



UNITED STATES DEPARTMENT OF STATE
AND THE BROADCASTING BOARD OF GOVERNORS
OFFICE OF INSPECTOR GENERAL

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Office of Audits

December 2012

**Compliance Followup Review of
Department of State Internal Controls
Over the J. William Fulbright
Scholarship Fund in Pakistan**

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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

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

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

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

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

A handwritten signature in black ink, appearing to read "Harold W. Geisel".

Harold W. Geisel
Deputy Inspector General

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Acronyms

ECA	Bureau of Educational and Cultural Affairs
MERO	Middle East Region Operations
OIG	Office of Inspector General
USEFP	United States Educational Foundation in Pakistan

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Executive Summary

On May 22, 2009, the Office of Inspector General (OIG), Middle East Region Operations (MERO), issued the memorandum report *Limited-Scope Review of Management and Internal Controls over the J. William Fulbright Scholarship Fund in Pakistan* (MERO-I-09-07), which reported on the adequacy of management and internal controls over the funds provided to the United States Educational Foundation in Pakistan (USEFP) to administer the Fulbright program.¹ In the report, OIG identified management and internal control weaknesses in USEFP's budgeting and financial reporting and in the Bureau of Educational and Cultural Affairs (ECA) oversight of the Fulbright program. OIG made 11 recommendations to ECA for improving management and internal controls, in coordination with USEFP and Embassy Islamabad. The recommendations, which are listed in the Background section of this report, addressed the need to develop accounting policies and procedures and an integrated accounting system, to provide timely audited annual financial statements and accurate grant budgetary projections, and to conduct periodic internal and external reviews. The objective of this compliance review was to verify the actions taken by the Department to implement the 11 recommendations made in the May 2009 report.

OIG determined that the Department had taken sufficient actions to close 10 of 11 recommendations. OIG closed Recommendations 2–11 because USEFP had improved financial reporting, had integrated grants management with its accounting system, and had hired a controller. OIG did not close Recommendation 1 because ECA had not ensured that USEFP had instituted an adequate internal control system, as required by the J. William Fulbright Foreign Scholarship Board and the USEFP Finance and Accounting Manual. Therefore, OIG is reissuing Recommendation 1 to ECA, requesting that ECA develop a process to ensure that USEFP institutes adequate internal controls over its accounting system.

In its December 7, 2012, response to the draft report (See Appendix B), ECA agreed with the new recommendation (No. 1). Embassy Islamabad, which was to coordinate with ECA on the recommendation, provided a letter on November 21, 2012 (See Appendix C), in which they agreed with the new recommendation. Based on ECA's response, OIG considers Recommendation 1 resolved, pending further action. (The responses and OIG's replies are included after Recommendation 1.)

¹ The Fulbright program provides competitive, merit-based grants for international educational exchange for U.S. and foreign students, scholars, teachers, professionals, scientists, and artists. From FY 2009–2012, approximately \$60 million was provided for the Fulbright program in Pakistan. USEFP administers the Fulbright program in Pakistan under ECA oversight.

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Background

In February 2009, OIG initiated a limited-scope review on the adequacy of management and internal controls over the funds provided to USEFP to administer the Fulbright program in Pakistan. The resulting OIG report² identified internal and management control weaknesses, including a lack of policies and procedures, grant reviews, fund monitoring, and financial reporting and record keeping. The report contained the following 11 recommendations to reduce risk and improve internal and management controls.

Recommendation 1. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan follows the financial and management policies and procedures of the J. William Fulbright Foreign Scholarship Board and the Department of State.

Recommendation 2. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan acquires a new accounting system capable of integrating general ledger, financial accounting, grant management, and budgeting, and ensure the United States Educational Foundation in Pakistan trains the accounting staff on the acquired accounting system.

Recommendation 3. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the Board Treasurer of the United States Educational Foundation in Pakistan monitors its financial operations by performing periodic reviews and reports the results of the reviews to ECA.

Recommendation 4. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should provide the United States Educational Foundation in Pakistan with electronic funds transfer information made to the Institute of International Education on its behalf within 10 days of receipt of such payments by the Institute of International Education.

Recommendation 5. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan provides ECA with quarterly unaudited financial statements (Income Statement, Statement of Cash Flow, Balance Sheet, and Fulbright Program Expenditures against Budget Information) and audited annual financial reports for the preceding fiscal year by April 1 of each year.

² *Limited-Scope Review of Management and Internal Controls over the J. William Fulbright Scholarship Fund in Pakistan* (MERO-I-09-07, May 2009).

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Recommendation 6. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the management office of the United States Educational Foundation in Pakistan is staffed with a controller to manage accounting, budgetary, and financial reporting processes.

Recommendation 7. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan reviews and revises, as appropriate, in collaboration with ECA and cooperating agencies, grant estimates by individual grantee.

Recommendation 8. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan places unexpended grant funds in an interest-bearing account.

Recommendation 9. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should perform scheduled periodic on-site reviews of the operation of the United States Educational Foundation in Pakistan.

Recommendation 10. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should fund and request State OIG to perform periodic on-site audits of the operations of the United States Educational Foundation in Pakistan, in accordance with U.S. Agency for International Development/Department of State memoranda of agreement; 10 FAM 236.4-2 (implementation of systematic program monitoring plans); and appendices 6, 7, and 8 of the J. William Fulbright Foreign Scholarship Board Manual for Binational Commissions and Foundations.

Recommendation 11. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan establishes and follows written policies and procedures for evaluating and selecting scholarship applicants, and administering scholarships, as outlined in the policies of the J. William Fulbright Foreign Scholarship Board and the Department of State.

Compliance Review Objective

The objective of this compliance review was to verify the actions taken by the Department to implement the 11 recommendations contained in the May 2009 OIG report.³

³ Ibid.

Compliance Review Results

MERO-I-09-07 Recommendation 1. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan follows the financial and management policies and procedures of the J. William Fulbright Foreign Scholarship Board and the Department of State.

Background: OIG made this recommendation after determining that USEFP was not following the financial and management policies and procedures contained in the J. William Fulbright Foreign Scholarship Board's Manual for Binational Commissions and Foundations. As the cooperating nonprofit organization assisting ECA in Pakistan, USEFP was required to follow the Manual's guidelines when administering the Fulbright program's funds.

In their response to MERO-I-09-07, ECA officials stated that they had provided USEFP with the Manual for Binational Commissions and Foundations and had requested that USEFP establish policies and procedures based on the Manual's guidelines. According to ECA, USEFP hired an accounting firm to prepare the policies and procedures, which were subsequently approved by USEFP Board of Directors, Embassy Islamabad, and ECA.

Compliance Review Results: OIG verified that the USEFP's Finance and Accounting Manual aligned with the guidelines included in the Manual for Binational Commissions and Foundations. However, OIG determined that USEFP had not established adequate internal controls in its accounting system, as required by section 4.2 of the Finance and Accounting Manual. USEFP had not segregated the accounts payable and receivable duties, which could have resulted in the modification and deletion of data entries in an effort to hide employee fraud. USEFP also granted every accounting system user with full "administrative level" access, which allowed the users unrestricted access to create, modify, and delete transactions and accounts. Further, USEFP did not ensure that its accounting system could create a comprehensive audit trail, which reduced the manager's ability to detect inadvertent or erroneous user entries.

Status: OIG is reissuing MERO-I-09-07 Recommendation 1 to address the inadequate internal controls over USEFP's accounting system. Although USEFP developed a Finance and Accounting Manual, it had not implemented the internal control requirements. (The new recommendation is included in the New Recommendation section of this report.)

MERO-I-09-07 Recommendation 2. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan acquires a new accounting system capable of integrating general ledger, financial accounting, grant management, and budgeting, and ensure the United States Educational Foundation in Pakistan trains the accounting staff on the acquired accounting system.

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Background: OIG made this recommendation after determining that USEFP's accounting system was not capable of maintaining grant information by individual student. USEFP instead was using a manual spreadsheet to record and maintain individual student awards, budgets, and expenses, which increased the risk of error and did not effectively integrate grants management with the accounting system.

In their response to MERO-I-09-07, ECA stated that USEFP had hired an accounting firm to develop an accounting system that would integrate grants management. According to ECA, the new accounting system, Integrated Financial Management System, was delivered and installed on April 1, 2010.

Compliance Review Results: OIG verified that USEFP's new accounting system, Integrated Financial Management System, was capable of integrating general ledger, financial accounting, grants management, and budgeting and that training on the new system was provided to the accounting staff.

Status: OIG closed MERO-I-09-07 Recommendation 2 based on actions taken by USEFP.

MERO-I-09-07 Recommendation 3. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the Board Treasurer of the United States Educational Foundation in Pakistan monitors its financial operations by performing periodic reviews and reports the results of the reviews to ECA.

Background: OIG made this recommendation after determining that USEFP was not monitoring its financial operations by performing periodic reviews and reporting the results to ECA.

In its response to MERO-I-09-07, Embassy Islamabad stated that it had advised the USEFP treasurer to maintain weekly communication with USEFP, perform periodic reviews, and report the review results to ECA.

Compliance Review Results: OIG verified that USEFP's treasurer was conducting reviews of the quarterly reports and was submitting the review results to ECA.

Status: OIG closed MERO-I-09-07 Recommendation 3 based on actions taken by USEFP.

MERO-I-09-07 Recommendation 4. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should provide the United States Educational Foundation in Pakistan with electronic funds transfer information made to the Institute of

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International Education on its behalf within 10 days of receipt of such payments by the Institute of International Education.

Background: OIG made this recommendation after identifying that ECA was not informing USEFP when it transferred funds to the Institute of International Education.

In its response to MERO-I-09-07, ECA stated that it had initiated a confirmation process to advise Embassy Islamabad and USEFP of funds transfers to the Institute of International Education within 10 business days and to report the information in its annual Status of Funds⁴ memorandum.

Compliance Review Results: By reviewing the FY 2009 and FY 2010 Status of Funds memoranda, OIG verified that ECA had been informing USEFP of the Institute of International Education fund transfers within 10 days. USEFP staff also reported that ECA was consistently providing that information.

Status: OIG closed MERO-I-09-07 Recommendation 4 based on actions taken by USEFP.

MERO-I-09-07 Recommendation 5. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan provides ECA with quarterly unaudited financial statements (Income Statement, Statement of Cash Flow, Balance Sheet, and Fulbright Program Expenditures against Budget Information) and audited annual financial reports for the preceding fiscal year by April 1 of each year.

Background: OIG made this recommendation after identifying that USEFP's financial statements had not been audited since September 30, 2006, and that USEFP was not providing ECA with quarterly unaudited financial statements in accordance with the Manual for Binational Commissions and Foundations.

In their response to MERO-I-09-07, ECA and Embassy Islamabad officials stated that USEFP's financial statements from FY 2007 through FY 2009 had been audited and that unaudited quarterly financial reports had been submitted to ECA.

Compliance Review Results: OIG verified that the USEFP FY 2007 through FY 2011 financial statements had been audited and that unaudited quarterly financial reports had been submitted to ECA.

⁴ The Status of Funds memorandum is a record of all financial transactions that ECA initiates on behalf of Commissions.

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Status: OIG closed MERO-I-09-07 Recommendation 5 based on actions taken by USEFP.

MERO-I-09-07 Recommendation 6. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the management office of the United States Educational Foundation in Pakistan is staffed with a controller to manage accounting, budgetary, and financial reporting processes.

Background: OIG made this recommendation after identifying that USEFP did not have a controller or Chief Financial Officer managing its financial operations. Instead, the USEFP Executive Director, who was responsible for approving and rejecting the grant applications, was also managing USEFP's day-to-day financial operations. Proper segregation of duties dictates that recording, maintaining, and reporting of organization's financial activities should be independent of overall program management.

In their response to MERO-I-09-07, ECA and Embassy Islamabad officials stated that they had engaged an accounting firm to assist with recruiting a USEFP controller. According to ECA's response, the new controller would report to the USEFP Board of Directors through the treasurer so that the segregation of duties are clear and allow for better transparency and accountability within the organization.

Compliance Review Results: OIG verified that USEFP had hired a controller to manage its accounting, budgetary, and financial reporting processes.

Status: OIG closed MERO-I-09-07 Recommendation 6 based on actions taken by USEFP.

MERO-I-09-07 Recommendation 7. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan reviews and revises, as appropriate, in collaboration with ECA and cooperating agencies, grant estimates by individual grantee.

Background: OIG made this recommendation after identifying that USEFP was not reviewing grant costs by individual grantee as required by the Manual for Binational Commissions and Foundations.

In their response to MERO-I-09-07, ECA and Embassy Islamabad officials stated that they had requested the Institute of International Education to provide USEFP with a projected cost report⁵ of grant estimates by individual grantee. ECA stated that USEFP would work in

⁵ The projected cost report lists grantee names, projected program travel expenses, administrative expenses, and the total cost.

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collaboration with ECA and Institute of International Education to review and revise, as appropriate, grant estimates and, as a standard practice, provide the report to ECA as needed.

Compliance Review Results: OIG reviewed USEFP's calendar years 2009 and 2010 projected cost reports and verified that the reports provided the estimates by individual grantee. OIG also interviewed the ECA Branch Chief, who stated that USEFP reviews and revises grant estimates by individual grantees, as appropriate, and provides ECA with revised projected cost reports.

Status: OIG closed MERO-I-09-07 Recommendation 7 based on actions taken by USEFP.

MERO-I-09-07 Recommendation 8. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan places unexpended grant funds in an interest-bearing account.

Background: OIG made this recommendation after identifying that USEFP had approximately \$58.3 million in a noninterest-bearing account as of September 30, 2008.

In their response to MERO-I-09-07, ECA stated that USEFP had consulted with Citibank New York and had obtained professional tax guidance and opinions regarding its registration and tax exemption status. ECA also stated that USEFP had opened an interest-bearing account with Citibank New York.

Compliance Review Results: OIG reviewed USEFP's calendar year 2010 and 2011 USEFP bank statements and verified that unexpended grant funds were maintained in an interest-bearing account.

Status: OIG closed MERO-I-09-07 Recommendation 8 based on actions taken by USEFP.

MERO-I-09-07 Recommendation 9. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should perform scheduled periodic on-site reviews of the operation of the United States Educational Foundation in Pakistan.

Background: OIG made this recommendation after identifying that ECA's oversight of USEFP was inadequate. ECA never conducted or scheduled an on-site review of USEFP. OIG noted in MERO-I-09-07 that ECA's failure to perform on site reviews had contributed to the breakdown of USEFP's system of internal controls.

In its response to MERO-I-09-07, ECA stated that the ECA Fulbright program staff had made four visits to Islamabad in November 2009, February 2010, May 2010, and June 2010 to

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conduct on-site reviews of the USEFP Fulbright program and to ensure that operations were achieving intended results.

Compliance Review Results: OIG verified that ECA had performed periodic on-site reviews of the operation of the United States Educational Foundation in Pakistan and that ECA had documented the results of their reviews.

Status: OIG closed MERO-I-09-07 Recommendation 9 based on actions taken by ECA.

MERO-I-09-07 Recommendation 10. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should fund and request State OIG to perform periodic on-site audits of the operations of the United States Educational Foundation in Pakistan, in accordance with U.S. Agency for International Development/Department of State memoranda of agreement; 10 FAM 236.4-2 (implementation of systematic program monitoring plans); and appendices 6, 7, and 8 of the J. William Fulbright Foreign Scholarship Board Manual for Binational Commissions and Foundations.

Background: OIG made this recommendation after identifying that ECA's FY 2005–2008 memoranda of agreement with U.S. Agency for International Development had stated that the Department of State OIG must perform periodic program and financial audits of the use of the funds.

In its response to MERO-I-09-07, ECA requested that the Department of State OIG perform an on-site audit of USEFP. However, in an e-mail dated July 21, 2009, OIG stated that it could not conduct a followup audit until "sometime in FY 2010." Subsequently, in October 2010, OIG acknowledged that it was outside of ECA's scope of control to obtain on-site periodic audits of USEFP and therefore closed the recommendation.

Compliance Review Results: No additional review was conducted by OIG.

Status: No additional action is required.

MERO-I-09-07 Recommendation 11. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should ensure the United States Educational Foundation in Pakistan establishes and follows written policies and procedures for evaluating and selecting scholarship applicants, and administering scholarships, as outlined in the policies of the J. William Fulbright Foreign Scholarship Board and the Department of State.

Background: OIG made this recommendation after determining that USEFP had not established written policies and procedures for evaluating and selecting scholarship applicants, and administering scholarships, as outlined in the policies of the J. William Fulbright Foreign Scholarship Board and the Department of State.

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In their response to MERO-I-09-07, ECA stated that the USEFP Executive Director and staff had drafted policies and procedures for evaluating applicants and administering scholarships and grants as outlined in the Manual for Binational Commissions and Foundations. According to a memorandum dated October 4, 2010, ECA stated that the policies and procedures had been approved for implementation by ECA and USEFP Board of Directors.

Compliance Review Results: OIG verified that USEFP established written policies and procedures for evaluating and selecting scholarships applicants and administering scholarships as outlined in the policies of the J. William Fulbright Foreign Scholarship Board and the Department of State.

Status: OIG closed MERO-I-09-07 Recommendation 11 based on actions taken by USEFP.

New Recommendation

Recommendation 1. The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should develop a process to ensure that the United States Educational Foundation in Pakistan complies with the internal control requirements of Finance and Accounting Manual Section 4.2 to include ensuring segregation of duties, restricting administrator-level access, and establishing comprehensive audit trails.

Management Response: ECA agreed with the recommendation, stating that USEFP had segregated duties in accounts payable and receivable, limited user access to the accounting system, and hired an accounting firm to create software that will include a comprehensive audit trail for USEFP's financial management system. ECA further stated that USEFP was in the process of establishing standard procedures.

Although not required to provide a response, in a letter to OIG, Embassy Islamabad agreed with the recommendation, stating that USEFP has taken action to address the recommendation.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and approves documentation showing that ECA has developed the specified process.

Scope and Methodology

The objective of this compliance review was to verify the actions taken by the Department to implement the 11 recommendations contained in the OIG report *Limited-Scope Review of Management and Internal Controls over the J. William Fulbright Scholarship Fund in Pakistan* (MERO-I-09-07, May 2009). This review was conducted in accordance with the *Quality Standards for Inspection and Evaluation* issued in January 2011 by the Council of the Inspectors General on Integrity and Efficiency. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the review.

To verify actions taken to implement the 11 MERO-I-09-07 recommendations, OIG conducted field work in Washington, DC, and Islamabad, Pakistan. OIG interviewed Bureau of Educational and Cultural Affairs officials in Washington, DC. OIG reviewed recommendation closure memoranda and OIG compliance reviews. Furthermore, additional correspondence, documentation, periodic review reports, audited financial statements, bank statements, and policies and procedures were also verified.

To further verify the actions taken to implement Recommendation 2, OIG conducted fieldwork at the United States Educational Foundation in Pakistan (USEFP) office in Islamabad, Pakistan. OIG interviewed embassy and USEFP staff responsible for monitoring the Fulbright program funds. OIG also met with USEFP accounting staff and interviewed the controller and employees. To test access controls in the new accounting system, OIG observed staff members navigate the system to demonstrate their access rights.

OIG conducted this review from October 2011 through October 2012. The fieldwork took longer than anticipated because the Government of Pakistan took more than 4 months to issue visas to the team.

Review of Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas evaluated. For example, OIG gained an understanding for segregation of duties and access control in the new accounting system. Significant deficiencies identified during the evaluation are reported in the Evaluation Results section of this report.

Use of Computer-Processed Data

OIG did not rely on the use of computer-processed data to support the findings, conclusions, or recommendation in this evaluation.

Bureau of Educational and Cultural Affairs Response



United States Department of State
Bureau of Educational and Cultural Affairs
Washington, DC 20522
www.state.gov

DATE: December 7, 2012

MEMORANDUM TO: OIG – Carol Gorman, Deputy Assistant Inspector General
Middle East Region Operations

OIG – James Pollard, Audit Director, Middle East Regional
Office

FROM: ECA – Ann Stock, Assistant Secretary of State for *AS*
Educational and Cultural Affairs

SUBJECT: Written Response to OIG Report Recommendations:
Compliance Follow-up Review of Department of State
Internal Controls over the J. William Fulbright Scholarship
Fund in Pakistan: Report Number MERO-I-09-07

The following is the Bureau of Educational and Cultural Affairs' (ECA) response to the Compliance Follow-up Review of Department of State Internal Controls over the J. William Fulbright Scholarship Fund in Pakistan, Report Number: MERO-I-09-07.

As noted in the draft report, OIG determined that ten of the eleven recommendations have been successfully fulfilled and closed. The final recommendation, identified as "Recommendation 1" is addressed below.

Recommendation 1: The Bureau of Educational and Cultural Affairs, in coordination with Embassy Islamabad, should develop a process to ensure that the United States Educational Foundation in Pakistan complies with the internal control requirements of Finance and Accounting Manual Section 4.2 to include ensuring segregation of duties, restricting administrator-level access, and establishing comprehensive audit trails.

Response: ECA and Embassy Islamabad agree with this recommendation.

Embassy Islamabad, in coordination with ECA, has already taken steps to remedy the issue by requesting USEFP to establish standard procedures. USEFP has taken action by segregating duties of accounts payable and receivable to different staff members. In addition, USEFP has limited access to the accounting system to five Finance and Accounting staff members, as follows:

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	<u>View Only</u>	<u>Tasks</u>
Controller	Full Access	Full Access
Finance Manager	Full Access	Full Access
Assistant Manager, Accounts	Full Access	Receivables, General Journal
Accounts Officer	Full Access	Accounts Payable
Assistant Finance Officer	Full Access	Accounts Payable

USEFP has hired Deloitte to create software that will include a comprehensive audit trail. Deloitte required more time and additional funds to develop the software that will work with USEFP's existing accounting system. USEFP believes the software will be ready in approximately three months (February 2013).

ECA has requested that the USEFP Board Treasurer monitor the progress of the software update and its subsequent implementation. ECA has requested that USEFP and the Treasurer remain in regular communication with ECA on the status of the accounting system.

Embassy Islamabad Response



**AMBASSADOR OF
THE UNITED STATES OF AMERICA
ISLAMABAD**

November 21, 2012

Mr. Harold W. Geisel
Deputy Inspector General
Department of State
2201 C Street NW
Washington, DC 20520

Dear Mr. Geisel:

The U.S. Embassy in Islamabad and the U.S. Educational Foundation in Pakistan (USEFP) agree with the recommendations in the draft report *Compliance Follow-up Review of Department of State Internal Controls Over the J. William Fulbright Scholarship Fund in Pakistan* as prepared by the Office of Inspector General's Office of Audits.

As noted in the draft report, ten of the eleven recommendations have already been fulfilled and successfully closed. For the outstanding recommendation, identified as "Recommendation 1," USEFP has made every effort to adequately complete the recommendation. Please refer to the attachment accompanying this letter for more information.

If you require any additional details or clarification with our responses to the draft report recommendations, please let me know.

Sincerely,

A handwritten signature in blue ink, appearing to read "Richard G. Olson".

Richard G. Olson

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Attachment

Recommendation 1 requested the USEFP follow the financial and management policies and procedures of the J. William Fulbright Foreign Scholarship Board and the Department of State. USEFP complied with the recommendation but three outstanding requests remained: (1) segregate the accounts payable and receivable duties; (2) limit access to appropriate users; and (3) ensure the accounting system could create a comprehensive audit system.

USEFP complied with points (1) by segregating duties of accounts payable and receivable to different staff members, and (2) narrowing the access to the accounting system of the five USEFP Finance and Accounting staff as follows:

	<u>View Only</u>	<u>Tasks</u>
Controller	Full Access	Full Access
Finance Manager	Full Access	Full Access
Assistant Manager Accounts	Full Access	Receivables, General Journal
Accounts Officer	Full Access	Accounts Payable
Assistant Finance Officer	Full Access	Accounts Payable

USEFP complied with point (3) as follows:

USEFP is working with Deloitte to create software that will include a comprehensive audit trail. Deloitte required more time and an additional \$1,500 to develop the software that will fit within USEFP's existing accounting system. USEFP estimates the software will be ready for use three months from now.

Major Contributors to This Report

Carol Gorman, Deputy Assistant Inspector General
Middle East Region Operations
Office of Audits

James Pollard, Audit Director
Middle East Region Operations
Office of Audits

Suzana Chowdhury, Auditor
Middle East Region Operations
Office of Audits