



# OIG HIGHLIGHTS

View Report: [AUD-MERO-15-39](#).

## What OIG Audited

Between October 2010 and December 2013, three Department of State (Department) bureaus obligated \$108 million in non-lethal assistance to address the Syrian crisis through 34 cooperative agreements and grants. The non-lethal assistance consisted of cash grants, training, and equipment intended to help the Syrian Coalition, local opposition councils, and civil society groups.

The Office of Inspector General (OIG) conducted this audit to determine the extent to which the Department's management and oversight of non-lethal assistance provided in response to the Syrian crisis complied with Department guidance and federal laws.

## What OIG Recommends

OIG made 10 recommendations to the responsible bureaus to improve the management and oversight of the awards and to review the costs questioned in this report to determine whether they are allowable. OIG received responses to the draft report from the Bureau of Administration, Office of Logistics Management (A/LM); the Bureau of Conflict and Stabilization Operations (CSO); the Bureau of Democracy, Human Rights, and Labor (DRL); and the Bureau of Near Eastern Affairs (NEA) (see Appendices C, D, E, and F, respectively). Based on the responses, OIG considers one recommendation closed; seven recommendations resolved, pending further action; and two recommendations unresolved. Management responses and OIG replies are presented after each recommendation (see Audit Results section). NEA also provided additional general and technical comments, which OIG incorporated as appropriate and addressed in Appendix G.

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September 2015

OFFICE OF AUDITS

MIDDLE EAST REGION OPERATIONS

Audit of Department of State Management and Oversight of Non-Lethal Assistance Provided for the Syrian Crisis

## What OIG Found

OIG identified varying levels of compliance with Department policy for the three cooperative agreements and one grant included in our audit sample. Specifically, OIG found weaknesses in the monitoring of non-lethal assistance provided to address the Syrian crisis, as well as incomplete risk assessments and missing or poor quality monitoring plans. These weaknesses impacted the responsible bureaus' ability to ensure that award recipients performed required program activities and that the awards achieved their intended outcomes.

OIG found that the responsible bureaus did not provide sufficient monitoring for any of the four award recipients in the audit sample. For example, NEA Middle East Partnership Initiative (MEPI) failed to ensure that the recipient of a cooperative agreement to fund cash payments to Syrian opposition groups had sufficient financial management processes to track expenditures and to effectively monitor its sub-recipients. As a result, OIG questioned costs of \$808,697 that were not adequately supported and unexpended funds of \$77,324 associated with the award. In addition, OIG found that CSO did not ensure that the recipient of a cooperative agreement to increase the capacity of opposition networks had adequate procedures to track equipment purchases and/or distribution. As a result, OIG questioned \$825,211 associated with this award.

Department guidance outlines several activities that should be completed prior to award issuance that help limit the risks associated with each award and ensure that the Department obtains the services expected. OIG identified deficiencies with the risk assessments for each award it reviewed. For example, DRL neglected to consider a potential conflict of interest between the award recipient and its subcontractors. OIG also found instances where the grants officer and the grants officer representative (GOR) did not develop monitoring plans that met Department requirements. For example, the monitoring plan for the CSO cooperative agreement to provide equipment to the Syrian opposition did not identify the type of monitoring efforts and was approved after award issuance. In addition, the grants officer for a DRL grant to expand the free flow of information in Syria inappropriately assigned a third party contractor as the GOR, which violates Grants Policy Directive 16, *Designation of Grants Officer Representatives*.

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# OIG

## Office of Inspector General

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AUD-MERO-15-39

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September 2015

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## MIDDLE EAST REGION OPERATIONS

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## OBJECTIVE

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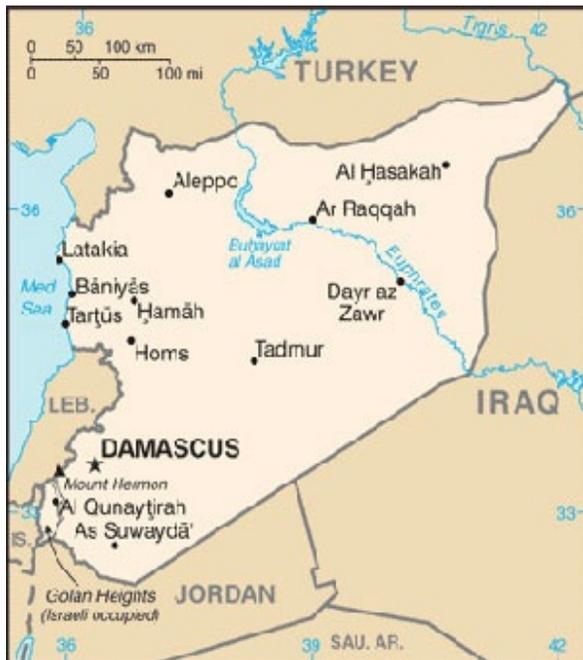
The Office of Inspector General (OIG) conducted this audit to determine the extent to which the Department of State (Department) management and oversight of non-lethal assistance provided in response to the Syrian crisis complied with Department guidance and Federal law. Specifically, OIG reviewed three cooperative agreements and one grant, with a combined value of \$44 million. See Appendix A for a detailed scope and methodology for the audit.

## BACKGROUND

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Beginning in March 2011, as peaceful demonstrations against the Syrian Arab Republic government failed to achieve promised reforms, conflict erupted between government forces loyal to President Bashar al-Assad and armed opposition groups. According to a September 2014 Department of State Syria Fact Sheet, the United Nations estimates that 191,000 people had been killed, and more than 3 million people fled Syria to seek refuge in neighboring

**Figure 1: Syria and Surrounding Countries**



Source: Department of State at [www.state.gov](http://www.state.gov).

countries as a result of the fighting. In response, the U.S. Government coordinated with its partners and allies to isolate the Assad regime through comprehensive sanctions. They have also worked to develop the moderate Syrian opposition to act as a counterweight to President al-Assad and his supporters.

According to the Department's March 2015 Fact Sheet on the Syrian crisis, the U.S. Government contributed more than \$3.7 billion in non-lethal assistance and humanitarian aid since the start of the crisis in 2011. Non-lethal assistance is a term used (in contrast to "humanitarian aid") to denote funding to provide training, equipment, and various services to enhance the stability of a targeted community or group of people, such as expanding communications capabilities, or improving public services, among other things.

The Department provides non-lethal assistance to international and non-governmental

organizations through cooperative agreements and grants.<sup>1</sup> These organizations are reported to have used the funding to help the Syrian National Coalition, local opposition councils, and civil society groups by purchasing equipment and conducting training, among other things. For example, non-lethal assistance is said to have been used to buy generators, ambulances, fire trucks, and water storage units for distribution inside Syria. Non-lethal assistance has reportedly also been used to provide training and equipment to help build the capacity of grassroots organizations and activists to conduct transition planning, establish an independent media, and obtain access to information and communication security. Further, these funds are meant to be used to aid vetted, moderate opposition units that fight both the Assad regime and violent extremist groups, notably the Islamic State of Iraq and the Levant (ISIL).<sup>2</sup>

Of the \$3.7 billion in non-lethal aid and humanitarian assistance that the U.S. Government has contributed to address the Syrian crisis between October 2011 and December 2013—the period covered by our audit sample—three Department bureaus obligated \$108 million in non-lethal assistance.

## Roles and Responsibilities for Overseeing Cooperative Agreements and Grants

Department guidance describes the roles and responsibilities of government personnel assigned responsibility for awarding, administering, and overseeing cooperative agreements and grants. The two key individuals with primary oversight and monitoring responsibilities with respect to any grant are the grants officer and the grants officer representative (GOR). The grants officer is authorized to award, amend, and terminate a Federal assistance agreement; he is also responsible for exercising prudent management over assistance funds.<sup>3</sup> Department policy requires that the grants officer designate a representative, the GOR, for all cooperative agreements and grants exceeding \$100,000. The GOR assists the grants officer in ensuring that the Department exercises prudent management and oversight of the award through the monitoring and evaluation of the recipient's performance.<sup>4</sup>

Generally, the grants officer will work for the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM); for this audit, the GOR works for the bureau or office that is providing the assistance funds.<sup>5</sup> In addition to assigning grants officers to award and manage assistance awards across the Department, AQM manages, plans, and

<sup>1</sup>Cooperative agreements and grants authorize funds to be spent for a public purpose through the transfer of money, property, or services. Cooperative agreements require substantial government involvement in their implementation. Grants, in contrast, require less government involvement.

<sup>2</sup> [Department of State Fact Sheet: Syrian Crisis: U.S. Assistance and Support for the Transition](#), September 29, 2014.

<sup>3</sup>Grants Policy Directive (GPD) 28, rev. 1, *Roles and Responsibilities for the Award and Administration of Federal Assistance*.

<sup>4</sup>GPD 16, rev. 3, *Designation of Grants Officer Representatives*.

<sup>5</sup>For the Bureau of Near Eastern Affairs, Middle East Peace Initiative (NEA/MEPI), the grants officer and GOR both work for the program office.

directs the Department's acquisition programs and provides a full range of professional contract management services, including acquisition planning, contract negotiations, cost and price analysis, and contract administration.

Lastly, Department bureaus funding the grants and cooperative agreements also have responsibilities for ensuring proper oversight. For example, the bureaus may assign program officers or field staff to help assist with on-site monitoring and oversight of assistance awards if the grants officer and GOR cannot travel to the place of performance. In addition, the bureaus provide the technical and program expertise necessary to assist the grants officer and GOR to determine whether the actual deliverables meet the terms of the award. The Bureaus of Near Eastern Affairs (NEA), Conflict and Stabilization Operations (CSO), and Democracy, Human Rights and Labor (DRL) awarded the three cooperative agreements and one grant in our review. Table 1 shows the cooperative agreement/grant number, the value, the responsible bureau, and the bureau of the designated grants officers and GORs for each award.

**Table 1: Responsible Bureaus for Oversight of the Cooperative Agreements and the Grant in OIG Audit Sample**

Recipient and Cooperative Agreement/Grant Number	Total Value	Responsible Bureau/Office	Bureau/Office of Designated Grants Officer	Bureau/Office of Designated GOR
[Redacted] (b) (7)(E) (S-NEAPI-13-CA-1001)	\$20,000,000 <sup>a</sup>	NEA/MEPI	NEA/MEPI	NEA/MEPI
[Redacted] (b) (7)(E) (S-LMAQM-13-CA-1137)	\$16,435,644	CSO	AQM	CSO
[Redacted] (b) (7)(E) (S-LMAQM-12-CA-020)	\$6,713,857	CSO	AQM	CSO
[Redacted] (b) (7)(E) (S-LMAQM-12-GR-1245)	\$854,600 <sup>b</sup>	DRL	AQM	DRL

<sup>a</sup> The original value of this cooperative agreement at the time of award was \$7,000,000.

<sup>b</sup> The initial value of the grant when awarded was \$759,960. When the audit sample was selected in May 2014, the total value of the grant had increased to \$854,600. Another amendment to the grant was made on September 26, 2014, to extend the period of performance by 15 months and added \$1,089,000 to the total value of the grant—increasing the total value of the grant to \$1,943,000.

**Source:** OIG presentation of audit sample data. Cost share is required under the award and was used to determine the total amount of the award.

### *Bureau of Near Eastern Affairs, Middle East Partnership Initiative*

The Bureau of Near Eastern Affairs offers assistance, training, and support to groups and individuals through its Middle East Partnership Initiative (NEA/MEPI). NEA/MEPI programs are conducted in 18 countries and territories to promote partnerships with civil society organizations, community leaders, youth and women groups, and businesses to advance reform efforts. Since 2002, NEA/MEPI has contributed more than \$600 million to the Middle East and

North Africa region through various projects. During our audit, NEA/MEPI was consolidated along with other foreign assistance programs into the Bureau of Near Eastern Affairs, Office of Assistance Coordination.

As part of NEA/MEPI's assistance and support efforts in the Middle East, NEA/MEPI awarded a cooperative agreement to [Redacted] (b) (7)(E) S-NEAPI-13-CA-1001, on December 17, 2012, for \$7,000,000 to fund cash payments to Syrian civil society groups and opposition organizations. This cooperative agreement had a 12-month period of performance and used sub-recipients. On May 23, 2013, the total value of the cooperative agreement increased to \$20,000,000; and on June 21, 2013, the period of performance was extended from December 16, 2013, to December 16, 2014.

### *Bureau of Conflict and Stabilization Operations*

CSO provides support for the Department's conflict and crisis-management efforts through on-the-ground conflict analysis, strategic planning, and operational support for local partners. In Syria, CSO has contributed \$27 million for training of activists and buying equipment for the Syrian opposition since 2011. Also, CSO has been working to provide Syrian opposition groups the skills, knowledge, and networks it deems necessary to strengthen civil administration, community security, independent media, and other vital parts of a peaceful civil society.

As described in Table 1, OIG selected two cooperative agreements awarded by AQM on behalf of CSO. The first CSO cooperative agreement, S-LMAQM-13-CA-1137, awarded on August 16, 2013, to [Redacted] (b) (7)(E), sought to provide communications and logistics equipment to the Syrian opposition and the [Redacted] (b) (7)(E). The cooperative agreement had a total value of \$16,435,644, and was performed from August 16, 2013, through April 30, 2014.

The second CSO cooperative agreement, SLMAQM-12-CA-020, awarded on August 23, 2012, to [Redacted] (b) (7)(E) sought to facilitate increased coordination between opposition groups through building the groups' resilience and capacity to resist while preparing for a post-al-Assad transition. The cooperative agreement had a total value of \$6,713,857 and a period of performance from August 23, 2012, to May 16, 2013.

### *Bureau of Democracy, Human Rights and Labor*

DRL seeks to promote democracy, protect human rights and international religious freedom, and advance labor rights globally. In the Middle East region, DRL has administered 72 different programs, with an approximate value of \$232 million, including programs addressing women's empowerment, training of journalists, political participation, strengthening rule of law, and youth programs. The primary program through which DRL monitors and promotes human rights and democracy worldwide is the Human Rights & Democracy Fund, established by Congress in FY 1998.

Within DRL's internet freedom programming efforts, AQM awarded a grant to [Redacted] (b) (7)(E) S-LMAQM-12-GR-1245, on behalf of DRL, on September 22, 2012, to expand the free flow of information in Syria by providing uncensored internet access and running an internet safety awareness campaign. When OIG selected the audit sample in May 2014, the grant had a 25-month period of performance and a total value of \$854,600. On September 26, 2014, the grant was amended to extend the period of performance by 15 months and add \$1,089,000 to the total value of the grant.

## Department Guidance for Grants Management

The Bureau of Administration, Office of the Procurement Executive (A/OPE), provides overall leadership of the grants functions at the Department and issues policy, provides quality assurance, and appoints grants officers. Under this authority, A/OPE issues and updates the Department's Grants Policy Directives (GPD),<sup>6</sup> which provide guidance for administering and monitoring cooperative agreements and grants. The following are some of the key directives:

- GPD 16, Designation of Grants Officer Representatives
- GPD 23, Federal Assistance File Folder, Form DS-4012
- GPD 28, Roles and Responsibilities for the Award and Administration of Federal Assistance
- GPD 41, Close-Out of Federal Assistance Awards
- GPD 42, Monitoring Assistance Awards
- GPD 43, Pre-Award Responsibility Determination
- GPD 57, Risk Management
- GPD 58, High Risk Recipients

The GPDs collectively identify the Department's internal control policies and guidance for managing grants and cooperative agreements from the pre-award phase through closeout. In addition to the GPDs, the Department's *Federal Assistance Policy Handbook* serves as a comprehensive source of best practices, providing internal guidance, policies, and standards for the distribution and management of Department assistance awards.

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<sup>6</sup> On March 13, 2015, the Department issued the Federal Assistance Policy Directive. The Grants Policy Directives, which were issued by the Office of the Procurement Executive and used as the criteria for this audit, are now incorporated in the Federal Assistance Policy Directive. This report preserves OIG's discussion of, and citations to, the Grants Policy Directives because the Directives were in effect when the Department issued the assistance awards in our audit sample. Moreover, OIG considers the prior versions of the Grants Policy Directives to be practical guidance for the management of the Department's Federal assistance awards. All recommendations associated with Grants Policy Directives compliance are directed toward the applicable subchapters of the Federal Assistance Policy Directive.

## AUDIT RESULTS

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### Finding A: Responsible Bureaus Did Not Provide Sufficient Monitoring for Any of the Four Award Recipients

GPD 42, *Monitoring Assistance Awards*, describes the responsibilities of management officials in monitoring assistance awards. This directive states that monitoring of assistance awards shall include compliance with the award terms and conditions and the timely implementation of project activities. It also requires the grants officer or GOR to review financial status and progress reports and document the monitoring in the award file. The award file should indicate that the reports have been reviewed and the results of the reviews should be shared with recipients, as appropriate. In addition to GPD 42, the *Federal Assistance Policy Handbook*, Section 4.1, identifies a monitoring plan, performance monitoring, financial monitoring, financial compliance reviews, and site visits as components of monitoring assistance awards. It further explains that the grants officer and GOR are responsible for ensuring that monitoring is conducted for each program in accordance with appropriate regulations and the monitoring plan. For example, the grants officer and GOR should be monitoring both the financial capability and funds management of the recipient and the actual expenditures on the award activity.

OIG found that the responsible bureaus did not provide sufficient monitoring for any of the four award recipients in the audit sample. For example, two award recipients, [REDACTED] (S-NEAPI-13-CA-1001) and [REDACTED] (S-LMAQM-12-CA-020) had inadequate management/financial systems that were not identified by NEA/MEPI and CSO. The purpose of these cooperative agreements was to assist development projects through cash payments and enhance the communication between opposition networks, respectively. OIG also found that NEA/MEPI and CSO did not always document their monitoring activities in accordance with Department policy and failed to ensure that [REDACTED] and [REDACTED] had sufficient financial management processes to track expenditures and monitor its sub-recipients. OIG questions (1) \$808,697 in unsupported costs and \$77,324 in unexpended funds for the NEA/MEPI award and (2) \$825,211 associated with the CSO award.

Some of the deficiencies noted in monitoring the assistance awards occurred because of internal control weaknesses among the award recipients. For example, [REDACTED] performed limited monitoring of its sub-awardees, and [REDACTED] did not have sufficient controls for project administration, such as proper procurement and equipment tracking processes. These weaknesses were made known to the grants officers and GORs prior to the award of the grants. In addition, officials from AQM and NEA/MEPI told OIG that they did not have adequate resources to properly manage awards and that they needed additional resources to complete the required monitoring. Department guidance assigns grants officers more than 25 specific responsibilities throughout the lifecycle of each grant, from pre-award to post-award, and one grants officer in AQM stated that he was responsible for administering 150 grants, with an approximate value of \$100 million. Another grants officer in NEA/MEPI said that his oversight was restricted by inadequate travel funding because the grants officers were unable to obtain funding to complete site visits.

OIG issued a Management Alert on Grants Management Deficiencies<sup>7</sup> in September 2014, which underscored grants management as a significant management challenge for the Department. Specifically, the alert stated that insufficient oversight is due, in part, to the limited number of employees dedicated to managing the large number of grants. The Management Alert recommended that the Under Secretary for Management institute a grants officer and GOR workforce planning effort to identify, for tracking, training, and budget purposes, the appropriate number of personnel needed Department-wide to ensure adequate grants management.<sup>8</sup> OIG concluded that without manageable workloads for grants officers and adequate resources, there is increased risk that Department funds could be mismanaged or wasted. In response to the alert, the Department's Procurement Executive stated that it planned to issue the Grants Human Capital Plan in May 2015,<sup>9</sup> which would include designating the grants management occupational function as a mission critical function.

Section 4.5.2 of the *Federal Assistance Policy Handbook* states that performance "measurement is not a luxury, it is mandatory" for assistance awards. Without providing the appropriate monitoring, as outlined in GPD 42, *Monitoring Assistance Awards*, the bureaus administering awards for non-lethal assistance may not be able to ensure that programmatic and financial management performance and the intended goals have been accomplished.

OIG findings specific to each of the four assistance awards in our audit sample are described below. See Appendix B for the breakdown of the specific costs for each award.

### **NEA/MEPI Cooperative Agreement With [REDACTED] To Provide Funds to Opposition Groups (S-NEAPI-13-CA-1001)**

OIG found that NEA/MEPI did not provide robust monitoring of the cooperative agreement awarded to [REDACTED]<sup>(b) (7)(E)</sup> and that [REDACTED]<sup>(b) (7)(E)</sup> did not have sufficient financial management systems in place to track its financial transactions. Further, [REDACTED]<sup>(b) (7)(E)</sup> did not adequately monitor its sub-recipients. As a result, OIG identified \$808,697 in unsupported costs and \$77,324 in unexpended funds.<sup>10</sup>

#### ***NEA/MEPI Did Not Provide Robust Monitoring***

GPD 42, *Monitoring Assistance Awards*, and the *Federal Assistance Policy Handbook*, Section 4.1, identify a monitoring plan, performance monitoring, financial monitoring, and financial

<sup>7</sup> *Management Alert – Grants Management Deficiencies* (MA-14-03), September 2014.

<sup>8</sup> Because OIG already recommended that the Department complete a workforce planning assessment to identify the appropriate number of personnel for adequate grants management, OIG did not make a repeat recommendation to address manageable workloads and adequate resources for grants officers and other grant management staff.

<sup>9</sup> OIG contacted A/OPE in June 2015 for a copy of the plan. According to a procurement official, the plan was out for comment but had not been issued.

<sup>10</sup> See Appendix B for a breakdown of the specific costs questioned for NEA/MEPI Cooperative Agreement S-NEAPI-13-CA-1001.

compliance reviews as well as site visits as general components of monitoring assistance awards. OIG found several examples in which NEA/MEPI did not provide robust monitoring. First, NEA/MEPI officials made only three site visits to Turkey in 2 years. During these visits, NEA/MEPI identified issues with the timesheets being used to calculate the work hours and the accuracy of the hours, including recipient staff not charging time accurately to the award and the local council not accurately calculating its timesheets. NEA/MEPI provided recommendations to [REDACTED] (b) (7)(E) regarding the issues identified during the site visits; however, OIG found that the timesheets issue, in addition to other problems identified<sup>11</sup> during the site visits, had not been addressed. Based upon the recurring issues, it does not appear that the grants officer and/or GOR ensured that [REDACTED] (b) (7)(E) implemented all the recommendations.

Second, the grants officer assigned [REDACTED] (b) (7)(E) program progress reports and financial reports at a moderate risk level because [REDACTED] (b) (7)(E) did not always submit timely, verifiable, or informative reports. OIG found this to be true, specifically with [REDACTED] (b) (7)(E) quarterly progress reports submitted to NEA/MEPI. For example, [REDACTED] (b) (7)(E) first quarter 2014 report<sup>12</sup> included inaccurate data for 18 of 21 performance metrics reported. Also, [REDACTED] (b) (7)(E) reported that 70 percent of sub-recipients were compliant with financial and procurement procedures. However, OIG found that only 47 percent of the sub-recipients were compliant. Even though the cooperative agreement was assigned a “moderate risk” designation, OIG found that the grants officer and GOR did not provide sufficient monitoring efforts to help mitigate the known risks nor did they develop corrective action plans to improve the accuracy of [REDACTED] (b) (7)(E) reports. As a result, the grants officer and GOR did not have sufficient assurance that [REDACTED] (b) (7)(E) provided the services in the manner discussed in their progress reports, as required under GPD 42, Monitoring Assistance Awards.

### **[Redacted] (b) (7)(E)** Did Not Have Sufficient Financial Management Systems

The *Federal Assistance Policy Handbook* requires that a recipient’s recordkeeping system should, at a minimum, organize and summarize transactions in a way that provides a basis for preparing financial statements and support all financial transactions.<sup>13</sup> As part of their monitoring and oversight responsibilities, a grants officer and/or GOR should review and ensure that a recipient can sufficiently track all of the expenditures made against the assistance award.

OIG found that [REDACTED] (b) (7)(E) did not establish a financial management process to track all transactions to prevent loss or misuse of taxpayer funds. Similarly, [REDACTED] (b) (7)(E) did not establish internal processes to track its financial transactions. For example, [REDACTED] (b) (7)(E) did not open an organizational bank account in Turkey where the cooperative agreement was performed because it had not been properly registered in that country. Instead, [REDACTED] (b) (7)(E) used two personal bank accounts registered to

<sup>11</sup> Other issues identified during the audit include the travel notification process, requirement of a new accounting system, and the use of an accrual accounting method to track sub-grant expenditures.

<sup>12</sup> First quarter 2014 was the most recently completed quarterly report at the time of the OIG site visit in July 2014.

<sup>13</sup> In addition, the *Federal Assistance Policy Handbook*, Section 4.4.2, “Financial Capability: Other Concerns,” identifies a lack of internal and budgetary controls and ineffective cash management as two of the most common recipient budgeting problems.

local hires. OIG also found during the site visit that [Redacted] (b) (7)(E) could not account for all cash in the two personal bank accounts because \$16,500 was transferred between the personal accounts without an appropriate accounting transaction. During OIG's visit to [Redacted] (b) (7)(E) office in July 2014, [Redacted] (b) (7)(E) opened an organizational bank account.

**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs verify that [Redacted] (b) (7)(E), for cooperative agreement S-NEAPI-13-CA-1001, has established, and followed, appropriate financial processes that track and account for all monetary transactions before providing additional funds or awards to [Redacted] (b) (7)(E) [Redacted] (b) (7)(E).

**Bureau of Near Eastern Affairs Response:** NEA concurred with the recommendation.

**OIG Reply:** OIG considers this recommendation resolved, pending further action. This recommendation can be closed when OIG receives and accepts documentation showing that NEA has verified that the [Redacted] (b) (7)(E) for cooperative agreement S-NEAPI-13-CA-1001, has established, and followed appropriate financial processes that track and account for all monetary transactions before it provides additional funds or awards to the [Redacted] (b) (7)(E).

#### Did Not Adequately Monitor Its Sub-Recipients

GPD 42, *Monitoring Assistance Awards*, states that an award recipient is responsible for the performance and expenditures of its sub-recipients. OIG found that [Redacted] (b) (7)(E) did not adequately monitor its sub-recipients.

For example, [Redacted] (b) (7)(E) sub-recipient provided quarterly and weekly reports, but [Redacted] (b) (7)(E) did not perform any follow-up or review of the reports that were submitted to verify their accuracy. In addition, OIG could not find any support for payments made to one of [Redacted] (b) (7)(E) sub-recipients. [Redacted] (b) (7)(E) Financial Manager stated that no additional supporting documentation for expenditures was required because the sub-recipient had already been audited, in accordance with Office of Management and Budget (OMB) Circular A-133, which requires that all recipients and sub-recipients of Federal funds obtain annual audits. Because the sub-recipient had an A-133 audit, [Redacted] (b) (7)(E) officials argued that it was not required to review the sub-recipient's expenditures. While completion of an A-133 audit can help provide some assurance that the sub-recipient has financial systems in place, it does not absolve the recipient of its responsibility to monitor a sub-recipient. OIG disagrees with [Redacted] (b) (7)(E) statements and consequently questions \$808,697 in unsupported costs that NEA/MEPI paid to [Redacted] (b) (7)(E) and this sub-recipient.

OIG found that [Redacted] (b) (7)(E) did not properly close out some sub-awards or correctly report financial contributions to the Department. In October 2013, one sub-recipient had \$77,324 in unexpended funds remaining at the end of the project. At the time of OIG's site visit to Turkey in July 2014, [Redacted] (b) (7)(E) had made no attempt to recover the remaining funds, such as requesting a cash collection of unspent funds, even though the sub-award had expired almost a year prior to our

audit. Moreover, [Redacted] (b) (7)(E) had not disclosed the outstanding funds to the Department in reports, resulting in an overstatement of expenses by \$77,324.

**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs (a) determine whether the \$886,021 in questioned costs related to cooperative agreement S-NEAPI-13-CA-1001, awarded to [Redacted] (b) (7)(E), consisting of \$808,697 in an unsupported payment to [Redacted] (b) (7)(E) and \$77,324 in unexpended funds paid to [Redacted] (b) (7)(E) are allowable or supported and (b) recover any costs determined to be unallowable.

**Bureau of Near Eastern Affairs Response:** NEA concurred with the recommendation.

**OIG Reply:** OIG considers this recommendation resolved, pending further action. This recommendation can be closed when OIG receives and accepts documentation showing that NEA has (a) determined whether the \$886,021 in questioned costs related to cooperative agreement S-NEAPI-13-CA-1001, awarded to the [Redacted] consisting of \$808,697 in an unsupported payment to [Redacted] and \$77,324 in unexpended funds paid to [Redacted] (b) (7)(E) are allowable or supported and (b) recovered any costs determined to be unallowable.

## CSO Cooperative Agreement With [Redacted] (b) (7)(E) To Provide Equipment (S-LMAQM-13-CA-1137)

OIG found that the grants officer did not maintain a complete award file for the cooperative agreement but could provide documentation to demonstrate monitoring had been performed when requested. OIG therefore concludes that the grants officer and GOR did assume an active role in monitoring [Redacted] (b) (7)(E) performance. Notwithstanding the active monitoring, OIG found that [Redacted] (b) (7)(E) billed CSO for \$6,040 in one overpayment to its subcontractor.<sup>14</sup>

### *Grants Officer Did Not Maintain a Complete File but Was Able To Provide Documentation of Monitoring*

GPD 23, *Federal Assistance File Folder*, Form DS-4012, requires the grants officer to maintain an official file for each award and states that site visits should be documented in the file. During our review, OIG requested the complete award file, but the grants officer was unable to provide it. As a result, OIG was unable to determine whether a Form DS-4012 had been completed.

<sup>14</sup> See Appendix B for a breakdown of the specific costs questioned for CSO cooperative agreement S-LMAQM-13-CA-1137.

OIG found memoranda to the file and site visit reports that showed the cooperative agreement was monitored by the responsible GOR, but the monitoring was not documented in the award file. For example, the GOR was able to provide the GOR Monitoring Reports to the grants officer that justified a no-cost extension requested by the award recipient. In addition, the GOR provided photographs demonstrating that the bureau monitored the purchase, receipt, and delivery of the equipment to the intended parties that were not included in the award file.

**[Redacted] (b) (7)(E)** *Billed CSO for Overpayment of its Subcontractor*

Although CSO monitored [Redacted] (b) (7)(E), OIG found that CSO paid the organization for expenses that were unsupported. Our review of [Redacted] (b) (7)(E) financial transactions found that it billed the Department for \$6,040 in expenses that were not supported by documentation. Specifically, while the Department and Creative Associates International authorized post differential payments to a subcontractor, the subcontractor's contract did not include a post differential agreement for these payments to have occurred. Thus, the subcontractor was overpaid.

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the \$6,040 in questioned costs for cooperative agreement S LMAQM-13-CA-1137, awarded to [Redacted] (b) (7)(E) for post differential payments made to a subcontractor, are supported and (b) recover any costs determined to be unsupported.

**Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, Response:** In its response, A/LM stated that it has reviewed the cost for post differential pay and that the grants officer believes if the cost had been included in the cooperative agreement it would have been an allowable expense.

**OIG Reply:** Based on the grants officer determination and as the cooperative agreement has expired, OIG considers the recommendation closed. However, if the cooperative agreement were still active, OIG would require A/LM to amend the cooperative agreement to include post differential payments to the recipient as an allowable expense and provide evidence of this before the recommendation could be closed.

**CSO Cooperative Agreement With [Redacted] (b) (7)(E)**  
**[Redacted] To Increase the Capacity of Opposition Networks (S-LMAQM-12-CA-020)**

OIG found that the grants officer did not collect \$65,262 in unexpended advances to [Redacted] (b) (7)(E) or that the grants officer and GOR had documented their monitoring efforts in the award file as required by GPD 23, *Federal Assistance File Folder*, Form DS-4012, and GPD 41, *Close-Out of Federal Assistance Awards*. OIG also found that prior to issuing the award, the grants officer and/or GOR did not document [Redacted] (b) (7)(E) weak internal controls for project administration, such as its poor financial management systems and procurement and equipment tracking process. As a

result, OIG identified \$47,859 in unsupported expenditures that resulted from poor financial management and \$777,362 in questioned costs related to poor equipment management and procurement procedures.<sup>15</sup>

*Grants Officer Did Not Collect Unexpended Advances or Document Monitoring Efforts*

GPD 41, *Close-Out of Federal Assistance Awards*, requires immediate collection of any unexpended funds or disallowed costs.<sup>16</sup> OIG found that the grants officer did not take action or attempt to collect unexpended funds that [REDACTED] (b)(7)(E) disclosed in its final report to the Department. Specifically, in May 2013, [REDACTED] (b)(7)(E) reported that it had \$65,262 in unexpended award advances, but the grants officer did not attempt to collect the funds. OIG brought this to the attention of the grants officer during its fieldwork in June 2014, and [REDACTED] (b)(7)(E) subsequently reimbursed the Department.<sup>17</sup>

In addition, GPD 23, *Federal Assistance File Folder*, Form DS-4012, requires the grants officer to maintain an official Department file for each award and states that site visits should be documented in the file. The GOR did not document any monitoring efforts in the award file.

[REDACTED] (b)(7)(E) *Did Not Establish Sufficient Control for Project Administration*

As part of a grants officer's "responsibility determination" made prior to the grant award, the grants officer should determine whether the prospective recipient has the capability to adequately carry out the grant.<sup>18</sup> This responsibility determination may include a pre-award survey that assesses a prospective recipient's financial management systems and internal control systems. OIG found that neither the grants officer nor the GOR identified [REDACTED] (b)(7)(E) lack of equipment procurement and tracking processes as part of their responsibility determination. Furthermore, the grants officer and GOR did not work with [REDACTED] (b)(7)(E) to establish procedures or develop a Corrective Action Plan to address the lack of procurement and tracking processes. As a result, OIG identified \$47,859 in unsupported expenditures that resulted from poor financial management and \$777,362 in questioned costs relating to poor equipment management and procurement procedures.

The *Federal Policy Assistance Handbook*, Section 4.4.3.2, "Recipient Documentation of Expenditures," states that grants officers and GORs can ask to see support for recipient purchases to ensure that only items authorized under the award terms and conditions have been purchased and charged to the grant. During OIG's site visit, OIG sampled 26 expenses and found that [REDACTED] (b)(7)(E) paid 10 expenses, valued at \$167,432, based on a pro forma invoice<sup>19</sup> or to a

<sup>15</sup> See Appendix B for a breakdown of the specific costs questioned for CSO cooperative agreement S-LMAQM-12-CA-020.

<sup>16</sup> GPD 41, rev. 2, *Close-Out of Federal Assistance Awards*.

<sup>17</sup> As part of the audit, OIG verified that the \$65,262 had been reimbursed to the Department.

<sup>18</sup> GPD 43, *Pre-Award Responsibility Determination*.

<sup>19</sup> A pro forma invoice is a quote in an invoice format.

contractor without a signed contract. For two of those expenses, OIG could not definitively determine whether \$35,152 in assistance funds should have been charged to the cooperative agreement because of a lack of supporting documentation. OIG also identified an expense of \$12,707 in consulting fees and travel for which there was no documentation or written explanation for the charge. Furthermore, when asked, [Redacted] (b) (7)(E) was unable to provide OIG an explanation of the consultant's services.

In addition, *the Federal Assistance Policy Handbook*, Section 3.4.3.2, "Selected Items of Cost Budget Considerations - Contractual," states that a recipient is responsible for ensuring that the procurement, receipt, and payment for goods and services complies with laws, regulations, and provisions of the award. OIG found that [Redacted] (b) (7)(E) did not have set processes or procedures to identify and procure the equipment needed or to monitor the use of purchased equipment. Its personnel overestimated the equipment needs of training attendees and distributed large amounts of equipment that were never used by those attendees. For example, [Redacted] (b) (7)(E) distributed 129 satellite phones at a total cost of \$321,081. However, OIG found that 48 of the satellite phones (37 percent) distributed were never used. [Redacted] (b) (7)(E) gave four Broadband Global Area Network terminals and six satellite phones, valued at \$28,389, to users not authorized under the cooperative agreement without the grants officer's prior approval or knowledge. [Redacted] (b) (7)(E) also did not use serial numbers or establish a tracking system for its equipment and therefore could not provide evidence that it properly distributed 23 satellite internet devices, totaling \$41,791. Furthermore, [Redacted] (b) (7)(E) did not take action to protect equipment from loss or misuse and could not properly account for \$2,681 in radio equipment purchased using cooperative agreement funds.

*The Federal Register*, 78 FR 78631, states that an award recipient must avoid acquisition of unnecessary items and that, where appropriate, an analysis will be made of purchase alternatives and any other appropriate analysis to determine the most economical approach. However, OIG found that [Redacted] (b) (7)(E) spent \$1,085,029 for Broadband Global Area Network data when it could have purchased a smaller data plan for \$500,000 that would have more than covered the actual use of Broadband Global Area Network data. Completing a better needs assessment and purchasing a smaller data plan would have allowed [Redacted] (b) (7)(E) to save at least \$500,000 in expenditures for data usage that could have been used to meet other performance requirements or could have been returned to the Department.

**Recommendation 4:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$825,221 in questioned costs (consisting of \$170,012 in unsupported costs and \$655,209 in mismanaged funds) related to the cooperative agreement S-LMAQM-12-CA-020, awarded to [Redacted] (b) (7)(E) are allowable or supported and (b) recover any costs determined to be unallowable.

**Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, Response:** In its response, A/LM stated that it has reviewed all of the costs that OIG has identified as unsupported and/or mismanaged funds. Of the \$825,211 that

OIG questioned, A/LM determined that \$752,360 was allowable. It did not provide OIG with a final determination on the remaining \$72,861 in questioned costs.

**OIG Reply:** OIG considers this recommendation unresolved. Although A/LM stated that it reviewed all of the questioned costs, the response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the validity of the entire amount of questioned costs identified by OIG. This recommendation can be resolved when OIG receives and accepts that A/LM determination on the allowability of the remaining \$72,861 in questioned costs. The recommendation can be closed when OIG receives and accepts documentation showing that A/LM has either established an accounts receivable or recovered any costs determined to be unallowable.

**Recommendation 5:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, verify that [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) has developed procedures for the procurement and management of equipment prior to awarding any additional assistance awards.

**Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, Response:** A/LM concurred with this recommendation, providing documentation that it conducted a financial and compliance review in 2012 and identified several weaknesses in [Redacted] (b) (7)(E) procurement and compliance procedures. A/LM issued a corrective action plan to [Redacted] (b) (7)(E) advising the establishment and subsequent updating of various standard operating procedures. A/LM further stated that the standard operating procedures were submitted on June 1, 2013, and subsequently updated.

**OIG Reply:** OIG considers this recommendation unresolved. Although A/LM provided OIG with evidence of a review of [Redacted] (b) (7)(E) and stated that standard operating procedures were subsequently developed to address the deficiencies identified by the review, this occurred prior to OIG's audit fieldwork. Consequently, OIG concludes the actions taken were not sufficient to address identified deficiencies. The recommendation can be resolved when OIG receives and accepts A/LM's agreement to verify, along with a corrective action plan for doing so, that [Redacted] (b) (7)(E) has developed procedures for the procurement and management of equipment prior to awarding any additional assistance. This recommendation can be closed when OIG receives and accepts evidence that A/LM has verified that [Redacted] (b) (7)(E) has developed procedures for the procurement and management of equipment.

***DRL Grant to [Redacted] (b) (7)(E) To Increase Uncensored Internet Access in Syria (S-LMAQM-12-GR-1245)***

OIG found that DRL generally received the services outlined in the terms and conditions of the grant. However, OIG found that the award file did not include all documentation required by Department guidance. OIG also noted that the grants officer and GOR assigned to the grant

changed multiple times during the performance of the grant. When such changes occur, the importance of maintaining a complete award file is paramount.

### *Grants Officer Did Not Sufficiently Document Monitoring Efforts*

GPD 23, *Federal Assistance File Folder*, Form DS-4012, requires the grants officer to maintain an official Department file for each award and states that site visits should be documented in the file. OIG found that the file did not include any documentation of the one site visit to [Redacted] (b) (7)(E) that was conducted at the beginning of the grant performance. During the performance of the grant, the award had three grants officers and four different GORs tasked with monitoring [Redacted] (b) (7)(E) performance. Maintaining a complete award file allows a new grants officer or GOR to take over responsibility and attain a sufficient understanding of all prior monitoring and the current status of performance. However, as a result of missing site visit documentation and turnover in grants officials, the grants officer and GOR at the time of the audit were unaware that a site visit had ever been conducted.

In the Management Alert on Grants Management Deficiencies,<sup>20</sup> issued in September 2014, OIG made several recommendations that, if implemented, will improve the Department's documentation of recipients' performance.

## **Finding B: Risk Assessments Were Incomplete or Were Inadequate**

While part of risk management includes identifying high priority projects and complex performance environments, the risk assessment framework outlined in four different GPDs requires a more comprehensive assessment that determines a recipient's risk level based upon its ability to successfully perform the award. GPD 43, *Pre-Award Responsibility Determination*, requires that grants officers "make every reasonable effort to guard against risk and ensure that awards are made in the best interest of the U.S. Government." An assessment of the recipient should include a determination that it has adequate resources, is registered in-country, and has a record of satisfactory performance. GPD 58, *High Risk Recipients*, states that recipients may be classified as "high risk" based upon any, or all, or the following factors:

- (1) Recipient's lack of experience in managing U.S. Government awards;
- (2) Recipient poor prior performance issues and concerns;
- (3) High dollar threshold of award;
- (4) Award activity is occurring in an unusual or difficult operating environment;
- (5) High profile program or highly sensitive project;
- (6) Recipient has inadequate management/financial systems in place; and/or
- (7) Other concerns.<sup>21</sup>

<sup>20</sup> Report MA-14-03, September 2014.

<sup>21</sup> GPD 58, *High Risk Recipients*.

Completion of a risk assessment prior to award issuance allows a grants officer to determine whether additional measures need to be taken to mitigate risk. In addition, a grants officer may choose to deny the award, include special award conditions or increased reporting and oversight, or reduce the amount of the award based upon the results of the risk assessment. Further, the results of the risk assessment directly inform a grants officer and GOR in the development of the monitoring plan and the level of monitoring required for each individual award.

OIG found that for the cooperative agreement awarded to [Redacted] (b) (7)(E), the grants officer completed a risk assessment prior to award that designated [Redacted] (b) (7)(E) as high risk because of security concerns. The assessments for the other three awards also identified the risks, but the risks were not supported by written assessments. For example, cooperative agreements awarded to [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) and [Redacted] (b) (7)(E) were identified as "high profile priority projects" and given a high risk designation, but the grants officer did not complete a written assessment. In addition, the grants officer identified the grant awarded to [Redacted] (b) (7)(E) as low risk but similarly did not complete a written assessment.<sup>22</sup>

In order to minimize the misuse or loss of Federal funds, grants officers must complete a proper risk assessment to identify high risk elements and develop appropriate risk mitigation plans, as needed. Without a complete risk assessment, the grants officer and GOR may not identify the sufficient level of monitoring required to prevent or minimize the misuse or loss of Federal funds.

Specific issues OIG identified for each award with regard to completing a risk assessment in accordance with Department guidance are as described.

### NEA/MEPI Cooperative Agreement [Redacted] (b) (7)(E) (S-NEAPI-13-CA-1001)

If the grants officer or GOR identifies risks and deficiencies during the assessment, GPD 57, *Risk Management*, states that the grants officer or GOR should develop a mitigation or Corrective Action Plan. The Corrective Action Plan should include a description of the problem, the cause and effects of the problem, the corrective actions to be taken, measures to determine the effectiveness of the actions, and a timetable for implementation.<sup>23</sup> OIG found that the grants officer completed a written risk assessment for the cooperative agreement and found that the risks were high. For example, he assigned a high-risk rating based upon the amount of funding for sub-awards and the cash management associated with the award. The grants officer also indicated that [Redacted] (b) (7)(E) had some internal control weaknesses, such as its failure to incorporate oversight of its sub-recipients into its monitoring plan. Despite these weaknesses, the grants

<sup>22</sup> GAO reported in July 2014 that the Department did not consistently conduct risk analyses required by the Department grant management policies and guidance. GAO report *State Department: Implementation of Grants Policies Needs Better Oversight* (GAO-14-635, July 21, 2014).

<sup>23</sup> GPD 53, rev. 1, *Corrective Action Plan (CAP)*.

officer did not comply with GPD 57, *Risk Management*, by developing steps and monitoring activities to mitigate the risks associated with the award. Without developing and enforcing Corrective Action Plans, risks are left unmitigated.

In addition, as part of a grants officer's responsibilities to mitigate risk, GPD 43, *Pre-Award Responsibility Determination*, states that prior to award issuance, a grants officer may determine if foreign organizations are licensed or registered in-country where the award will be performed. However, the grants officer and GOR did not ensure that [Redacted] (b) (7)(E) was licensed or registered to work in Turkey. While the grants officer completed the NEA/MEPI risk assessment template, the template did not include country registration or licensing as part of the assessment. As a result, the grants officer did not inquire about DCC's licensing or registration requirements to work in Turkey. The lack of proper licensing in Turkey directly impacted the performance of the award because [Redacted] (b) (7)(E) was required to close its office in Turkey until it received a license to operate.

### CSO Cooperative Agreement With [Redacted] (b) (7)(E) (S-LMAQM-13-CA-1137)

Department GPDs require a comprehensive risk assessment to be documented in the award file. Having a completed risk assessment helps the grants officer and/or GOR develop appropriate monitoring and oversight mechanisms to mitigate any risks identified.<sup>24</sup> The grants officer identified the cooperative agreement awarded to [Redacted] (b) (7)(E) as a "high profile priority project" with a high risk designation, but he did not complete a written risk assessment. Specifically, he assigned the risk level based on the project and not [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) capability to carry out the award. Without a comprehensive assessment of [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) itself, the grants officer did not perform due diligence sufficient to identify and address [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) ability to successfully carry out the award.

### CSO Cooperative Agreement With [Redacted] (b) (7)(E) (S-LMAQM-12-CA-020)

Department GPDs require a comprehensive risk assessment to be completed prior to award issuance for any recipient—not just the risk level of the project. While the risk level of the project and operating in a complex performance environment should be included in the risk assessment, the grants officer should also assess the recipient's past performance, use of sub-awards, and adequacy of the recipient's management and financial systems, among others. Cooperative agreement S-LMAQM-12-CA-020, awarded to [Redacted] (b) (7)(E), was identified as a "high profile priority project" and, as a result, received a high risk designation, but a risk assessment was not completed and documented by either the grants officer or GOR for the prospective recipient. During the audit, OIG identified deficiencies with [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) project management processes, which

<sup>24</sup> Department guidance for assessing risk and preparing risk mitigation plans for high risk recipients is outlined in the following GPDs: GPD 42, *Monitoring Assistance Awards*, GPD 43, *Pre-Award Responsibility Determination*, GPD 57, *Risk Management*, and GPD 58, *High Risk Recipients*.

could have been identified during a risk assessment; and appropriate monitoring activities could have been implemented to mitigate the deficiencies identified with the procurement and tracking of equipment.

## DRL Grant to [REDACTED] (S-LMAQM-12-GR-1245)

GPD 58, *High Risk Recipients*, states that a recipient may be designated high risk if it uses multiple and/or new sub-recipients.<sup>25</sup> OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, also states that Federal award recipients shall not participate in award actions where the recipient or his partner or any member of his immediate family has a financial or other interest in the firm selected for the award, as these actions would result in a real or apparent conflict of interest. Such a relationship between the recipient or his partner or his immediate family and the selected firm cannot only put the recipient in a position that could directly influence his or his partner or his immediate family's own financial interests, it can also create the appearance of undue influence due to self-interest.<sup>26</sup>

OIG found that [REDACTED] (b) (7)(E) ownership structure created a real or apparent conflict of interest. In addition, OIG found that DRL was not aware of the circumstances giving rise to this conflict of interest. Specifically, OIG found that the Co-Executive Directors of the [REDACTED] (b) (7)(E) [REDACTED] (b) (7)(E) were married and had an ownership interest in the subcontractors used by [REDACTED] (b) (7)(E) in executing the grant. Although each subcontractor was incorporated as a separate entity, the husband and/or wife held an executive-level position or had an ownership interest in the four subcontractors at the time of the grant award. Moreover, the two Co-Directors were not employees of [REDACTED] (b) (7)(E). Instead they were employees of one of its subcontractors and were compensated for their services as Co-Directors via a contract with the [REDACTED] (b) (7)(E). These facts present a conflict of interest prohibited by OMB Circular A-110, which was in effect at the time the grant was awarded.

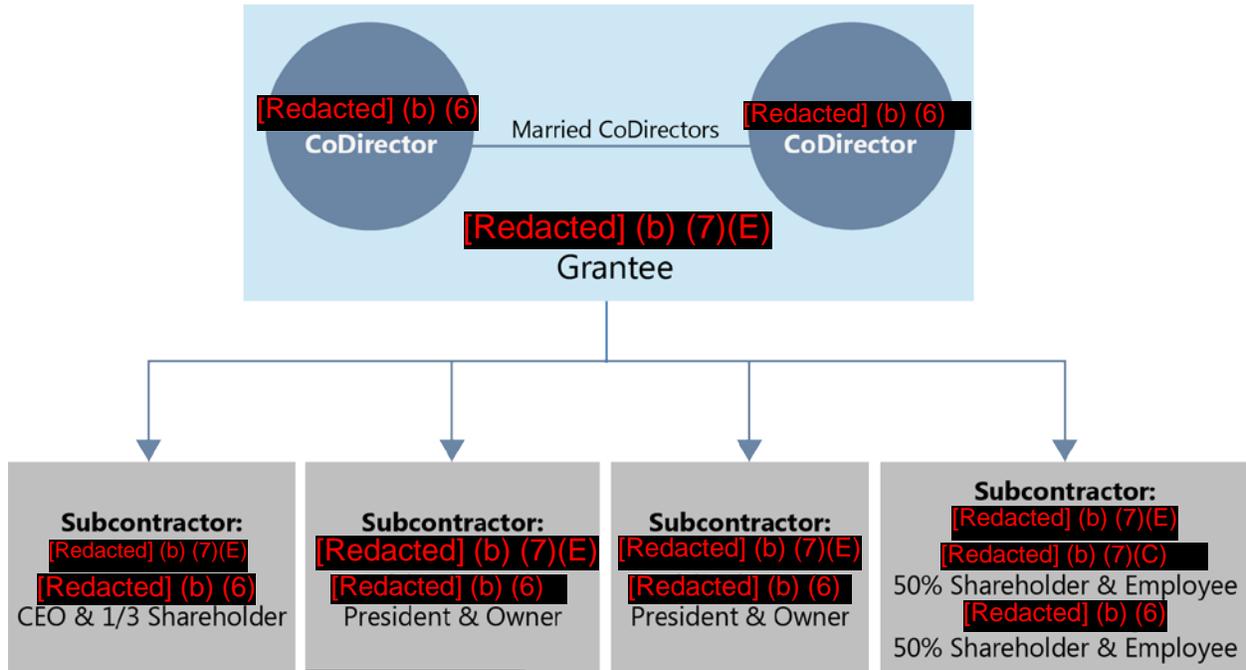
Additionally, the risk assessment indicated that [REDACTED] (b) (7)(E) planned to use only one subcontractor while [REDACTED] (b) (7)(E) own proposal indicated that at least four subcontractors and related parties would be used. When we discussed this ownership structure with the grants officer and GOR assigned to the award at the time, they stated that they were

<sup>25</sup> While OIG recognizes that a sub-recipient and a subcontractor are different terms, the same type of oversight and management by the primary recipient is required to ensure that all U.S. Government funds are used as intended by the Statement of Work.

<sup>26</sup> OMB A-110 was superseded, after the grant in question was issued, by the Code of Federal Regulations, 2 CFR 200.318(c)(1), "General procurement standards," which states that non-federal entities must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.

not aware of these relationships. This occurred because the grants officer and GOR had changed. Figure 2 shows the ownership structure at the time of the grant award.

**Figure 2: Related-Party Subcontractors Used by [Redacted] (b) (7)(E) Under Grant S-LMAQM-12-GR-1245**



Source: OIG presentation of [Redacted] (b) (7)(E) use of related-party subcontractors at the time of award.

While OIG found no evidence to demonstrate that DRL did not receive the services required under the grant, failure to identify and consider the complex relationship between the grantee [Redacted] (b) (7)(E) and its subcontractors increases the risk that fraud, waste, and abuse could go undetected. In addition, if a grants officer does not adequately perform and document a risk assessment that includes identification of conflicts of interest, it is less likely that a newly assigned grants officer or GOR would be aware of the risk associated with the relationships between the award recipient and subcontractors.

**Recommendation 6:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a process to verify that grants officers conduct a comprehensive written risk assessment to identify possible “high risk” awards prior to their issuance, as outlined in the *Federal Assistance Policy Directive*, Subchapter 2.03, “Federal Award Review of Risk Posed by Applicants.”

**Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, Response:** In its response, A/LM stated it will review and renew its efforts to enforce GPDs 43, 53, and 58. A/LM's current policy is to ensure a risk assessment is completed and has processes in place to determine if additional safeguards are needed (such as additional grants clauses) to help ensure compliance.

**OIG Reply:** Although A/LM did not specifically concur with the recommendation, OIG considers this recommendation resolved. OIG believes that A/LM's description of the actions it will take to meet the intent of the recommendation indicate its concurrence. This recommendation can be closed when OIG receives and accepts documentation that a process is in place to verify that grants officers conduct a comprehensive written risk assessment to identify possible "high risk" awards prior to their issuance, as outlined in the *Federal Assistance Policy Directive*, Subchapter 2.03, "Federal Award Review of Risk Posed by Applicants."

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether [REDACTED] [REDACTED] complied with Federal laws and regulations, Department of State guidance, and the terms and conditions of the grant, including any prohibitions on conflicts of interest, and consider potential referral for suspension or debarment.

**Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, Response:** In its response, A/LM stated that it will consult with the Bureau of Administration, Office of the Procurement Executive (A/OPE) debarment/suspension official to determine whether suspension and debarment are warranted and then will continue to follow up with [REDACTED] to ensure that compliance improvements are being made.

**OIG Reply:** Although A/LM did not specifically concur with the recommendation, OIG considers this recommendation resolved, pending further action. OIG believes that A/LM's description of the actions it will take to meet the intent of the recommendation indicates its concurrence. This recommendation can be closed when OIG receives and accepts documentation that A/OPE has made a determination as to whether or not suspension or debarment is warranted.

## Finding C: Monitoring Plans Were Missing or Were Poorly Developed

GPD 42, *Monitoring Assistance Awards*, states that the GOR, in consultation with the grants officer, should develop a monitoring plan appropriate for the award to include documenting the types of monitoring activities to be performed, the frequency of the activities, and the individuals responsible for each. Monitoring plans also help ensure that grants officers and GORs monitor and oversee awards in a manner commensurate with expectations and in compliance with Department policies and procedures. GPD 42, *Monitoring Assistance Awards*, provides several methods of monitoring that could be utilized by the bureaus in their monitoring plans, including monitoring by telephone or email correspondence and completing on-site visits.

OIG found that monitoring plans were developed for all four awards but that the frequency and types of monitoring to be employed were not documented in the plan for any of the awards. For

example, OIG found that although monitoring plans for cooperative agreements with [Redacted] (b) (7)(E) and [Redacted] (b) (7)(E) and the grant to [Redacted] (b) (7)(E) identified performance indicators, the monitoring plans did not set baselines and/or targets or demonstrate how often the indicators should be measured. Without specific baselines and/or targets, assessment of the recipient's performance may be more difficult for the grants officer or GOR because the performance requirements are not clearly defined.

In addition, GPD 42, *Monitoring Assistance Awards*, states that recipients who issue sub-awards are responsible for the performance of the sub-recipients and that, therefore, grants officers and GORs should look at a recipient's own monitoring plan for, and evaluation of, its sub-awards. However, OIG found that the sub-recipients' evaluations were not included in the monitoring plans for two cooperative agreements that had sub-awards—[Redacted] (b) (7)(E) and [Redacted] (b) (7)(E). OIG also identified questioned costs associated with the limited monitoring of those sub-awards. By not complying with the monitoring plan requirements outlined in GPD 42, *Monitoring Assistance Awards*, the bureaus and the recipients do not have the appropriate framework to assess the performance of each recipient or sub-recipient and determine whether the Department received what it paid for.

Specific deficiencies identified for the assistance awards in our audit sample with regard to developing a monitoring plan in compliance with Department guidance are as presented.

### NEA/MEPI Cooperative Agreement With [Redacted] (b) (7)(E) (S-NEAPI-13-CA-1001)

GPD 42, *Monitoring Assistance Awards*, states that the sub-recipients, if any, should be included in a recipient's monitoring plan and that a grants officer and/or GOR should verify that the sub-recipients are included in the plan. OIG found that [Redacted] (b) (7)(E) monitoring plan did not identify specific monitoring activities and performance indicators for its sub-recipients. Instead, the sub-recipients provided a self-assessment of their performance rather than reporting upon pre-determined performance indicators in [Redacted] (b) (7)(E) monitoring plan. In one example of a sub-award to a local council in Syria, the monitoring plan stated that [Redacted] (b) (7)(E) staff would validate data and information provided by the sub-recipient to support the assistance provided. However, OIG found that the data and information had not been validated and that [Redacted] (b) (7)(E) did not use the full-time Syrian employees to complete on-site monitoring and verification. The only documented monitoring and evaluation by [Redacted] (b) (7)(E) that OIG found included one review of expenditures and some pictures provided by one sub-recipient. Therefore, as part of the overall monitoring plan, the grants officer and GOR should have reviewed [Redacted] (b) (7)(E) monitoring plan to determine how it intended to evaluate its sub-recipients.

**Recommendation 8:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to verify that grants officers and the grants officers representatives develop monitoring plans that comply with the *Federal Assistance Policy Directive*, Subchapter 3.01-A, "Monitoring Plan," at the onset of any assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the [Redacted] (b) (7)(E) performance.

**Bureau of Near Eastern Affairs Response:** NEA concurred with the recommendation, stating that monitoring plans should be completed earlier in the process, ideally before issuance of the award.

**OIG Reply:** OIG considers this recommendation resolved, pending further action. This recommendation can be closed when OIG receives and accepts documentation showing that NEA has implemented a process to verify that grants officers and grants officers representatives have developed monitoring plans that comply with the *Federal Assistance Policy Directive*, Subchapter 3.01-A, "Monitoring Plan," at the onset of any assistance award and that the plans identify specific baselines and targets that will allow the Department to adequately assess the [Redacted] (b) (7)(E) performance.

### CSO Cooperative Agreement With [Redacted] (b) (7)(E) (S-LMAQM-13-CA-1137)

GPD 42, *Monitoring Assistance Awards*, states that the plan should include the frequency and types of monitoring mechanisms to be employed. A monitoring plan was developed for the cooperative agreement with [Redacted] (b) (7)(E) but the plan did not comply with the requirements of GPD 42, *Monitoring Assistance Awards*. Specifically, OIG found that the monitoring plan did not identify the frequency of the types of monitoring that would be employed by the bureau and that the monitoring plan did not identify performance targets. According to the GOR, after the award was issued, the monitoring plan was updated to include the identified performance targets.

### CSO Cooperative [Redacted] (b) (7)(E) (S-LMAQM-12-CA-020)

GPD 42, *Monitoring Assistance Awards*, states that monitoring plans should include an assessment of the award's goals and objectives and the expected outcomes, as well as be approved, prior to award issuance. The grants officer did not approve the monitoring plan for [Redacted] (b) (7)(E) prior to award issuance. Although the GOR later developed a monitoring plan, the plan did not adequately identify the award's goals and how to assess [Redacted] (b) (7)(E) performance. For example, one indicator required "ongoing course evaluation to improve and refine subsequent course packages." This indicator determined that [Redacted] (b) (7)(E) should evaluate its courses, but the plan did not identify a measurable outcome or output for the courses. Without specific measurable outcomes or outputs, the GOR cannot fully assess the recipient's performance.

**Recommendation 9:** OIG recommends that the Bureau of Conflict and Stabilization Operations develop and implement a process to verify that grants officers and grants officers representatives develop monitoring plans that comply with the *Federal Assistance Policy Directive*, Subchapter 3.01-A, "Monitoring Plan," at the onset of any solicitation of applications for assistance award and that the plans identify specific

baselines and targets that will allow the Department of State to adequately assess the recipient's performance.

**Bureau of Conflict and Stabilization Operations Response:** CSO concurred with the recommendation, stating that it will ensure that grants officers and grants officer representatives develop monitoring plans that comply with the *Federal Assistance Policy Directive*, Subchapter 3.01-A, "Monitoring Plan," and identify specific baselines and targets that will allow the Department to adequately assess the recipient's performance.

**OIG Reply:** OIG considers this recommendation resolved, pending further action. This recommendation can be closed when OIG receives and accepts documentation showing that CSO has implemented a process to verify that grants officers and grants officers representatives have developed monitoring plans that comply with the Federal Assistance Policy Directive, Subchapter 3.01-A, "Monitoring Plan," at the onset of any solicitation of applications for assistance award and that the plans identify specific baselines and targets that will allow the Department to adequately assess the recipient's performance.

#### DRL Grant to [Redacted] (b) (7)(E) (S-LMAQM-12-GR-1245)

The *Federal Assistance Policy Handbook*, Section 4.5.2, "Performance Progress Reports," requires the grants officer or GOR to assess the recipient's performance by, among other things, measuring the change from the benchmark, or baseline, against the actual progress made. The monitoring plan identified performance indicators, but it did not always set baselines and/or targets or identify how often the indicators should be measured. For example, a baseline for one activity was identified as "to be determined." Twenty-four months into the period of performance, a baseline still had not been established. Similarly, the performance measure for another activity was to "maintain or grow over baseline." This progress measure would be difficult to assess and does not require [Redacted] (b) (7)(E) to make any improvements over the identified baseline. Without a benchmark or baseline to assess progress, the grants officer or GOR cannot assess progress made in compliance with the *Federal Assistance Policy Handbook*.<sup>27</sup>

**Recommendation 10:** OIG recommends that the Bureau of Democracy, Human Rights, and Labor develop and implement a process to verify that grants officers and grants officer representatives develop monitoring plans that comply with the Federal Assistance Policy Directive, Subchapter 3.01-A, "Monitoring Plan," at the onset of any assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the recipient's performance.

**Bureau of Democracy, Human Rights, and Labor Response:** DRL submitted information describing the process for developing monitoring plans and indicating the training and hiring of additional personnel.

<sup>27</sup> Ibid.

**OIG Reply:** Although DRL did not specifically concur with the recommendation, OIG considers this recommendation resolved, pending further action. OIG believes that DRL's description of the actions it will take to meet the intent of the recommendation indicates its concurrence. OIG finds the documentation provided by DRL is sufficient to show that it has developed a process that meets the intent of the recommendation. This recommendation can be closed when OIG receives and accepts documentation showing that the process has been implemented, specifically, that DRL has hired additional monitoring and evaluation staff and has trained GORs to improve the ability to provide targeted monitoring and evaluation assistance to their implementers.

See Appendices C, D, E, and F for the official responses to the recommendations from the respective bureaus. See Appendix G for the OIG response to general and technical comments from NEA.

## OTHER MATTERS

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### DRL Grant to [Redacted] (b) (7)(E) (S-LMAQM-12-GR-1245) — GOR Duties Performed by Third Party Contractor

In January 2013, a modification was made to GPD 16, *Designation of Grants Officer Representatives*, which required all GORs to be either a U.S. Government employee or a personal services contractor. However, OIG found that the grants officer appointed a third party contractor as the GOR to the [Redacted] (b) (7)(E) grant in September 2013. This third party contractor was neither a government employee nor a personal services contractor.<sup>28</sup> Some GOR responsibilities and authorities, such as approving drawdown and reimbursement requests for payments, are inherently governmental functions. Generally, inherently governmental functions are those activities that require a government employee to either exercise discretion in applying government authority or make value judgments in decision-making on behalf of the U.S. Government. Using a third party contractor as the GOR places the third party contractor in a position where he or she could make a spending or payment decision on behalf of the U.S. Government.<sup>29</sup>

<sup>28</sup> In our report on the Department's oversight responsibilities, selection, and training of GORs (AUD-CG-15-33), we found that DRL awards used a third party contractor as the GOR for three of the four awards in the audit sample. As a result, OIG recommended that DRL discontinue the use of third party contractors as GORs in accordance with Office of Management and Budget and Department policy.

<sup>29</sup> GAO previously reported that the reliance on contractor employees to oversee grants can lead to conflicts of interest and the potential for loss of government control and accountability for mission-related policy, as well as waste, fraud, and abuse. GAO Report GAO-10-357, *Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan*, April 12, 2010.

With respect to DRL's grant to [Redacted] (b) (7)(E) the grants officer amended the grant in September 2014 and designated a U.S. Government employee as the new GOR for the grant. Because DRL took corrective action, OIG is not making any recommendations relating to this instance on noncompliance with GPD 16, *Designation of Grants Officer Representatives*.

## RECOMMENDATIONS

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**Recommendation 1:** OIG recommends that the Bureau of Near Eastern Affairs verify that [Redacted] (b) (7)(E) for cooperative agreement S-NEAPI-13-CA-1001, has established, and followed, appropriate financial processes that track and account for all monetary transactions before providing additional funds or awards to [Redacted] (b) (7)(E)

**Recommendation 2:** OIG recommends that the Bureau of Near Eastern Affairs (a) determine whether the \$886,021 in questioned costs related to cooperative agreement S-NEAPI-13-CA-1001, awarded to [Redacted], consisting of \$808,697 in an unsupported payment to [Redacted] and \$77,324 in unexpended funds paid to [Redacted] (b) (7)(E), are allowable or supported and (b) recover any costs determined to be unallowable.

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the \$6,040 in questioned costs for cooperative agreement S LMAQM-13-CA-1137, awarded to [Redacted] (b) (7)(E) for post differential payments made to a subcontractor, are supported and (b) recover any costs determined to be unsupported.

**Recommendation 4:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$825,221 in questioned costs (consisting of \$170,012 in unsupported costs and \$655,209 in mismanaged funds) related to the cooperative agreement S-LMAQM-12-CA-020, awarded to [Redacted] (b) (7)(E) are allowable or supported and (b) recover any costs determined to be unallowable.

**Recommendation 5:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, verify that [Redacted] (b) (7)(E) [Redacted] has developed procedures for the procurement and management of equipment prior to awarding any additional assistance awards.

**Recommendation 6:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a process to verify that grants officers conduct a comprehensive written risk assessment to identify possible "high risk" awards prior to their issuance, as outlined in the *Federal Assistance Policy Directive*, Subchapter 2.03, "Federal Award Review of Risk Posed by Applicants."

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether [Redacted] (b) (7)(E) complied with Federal laws and regulations, Department of State guidance, and the terms and conditions of the grant, including any prohibitions on conflicts of interest, and consider potential referral for suspension or debarment.

**Recommendation 8:** OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to verify that grants officers and the grants officers representatives develop monitoring plans that comply with the *Federal Assistance Policy Directive*, Subchapter 3.01-A, "Monitoring Plan," at the onset of any assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the [Redacted] (b) (7)(E) performance.

**Recommendation 9:** OIG recommends that the Bureau of Conflict and Stabilization Operations develop and implement a process to verify that grants officers and grants officers representatives develop monitoring plans that comply with the *Federal Assistance Policy Directive*, Subchapter 3.01-A, "Monitoring Plan," at the onset of any solicitation of applications for assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the recipient's performance.

**Recommendation 10:** OIG recommends that the Bureau of Democracy, Human Rights, and Labor develop and implement a process to verify that grants officers and grants officers representatives develop monitoring plans that comply with the *Federal Assistance Policy Directive*, Subchapter 3.01-A, "Monitoring Plan," at the onset of any assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the recipient's performance.

## APPENDIX A: SCOPE AND METHODOLOGY

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The Office of Inspector General (OIG), Office of Audits, Middle East Region Operations, conducted this performance audit to determine the extent to which the Department of State (Department) oversight and management of non-lethal assistance provided in response to the Syrian crisis complied with Federal laws and Department guidance.

The audit team performed fieldwork from April 2014 to March 2015 at the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, and the Bureau of Democracy, Human Rights and Labor in Washington, DC; the Bureau of Conflict and Stabilization Operations and the Bureau of Near Eastern Affairs, Office of Middle East Partnership Initiative,\* in Washington, DC; and award recipient offices in Istanbul and Gaziantep, Turkey, and Ottawa, Canada.

To obtain background information for this audit, OIG researched and reviewed Federal laws and regulations, as well as internal Department policies and procedures related to assistance awards. The audit team reviewed applicable sections of the Code of Federal Regulations, the Federal Acquisition Regulations, and Office of Management and Budget policies. In addition, the audit team reviewed applicable sections of the Department's policies and procedures, including Standard Terms and Conditions for Domestic Federal Assistance Awards, Standard Terms and Conditions for Overseas Federal Assistance Awards, Foreign Affairs Handbook, the Foreign Affairs Manual, and Grants Policy Directives.

In order to gain an understanding of the administration and oversight of grants in non-lethal assistance provided in response to the Syrian crisis, OIG interviewed officials within the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management; the Bureau of Democracy, Human Rights and Labor; the Bureau of Conflict and Stabilization Operations; and the Bureau of Near Eastern Affairs, Middle East Partnership Initiative. OIG also interviewed grants officers, grants officer representatives (GOR), and award recipients associated with the audit sample. In addition, OIG reviewed documentation to substantiate statements made during interviews, including GOR delegation memorandums, grant files, GOR files, recipients' files, and invoices.

The audit team conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and

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\* The Bureau of Near Eastern Affairs, Middle East Partnership Initiative, was consolidated along with other bureau foreign assistance coordination programs into the Bureau of Near Eastern Affairs, Office of Assistance Coordination, during the audit.

conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

## Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. OIG also reviewed Department policies and procedures; grants officer and GOR qualifications and appointments; and recipient controls over assets and expenses. The internal control deficiencies the audit team identified are presented in this report.

## Use of Computer-Processed Data

OIG obtained lists of non-lethal assistance awards provided by the responsible bureaus to identify the universe of non-lethal assistance awards between October 2010 and December 2013. All assistance awards and actions must be maintained in the Grant Database Management System and, generally, this system is used to pull data about the value of Federal assistance awards throughout the Department. In order to test the information obtained from the responsible bureaus, OIG corroborated the data with information obtained from the award file maintained in the State Assistance Management System. OIG found one discrepancy with the data provided by one of the bureaus but determined that it did not affect the reliability of the data. As a result, OIG concluded that the data provided by the bureaus and obtained from the Grant Database Management System and State Assistance Management System was sufficiently reliable for the purposes of this report.

## Detailed Sampling Methodology

Between October 2010 and December 2013, the Department obligated \$108 million in non-lethal assistance. The audit sample selected by OIG consisted of three cooperative agreements and one grant, totaling about \$44 million. OIG used a judgment sampling plan to select the audit sample of assistance awards. OIG selected the highest value awards as reported by the bureaus, selecting no more than one award given to any recipient. OIG then used a stratified, random sampling method to select expenses from the award for further review. OIG also selected expenses randomly based on budget categories within the award. Although this method does not allow us to project results, it does give a reasonable basis to assess a recipient's level of controls over expenses. During our fieldwork, OIG identified one error with the total value reported by the Bureau for Democracy, Human Rights and Labor for grant S-LMAQM-12-GR-1245 in the audit sample. The Bureau of Democracy, Human Rights and Labor reported the total value of the grant as \$1,501,500, but the grant agreement showed the total value of the grant was \$759,960. OIG did not remove the grant from the audit sample because OIG determined that the procedures performed for the audit were sufficient to support the audit findings and conclusions. Table A.1 shows the four awards selected in the audit sample.

Table A.1: OIG Audit Sample of Non-lethal Assistance Awards

Award Number	Type of Award	Dept. of State Bureau	Recipient	Purpose	Total Funding
S-NEAPI-13-CA-1001	Cooperative Agreement	MEPI <sup>a</sup>		To fund cash payments to Syrian civil society groups and opposition organizations	\$20,000,000 <sup>b</sup>
S-LMAQM-13-CA-1137	Cooperative Agreement	AQM <sup>c</sup> on behalf of CSO		To provide communications and logistics equipment to the Syrian opposition and the Supreme Military Council	\$16,435,644
S-LMAQM-12-CA-020	Cooperative Agreement	AQM on behalf of CSO <sup>d</sup>		To facilitate increased coordination between opposition networks, building the networks' resilience and capacity to resist while preparing for a post-al-Assad transition	\$6,713,857
S-LMAQM-12-GR-1245	Grant	AQM on behalf of DRL <sup>e</sup>		To expand the free flow of information in Syria by providing uncensored internet access and running an internet safety awareness campaign	\$854,600 <sup>f</sup>

<sup>a</sup> During the audit the Bureau of Near Eastern Affairs, Middle East Partnership Initiative (MEPI), was consolidated with other foreign assistance coordination programs into the Bureau of Near Eastern Affairs, Office of Assistance Coordination.

<sup>b</sup> The original value of this cooperative agreement at the time of award was \$7,000,000.

<sup>c</sup> Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (AQM).

<sup>d</sup> Bureau of Conflict and Stabilization Operations (CSO).

<sup>e</sup> Bureau of Democracy, Human Rights and Labor (DRL).

<sup>f</sup> The initial value of the grant when awarded was \$759,960. When the audit sample was selected in May 2014, the total value of the grant had increased to \$854,600. Another amendment to the grant was made on September 26, 2014, to extend the period of performance by 15 months and added \$1,089,000 to the total value of the grant—increasing the total value of the grant to \$1,943,600.

**Source:** OIG presentation of Department data. Cost share is required under the award and was used to determine the total amount of the award.

## APPENDIX B: BREAKDOWN OF COSTS QUESTIONED BY OIG

During our audit of non-lethal assistance provided in response to the Syrian crisis, the Office of Inspector General questioned expenses associated with three of the four assistance awards in our audit sample. The following tables outline the specific questioned costs for the assistance awards awarded to [Redacted] (b) (7)(E) (Table B.1); [Redacted] (b) (7)(E) (Table B.2); and [Redacted] (b) (7)(E) (Table B.3).

**Table B.1: Questioned Cost for S-NEAPI-13-CA-1001** [Redacted] (b) (7)(E)

Cost	Why OIG Questioned the Cost	Total Amount
[Redacted] (b) (7)(E) paid \$808,697 to one of its sub-recipients [Redacted] (b) (7)(E)	Unsupported Cost: OIG could not find any support for the payment to [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) officials stated that [Redacted] (b) (7)(E) did not need support for the payment requested because [Redacted] (b) (7)(E) was subject to annual A-133 audits—whereas the other sub-recipients were not.	\$808,697
A sub-recipient [Redacted] (b) (7)(E) had \$77,324 in funds remaining at the end of the project.	Unexpended Funds: [Redacted] (b) (7)(E) did not make attempts to recover the remaining funds, even though the award had expired almost a year prior to the OIG audit. [Redacted] (b) (7)(E) also did not disclose the remaining funds, resulting in an overstatement of expenses.	\$77,324
<b>Total Questioned Costs</b>		<b>\$886,021</b>

Source: OIG analysis of data provided by the Department of State and [Redacted] (b) (7)(E).

**Table B.2: Questioned Costs for S-LMAQM-13-CA-1137** [Redacted] (b) (7)(E)

Cost	Why OIG Questioned the Cost	Total Amount
[Redacted] (b) (7)(E) paid a contractor \$6,644 in consultant services (\$6,040) which included post differential (\$604) that was not allowed under the sub-award.	Unsupported Cost: While a post differential was allowed under the cooperative agreement, this cost was not included in the specific contract. However, [Redacted] (b) (7)(E) paid the contractor for post differentials, and then billed the Department for this cost that was not allowed under the contract.	\$6,040

Source: OIG analysis of data provided by the Department of State and [Redacted] (b) (7)(E).

Table B.3: Questioned Costs for S-LMAQM-12-CA-020 [Redacted] (b) (7)(E)

Cost	Why OIG Questioned the Cost	Total Amount
[Redacted] (b) (7)(E) paid 10 expenses based on a pro forma invoice* or to a contractor without a signed contract.	Unsupported Cost: Of the two expenses, we could not definitely determine if \$35,152 in assistance funds should have been charged against the award due to a lack of supporting documentation. In addition, [Redacted] (b) (7)(E) paid another expense of \$12,707 for consulting fees and travel to [Redacted] (b) (7)(E) in which [Redacted] (b) (7)(E) could not provide written or verbal documentation.	\$47,859
[Redacted] (b) (7)(E) distributed 129 satellite phones with a total cost of \$321,081.	Unsupported Cost: Of the 129 satellite phones distributed, 48 of the satellite phones were never used. Each satellite phone costs \$2,489.	\$119,472
[Redacted] (b) (7)(E) purchased equipment to support a Radio-in-a-Box system with a total value of \$15,040.90.	Unsupported Cost: [Redacted] (b) (7)(E) did not have support for \$2,681 in equipment purchases for a Radio-in-a-Box system, in either its inventory or the signed handover sheets.	\$2,681
[Redacted] purchased a data plan for Broadband Global Area Network data, totaling \$1,085,029.	Mismanaged Funds: [Redacted] (b) (7)(E) did not complete a needs assessment to determine the amount of broadband data required for the award. As a result, [Redacted] (b) (7)(E) purchased a data plan for more than \$1 million, when [Redacted] (b) (7)(E) could have purchased a smaller plan for \$500,000 that would have more than covered the actual usage of broadband data.	\$585,029
[Redacted] distributed four Broadband Global Area Network terminals and six satellite phones under the Rule of Law program.	Mismanaged Funds: The four network terminals and six satellite phones distributed by [Redacted] (b) (7)(E) were distributed to users not authorized under the cooperative agreement without the grant officer's prior approval or knowledge. The four network terminals cost \$13,445, and the six satellite phones cost \$14,934.	\$28,389
[Redacted] distributed a total of 65 satellite internet devices with a total value of \$118,105.	Mismanaged Funds: [Redacted] (b) (7)(E) did not use serial numbers or establish a tracking system for its equipment, and, therefore, could not provide evidence that it properly distributed 23 satellite internet devices. Each satellite internet device cost \$1,817.	\$41,791
<b>Total Questioned Costs</b>		<b>\$825,221</b>

\* A pro forma invoice is a quote in an invoice format.

Source: OIG analysis of data provided by the Department of State and [Redacted] (b) (7)(E)

## APPENDIX C: OFFICE OF LOGISTICS MANAGEMENT RESPONSE TO DRAFT REPORT

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United States Department of State

Washington, D.C. 20520

August 07, 2015

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MEMORANDUM

TO: OIG/AUD– Norman P. Brown

FROM: A/LM – Catherine I. Ebert-Gray *Cassidy*

SUBJECT: Audit of Department of State Management and Oversight of Non-Lethal Assistance Provided to Address the Syrian Crisis

Below is the Office of Logistic Management’s response to the subject report. [Redacted] (b) (6)

[Redacted] (b) (6) is the point of contact for this response and can be reached at 703-

[Redacted] (b) (6)

**Recommendation 3:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the \$6,040 in questioned costs for cooperative agreement S LMAQM-13-CA-1137, awarded to [Redacted] (b) (7)(E) for post differential payments made to a subcontractor, are supported and (b) recover any costs determined to be unsupported.

**Management Response (08/07/2015):** A/LM/AQM/IP has reviewed the cost for danger pay and had it been included in the contract, it would have been an allowable cost. Therefore, AQM considers the fact that it was not included in the contract to be an oversight by [Redacted] (b) (7)(E) however, the Grants Officer believes it is justifiable and allowable expense to the award.

**Recommendation 4:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether \$825,221 in questioned costs (consisting of \$170,012 in unsupported costs and \$655,209 in mismanaged funds) related to the cooperative agreement S-

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LMAQM-12-CA-020, awarded to [Redacted] (b) (7)(E) are allowable or supported and (b) recover any costs determined to be unallowable.

**Management Response (08/07/2015):** AQM has reviewed all of the costs that OIG has identified as unsupported and mismanaged funds in table B3 of OIG's draft report to determine allowability.

**Regarding Table B3 entry 1:** AQM notes that CSO engagement team members confirm that the questioned costs were for [Redacted] (b) (7)(E) equipment and consultant services, which were received, accepted and delivered in the form of training and equipment transfers to Syrian beneficiaries. The Grants Officer believes these are justifiable and allowable expenses to the award.

**Regarding Table B3 entry 2:** OIG identified 129 satellite phones distributed by [Redacted] (b) (7)(E) to Syrian beneficiaries. Once distributed, the phones are out of the control of the recipient. [Redacted] (b) (7)(E) attempted to stay in contact with each beneficiary but was not able to do so in every case due to conditions within Syria at the time. Therefore, [Redacted] (b) (7)(E) could not verify the reasons that some of the phones were not activated. The Grants Officer does not believe that the costs of the satellite phones were unsupported nor were the funds mismanaged.

**Regarding Table B3 entry 4:** The purpose of this award was to support and expand an existing communications network for Syrian opposition groups. The award itself and the subsequent purchase of the broadband data plan was done based on estimates of communication needs made by CSO, [Redacted] (b) (7)(E) and representatives of Syrian opposition groups. The approved budget included in the award amendment 2 contains a specific line item for \$1 million for airtime. The Grants Officer considers that the recipient, in coordination with CSO, acted prudently in purchasing airtime in bulk at a discounted rate and based on best estimates of needs by various stakeholders.

**Regarding Table B3 entry 5:** AQM concurs with the OIG observation that the Grants Officer was not informed that equipment purchased under this award, S-LMAQM-12-CA-020, was transferred to Syrian [Redacted] (b) (7)(E) under award number S-LMAQM-13-CA-1063 to [Redacted] (b) (7)(E) to provide non-lethal aid to the Syrian opposition. The GOR and CSO engagement team was informed and concurred with the transfer. This transaction exposes administrative deficiencies on the part of the recipient; however, the transfer was in keeping with the overall purpose of both awards, thus the costs could be considered allowable.

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**Recommendation 5:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, verify that [Redacted] (b) (7)(E) has developed procedures for the procurement and management of equipment prior to awarding any additional assistance awards.

**Management Response (08/07/2015):** A/LM/AQM concurs with this recommendation. In December 2012, AQM conducted a financial and compliance review and issued a corrective action plan to [Redacted] (b) (7)(E) advising the establishment of various SOPs (see Tab 1). AQM has verified that [Redacted] (b) (7)(E) has subsequently complied with the corrective action plan and has developed SOPs. The first iterations of the SOPs were submitted on June 1, 2013 and have since been updated.

**Recommendation 6:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement a process to verify that grants officers conduct a comprehensive written risk assessment to identify possible “high risk” awards prior to their issuance, as outlined in the Federal Assistance Policy Directive, Subchapter 2.03, “Federal Award Review of Risk Posed by Applicants.”

**Management Response (08/07/2015):** The Federal Assistance Policy Directive Subchapter 2.03 “Federal Award Review of Risk Posed by Applicant” was effective March 2015 and would not apply to the awards reviewed under this audit. However, the overall guidance has not changed from Grants Policy Directive 58 “Risk Assessment,” which states the following:

*“The U. S. Department of State requires that all bureaus, offices and posts involved in the awarding of federal assistance take a proactive approach to detecting early warning signs of potentially (a) “high risk” award recipients (see GPD #58 – High Risk Recipients), (b) “at-risk” recipient performance, and/or (c) risky political/security/geographic operating environments, and develop appropriate plans to mitigate such risk(s). Grants Officers (GO) should work collaboratively with Program Officers (PO) and Grants Officer’s Representatives (GOR) to develop this plan.”*

A risk assessment was completed for this award under amendment #4. AQM notes that in the case of [Redacted] (b) (7)(E) AQM Grants Officer was cognizant that the recipient was high risk on a variety of factors and monitoring was

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conducted extensively. In addition, the implementer's lack of management controls was identified early on and a corrective action plan was implemented in December 2012. AQM will review and renew its efforts to enforce GPD 43, 53 & 58. AQM's current policy is to ensure a risk assessment is completed and has processes in place to determine if additional safeguards are needed (such as additional grants clauses) to help ensure compliance.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, determine whether [Redacted] (b) (7)(E) complied with Federal laws and regulations, Department of State guidance, and the terms and conditions of the grant, including any prohibitions on conflicts of interest, and consider potential referral for suspension or debarment.

**Management Response (08/07/2015):** AQM will consult with the Bureau of Administration, Office of the Procurement Executive's (A/OPE) debarment/suspension official to determine if suspension and debarment is warranted. In accordance with issues identified by the OIG, AQM and DRL met with [Redacted] (b) (7)(E) on February 23, 2015 and were informed that [Redacted] (b) (7)(E) had restructured its organization to be in compliance with the A-110 and now the new 2 CFR 200. Additionally, DRL and AQM were notified in December 2014 that [Redacted] (b) (7)(E) had hired new staff: a financial controller and compliance position, and a program and grants administrator. After consulting with A/OPE, AQM will continue to follow-up with [Redacted] (b) (7)(E) to ensure that compliance improvements are being made.

Attachment:

Tab 1 – [Redacted] (b) (7)(E) Financial and Compliance Review.

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Drafter: A/LM [Redacted] (b) (6)

Cleared: A/LM: [Redacted] (b) (6)  
A/LM/AQM:  
A/LM/AQM:  
A/LM/AQM:  
CSP/PP:  
A FO:  
M  
M/PRI

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## APPENDIX D: BUREAU OF CONFLICT AND STABILIZATION OPERATIONS RESPONSE TO DRAFT REPORT

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United States Department of State

Washington, D.C. 20520

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August 6, 2015

TO: OIG – Norman P. Brown

FROM: CSO – Dolores Brown, Acting

### **Recommendation 9**

**OIG recommends that the Bureau of Conflict and Stabilization Operations develop and implement a process to verify that grants officers and grants officers representatives develop monitoring plans that comply with the Federal Assistance Policy Directive, Subchapter 3.01-A, “Monitoring Plan,” at the onset of any solicitation of applications for assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the recipient’s performance.**

### CSO response:

CSO concurs, and will ensure that grants officers and grants officers representatives (GORs) develop monitoring plans that comply fully with the Federal Assistance Policy Directive, Subchapter 3.01-A, “Monitoring Plan” and identify specific baselines and targets that will allow the Department of State to adequately assess the recipient’s performance.

Monitoring and evaluation (M&E) is a high priority for CSO, critical not only to evaluating performance, but to enable us to draw lessons that can be applied in other conflict settings. All applicants are required to submit M&E plans as part of their grant application packages. The CSO Program Officers and GORs work with the grantees to refine the (M&E) plans and establish targets and baselines from the beginning.

In accordance with FAPD/3.01, it is up to the Grants Officer to determine the appropriate level of monitoring plan. CSO notes that, especially in a conflict setting, activities and/or targets may need to change in response to conditions on the ground. Federal Assistance Policy Directive, Subchapter 3.01-A, “Monitoring Plan” provides for this

CSO has conducted intensive field-level monitoring of grant activities. In many cases, field-based teams provided real-time M&E of all recipient activities. In addition, CSO’s Office of Learning and Training provides independent oversight of M&E plans, and serves as a resource for program and action officers as they tailor plans for each recipient and program.

Dolores Brown  
Acting Assistant Secretary

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Approved: CSO – Dolores Brown, Acting ok

Drafted: CSO/Programs – [Redacted] (b) (6) ext. 3- [Redacted] (b) (6)

Cleared: CSO/FO – [Redacted] (b) (6) ok  
CSO/OLT [Redacted] ok  
CSO/OLT [Redacted] ok  
A/AQM – [Redacted] ok

## APPENDIX E: BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR RESPONSE TO DRAFT REPORT

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United States Department of State

Washington, D.C. 20520

UNCLASSIFIED

August 10, 2015

### RESPONSE MEMORANDUM

TO:                   OIG/AUD – Norman P. Brown, Assistant Inspector General

FROM:               DRL – Tom Malinowski *TM*

SUBJECT:           Response to OIG Audit of Department of State AUD-MERO-15-XX

We appreciate the opportunity to respond to the OIG audit and recommendations regarding DRL’s management and oversight of non-lethal assistance provided to address the Syrian crisis.

#### **Finding C: Monitoring Plans Were Missing or Were Poorly Developed**

Recommendation 10: OIG recommends that the Bureau of Democracy, Human Rights, and Labor develop and implement a process to verify that grants officers and grants officers representatives develop monitoring plans that comply with the Federal Assistance Policy Directive, Subchapter 3.01-A, “Monitoring Plan,” at the onset of any assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the recipient’s performance.

- Management Decision: The current DRL process for developing monitoring plans is as follows:

In order to set targets against which to assess performance on grants, all applicants are required to develop a Monitoring and Evaluation (M&E) plan as part of their proposal submission package, per DRL’s Proposal Submission Instructions (PSI). Review of the submitted M&E plan is part of the initial proposal review at panel, and specific conditions and recommendations may be made to potential recipients. The M&E plan is then submitted as part of the grant package to AQM, allowing the Grants Officer time to review and approve prior to executing the award. When specific indicators, particularly those related to baselines and assessments, are marked “TBD”, the GO and GOR work with DRL’s internal M&E team, as well as the recipient, to set deadlines and benchmarks for when those indicators must reasonably be finalized. Once these plans are finalized and developed by the grantee, with the support of DRL’s GOR, GO, and internal M&E staff, the GOR and GO

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develop an internal monitoring plan to ensure that the recipient is on track to meet the targets set in the outline. This internal monitoring plan includes a timeline for all site visits to the grantee, both for project activities and grants administration; compliance with specific milestones and questionnaires on program progress toward the monitoring plan; and requirements for completion and retention of thorough site visit reports.

- Actions taken to comply with recommendation: DRL has hired additional Monitoring and Evaluation staff to assist recipients in improving their M&E plans and engaging with implementers throughout the life of projects to ensure compliance with their own M&E plans and standards. DRL M&E staff is also providing training and assistance to GORs to improve their ability to provide more targeted M&E assistance to their implementers, as well as in developing and adhering to their internal monitoring plans. At times a grant clause is added requiring a recipient to work with the DRL M&E staff to improve the plan and submit it to the GO for final approval after award execution. Grant recipients are encouraged to include at least a final, and ideally a midterm as well, external evaluation. Additionally, many DRL programmatic teams are increasingly organizing workshops for their implementing partners that include building their capacity to carry out more robust M&E efforts.

Attachments:

- Tab 1 – DRL Standard Operating Procedures
- Tab 2 – DRL Site Visit Comprehensive Checklist
- Tab 3 – DOS Grant Site Visit Checklist
- Tab 4 – GOR Monitoring Plan Worksheet
- Tab 5 – DRL M&E Grantee Questionnaire
- Tab 6 – DRL Proposal Submission Instructions
- Tab 7 – Standard F Indicators for DRL grants
- Tab 8 – AQM Grants Package Checklist
- Tab 9 – DRL Monitoring and Evaluation Primer for Grantees

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# APPENDIX F: BUREAU OF NEAR EASTERN AFFAIRS RESPONSE TO DRAFT REPORT

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August 18, 2015

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MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: NEA – Assistant Secretary Anne Patterson 

SUBJECT: Draft OIG Report on Audit of *Department of State Management and Oversight of Non-Lethal Assistance Provided for the Syrian Crisis*: Bureau of Near Eastern Affairs, Office of Assistance Coordination

Thank you for providing NEA the opportunity to respond to the draft Office of Inspector General (OIG) draft report. Below please find comments and feedback regarding actions we have taken or plan to take in response to recommendations 1, 2, and 8, as well as overall feedback related to the report.

**Recommendation Responses**

OIG Report Recommendation 1:

OIG recommends that the Bureau of Near Eastern Affairs verify that [Redacted] (b) (7)(E) of [Redacted] (b) (7)(E) for cooperative agreement S-NEAPI-13-CA-1001, has established, and followed, appropriate financial processes that track and account for all monetary transactions before providing additional funds or awards to [Redacted] (b) (7)(E)

NEA Response:

NEA concurs with this recommendation.

OIG Report Recommendation 2:

OIG recommends that the Bureau of Near Eastern Affairs (a) determine whether the \$886,021 in questioned costs related to cooperative agreement S-NEAPI-13-CA-1001, awarded to [Redacted] (b) (7)(E) consisting of \$808,697 in an unsupported payment to [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) and \$77,324 in unexpended funds paid to [Redacted] (b) (7)(E) [Redacted] (b) (7)(E) are allowable or supported and (b) recover any costs determined to be unallowable.

NEA Response:

NEA concurs with this recommendation.

OIG Report Recommendation 8:

OIG recommends that the Bureau of Near Eastern Affairs develop and implement a process to verify that grants officers and the grants officers representatives develop monitoring plans that comply with the Federal Assistance Policy Directive, Subchapter 3.01-A, “Monitoring Plan,” at the onset of any assistance award and that the plans identify specific baselines and targets that will allow the Department of State to adequately assess the [Redacted] (b) (7)(E) performance.

NEA Response:

NEA concurs with the general recommendation that monitoring plans should be completed earlier in the process, ideally before issuance of the award. However, there are some factual errors in the report's account that need to be corrected.

NEA has implemented a new process since the issuance of this award that requires Grants Officers and Grant Officer Representatives to develop monitoring plans prior to award. Combining our monitoring plan with our previously existing results monitoring plan allows NEA to assess recipient performance adequately and specifies the types of monitoring activities to be performed, the frequency of the activities and the individuals responsible for each. Further, it must be acknowledged that monitoring for all programs in Syria – where violent conflict and active combat conditions prohibit international staff from entering the country, and less experienced Syrian staff who do enter work under dangerous circumstances and at grave risk – cannot be expected to be held to the same “normal” standards as programs conducted in other countries. Senior policy makers and congressional staff are aware of this, and have, as a matter of policy, nonetheless supported continuing these programs.

**Detailed Responses**

- On page three, last paragraph the first sentence should be changed to: “Lastly, Department Bureaus funding the grants and cooperative agreements.....” The grants office awards the grants.
- On page six, under audit results, section 4.1 of the Federal assistance policy Handbook does not “require” site visits. It states, “The staff conducts on- site monitoring as warranted by the project/program as needed or as requested by the recipient to provide technical assistance and substantiate financial progress and compliance with laws, regulations, and policies.” Not every project warrants a site visit. When financial monitoring site visits were performed, it was documented and results letters were sent to [Redacted] (b) (7)(E) to correct any issues found.
- On page seven, the report states simply that [Redacted] (b) (7)(E) did not monitor its sub-awardees.” This is not correct. Reports were given to [Redacted] (b) (7)(E) by its sub-recipients and those reports were accepted by [Redacted] (b) (7)(E) as a form of monitoring. Further the report implies that the Grants Officer and Grants Officer Representative were aware that [Redacted] (b) (7)(E) did not monitor its sub-awardees” and made the award anyway, which is also not correct. As explained verbally in the briefings, [Redacted] (b) (7)(E) program and finance staff maintain near daily communications with sub-grantees; additionally [Redacted] (b) (7)(E) has field officers inside Syria that monitor activities. [Redacted] (b) (7)(E) receives information from the sub-recipients and works with its field officers to verify this reporting. The field officers also support project development to ensure budget figures are in line with the local economy and to alert [Redacted] (b) (7)(E) to any potential challenges not reported by the sub recipient. In addition, [Redacted] (b) (7)(E) receives financial reports from each sub-awardee and verifies costs, including in many instances going back and forth with the sub-recipient to correct mistakes and incomplete information. Since the time of the audit, [Redacted] (b) (7)(E) has instituted enhanced standardized processes and forms. For example, the new forms and directives include reporting on activities including but not limited to training workshops, attendance, and other events covered under the grant. [Redacted] (b) (7)(E) Reporting/M&E Officer receives such forms, in addition to other means of verification such as photos to verify the information reported by the Program Manager

and/or the sub-awardee. In addition, where appropriate, the formal scope of work for in-country team members has been expanded to include activities in response to requests for information.

- On page eight, the report again wrongly states that site visits are required and then asserts that three visits in two years by the Grants Officer are not sufficient. That assertion does not take into account the weekly visits and daily contact made by the Grants Officer Representative and other program staff who were deployed to Turkey. This assertion also does not acknowledge the difficult security environment in which these programs operate. The NEA team lead in Turkey is unable to conduct site visits inside Syria due to the security environment, but does make regular visits (2-4 visits per month) to the [Redacted] (b) (7)(E) offices in Gaziantep to review programmatic strategy and implementation issues. Through the field team, NEA also regularly meets with sub-recipients to conduct oversight over [Redacted] (b) (7)(E). Finally, NEA has employed two local staff who use their networks inside Syria to identify challenges to NEA programs or inconsistencies in the information provided by [Redacted] (b) (7)(E) or its sub-recipients. As stated verbally during the debrief meeting with the OIG, the report does not differentiate between programmatic and financial site visits. In addition, there is no discussion of the START platform and the critical role it plays in program coordination and monitoring. START meets weekly to coordinate assistance, discuss programmatic challenges, and find solutions to common issues hindering grantees' performance and operations. This information is regularly communicated to NEA's grantees, including [Redacted] (b) (7)(E) the NEA team lead in the field.
- On page nine, the allegation that [Redacted] (b) (7)(E) did not establish a financial management process to track all transactions to prevent loss or misuse of taxpayer funds is a serious one, one that should be supported in the report by more than just noting that they were not using an organizational bank account. The use of personal bank accounts versus organizational accounts was brought to NEA's attention last summer. The Syria team worked with [Redacted] (b) (7)(E) before and after the site visit in July 2014 to ensure that this was corrected. Presently, [Redacted] (b) (7)(E) only transfers funds using the organization's account.

Should you have any additional questions or concerns, please contact the Division Chief of the Grants Management Department in the Office of Assistance Coordination, [Redacted] (b) (6) [Redacted] (b) (6) @state.gov).

Sincerely,

Assistant Secretary Anne Patterson

## APPENDIX G: OFFICE OF INSPECTOR GENERAL REPLY TO BUREAU OF NEAR EASTERN AFFAIRS GENERAL AND TECHNICAL COMMENTS

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In addition to the Bureau of Near Eastern Affairs (NEA) comments regarding our recommendations, NEA also provided general and technical comments (see Appendix F for NEA's comments in their entirety). We incorporated NEA's technical comments in this report where appropriate. The Office of Inspector General (OIG) replies to NEA's general comments are presented below.

**NEA:** On page three, last paragraph the first sentence should be changed to: "Lastly, Department Bureaus funding the grants and cooperative agreements....." The grants office awards the grants.

**OIG Reply:** The OIG believes that the usage of the term "awards" is substantiated by the 2015 Federal Assistance Policy, which utilizes the term consistently throughout the guidance relating to the management of grants and cooperative agreements.

**NEA:** On page six, under audit results, section 4.1 of the Federal assistance policy Handbook does not "require" site visits. It states, "The staff conducts on- site monitoring as warranted by the project/program as needed or as requested by the recipient to provide technical assistance and substantiate financial progress and compliance with laws, regulations, and policies." Not every project warrants a site visit. When financial monitoring site visits were performed, it was documented and results letters were sent to [REDACTED] to correct any issues found.

**OIG Reply:** The OIG reviewed the Federal Assistance Policy Handbook and noted section 4.1 identifies five components generally involved in the post-award monitoring process. We agree that section 4.3, "Monitoring Techniques," does state the aforementioned by NEA and have modified the report to reflect accordingly.

**NEA:** On page seven, the report states simply that [REDACTED] did not monitor its sub-awardees." This is not correct. Reports were given to [REDACTED] by its sub-recipients and those reports were accepted by [REDACTED] as a form of monitoring. Further the report implies that the Grants Officer and Grants Officer Representative were aware that [REDACTED] did not monitor its sub-awardees" and made the award anyway, which is also not correct. As explained verbally in the briefings, [REDACTED] program and finance staff maintain near daily communications with sub-grantees; additionally [REDACTED] has field officers inside Syria that monitor activities. [REDACTED] receives information from the sub-recipients and works with its field officers to verify this reporting. The field officers also support project development to ensure budget figures are in line with the local economy and to alert [REDACTED] to any potential challenges not reported by the sub recipient. In addition, [REDACTED] receives financial reports from each sub-awardee and verifies costs, including in many instances going

back and forth with the sub-recipient to correct mistakes and incomplete information. Since the time of the audit, [REDACTED] (b)(7)(E) has instituted enhanced standardized processes and forms. For example, the new forms and directives include reporting on activities including but not limited to training workshops, attendance, and other events covered under the grant. [REDACTED] (b)(7)(E) Reporting/M&E Officer receives such forms, in addition to other means of verification such as photos to verify the information reported by the Program Manager and/or the sub-awardee. In addition, where appropriate, the formal scope of work for in-country team members has been expanded to include activities in response to requests for information.

**OIG Reply:** We modified the report to state that [REDACTED] (b)(7)(E) performed limited monitoring of its sub-recipients” as the majority of the monitoring was performed through self-reporting versus actual confirmation. During the fieldwork, OIG found that [REDACTED] (b)(7)(E) could not support the performance metrics it reported to the Department and was relying solely on information provided by the sub-recipients.

**NEA:** On page eight, the report again wrongly states that site visits are required and then asserts that three visits in two years by the Grants Officer are not sufficient. That assertion does not take into account the weekly visits and daily contact made by the Grants Officer Representative and other program staff who were deployed to Turkey. This assertion also does not acknowledge the difficult security environment in which these programs operate. The NEA team lead in Turkey is unable to conduct site visits inside Syria due to the security environment, but does make regular visits (2-4 visits per month) to the [REDACTED] (b)(7)(E) offices in Gaziantep to review programmatic strategy and implementation issues. Through the field team, NEA also regularly meets with sub-recipients to conduct oversight over [REDACTED] (b)(7)(E). Finally, NEA has employed two local staff who use their networks inside Syria to identify challenges to NEA programs or inconsistencies in the information provided by [REDACTED] (b)(7)(E) or its sub recipients. As stated verbally during the debrief meeting with the OIG, the report does not differentiate between programmatic and financial site visits. In addition, there is no discussion of the START platform and the critical role it plays in program coordination and monitoring. START meets weekly to coordinate assistance, discuss programmatic challenges, and find solutions to common issues hindering grantees’ performance and operations. This information is regularly communicated to NEA’s grantees, including [REDACTED] (b)(7)(E) via the NEA team lead in the field.

**OIG Reply:** OIG reviewed the Federal Assistance Policy Handbook and noted section 4.1 identifies five components generally involved in the post-award monitoring process. The report was modified to include specific information pertaining to this policy. From the review performed of the award, it is OIG’s judgment that two or three visits conducted did not meet a standard of risk prevention for an awardee defined as high risk that is operating in a high risk environment. OIG notes the limited visits performed did not prevent the issues discussed in this report from occurring. There is no requirement to differentiate between the programmatic and financial site visits as we are providing a justification that three site visits are not adequate for

monitoring a program of this nature. The scope of this audit included only the performance of the award recipients and management of the awards by the bureau.

**NEA:** On page nine, the allegation that [REDACTED] did not establish a financial management process to track all transactions to prevent loss or misuse of taxpayer funds is a serious one, one that should be supported in the report by more than just noting that they were not using an organizational bank account. The use of personal bank accounts versus organizational accounts was brought to NEA's attention last summer. The Syria team worked with [REDACTED] before and after the site visit in July 2014 to ensure that this was corrected. Presently, [REDACTED] only transfers funds using the organization's account.

**OIG Reply:** OIG believes that the information reported on page nine is not an allegation against [REDACTED] it is a fact that [REDACTED] did not have an organizational bank account and deposited Federal Assistance funds into an employee's personal bank account. OIG further provided information that because of the use of personal accounts, an appropriate accounting transaction was not recorded and the funds remained unaccounted for when noted during our fieldwork. The Federal Assistance Policy Handbook requires the recipient to have a recordkeeping system that organizes and summarizes transactions and supports all financial transactions. An organizational bank account is a required component of the recordkeeping system, which at the time of our fieldwork, [REDACTED] did not have.

## ABBREVIATIONS

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A/OPE	Bureau of Administration, Office of the Procurement Executive
AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
 (b) (7)(E)	[Redacted] (b) (7)(E)
CSO	Bureau of Conflict and Stabilization Operations
 (b) (7)(E)	[Redacted] (b) (7)(E)
DRL	Bureau of Democracy, Human Rights and Labor
GOR	grants officer representative
GPD	Grants Policy Directive
ISIL	Islamic State of Iraq and the Levant
NEA	Bureau of Near Eastern Affairs
NEA/MEPI	Bureau of Near Eastern Affairs, Middle East Partnership Initiative
OIG	Office of Inspector General
OMB	Office of Management and Budget
SOPs	standard operating procedures

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