



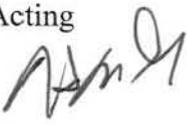
United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

AUG 25 2010

MEMORANDUM

TO: RM – Mr. James L. Millette, Acting

FROM: OIG/DIG – Harold W. Geisel 

SUBJECT: Report on the *Audit of Department of State Corrective Action Plan for Personal Property and Equipment* (AUD/FM-10-26)

The subject report, prepared by Kearney & Company, P.C., an independent external auditor, is attached for your review and information. Kearney & Company incorporated your comments as appropriate within the body of the report and included them in their entirety as Appendix C.

OIG appreciates the cooperation and assistance provided by your staff during this audit. If you have any questions, please contact Evelyn R. Klemstine, Assistant Inspector General for Audits, at (202) 663-0372 or Gayle Voshell, Division Director, at (703) 284-2681 or by e-mail at voshellg@state.gov.

Attachments: As stated.

cc: RM/DCFO – Chris Flaggs
RM/EX – Philip J. Schlatter, Acting
Kearney & Company, P.C. – David Zavada



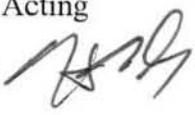
United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

AUG 25 2010

MEMORANDUM

TO: A – Mr. Steven J. Rodriguez, Acting

FROM: OIG/DIG – Harold W. Geisel 

SUBJECT: Report on the *Audit of Department of State Corrective Action Plan for Personal Property and Equipment* (AUD/FM-10-26)

The subject report, prepared by Kearney & Company, P.C., an independent external auditor, is attached for your review and action. As the action office for Recommendations 1 through 5, please provide your response to the report and information on actions taken or planned for the five recommendations within 30 days of the date of this memorandum. Actions taken or planned are subject to follow-up and reporting in accordance with the attached compliance response information.

Kearney & Company incorporated your comments as appropriate within the body of the report and included them in their entirety as Appendix B.

OIG appreciates the cooperation and assistance provided by your staff during this audit. If you have any questions, please contact Evelyn R. Klemstine, Assistant Inspector General for Audits, at (202) 663-0372 or Gayle Voshell, Division Director, at (703) 284-2681 or by e-mail at voshellg@state.gov.

Attachments: As stated.

cc: A/LM – William H. Moser
RM/DCFO – Chris Flaggs
Kearney & Company, P.C. – David Zavada



U.S. Department of State

Audit of the Corrective Action Plan for Personal Property and Equipment

AUD/FM-10-26

August 2010

**KEARNEY &
COMPANY**

*Certified Public Accountants
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*Kearney & Company's TIN is 54-1603527, DUNS is 18-657-6310, Cage Code is 1SJ14
Contract is SAQMMA09D0002 Task Order is SAQMMA10F0851*

April 19, 2010

Mr. Harold W. Geisel, Deputy Inspector General
U.S. Department of State
Office of the Inspector General
2201 C Street, N.W.
Washington, DC 20520

Kearney & Company, P.C., is pleased to submit this performance audit report related to the Department of State's (Department) corrective action plans developed to address personal property material weaknesses as reported in the Department's Independent Auditor's Report in the FY 2009 *Agency Financial Report*. This performance audit is one of three performance audits that the Department's Office of Inspector General has engaged us to perform related to corrective action plans to address material internal control weaknesses. This performance audit was designed to meet the objectives identified in Appendix A, "Objectives, Scope and Methodology," of this report.

We conducted this performance audit from February 24 through April 19, 2010, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of our performance audit and the related findings and recommendations.

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



Kearney & Company, P.C.

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EXECUTIVE SUMMARY

At the request of the Office of Inspector General (OIG), Kearney & Company, P.C. (referred to as “we” or “our” in this report), audited the Department of State’s (Department) corrective action plan (CAP) developed to address internal control deficiencies identified during the course of the FY 2009 financial statement audit in the area of personal property accounting. Management is responsible for establishing, maintaining, and assessing internal control. Office of Management and Budget (OMB) Circular A-123, *Management’s Responsibility for Internal Control*, states: “Effective internal control is a key factor in achieving agency missions and program results through improved accountability. Identifying internal control weaknesses and taking related corrective actions are critically important to creating and maintaining a strong internal control infrastructure that supports the achievement of agency objectives.”

We performed this audit in order to assess the Department’s efforts in developing CAPs that would effectively address internal control weaknesses. During the audit, we performed additional analyses to identify underlying causes of the personal property deficiencies reported during the FY 2009 financial statement audit, reviewed the draft CAP provided by the Department, and conducted follow-up interviews with key Department personnel involved in the personal property accounting process. We assessed the quality of the Department’s CAP using criteria adapted from best practices for well-developed CAPs and OMB guidance, all of which were accepted by OIG.

We found that the planned actions in the Department’s personal property accounting CAP were focused on addressing the root causes we identified in our analysis of internal control deficiencies. However, to improve the quality of the CAP, we recommend that the Department take the following actions:

- Perform a formal level of effort analysis to assign resource levels to planned actions.
- Assign accountability at a lower level and utilize the OMB Circular A-123, Appendix A, governance structure to monitor accountability for corrective actions.
- Include measurable milestones and critical tracking metrics in the CAP.
- Leverage the Circular A-123 assessment and testing process to validate the effectiveness of the outcomes of corrective actions.

MANAGEMENT COMMENTS AND AUDITOR REPLY

In its response, the Bureau of Administration, Office of Logistics Management (A/LM), agreed with Recommendations 3 to 5, which related to improving the CAP by adding tracking and performance metrics and validation methodology. However, A/LM did not agree with Recommendations 1 and 2, which related to matching resources to actions in the CAP and assigning tasks to specific staff responsible for the work. A/LM indicated that a valid and responsive plan does not need a level-of-effort analysis. We believe that a level-of-effort analysis would allow A/LM to develop a more realistic and achievable project schedule based on resource constraints, availability of resources required, and task interdependency. A/LM also

indicated that the CAP should assign responsibility for tasks at the mid-management level rather than at the staff level. We believe that an effective CAP clearly assigns tasks to both the team member who is performing the task and to the supervisor who is overseeing the work. The clearly defined roles and responsibilities for completing the project will strengthen commitment from assigned team members and will allow accountable officials to see where gaps exist compared with estimated resource requirements.

The Bureau of Resource Management (RM) generally concurred with the recommendations in the report. RM indicated that it plans to continue to enhance the CAP by incorporating the report's recommendations and improvements that RM identifies through its ongoing efforts.

A/LM's response and RM's response to the draft report are included in Appendices B and C, respectively.

BACKGROUND

Personal property is Government-owned property of any kind, except land, buildings, and appurtenances. The Department reports capitalized personal property as an asset in the annual financial statements. Capitalized personal property is composed mainly of aircraft, vehicles, software, and software in development and of communication, reproduction, security, and other equipment. Personal property may be held by the Department, both domestically and overseas; by contractors; or by host nations under bilateral agreements. In its FY 2009 financial statements, the Department reported a net value for personal property of \$722 million. However, because the Department was unable to provide timely and competent evidential material related to property and equipment, we were unable to complete audit procedures on this line item.

FINANCIAL STATEMENT AUDIT DEFICIENCIES RELATED TO PERSONAL PROPERTY

As a result of the FY 2005 financial statement audit, the Department's prior independent external auditor identified the recording of personal property and related depreciation expense and accumulated depreciation as a material weakness.¹ Key issues included the following:

- Deficiencies in controls over aircraft, vehicles, and contractor-held property.
- Reporting requirements that were not being fully addressed by posts and bureaus.
- Errors in depreciation attributable to incorrect in-service dates.

Based on the Department's actions taken in FY 2006, the external auditor downgraded the deficiencies related to personal property from a material weakness to a reportable condition (currently referred to as a significant deficiency).² In FY 2007, the auditor noted the following:³

¹ *Audit of the Department of State 2005 and 2004 Principal Financial Statements* (AUD/FM-06-12A, Dec. 2005).

² *Independent Auditor's Report on the Department of State Restated 2006 and 2005 Financial Statements* (AUD/FM-07-12A, Dec. 2006).

³ *Independent Auditor's Report on the Department of State 2007 and 2006 Financial Statements* (AUD/FM-08-05, Nov. 2007).

- Controls over contractor-held property were still being developed.
- Controls over vehicles and other personal property were less than fully effective.
- Some assets acquired in prior years were being reported as current year acquisitions.
- Errors in depreciation occurred because of incorrect in-service dates.

Based on these factors, the auditor again identified the recording of personal property and related depreciation expense and accumulated depreciation as a material weakness. In FY 2008, the auditor downgraded the condition from a material weakness to a significant deficiency, stating that the Department's control over property acquired by and in the hands of contractors had improved. However, weaknesses still existed in the Department's controls over vehicles and other personal property.⁴

In FY 2009 (when Kearney became the Department's independent external auditor), we assessed the Department's property accounting as a material weakness based on the pervasiveness of the identified deficiencies in internal control related to property (real, personal, leased, and software) and the related risk of a material misstatement in the financial statements.⁵ Specifically, we noted issues related to personal property.

- **Timeliness of Acquisitions and Disposal** – During a review of personal property, we noted a significant number of items related to prior period activity. Specifically, 849 (35 percent) of 2,415 assets reported as current year acquisitions as of June 30, 2009, had in-service dates of FY 2008 or earlier. In addition, 676 (43 percent) of 1,566 property dispositions had disposal dates of FY 2008 or earlier.
- **Inaccurate Property Acquisitions and Disposals** – Personal property acquisitions and dispositions were not entered into property management systems accurately or completely and did not always reflect actual underlying events.
- **Inadequate Physical Inventory Process** – Adjustments to correct discrepancies noted during annual inventories were not always recorded in the Integrated Logistics Management System (ILMS). Based on reviews and interim site visits, we found that certain posts did not fully understand post-specific responsibilities or the functionality of ILMS. In addition, A/LM did not perform adequate follow-up actions to ensure that the adjustments identified by posts were resolved and recorded.
- **Inaccurate Contractor-Held Property Records** – The process of obtaining contractor-held property information is labor intensive and error prone, and it did not produce a reliable audit trail. Because of the receipt of untimely, incomplete, and inaccurate listings

⁴ *Independent Auditor's Report on the Department of State 2008 and 2007 Financial Statements* (AUD/FM-09-02A, Dec. 2008).

⁵ *Independent Auditor's Report on the Department of State 2009 and 2008 Financial Statements* (AUD/FM-10-03, Dec. 2009).

provided by contractors, the Department experienced delays of more than 4 months to compile the results of the March 31 activity reports. The Department could not provide support for 15 sample items, and the amounts for 13 other sample items were recorded incorrectly.

- **Inaccurate Aircraft Records** – We noted discrepancies between the aircraft inventory and the operational status of selected aircraft, which resulted in a \$1,008,195 net overstatement of personal property.

SCOPE AND METHODOLOGY

Correcting the deficiencies related to personal property in an organization as broad in scope and complex as the Department requires a well-developed CAP. Well-developed CAPs include the following components:

- identification of root causes
- planned actions/events
- level-of-effort analysis
- responsibility and accountability
- milestones and tracking status
- performance metrics and validation

In conducting our audit of the Department's CAP related to personal property, we considered these components of a well-developed CAP to be criteria. Each of these items is discussed in greater detail in Appendix A, which provides additional information on the scope and methodology of the audit.

RESULTS

Root Cause Analysis

Identifying root causes is a critical first step in establishing a well-developed CAP. A comprehensive root cause analysis helps to ensure that planned actions fully address root causes rather than symptoms of internal control deficiencies. This effort involves considerable discovery and engagement of all process owners and offices involved in the personal property accounting process. The Department has developed internal guidance for conducting and documenting a root cause analysis. Using this internal guidance would result in a root cause worksheet and other supporting documents to enable the responsible office to establish an action plan to address and permanently eliminate the deficiency.

Department officials have useful knowledge about the underlying causes of personal property accounting and internal control deficiencies. The Department's CAP appears to have been based on this knowledge and understanding of past deficiencies rather than on a formal root cause

analysis following Department guidance. Based on this understanding, the Department identified four areas where corrective actions are planned:

1. Policy – Clarify policy, roles, and responsibilities of posts, bureaus, and the Bureaus of Administration and Resource Management in the accurate, timely, and complete reporting of personal property.
2. Standardization – Improve personal property operations and oversight by standardizing property management systems under ILMS Asset Management and, in the interim, the Web-based Non-Expendable Property Application and property management and accounting policies and procedures.
3. Oversight – Improve monitoring of personal property to ensure timely, accurate, and complete recording of personal property in asset management systems addressing areas that include aircraft, vehicles, automated data processing equipment, security equipment, and Government-owned capitalized property held by contractors
4. Training – Review and revise training content for staff in the General Services Office at posts and determine the appropriate property-related training for Financial Management Office staffs. Conduct training with bureaus and posts on the updated property-related policies and procedures.

While actions are planned in each of these areas, there is no mapping back to a root cause analysis to ensure that the actions address root causes and that all root causes determined by management are addressed.

Based on our additional analysis of the deficiencies identified and reported during our FY 2009 financial statement audit, we identified areas where underlying causes resulted in internal control deficiencies in the personal property area. A listing of these areas should not be interpreted as a comprehensive list of all root causes, as additional causes may be identified under a more in-depth formal analysis performed by management. We noted that these root causes were not specific to one office, bureau, or post.

1. Standard Documented Processes and Clear Roles and Responsibilities Are Not in Place

Many different Department organizations have a role in a single personal property transaction. Although the action of recording a single personal property cost (for example, vehicle armoring cost) is typically straightforward, ensuring that all personal property transactions are recorded becomes complex because of the number of variations that could occur. Each variation requires different acquisition processes and document flows, which create confusion as to who is responsible for recording individual asset costs and in which property recording system. Since property transactions occur at over 200 posts, it is important for there to be standardized,

documented acquisition processes that clearly define roles and responsibilities for maintaining documentation and recording property costs.

2. Accurate Property Accounting Is Not Monitored; Employees and Contractors Are Not Held Accountable

Many of the delays and inaccuracies in recording personal property information were the result of employees' not complying with established procedures. The Department had limited processes for tracking performance standards and identifying nonperforming posts or personnel. In addition, the Department did not have adequate enforcement mechanisms for property personnel and contractors who failed to submit reports timely and/or comply with existing policies.

3. Employees Are Not Adequately Trained

Employees did not have adequate training to maintain adequate property records or record timely and accurate transactions in ILMS. Based on interviews conducted during this audit and information gathered during post visits related to the audit of the FY 2009 financial statements, we found that property clerks and their supervisors did not have a comprehensive understanding of property accounting concepts, their roles in the financial statement process, or how to use ILMS. While emphasis is placed on tracking and safeguarding assets, there is less emphasis on accurately and timely recording assets to facilitate the financial reporting process. Based on interviews, we found that recording capital assets is not always a daily event, which can make it more difficult for the property clerks to recall the process. Property clerks and supervisors require additional training on using ILMS, their roles in the financial reporting process, and the importance of accurately recording capital assets in addition to tracking and safeguarding all assets under their responsibility. Since property is accounted for at over 200 posts, the Department may have difficulties ensuring that all personnel are properly trained on policies and procedures and the use of the various property systems.

4. Contractor's Property Management Systems Are Not Always Reliable

During the FY 2009 financial statement audit, we noted that the Department was unable to obtain complete, timely, and accurate property inventory and transaction activity from certain contractors. Some Department officials stated that reviews of contractor property management systems were being conducted. The report related to one contractor indicated that the contractor was not effectively maintaining property management systems to accurately record asset costs and retain associated documentation. Based on our interviews, we found that many of the contractors operate in environments in countries such as in Iraq and Afghanistan, where the accounting and recording of assets are not a high priority.

DEPARTMENT'S PLANNED ACTIONS/EVENTS

The Department's CAP consisted of 50 planned actions related to personal property accounting that are being implemented and scheduled through March 2011. We found that the CAP includes planned actions/events to address all root causes we identified in our analyses. The CAP includes steps to address the lack of standardization of personal property recording processes, including mapping the current process, reviewing the current process to identify control points and critical data elements, implementing improvements, and communicating the updated processes to posts.

The CAP also includes training for property administrators on key management issues related to finance, property accounting, and physical inventory controls. Additionally, the CAP includes steps for better Departmental oversight, including modifying ILMS to monitor key areas of weakness related to property, identifying nonperforming posts, and exploring a process for withholding funds from posts that do not comply with stated policies. Furthermore, the CAP includes steps to better monitor contractor-held property, including working with the Defense Contract Management Agency (DCMA) to perform reviews of contractor property management systems to determine whether the contractors are maintaining and managing property management systems efficiently and effectively.

LEVEL-OF-EFFORT ANALYSIS

The development of an effective CAP should include the matching of resources to planned actions. This type of level-of-effort analysis should be used to set task milestones based on work required and resources needed to meet milestones. As part of the level-of-effort analysis, the Department should assess task dependency, which would identify tasks that depend on the completion of other tasks.

We noted that the CAP did not state the resources required for each planned action/event. Although a formal level-of-effort analysis was not performed, each team leader set the original plan target dates and was responsible for ensuring that the target dates were achievable with the resources available. We believe that a level-of-effort analysis, including a dependency analysis, should be performed to support the target dates set by each team leader.

Recommendation 1. We recommend that the Department of State perform a formal level-of-effort analysis for each planned action/event contained in the personal property corrective action plan to match resources to the planned actions and timelines and that it include this information in the corrective action plan.

Management Response

A/LM stated that "while a [level-of-effort] analysis may be a best practice, A/LM does not believe it is necessary for a valid and responsive plan." Further, A/LM expressed that resources are constrained and that assigned personnel have "full-time operational responsibilities in addition to their support of the Department's Property Corrective Action Plan." RM stated that it

did not have any “substantive comments” on this recommendation and that it “will continue to enhance the CAPs by incorporating [the] recommendations” included in this report.

Auditor Reply

We appreciate the expertise and dedication of A/LM resources in their execution of the Department’s CAP; however, a level-of-effort analysis will help to alleviate the strain inherent in meeting CAP and operational demands. A formal resource estimating exercise will identify and describe the types and quantities of resources required for each scheduled activity in the CAP. These requirements can then be aggregated to determine the estimated resources for the overall plan. Based on resource constraints, availability of each type of resource required, and task interdependency, a more realistic and achievable project schedule can be developed to reduce the burden on a limited number of resources. Based on A/LM’s response, this recommendation is considered unresolved.

RESPONSIBILITY AND ACCOUNTABILITY

Proper responsibility and accountability at both the management and staff level must be implemented to ensure effective implementation of the CAP. The CAP must clearly assign planned actions/events to the individual team members responsible for performing the tasks and to officials responsible for planning, controlling, and closing the task. Responsibility ensures that management is held accountable for maintaining and updating the CAP.

We noted designations of task owner, team leader, and areas of responsibility within the Department’s CAP. For a majority of the planned actions, the task owner/point of contact was the same individual as the team leader. In addition, in most cases, the area of responsibility listed an office or a bureau rather than an employee.

Management needs to be responsible for ensuring that milestones are achieved and that the validation phase is completed once corrective actions are implemented. Oversight of the tasks ensures that issues that could prevent the completion of some tasks are identified and reported to management. The Department included a monitoring section in the CAP that provided for periodic meetings with the financial statement auditor and monthly Management Control Steering Committee. The Department stated that the team leaders will be responsible for explaining any tasks not completed by the target date and that management will become involved if the reason is not justified.

Recommendation 2. We recommend that the Department of State assign tasks in the personal property corrective action plan at a level lower than that of the team leader and that the Department leverage the Circular A-123 governance structure, including the Senior Assessment Team, to monitor and track the completion of the corrective action plan milestones.

Management Response

A/LM partially disagreed with this recommendation, stating that “the team leader is mid-management level and is the appropriate level in the organization to be assigned responsibility

for performing the task and ensuring completion.” However, A/LM agreed that names of individuals versus organizations should be documented in the plan and will work to correct this deficiency. RM stated that it did not have any “substantive comments” on this recommendation and that it “will continue to enhance the CAPs by incorporating [the] recommendations” included in this report.

Auditor Reply

Based on the publication *Project Management Body of Knowledge*,⁶ we concluded that an effective CAP clearly assigns tasks to both the team member who is performing the task and to the supervisor who is overseeing the work. The clearly defined roles and responsibilities for completing the project will strengthen commitment from assigned team members. The formal assignment of project staff members also directly interacts with other project management functions, including the level-of-effort analysis. Assigning available team members allows accountable officials to see where gaps exist compared with estimated resource requirements. Also, when task duration is estimated before all project team members are known, actual experience and competency levels of the assigned team members can cause the activity duration and project schedule to change. Based on A/LM’s response, this recommendation is considered unresolved.

MILESTONES AND TRACKING STATUS

Circular A-123 states, “Management should track progress to ensure timely and effective results.” Proper implementation of appropriate corrective actions requires the establishment of critical path milestones and checkpoints to measure overall progress of the corrective actions and identify any adjustments that would have to be made to the overall achievement date as a result of delays.

Creation of measurable milestones is an important step in determining planned start and end dates for all supporting actions/events. The process should include a review of the amount of time and resources needed to perform each task. This would serve as a baseline against which progress can be tracked. Measurable milestones allow the Department to effectively monitor the CAP process. Management should be able to easily determine whether the task started on time, how much work remains to be completed, and whether the task is scheduled to be completed on time. In addition, a dependency analysis should be performed as part of the schedule development to identify planned actions/events that cannot begin until the initiation or completion of other planned actions/events to ensure that the timeline is accurate.

The Department’s CAP had estimated completion dates for the actions or events but did not include start dates. In addition, completion dates were not always stated for each subtask. We noted that three planned actions/events already had revised target end dates. More detailed milestones will allow more effective monitoring of the CAP.

⁶ Project Management Institute, Inc., dated 2004 (ANSI/PMI 99-001-2004).

Recommendation 3. We recommend that the Department of State include critical tracking metrics, such as key interim milestones, baseline and actual start and end dates, percentage of completion, and other status indicators, in its personal property corrective action plan.

Management Response and Auditor Reply

A/LM generally agreed with the recommendation, stating that it will work to include tracking metrics in the CAP where appropriate. RM stated that it did not have any “substantive comments” on this recommendation and that it “will continue to enhance the CAPs by incorporating [the] recommendations” included in this report. Based on the responses, this recommendation is considered resolved.

PERFORMANCE METRICS AND VALIDATION

The creation of performance metrics should specifically describe a desired outcome and how it will be measured. The measurement must be quantifiable; its goal should not be just to meet the planned schedule dates. Performance metrics ensure that planned outcomes are properly evaluated. During our review of the Department’s personal property CAP, we noted that the CAP stated the types of evidence created by each planned action or event but did not contain metrics to indicate the effectiveness of the implementation of planned actions/events. However, the Department’s planned actions or events did include the use of a property scorecard⁷ and the eventual implementation of a tracking feature in ILMS to monitor property weaknesses, called the ILMS Dashboard. The ILMS Dashboard could be used to track qualitative metrics associated with planned actions/events and therefore result in internal control improvements.

We also found that the Department’s CAP contained a “How will we know?” section, stating that the determination of the CAP completion will be that personal property data is timely, accurate, and complete and that comprehensive annual certifications are received on time. We believe the management validation process can go further to verify that the CAP has been successfully completed and that internal controls are effective and provide evidence to support the closure and success of the CAP. The CAP indicates that one measure of success is that the external auditor’s report on the financial statements will not disclose any personal property internal control weaknesses classified as significant deficiencies. This measure creates significant reliance on the financial statement audit to determine whether the CAP has been successful. The Department also risks addressing only a subset of causes at a high level and not fully addressing all root causes. Since responsibility for adequate internal controls is an inherent management responsibility, an internal validation performed by management is appropriate.

Recommendation 4. We recommend that the Department of State develop performance metrics to determine whether planned actions or events are complete and whether the outcomes effectively correct personal property-related internal control deficiencies.

⁷ The scorecard is an Excel spreadsheet that will show property metric, such as the percentage of prior year assets recorded.

Management Response and Auditor Reply

A/LM has implemented the Property Scorecard and the ILMS Property Management dashboard to define and monitor key performance metrics. RM stated that it did not have any “substantive comments” on this recommendation and that it “will continue to enhance the CAPs by incorporating [the] recommendations” included in this report. Based on the responses, this recommendation is considered resolved.

Recommendation 5. We recommend that the Department of State include a validation methodology in its personal property corrective action plan that leverages its Circular A-123 internal control assessment and testing process.

Management Response and Auditor Reply

A/LM stated that “the Department already uses the A-123 internal control assessment and testing process to validate the effectiveness of the Department’s CAP.” RM stated that it did not have any “substantive comments” on this recommendation and that it “will continue to enhance the CAPs by incorporating [the] recommendations” included in this report. As noted in the report, leveraging the A-123 process to validate the successful completion of the planned actions/events will provide documented evidence to allow the Department to formally close the personal property CAP. Based on the responses, this recommendation is considered resolved.

April 19, 2010

APPENDIX A – OBJECTIVES, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) requested that Kearney & Company, P.C. (referred to as “we” or “our” in this report), audit the Department of State’s (Department) plans related to personal property deficiencies reported during the audit of the Department’s FY 2009 financial statements. Kearney performed this audit in order to assess the Department’s efforts in developing corrective action plans (CAP) that would effectively address internal control deficiencies. Specifically, the primary objectives of the audit were to:

- Identify root causes of the personal property control weaknesses through additional analyses of audit findings.
- Determine whether the Department has developed a CAP for personal property accounting.
- Assess the adequacy of the Department’s personal property CAP to successfully address and resolve personal property deficiencies.
- Make recommendations on how the Department may improve its personal property CAP and better address root causes.

Our audit was limited to a review of the draft CAP as of April 2, 2010, which was developed to address the personal property internal control deficiencies that contributed to the material weakness in Net Property and Equipment described in the report on controls related to the audit of the Department’s FY 2009 financial statements. Our scope did not include procedures on any other CAPs created by the Department. The Department indicated that its CAP will continue to be modified throughout the year. Revisions made to the CAP after April 2, 2010, were outside the scope of this audit. Furthermore, our audit was limited to a review of the CAP itself and not the outcome that would be achieved as a result of the procedures outlined in the CAP.

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

The Bureau of Administration, Office of Logistics Management (A/LM), and the Bureau of Resource Management (RM) provided formal comments to the draft report, which are incorporated and included in their entirety as Appendices B and C, respectively.

Criteria for Assessing the Quality of the Department’s Personal Property Corrective Action Plan

GAGAS requires the establishment of performance criteria identifying the required or desired state or expectation with respect to the program or operation being audited. We reviewed Federal guidance and industry benchmarks for CAP design and then created and received OIG

approval for the following agreed-upon performance criteria for assessing the adequacy of the CAP:

- **Identification of Root Causes:** Confirm that identified root causes are explicitly stated in the CAP and linked to planned actions or events.
- **Planned Actions or Events:** Substantiate that planned actions in the CAP address all root causes.
- **Level-of-Effort Analysis:** Verify that the number of resources required to achieve stated milestones is identified in the CAP. Confirm that resources have been assigned and documented in the CAP to meet level-of-effort estimates for the duration of planned actions.
- **CAP Responsibility:** Validate that accountable officials, project leads, and key participants are identified in the CAP. Assignments should distinguish who may be held accountable for the execution, completion, and final approval of planned actions.
- **Milestones and Tracking Status:** Confirm that the CAP contains critical tracking metrics, including baseline start/end dates, baseline duration, actual start and end dates, actual duration, remaining duration, percentage of completion, key milestones, and management status indicators (for example, on-track, delayed, or complete).
- **Performance Metrics and Validation:** Confirm that the CAP identifies key performance metrics to ensure that planned outcomes are achieved. Verify that the CAP contains measurable activities or standards for completeness that will provide evidence to support closure of the CAP.

Phase I – Planning/Understanding

The planning/understanding phase was designed to obtain insight into expected and/or required business requirements, current processes, procedures, and organizational structure with regard to personal property. We leveraged the results of the FY 2009 audit to confirm our understanding of the nature and profile of Department operations, accounting standards, regulatory requirements, and supporting information systems and controls. Based on the review of FY 2009 audit documentation, we performed a preliminary root cause analysis. We focused on critical process areas for personal property: timeliness and accuracy of recording acquisitions and disposals, physical inventory process, and accounting for contractor-held property.

Combined with our review of existing evidence and supporting process documentation for the selected critical process areas and preliminary root cause analysis, we conducted interviews with key individuals and groups in the Department who are impacted by or can affect the successful completion of the processes in our scope. We conducted interviews with key personnel at A/LM and at RM, including the Office of Financial Policy, Reporting, and Analysis and the Global

Financial Services Center in Charleston, South Carolina. These interviews were conducted to identify the root causes of the personal property control deficiencies identified during the FY 2009 financial statement audit and to determine whether the Department had developed a CAP that would address the identified root causes.

During these interviews, the Department discussed its approach toward the CAP and how it complements the efforts to correct the personal property material weakness.

Phase II – Analysis

The criteria agreed upon in the understanding/planning phase served as the basis for assessing the adequacy of the Department's development and implementation of corrective actions to successfully resolve the root causes of the identified deficiencies. We determined whether relevant CAP protocols were incorporated into the Department's plans. Beyond structure and compliance, we determined whether the identified root causes were addressed by the planned actions/events as stated in the CAP.

Phase III – Reporting

After conducting our analysis in Phase II, we formulated our findings and recommendations for each agreed-upon performance criterion.

**APPENDIX B – BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT,
RESPONSE**



United States Department of State

Washington, D.C. 20520

www.state.gov

AUG - 4 2010

MEMORANDUM

TO: OIG – Harold W. Geisel, Acting

FROM: A/LM – William H. Moser *William H. Moser*

SUBJECT: Audit of the Corrective Action Plan for Personal Property and
Equipment Draft Audit Report

REFERENCE: OIG Memo to A on Subject Report dated July 8, 2010

Below is the Office of Logistics Management's response to the subject report. Teresa Armentrout, A/LM, is the POC and may be reached at 703-875-5266.

Recommendation 1: We recommend that the Department of State perform a formal level-of-effort analysis for each planned action/event contained in the personal property corrective action plan to match resources to the planned actions and timelines and that it include this information in the corrective action plan.

Response: While this may be a best practice, A/LM does not believe it is necessary for a valid and responsive plan. The team leaders that are assigned responsibility for each major category are experts in their area and directly control most of the resources required to complete the tasks. They are perfectly capable of identifying an appropriate target for completion utilizing their resources and taking into account other priorities that they and their staff are responsible for. We are in a resource constrained environment, and everyone working towards the completion of this plan has full-time operational responsibilities in addition to their support of the Department's Property Corrective Action Plan.

Recommendation 2: We recommend that the Department of State assign tasks in the personal property corrective action plan at a level lower than that of the team leader. We also recommend that the Department leverage the Circular A-123 governance structure, including the Senior Assessment Team, to monitor and track the completion of the corrective action plan.

Response: The team leader (or whoever is designated as responsible for the task) is mid-management level and is the appropriate level in the organization to be assigned responsibility for performing the task and ensuring completion. These are the individuals who have the responsibility and authority to assign tasks and priorities in their organization. A/LM does agree, however, that we should consistently have names of individuals vice organizations in the plan and will work to correct this deficiency.

The Senior Assessment Team (SAT) is not the appropriate level to monitor accomplishment of the plan at the task level. That responsibility has been delegated to Ms. Ceci Coates as Chairperson of the Management Control Steering Committee (MCSC) Property Subcommittee. As a senior manager in the Department and the Department's Senior Property Officer, the delegation of authority is appropriate. It is Ms. Coates responsibility to brief the SAT and the MCSC at periodic intervals to report status and to enlist their support on issues as required. This keeps the SAT and the MCSC apprised of our progress and holds me accountable to them for improvements in the Department's property program.

Recommendation 3: We recommend that the Department of State include critical tracking metrics such as key interim milestones, baseline and actual start and end dates, percentage of completion, and other status indicators in its personal property corrective action plan.

Response: In general, A/LM agrees. We will work to include interim milestones on tasks where it makes sense. In addition, we will include a column and begin reporting percent complete. We will include start dates for tasks that still have significant work to be completed. A/LM does not think it is necessary to include them for tasks already completed or substantially completed. We will use these indicators as a standard practice with the corrective action plan going forward.

Recommendation 4: We recommend that the Department of State develop performance metrics to determine whether planned actions or events are complete and whether the outcomes effectively correct personal property related internal control deficiencies.

Response: The Property Scorecard and the ILMS Property Management Dashboard contain the key metrics requested and will be the means by which we will monitor the effectiveness of the Department's Property Corrective Action Plan.

Recommendation 5: We recommend that the Department of State include a validation methodology in its personal property corrective action plan that leverages its Circular A-123 internal control assessment and testing process.

Response: The Department already does use the A-123 internal control assessment and testing process to validate the effectiveness of the Department's Property Corrective Action Plan.

APPENDIX C – BUREAU OF RESOURCE MANAGEMENT RESPONSE



United States Department of State

Chief Financial Officer

Washington, D.C. 20520

JUL 27 2010

UNCLASSIFIED

MEMORANDUM

TO: OIG – Harold W. Geisel (Acting)

FROM: RM – James L. Millette *JM*

SUBJECT: Draft Audit Reports of the Department of State Corrective Action
Plans for Real Property, Personal Property and Equipment, and
Financial Reporting.

This responds to your request in your July 8, 2010 Memorandum for comments on the above referenced Reports.

We have reviewed Kearney and Company's (Kearney) draft reports prepared for the OIG on the above-referenced subjects and met with Kearney and the OIG on the information presented. We do not have any substantive comments on the reports' recommendations at this time.

As we have discussed with Kearney over the last several months, we continue to concentrate our efforts and attend to those elements in the corrective action plans (CAPS) that will address the material weaknesses reported in the FY 2009 Independent Auditor's Report on the Department's Financial Statements. We are pleased that the review found no significant elements missing in the CAPS that would prevent the Department from addressing these issues for this year's audit. We will continue to enhance the CAPS by incorporating your recommendations for improvements as well as those that we identify through our on-going efforts.

RM appreciates the opportunity to comment on the report.

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