their attentiveness to problems, and perhaps most importantly, were not held accountable by their American supervisors. Much, if not most, of the post's inventory shortages are likely due to poor inventory records. Yet the possibility of substantial theft cannot be dismissed.

Embassy senior management has firmly placed a high priority on correcting long-standing property management deficiencies. Actions taken and planned should significantly reduce inventory shortages, and a new administrative team has the experience and commitment to get the job done.

Review of Contracting Allegations at Embassy The Hague, The Netherlands (ISP-I-07-10)

OIG reviewed the award process for Embassy The Hague's packing and shipping services contract (S-NL 800-06-R-0001), awarded in August 2006. The review determined that the contract was awarded to an offeror whose proposal did not meet all of the technical standards specified in the solicitation. Furthermore, three offerors' proposals were improperly disqualified, resulting in the award of the contract to other than the lowest bidder. The contracting officer did not provide the technical evaluation panel with adequate instructions about its responsibilities, and actions taken by the panel could have been the result of misunderstanding about the "lowest price technically acceptable" evaluation process that was to be used in the solicitation evaluation. Errors in the contract evaluation process were also not identified prior to contract award.

INFORMATION TECHNOLOGY

During this semiannual reporting period, the Office of Information Technology (OIG/IT) worked with the Office of Inspections as part of larger multidisciplinary teams inspecting posts in Kyiv, Minsk, Moscow, Vienna, and Warsaw. Domestically, OIG/IT inspected offices within the Department's Bureaus of Administration and Diplomatic Security, and the International Broadcasting Bureau of the Broadcasting Board of Governors. Information management and information security operations were evaluated to assess their effectiveness. The teams reviewed systems documentation such as system security plans, risk assessments, and certification and accreditation packages as part of each inspection. These efforts identified missing or inadequate systems documentation, including standard operating procedures, security plans, contingency plans, and mission-specific strategic plans and life cycle management plans. Further, they identified inconsistencies in website content management and in the performance of information systems security officer duties

As a result, a number of issues requiring attention and action by the Department were identified, resulting in recommendations for corrective action. These included, but were not limited to, increased information management staffing, change control management for hardware and software deployment, and consistent helpdesk support, including standardizing procedures for supporting users requests and the usage of the Department's helpdesk ticket system. OIG recommendations prompted the Department to respond with several actions to correct deficiencies noted in the evaluation and inspection reports, including initiatives for disseminating additional information on standardizing the helpdesk process, revising procedures for change control board requests, and discussions regarding standardization and regionalization of IT support services. OIG recommendations also have resulted in improvements being initiated in the Information Systems Security Officer program.

The issues identified during this cycle of inspections will be used as supporting documentation and will be reassessed during OIG's next Federal Information Security Management Act review of the Department, scheduled to begin later in 2007.

INVESTIGATIONS

VISA MALFEASANCE OR FRAUD

OIG's Office of Investigations (OIG/INV) conducted an investigation based upon information developed during another visa fraud investigation that an immigration attorney had requested a gas station owner to sponsor foreign workers through his gas station, knowing the workers would never be employed there. The employer provided falsified payroll stubs to the Department of Homeland Security to falsely indicate that the workers were employed at the gas station. The falsified pay stubs were provided on behalf of seven foreign workers, some for as long as two years, in exchange for money from the immigration attorney.

As a result of the investigation, the immigration attorney pleaded guilty to a one-count criminal information charging him with making false statements. On November 3, 2006, the immigration attorney was sentenced in U.S. District Court for the Eastern District of Virginia to four months of incarceration, four months of community confinement, and two years of supervised release.

CONTRACT FRAUD OR IRREGULARITIES

OIG/INV assisted the Bureau of Diplomatic Security in conducting an investigation into allegations that a Department contract vendor sold used equipment as new equipment that did not work properly. The equipment in question was sent back to the contract vendor for replacement or repair, which was not completed. On November 14, 2006, after OIG/INV conducted interviews with the contract vendor, the replacement equipment was delivered by the vendor to OIG for subsequent return to DS. The replacement equipment was valued at \$583,500.

EMBEZZLEMENT

OIG/INV conducted an investigation into allegations that a Department employee embezzled \$48,300 through travel advances she obtained in the names of several authorized travelers without their permission or consent. When interviewed, the employee confessed to the embezzlement. However, OIG/INV's investigation, with

the assistance of the Office of Audit and Department officials, determined that the employee actually embezzled over \$103,000 through the travel advance scheme. On July 17, 2006, DS suspended the subject's security clearance. On December 20, 2006, the subject officially resigned from her position at the Department. On January 8, 2007, the subject pleaded guilty in U.S. District Court for the District of Columbia to one count of embezzlement. Sentencing was pending at the end of this reporting period.

FALSE CLAIMS

OIG/INV conducted a joint investigation with the Department of Housing and Urban Development OIG into allegations that a Department of State employee committed Section 8 rental assistance fraud by underreporting her income, falsifying employment documents, and altering her wage statements to qualify for the housing subsidy. When interviewed, the employee confessed to the allegations and admitted to also underreporting her income to receive Food Stamps, Medicaid, and temporary assistance for needy families. On November 9, 2006, the employee's security clearance was suspended. The employee resigned from the Department on December 1, 2006. Prosecution was pending at the end of this reporting period.

EMPLOYEE MISCONDUCT

OIG/INV conducted a joint investigation with DS concerning five Foreign Service national (FSN) employees from U.S. Embassy Addis Ababa, Ethiopia, who abandoned their positions after they obtained nonimmigrant visas to attend training and/or take vacation in the United States. The FSNs did not return to Ethiopia, but received cash advances, traveler's checks, and round-trip airline tickets from the embassy.

The case was referred to the Civil Division of the U.S. Attorney's Office in Washington, D.C., which initiated civil action against the five former employees, all of whom are now residing in the United States. On January 25, 2007, OIG was notified that one of the former FSNs repaid \$8,216.45 in money owed to the embassy at the time he abandoned his position. To date, the Justice Department civil actions against the other four FSN employees have not been successful.

PASSPORT FRAUD

As part of the Passport Sentinel initiative, OIG/INV conducted two separate investigations of private citizens in California who fraudulently obtained valid U.S. passports using false identities established under the names and social security numbers of deceased infants. Joint investigations on the two cases were conducted with DS. Both defendants were sentenced. One received 36 months probation, and the other received 24 months probation.

WORKER'S COMPENSATION PROGRAM INITIATIVE

OIG/INV continues to conduct a proactive initiative for the detection and elimination of fraudulent Federal Employees Compensation recipients from the Department. As part of its initiative, OIG reviewed files at the Department of Labor, Office of Worker's Compensation Program (OWCP), Cleveland District Office, of deceased Department employees whose spouses, children, and dependents (i.e., those family members that were supported financially by the deceased employee) were continuing to receive benefits from OWCP.

As of November 2006, OIG/INV identified four instances where benefits were being paid to ineligible dependents and spouses. Benefits were found to have been paid to widows who either had remarried before the age of 55 or who were deceased, and to children who no longer attended school or who had reached the age of 22. In all, the cost avoidance totaled \$270,000.

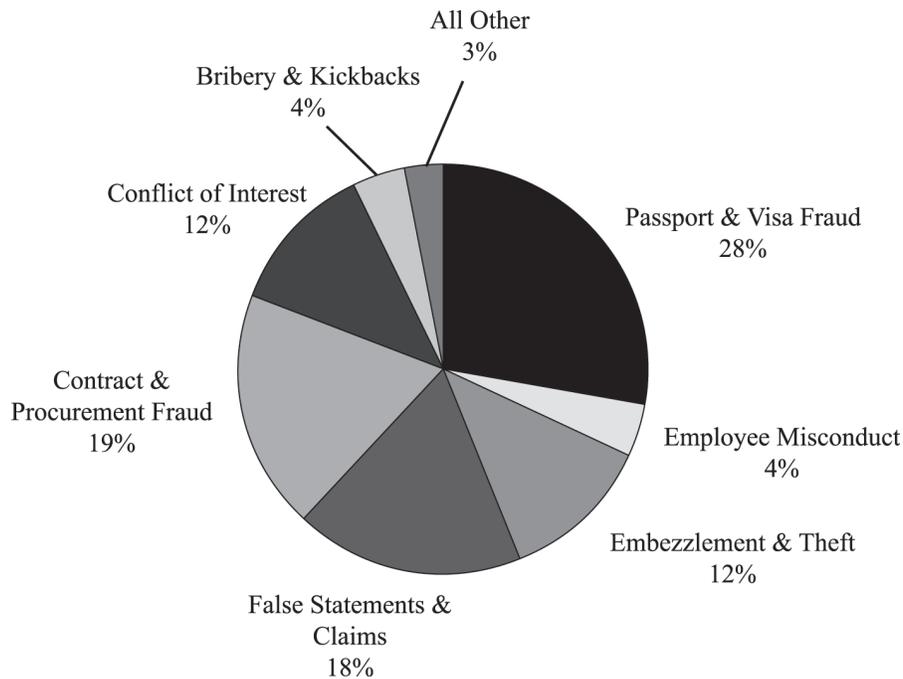
FOLLOW-UP ACTIONS

OIG/INV conducted an investigation of two Department timekeepers who conspired to fraudulently claim overtime by forging their supervisors' signatures on time-and-attendance certifications and by entering false information into the Department's computerized time-and-attendance system. Over several years, the two timekeepers submitted approximately \$100,000 in fraudulent overtime claims. On January 4, 2006, the Bureau of Human Resources proposed that one of the timekeepers be terminated from employment. The other timekeeper resigned from employment shortly afterward.

After their cases were referred to the U.S. Attorney's Office, Eastern District of Virginia, one of the timekeepers pleaded guilty to the scheme. On May 12, 2006, she was sentenced in U.S. District Court to five months of confinement, two years of supervised release, and restitution in the amount of \$96,000.

The second timekeeper pleaded guilty and on March 23, 2007, was sentenced to nine months of home detention with electronic monitoring and three years of supervised release. She was also ordered to pay \$96,319.79 in restitution. (See OIG Semi-Annual Report, April 1, 2006, to September 30, 2006, pp 49)

Types of Cases



Hotline

Held for action within OIG	52
Referral to other offices for action	141
No action necessary	75
Total hotline contacts received	268



APPENDIX 1: DEPARTMENT OF STATE INVESTIGATIVE ACTIVITIES

Criminal Investigative Activities

Indictments/Informations	2
Convictions	3
Sentencings	4
- Jail	17 Months
- Probation	120 Months
Referrals for Prosecution	7
Referrals for Prosecution Declined	10
Criminal Judgments/Restitutions	\$96,319.79

Civil Investigative Activities

Civil Referrals	1
Civil Declinations	1
Civil Recoveries	\$8,216.45

Administrative Investigative Activities

Administrative Referrals	5
Personnel Actions	
- Removals	2
- Suspensions	1
- Reprimands/Admonishments	1
- Reimbursements	4
Administrative Recoveries	\$ 854,412.07
Total Investigative Recoveries (Judicial and Administrative)	\$ 958,948.31

Investigative Workload

Cases Pending as of 09/30/06	56
New Cases Opened	21
Cases Closed	14
Cases Pending as of 03/31/07	63
Preliminary Inquiries Pending as of 09/30/06	5
Preliminary Inquiries Opened	14
Preliminary Inquiries Closed	9
Preliminary Inquiries Converted to Cases	3
Preliminary Inquiries Pending as of 03/31/07	7

APPENDIX 2: REPORTS ISSUED

AUDITS

AUD/IP-07-01	Review of Export Controls
AUD/CG-07-02	Agreed-Upon Procedures on Indirect Cost Rates Proposed by the National Endowment for Democracy
AUD/CG-07-03	Agreed-Upon Procedures on Indirect Cost Rates Proposed by the International Republican Institute
AUD/CG-07-04	Agreed-Upon Procedures on Indirect Cost Rates Proposed by the Center for International Private Enterprise, Inc.
AUD/CG-07-05	Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Democratic Institute for International Affairs
AUD/FM-07-06	Information Technology Vulnerability Assessment of the Integrated Logistics Management System
AUD/FM-07-09	Independent Auditor's Report on the Application of Agreed-Upon Procedures for Federal Intragovernmental Activity & Balances
AUD/FM-07-10	Independent Auditor's Report on the Department's Special-Purpose Financial Statements
AUD/FM-07-12	Independent Auditor's Report on the Department of State's FY 2006 & 2005 Financial Statements
AUD/FM-07-12A	Independent Auditor's Report on the Department of State's Restated FY 2006 & 2005 Financial Statements
AUD/FM-07-13	Information Technology Vulnerability Assessment of the Regional Financial Management System
AUD/CG-07-14	Independent Accountant's Report Agreed-Upon Procedures on PAE Government Services, Inc. Invoices Under Contract No. SLM-AQM-03-C0033, September 14, 2004 through November 14, 2005

AUD/CG-07-15	Review of the Center for Cultural and Technical Interchange Between East and West, Inc.'s, Indirect Cost Rates for Fiscal Years 1999 through 2005
AUD/IP-07-16	Independent Attestation Review of Annual Accounting of Drug Control Funds by the Department of State
AUD/FM-07-17	Management Letter Related to the Audit Report on the International Cooperative Administrative Support Services' FY 2005 & 2004 Financial Statements
AUD/FM-07-18	Audit of the International Cooperative Administrative Support Services' FY 2005 & 2004 Financial Statements
AUD/IP-07-19	Opportunities to Improve the Department of State Student Loan Repayment Program
AUD/IQO-07-20	Review of DynCorp International, LLC, Contract Number S-LMAQM-04-C-0030, Task Order 0338, for the Iraqi Police Training Program Support
AUD/CG-07-25	Review of the Institute of International Education's Indirect Cost Rates for Fiscal Years 2002-05
AUD/SI-07-27	Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Department of State

INSPECTIONS

ISP-I-07-01A	Inspection of Embassy Warsaw & Consulate General Krakow, Poland
ISP-I-07-02	In the National Interest: Diplomatic Transformation on our Southern Border
ISP-C-07-04	Compliance Follow-Up Review of the Inspection of the U.S. Section of the International Boundary & Water Commission
ISP-I-07-05	Bureau of Diplomatic Security, Directorate for Training, Office of Training & Performance Support

ISP-I-07-06	Inventory Controls for Nonexpendable Property at Embassy Beijing
ISP-IQO-07-07	Interagency Assessment of Afghanistan Police Training & Readiness
ISP-I-07-10	Review of Contracting Allegations at Embassy The Hague, The Netherlands
ISP-I-07-12	Bureau of Administration's Office of the Procurement Executive, Office of Acquisitions Management, & Office of Small & Disadvantaged Business Utilization
ISP-I-07-13A	Inspection of Embassy Minsk, Belarus
ISP-I-07-15A	Inspection of Embassy Moscow, Russia, and Constituent Posts
ISP-I-07-17A	Inspection of Embassy Kyiv, Ukraine
ISP-I-07-18A	Inspection of Embassy Vienna, Austria
ISP-I-07-19A	Inspection of the U.S. Mission to the Organization for Security and Cooperation in Europe
ISP-I-07-20A	Inspection of the U.S. Mission to International Organizations in Vienna
ISP-I-07-22	The Department of State's Role in the Promotion of U.S. Business Interests Abroad

SECURITY ANNEXES

ISP-S-07-01A	Classified Annex to the Inspection of Embassy Warsaw & Consulate General Krakow, Poland
ISP-S-07-13A	Classified Annex to the Inspection of Embassy Minsk, Belarus
ISP-S-07-15A	Classified Annex to the Inspection of Embassy Moscow, Russia, & Constituent Posts

ISP-S-07-17A	Classified Annex to the Inspection of Embassy Kyiv, Ukraine
ISP-S-07-18A	Classified Annex to the Inspections of Embassy Vienna, Austria, U.S. Mission to the Organization for Security & Cooperation in Europe, & U.S. Mission to International Organizations in Vienna, Austria

APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

Table 1
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH QUESTIONED COSTS
(Dollars in Thousands)

	Number of Reports	Question Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	24	27,279	13,027
B. Which were issued during the reporting period	2	10,028	0
Subtotals (A + B)	26	37,307	13,027
C. For which a management decision was made during the reporting period based on formal administrative or judicial appeal	2	5,198	53
(i) dollar value of disallowed costs	1	644	0
(ii) dollar value of costs not disallowed	1	4,554	0
D. For which no management decision has been made by the end of the reporting period	24	32,109	12,974
E. Reports for which no management decision was made within 6 months of issuance	24	27,279	13,027

Table 2
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	Number of Reports	Dollar Value (in thousands)
A. For which no management decision has been made by the commencement of the reporting period	6	45,488
B. Which were issued during the reporting period.	0	0
Subtotals (A + B)	6	45,488
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		
-based on proposed management action	0	0
-based on proposed legislative action	0	45,488
(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	6	45,488
E. Reports for which no management decision was made within 6 months of issuance	3	29,886

APPENDIX 4: RESOLUTION OF REPORTS AND RECOMMENDATIONS

Section 5 (a)(3) of the Inspector General Act, as amended, requires identification of each significant recommendation described in previous semiannual reports that the Department has agreed to implement but for which corrective action has not yet been completed. OIG continues to work with the Department toward completion of the corrective actions required on these recommendations.

Significant Recommendations Pending Final Action

Report Number	Rec. Number	Title	Date Issued
<u>Inspections</u>			
ISP-I-06-33	12	<i>Inspection of Global Financial Services – Charleston</i>	06/2006
		OIG recommended that RM review the differences in the Fund Balance with Treasury Accounts, reconcile the differences from prior fiscal years, and report the changes to the Treasury. This recommendation is in resolved/open status. The Department has developed a plan to address this issue and is working to implement the recommendation.	
<u>Audits</u>			
AUD/CG-02-44	1	<i>Awards to the Iraqi National Congress</i>	10/2002
		OIG recommended that the A/ALM/AQM grants officer, in coordination with the Bureau of Near Eastern Affairs, should withhold, or at least restrict, future funding to the Iraqi National Congress Support Foundation until the Foundation has implemented adequate and transparent financial controls.	
AUD/CG-04-31	1	<i>Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Council for International Visitors (NCIV)</i>	6//2004
		OIG recommended that a Department of State, Bureau of Administration, Office of Acquisition grants officer require NCIV to exclude such unallowable costs from its future indirect cost proposals. OIG recommended, further, that the grant officer ensure that NCIV adjust its cumulative cost reporting.	

AUD/CG-04-33 1 **Review of World Relief Corporation Indirect Cost Rates for Fiscal Year 2002** 07/2004

OIG recommended that the Bureau of Administration's Office of Logistics Management, Office of Acquisitions Management's grant officer (1) require the World Relief Corporation to comply with the Office of Management and Budget Circular A-122 by submitting an annual indirect cost rate proposal within the required timeframe; (2) finalize the World Relief Corporation's indirect cost rates for FY 2002, using the recommended rates, and; (3) require the World Relief Corporation to make necessary accounting adjustments.

AUD/FM-05-06 1 **Assessment of the Certification and Accreditation, Change Management, and Patch Management Process** 12/2004

OIG recommended that the Bureau of Information Resource Management revise the security test and evaluation of the certification and accreditation process to include a complete vulnerability scan of the systems being assessed.

AUD/CG-05-28 1 **Review of the Lutheran Immigration and Refugee Service's Reception and Placement Program** 6/2005

OIG recommended that the PRM grants officer require the Lutheran Immigration and Refugee Service and its subrecipients to (1) reimburse the Department for unallowable costs totaling \$48,000 and (2) provide any additional supporting documentation to the Department so that an appropriate determination can be made regarding unsupported costs totaling \$606,000.

AUD/PP-06-08 1 **Independent Accountant's Report on the Application of Agreed-Upon Procedures Relating to Bureau of Information Resource Management Enterprise Network Management Office GSA-FEDSIM Millenia Contract Task Order GS-T004AJM049** 04/2006

OIG recommended that the Executive Director, Bureau of Information Resource Management, in cooperation with the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, independently procure the required Enterprise Network Management effort rather than renew the FEDSIM Millenia Contract Task Order GS-T0004AJM049.

OIG recommended that the Department's Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management use the recommended rates set forth in Schedule A-2 to price delivery orders that Choctaw will perform under the proposed contract.

Significant Management Success in Resolving and Implementing Recommendations

Review of Middle East Partnership Initiative Coordination and Implementation (ISP-I-06-18, Issued March 2006)

In its review of Middle East Partnership Initiative Coordination and Implementation, OIG recommended that the Bureau of Near Eastern Affairs provide appropriate training for grants officer representatives and establish procedures to ensure that officers having Middle East Partnership Initiative responsibilities are briefed on these responsibilities before taking up their overseas assignments. In response to OIG's recommendations, the Office of the Middle East Partnership Initiative in the Bureau of Near Eastern Affairs (NEA/PI) has asked its regional offices in Tunis and Abu Dhabi to help identify those officers who will be grants officer representatives for NEA/PI-funded or post-funded grants. NEA/PI will invite those officers for consultations and training prior to their departures for post. Also, NEA has presented sessions related to grants management in area studies programs at the Foreign Service Institute, and at regional offices in Abu Dhabi and Tunis for Embassy staff with MEPI responsibilities.

Inspection of Global Financial Services – Charleston (ISP-I-06-33, Issued June 2006)

In its inspection, OIG recommended that the Department train and designate as certifying officers employees who are performing certifying officer duties domestically. The Department responded by having a Treasury Officer train all Bureau of Resource Management personnel in need of training on certifying officer duties — a total of 55. Twenty-two of these personnel have been designated as certifying officers. The bureau plans to provide additional training to staff as the need arises.

OIG also recommended that Department perform a full-scale, multi-location audit of the payroll procedures for Department employees in Baghdad. The Bureau of Resource Management responded by implementing procedures for biweekly review of payments made to Baghdad employees to ensure compliance with Department regulations and procedures.

Broadcasting Board of Governors



United States Department of State
and the Broadcasting Board of Governors

Inspector General

April 30, 2007

MEMORANDUM

TO: Mr. Kenneth Y. Tomlinson, Chairman
Broadcasting Board of Governors

FROM: OIG – Howard J. Krongard 
Inspector General

SUBJECT: Semiannual Report to Congress, October 1, 2006,
to March 31, 2007

I am pleased to transmit to you the Office of Inspector General's (OIG) Semiannual Report to the Congress for the period ending March 31. This report is required by the Inspector General Act of 1978, as amended, and covers the work of this office during the period indicated. The Act requires that you transmit the report to the appropriate committees of the Congress by May 31, together with any comments you may wish to make.

During this reporting period, OIG reviewed the awards the Middle East Broadcasting Networks, Inc. (MBN) made to three contractors to determine whether the awards, totaling about \$9.3 million, were competed in compliance with OMB circulars, as required by the grant agreement between BBG and MBN. OIG also audited the BBG's FY 2006 and 2005 Financial Statements.

This and other activities are summarized in this report.

AUDITS

Independent Auditor's Report on the Review of Middle East Broadcasting Networks, Inc., Awards to Three Contractors (AUD/IB-07-26)

At the request of the BBG Executive Director, OIG reviewed the awards the Middle East Broadcasting Networks, Inc. (MBN), made to three contractors to determine whether the awards, totaling about \$9.3 million, were competed in compliance with OMB circulars as required by the grant agreement between BBG and MBN. OIG found that MBN did not compete awards to the three contractors reviewed or adequately document its procurement activities. Awards made to two of the three contractors lacked adequate justification for sole-source selection, and awards made to the third contractor had initial competition, but subsequent contracts were not properly competed. MBN's noncompliance with OMB circulars occurred, in part, because it wrongly believed that it did not have to strictly comply with circular requirements.

During the review, nothing came to OIG's attention to indicate favoritism, fraud, or other procurement improprieties related to these awards. At the time of the awards, MBN did not have formal procurement policies and procedures. MBN later developed a draft *Corporate Policies and Procedures Manual*, which requires contract competition in compliance with OMB requirements and addresses many of the procurement competition deficiencies noted in the report. Additionally, OIG made general observations about MBN's overall procurement process, which resulted in several informal suggestions.

Audit of the Broadcasting Board of Governors' FY 2006 and 2005 Financial Statements (AUD/FM-07-08) and Management Letter Related to the Broadcasting Board of Governors' FY 2006 and 2005 Financial Statements (AUD/FM-07-07)

The independent external auditor issued an unqualified opinion on BBG's financial statements as of September 30, 2006 and 2005, and for the years then ended. The

auditor did not report any material weaknesses but brought to management's attention two reportable conditions related to internal control and instances of noncompliance with selected provisions of other applicable laws and regulations involving BBG's financial management systems.

Under generally accepted auditing standards, auditors performing financial statement audits are encouraged to report, in a separate management letter, internal control weaknesses that do not rise to the level necessary to be reported in the financial statement opinion. During the audit of the BBG's 2006 and 2005 financial statements, the independent external auditor identified internal control weaknesses relating to BBG's payroll documentation, accounts receivable balance, property records, undelivered orders, grants management, and government purchase cards and instances of noncompliance with selected provisions of applicable laws and regulations that were identified during the audit. The auditor recommended that BBG take appropriate action to address these weaknesses.

Inspection of the International Broadcasting Bureau's Office of Engineering and Technical Services (ISP-IB-07-03)

The Office of Engineering and Technical Services (IBB/E) in the BBG's International Broadcasting Bureau was judged to be a productive organization. Although it was no longer the technological leader that it was in the heyday of shortwave, IBB/E had an enviable reputation for responsiveness and accomplishment. Although IBB/E faced difficulties, many of them were not of its making. Nonetheless, IBB/E should communicate more effectively to internal and external audiences, involve its highly intelligent employees in planning for the future, and value the management and leadership skills among its supervisors. Plans and strategies should be followed and benchmarked.

After years of budget cuts, and with retirements looming, workforce planning needed to be a priority. The use of frequent but unpredictable waivers of IBB's seemingly endless hiring freeze had sown confusion at IBB/E about the staffing plan. Staff training and the award program needed BBG management's attention. In addition, IBB/E lagged behind many competitors in its use of such media as the Internet and television and needed the resources and mandate to help the agency catch up. Too often IBB/E's talented engineers were given solutions to implement, instead of being challenged with problems to solve. The organization was not getting as much as it should from its capable staff.

Best Practice: Telecommuting

Issue: Every organization needs to attract and retain a qualified workforce. Many organizations have adopted telecommuting policies, which allow employees to work at home and facilitate employment for persons otherwise unable to work. IBB/E depends heavily on a maturing, highly skilled workforce. In many cases, an IBB/E employee is the unique specialist in his or her area.

Response: IBB/E has created a telecommuting program and has allowed wide participation in it. The program has ensured that telecommuting employees have robust access to their workplace computer files.

Result: IBB/E can complete projects with fewer interruptions because of employee absences. More than 70 out of the 172 authorized positions in its headquarters are participating in the telecommuting program. IBB/E is said to be able to retain employees who might not otherwise be able to work there. Employees describe IBB/E as a family-friendly workplace, are more content, and have better morale.

INVESTIGATIONS

EMBEZZLEMENT

OIG/INV conducted an investigation concerning unusually high telephone charges that were placed from an official telephone at the BBG. A total of 137 telephone calls were made at a cost to the BBG of \$49,818 (commercial rate). The investigation traced the calls to a BBG employee, who admitted to making the calls. OIG/INV contacted the telephone service carrier, who advised that the government rate was not stipulated by the Department at time of the new service agreement. As a result, the 137 telephone calls were billed at the commercial rate rather than the government rate. Because of the error, the telephone service carrier informed OIG that they were willing to retroactively reduce the telephone charges to reflect government contract prices.

As a result of the investigation, the recalculation of charges reduced the loss to the government from \$49,818 to \$972. OIG/INV requested an audit and adjustment of all telephone bills under the related BBG account. The audit found that BBG was overcharged a total of \$96,407 by AT&T, which was subsequently recovered by BBG.

On November 10, 2006, the BBG employee was terminated from employment. On July 14, 2006, the BBG employee was arrested and charged in the District of Columbia Superior Court with one count of Second Degree Theft. On March 20, 2007, the defendant entered into a pretrial diversion agreement.

CONFLICT OF INTEREST

OIG/INV conducted a joint investigation with the Federal Bureau of Investigation into allegations of possible kickbacks being received by a BBG employee from two vendors. The employee was interviewed and confessed to improperly receiving payments from two vendors and knowing that it was a conflict of interest. On November 16, 2006, the employee was indicted on one count of conflict of interest and three counts of making false statements. He was arrested the next day and was placed on indefinite suspension without pay pending the outcome of the case.

On February 13, 2007, the subject pleaded guilty to the conflict of interest charge, admitting that he knowingly and willfully received unauthorized payments from the vendors of approximately \$112,000. Sentencing was pending at the end of this reporting period.

APPENDIX 1: BROADCASTING BOARD OF GOVERNORS INVESTIGATIVE ACTIVITIES

Investigative Workload	Number
Pending as of 09/30/06	5
New Cases Opened	1
Cases Closed	1
Cases Pending as of 03/31/07	5
Preliminary Inquiries Pending as of 09/30/06	1
Preliminary Inquiries Opened	2
Preliminary Inquiries Closed	2
Preliminary Inquiries Converted to Cases	0
Preliminary Inquiries Pending as of 03/31/07	1
Total Judicial Actions	6
Prosecutive Referrals	0
Prosecutive Declination	1
Criminal Indictment/Arrest	2
Criminal Conviction	2
Criminal Sentencing	1
Time Sentenced	0 Months
Time Probation	0 Months
Court Ordered Fine	\$0
Court Ordered Restitution	\$0
Administrative Investigative Activities	
Personnel Actions	
- Referral	1
- Removals	1
- Suspensions	0
- Reprimands/Admonishments	0
- Reimbursements	0
- Administrative Recovery	\$96,407.06
Total Investigative Recoveries (Judicial and Administrative)	\$96,407.06

APPENDIX 2: REPORTS ISSUED

AUDITS

AUD/FM-07-07	Management Letter Related to the Broadcasting Board of Governors' FY 2006 and 2005 Financial Statements
AUD/FM-07-08	Audit of the Broadcasting Board of Governors' FY 2006 & 2005 Financial Statements
AUD/IB-07-26	Independent Auditor's Report on the Review of Middle East Broadcasting Networks, Inc., Awards to Three Contractors

INSPECTIONS

ISP-IB-07-03	Inspection of the International Broadcasting Bureau's Office of Engineering & Technical Services
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APPENDIX 3: SAVINGS & MORE EFFECTIVE USE OF RESOURCES

Table 1
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH QUESTIONED COSTS
(Dollars in Thousands)

	Number of Reports	Questioned Costs	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	0	0	0
Subtotals (A+B)	0	0	0
C. For which a management decision was made during the report period – based on formal administrative or judicial appeal			
(i) dollar value or disallowed	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	0	0	0
E. Reports for which no management decision was made within 6 months of issuance	0	0	0

Table 2
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	Numbers of Reports	Dollar Value (in thousands)
A. For which no management decision has been made by the recommendations of the reporting period.	0	0
B. Which were issued during the reporting period	0	0
Subtotals (A+B)	0	0
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 was made within 6 months of issuance	0	0

LIST OF ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Acquisitions Management
ANP	Afghan National Police
A/OPE	Bureau of Administration, Office of the Procurement Executive
BBG	Broadcasting Board of Governors
CFO	Chief Financial Officers
CFR	Compliance Follow-up Review
CIPE	Center for International Private Enterprise, Inc.
Department	Department of State
DS	Bureau of Diplomatic Security
East-West Center	Center for Cultural and Technical Interchange Between East and West, Inc.
ECA	Bureau of Educational and Cultural Affairs
EEB	Bureau of Economic, Energy, and Business
FAM	Foreign Affairs Manual
FFMIA	Federal Financial Management Improvement Act
FSN	Foreign Service national
HR	Bureau of Human Resources
IBB/E	Office of Engineering and Technical Services, International Broadcasting Bureau
ICASS	International Cooperative Administrative Support Service
IIE	Institute of International Education
ILMS	Integrated Logistics Management System
INL	Bureau of International Narcotics and Law Enforcement Affairs
IRI	International Republican Institute
ISSO	Information Systems Security Officer
MBN	Middle East Broadcasting Networks, Inc.

NEA/PI	Office of the Middle East Partnership Initiative, Bureau of Near Eastern Affairs
NCIV	National Council for International Visitors
NDI	National Democratic Institute for International Affairs
NED	National Endowment for Democracy
OAS	Organization of American States
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
OIG/INV	Office of Inspector General, Office of Investigations
OIG/ISP	Office of Inspector General, Office of Inspections
OIG/IT	Office of Inspector General, Office of Information Technology
OMB	Office of Management and Budget
ONDCP	Office of the National Drug Control Policy
OWCP	Office of Worker's Compensation Program
PAO	Public Affairs Officer
PM/DDTC	Bureau of Political-Military Affairs, Directorate of Defense Trade Controls
RM	Bureau of Resource Management
RMFS	Regional Financial Management System
SIGIR	Special Inspector General for Iraq Reconstruction
SLRP	Student Loan Repayment Program
TPS	Office of Training and Performance Support
US&FCS	U.S. & Foreign Commercial Service
USIBWC	U.S. Section of the International Boundary and Water Commission
USOSCE	U.S. Mission to the Organization for Security and Cooperation in Europe
UNVIE	U.S. Mission to International Organizations in Vienna

**INDEX OF REPORTING REQUIREMENTS
INSPECTOR GENERAL ACT OF 1978, AS AMENDED**

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Section 5(a)(1)	Significant problems, abuses, and deficiencies	17-41, 65-67
Section 5(a)(2)	Significant recommendations for corrective action	17-41, 65-67
Section 5(a)(3)	Prior significant recommendations unimplemented	57-58
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Section 5(a)(5)	Information or assistance refused	none
Section 5(a)(6)	List of reports issued	51-54, 73,
Section 5(a)(7)	Summaries of significant reports	17-40, 65-67
Section 5(a)(8)	Audit reports—questioned costs	55, 75
Section 5(a)(9)	Audit reports—funds to be put to better use	55, 75
Section 5(a)(10)	Prior audit reports unresolved	55,75
Section 5(a)(11)	Significant revised management decisions	none
Section 5(a)(12)	Significant management decisions with which OIG disagreed	none

