



**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

MEMORANDUM

TO: PM – Frank J. Ruggiero, Acting

FROM: OIG – Harold W. Geisel, Acting 

SUBJECT: Close Out of Audit of the International Trust Fund (AUD/IP-09-10)

On July 31, 2007, the Office of Inspector General (OIG) initiated an audit of the International Trust Fund for Demining and Mine Victims Assistance (ITF) as part of its continuing effort to determine whether U.S. Government interests and resources are adequately administered. The primary objectives of this audit were to (1) determine whether the ITF adequately accounted for U.S. demining funds, especially those used for demining programs in Bosnia, and (2) determine whether the ITF complied with the terms of the Trust Fund Administrative Agreement.

The demining program is administered by the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA). PM/WRA provides funding to the ITF for demining operations. The ITF is a humanitarian nonprofit organization devoted to eradicating landmines, primarily in the Balkans region of Southeastern Europe. The terms and conditions of the U.S. contributions are detailed in an annual Trust Fund Administrative Agreement.

Based on work it conducted in Washington, D.C., and at the ITF and Embassies Ljubljana (Slovenia) and Sarajevo (Bosnia-Herzegovina), OIG held several briefings with PM/WRA officials, including the Deputy Director for Programs, on conditions it observed that required immediate attention. These conditions related to funds accountability, compliance with the Trust Fund Administrative Agreement, use of a grant agreement instead of a Trust Fund Administrative Agreement, solicitation for demining contracts, and review of demining contractors.

Based on the actions PM/WRA officials have taken and said will be taken to address these conditions, OIG is closing this audit without issuing a formal report.

Funds Accountability

- Observation: Although the ITF was able to account for U.S. demining funds, OIG informed PM/WRA officials that based on its analysis, of about \$30 million of U.S. contributions transferred to the ITF for calendar years 2004 to 2006, \$11.3 million (37 percent) had not been spent as of December 31, 2006. This occurred in part because

PM/WRA (1) transferred the entire amount of the Congressional appropriations in lump sums to the ITF before a sufficient number of demining projects had been approved and (2) did not have policies and procedures that detailed how it would monitor the ITF's funding balances. Therefore, PM/WRA did not have the necessary financial and programmatic reports to provide effective oversight and administration of the funding.

- Resolution: Subsequent to several discussions with OIG officials, PM/WRA officials worked extensively with the ITF, and the balance of unspent funds had been reduced to about \$5 million by February 2008. PM/WRA reevaluated its procedures for transferring funds in one lump sum and concluded that providing funds when projects are approved would delay the demining work. However, PM/WRA made a major change in the period of time that the ITF must expend the funds. Specifically, under the Trust Fund Administrative Agreement, the ITF had up to 5 years to spend the funds, while under the grant agreement, the ITF has 1 year. Finally, with regard to the lack of written policies and procedures to monitor the ITF's fund balances, PM/WRA officials stated that they do not need separate policies and procedures because quarterly reporting of financial status is now a requirement of the grant agreement. Under the Trust Fund Administrative Agreement, the ITF provided only annual reports.

Compliance With Trust Fund Administrative Agreement

- Observation: PM/WRA officials expressed concerns to OIG that the ITF might not be complying with the terms contained in the Trust Fund Administrative Agreement.
- Resolution: OIG informed PM/WRA officials that based on its analysis, the ITF had complied with the terms of the Trust Fund Administrative Agreement for calendar years 2004 through 2006, including providing proof that donor contributions were deposited in the fund, consulting with PM/WRA officials before spending funds, and using open bid procedures for the procurement of goods and services. OIG did not find any instances in which U.S. funds had been used for the calendar years reviewed to pay for unallowable purposes, such as alcoholic beverages and entertainment.

Grant Agreement Versus Trust Fund Administrative Agreement

- Observation: OIG discussed with PM/WRA officials whether the use of a grant instrument rather than a Trust Fund Administrative Agreement could increase the Department's oversight and improve program management. A grant instrument would provide quarterly financial and programmatic reports that are not currently available with the Trust Fund Administrative Agreement. Grants require the reporting of important information, such as operations conducted over the past quarter, progress of current operations, and status and balance of funds.
- Resolution: In July 2008, PM/WRA began using a grant award instead of a Trust Fund Administrative Agreement. The grant award requires the ITF to submit technical progress reports with quarterly financial reports to the Department's grants officer

representative, located in the Bureau of Administration. The grants officer is responsible for all administrative aspects of the award and is authorized to award, amend, suspend, and terminate financial assistance awards.

Solicitation for Demining Contracts

- Observation: The ITF does not use consistent terms in its solicitation and evaluation documents that describe how it will select contactors to conduct demining operations. The invitation package of documents sent by the ITF to prospective bidders states that “most acceptable price” is the deciding factor for selection after compliance with administrative and technical criteria. The rules that the ITF uses to evaluate the packages submitted by bidders state that awards should be made to the “best bidder” after the bidders have complied with administrative and technical criteria. OIG believes that clear and consistent language will eliminate ambiguity about how the ITF evaluates contractor bids for selection.
- Resolution: PM/WRA officials agreed that there was ambiguity between the ITF’s solicitation and evaluation documents. The current grant agreement’s period of performance ends on June 30, 2009. PM/WRA officials stated that they will require the ITF to use consistent terms in the next grant agreement, which is expected to be finalized later this year.

Review of Demining Contractors

- Observation: Having qualified contractors perform demining operations is essential to mitigating the hazards inherent in performing these operations. To ensure that the ITF selects contractors qualified to perform these operations, PM/WRA had a New Zealand-based consulting firm, Quality Solutions International, review 30 demining companies that had conducted operations in Bosnia-Herzegovina from February through March 2007. In March 2007, the firm recommended to PM/WRA that the ITF consider using 19 companies for future ITF demining contracts but not 11 companies because they lacked general technical qualifications to perform demining work. OIG believes that this type of assessment should be performed periodically to ensure the technical capability of demining companies selected by the ITF.
- Resolution: PM/WRA officials agreed that this independent review was a good practice and stated that they intend, in the future, to require that similar reviews be conducted of demining companies to ensure that they have the necessary qualifications.

On January 13, 2008, OIG provided an update of the results of the ITF audit to PR/WRA’s Deputy Director for Programs. In kind, the Deputy Director provided an update on recent developments, stating that the backlog of unspent funds had been eliminated and that the ITF is now using funding from its current grant agreement, which has a period of performance of July 1, 2008, through June 30, 2009. During the update, OIG apprised the Deputy Director of its decision to close the audit based on the actions taken by PM/WRA to address OIG’s observations.

OIG appreciates the opportunity to be of assistance to the Department. If you would like to discuss this issue further, please call me at (202) 663-0361 or Mark W. Duda, the Assistant Inspector General for Audits, at (202) 663-0372.

cc: PM/WRA – James F. Lawrence, Acting
PM/WRA – Colonel Yori R. Escalante
A/LM/AQM – Donald S. Hunter