



OIG HIGHLIGHTS

UNCLASSIFIED

September 2015

OFFICE OF AUDITS

Security and Intelligence Division

Audit of the Bureau of International Security and Nonproliferation Administration and Oversight of Foreign Assistance Funds Related to the Global Threat Reduction Program

View Report: [AUD-SI-15-41](#).

What OIG Audited

The objective of the audit was to determine whether the administration and oversight of the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction (ISN/CTR) ensured foreign assistance funding related to the Global Threat Reduction (GTR) program was expended in accordance with Department of State (Department) policies, achieved the desired results, and contributed to meeting the President's *National Security Strategy*.

OIG reviewed 10 grants and cooperative agreements associated with the GTR program, valued at approximately \$31 million, awarded or modified during FY 2012-FY 2013, from a universe of 27 GTR Award files valued at \$52.9 million.

What OIG Recommends

OIG made six recommendations to ISN/CTR concerning the administration and oversight of the GTR program to include determining the allowability of an implementer's (grantee's) service fee estimated at \$1.7 million, for which adequate supporting documentation was not provided. ISN/CTR concurred with all six recommendations and has taken or plans to take corrective actions to implement them. OIG considers four of the six recommendations resolved, pending further action, and two recommendations unresolved.

What OIG Found

ISN/CTR manages global threat reduction programs that are aimed at reducing the threats posed by terrorist organizations or proliferant states* seeking to acquire weapons of mass destruction (WMD). ISN/CTR is responsible for programs to enhance nuclear, chemical, and biological security. During FYs 2012 and 2013, ISN/CTR had a total of 62 active grant and cooperative agreement awards, totaling almost \$130 million.

OIG found that ISN/CTR administration and oversight of foreign assistance funding related to the GTR program needs strengthening. Specifically, ISN/CTR personnel did not:

- develop monitoring plans for each award;
- review and take action on findings in A-133 audit reports;
- conduct required risk assessments; and
- maintain award files in accordance with Department policy.

These weaknesses occurred, in part, because ISN/CTR did not have internal controls in place to ensure required actions were completed. OIG identified \$1.7 million in unsupported costs for fees associated with a single grant, but found that support for the other transactions tested was generally adequate. OIG also found the obligations related to ISN/CTR grants were generally valid and properly closed. Further, OIG concluded that ISN/CTR personnel at the Headquarters level had adequately collaborated with U.S. agency partners to strengthen and promote the GTR program. OIG was unable to determine the extent to which goals of the GTR program were being achieved because the performance indicators used by ISN/CTR did not measure outcomes or desired results, but instead measured outputs, such as the number of activities performed by an implementer; however, ISN/CTR recently implemented new indicators.

* Proliferant states are those non-U.S. partner countries that seek to acquire WMD materials, equipment, and expertise.

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SECURITY AND INTELLIGENCE DIVISION

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OBJECTIVE

The objective of this audit was to determine whether the administration and oversight of the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction¹ (ISN/CTR) ensured foreign assistance funding related to the Global Threat Reduction (GTR) program was expended in accordance with Department of State (Department) policies, achieved the desired results, and contributed to meeting the President's 2010 *National Security Strategy*.

BACKGROUND

The President's 2010 *National Security Strategy*² states that there is no greater threat to the American people than weapons of mass destruction (WMD), particularly the danger posed by the pursuit of nuclear weapons by violent extremists and their proliferation to additional states.

In support of the President's 2010 *National Security Strategy*, ISN's mission is to prevent, disrupt, and roll back where possible the proliferation of WMD—nuclear, biological, chemical, or radiological—and their delivery systems; and destabilize conventional weapons.³ ISN/CTR manages the GTR program that is aimed at reducing threats posed by terrorist organizations or states seeking to acquire WMD material, equipment, and expertise. The GTR program's focus is on front-line states such as Iraq and Yemen, and other countries in regions where terrorist threats are on the rise, such as south Asia, the Middle East, and north Africa. The GTR program seeks to accomplish this goal through various programs and activities administered by ISN/CTR under four major areas:

- Biosecurity Engagement Program (BEP) seeks to strengthen bio-risk⁴ management practices, enhance infectious disease detection and surveillance, and support cooperative research and development worldwide to prevent terrorist and other non-state actors access to potentially dangerous biological agents.

¹ ISN/CTR: Reports to the Deputy Assistant Secretary for Nonproliferation Programs; develops and implements policies, programs, and strategies to engage cooperatively with countries, institutions, and individuals having access to terrorists, other non-state actors, and proliferant states worldwide; manages, develops, and implements nonproliferation programs including providing program allocations under the Nonproliferation, Antiterrorism, Demining, and Related [NADR], Global Threat Reduction (GTR) account; establishes and implements internal controls to ensure that NADR funds are utilized in a programmatically sound, fiscally responsible manner consistent with applicable laws, regulations, policies, and procedures; and leads the process at State for concurrence packages on Secretary of Defense CTR determinations.

² http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf (accessed April 10, 2014).

³ Conventional weapons refer to weapons that are not weapons of mass destruction. They include but are not limited to: armored combat vehicles, combat helicopters, combat aircraft, warships, small arms and light weapons, landmines, cluster munitions, ammunition, and artillery.

⁴ The probability or chance that a particular adverse event (in the context of this document: accidental infection or unauthorized access, loss, theft, misuse, diversion, or intentional release), possibly leading to harm, will occur.

- Chemical Security Engagement Program (CSP) seeks to promote chemical safety and security in the academic, governmental, and industrial sectors and implements scientific engagement capacity-building projects to deter terrorists from acquiring chemicals and chemical expertise to be used to create or enhance a WMD or chemical attack.
- Partnership for Nuclear Security aims to establish cooperative partnerships related to the peaceful use of nuclear energy in support of global nuclear security and related safety and nonproliferation objectives.
- Science Centers Program seeks to support two international science and technology centers—one in Moscow, Russia, and one in Kiev, Ukraine, that facilitate international science projects and assist the global scientific and business community to engage with scientists and engineers in the former Soviet Union.

Implementation of the GTR Program

ISN/CTR uses a combination of grants, cooperative agreements,⁵ interagency agreements,⁶ and transfers⁷ to award foreign assistance funds to 36 implementers. An “implementer” is the term assigned to GTR award recipients (also referred to as grantees, or cooperative agreement recipients) by ISN/CTR, who administer the award, with guidance as needed from ISN/CTR. Implementers use the funds to develop activities (for example, training workshops and seminars) to improve global biosecurity and biosafety; enhance laboratory capacity for safe, secure surveillance of infectious diseases; and engage biological scientists worldwide. Implementers also train and engage chemical and nuclear scientists, technicians, and engineers to improve chemical security and safety and prevent terrorism. In addition, implementers use the funding from ISN/CTR to engage nuclear scientists, technicians, and engineers in priority countries and regions in the former Soviet Union. During FYs 2012 and 2013, ISN/CTR had a total of 62 active grant and cooperative agreement awards, totaling \$129,381,060.⁸

ISN/CTR Organizational Structure

CTR program Team Chiefs manage the day-to-day implementation of the program at the Headquarters level. The Team Chiefs are responsible for managing the provisions of the GTR program’s foreign assistance. One Team Chief oversees CSP, the Partnership for Nuclear Security, and the Science Centers; while the other Team Chief oversees BEP. The GTR program Team Chiefs work closely with the program officers within ISN/CTR, who are assigned various

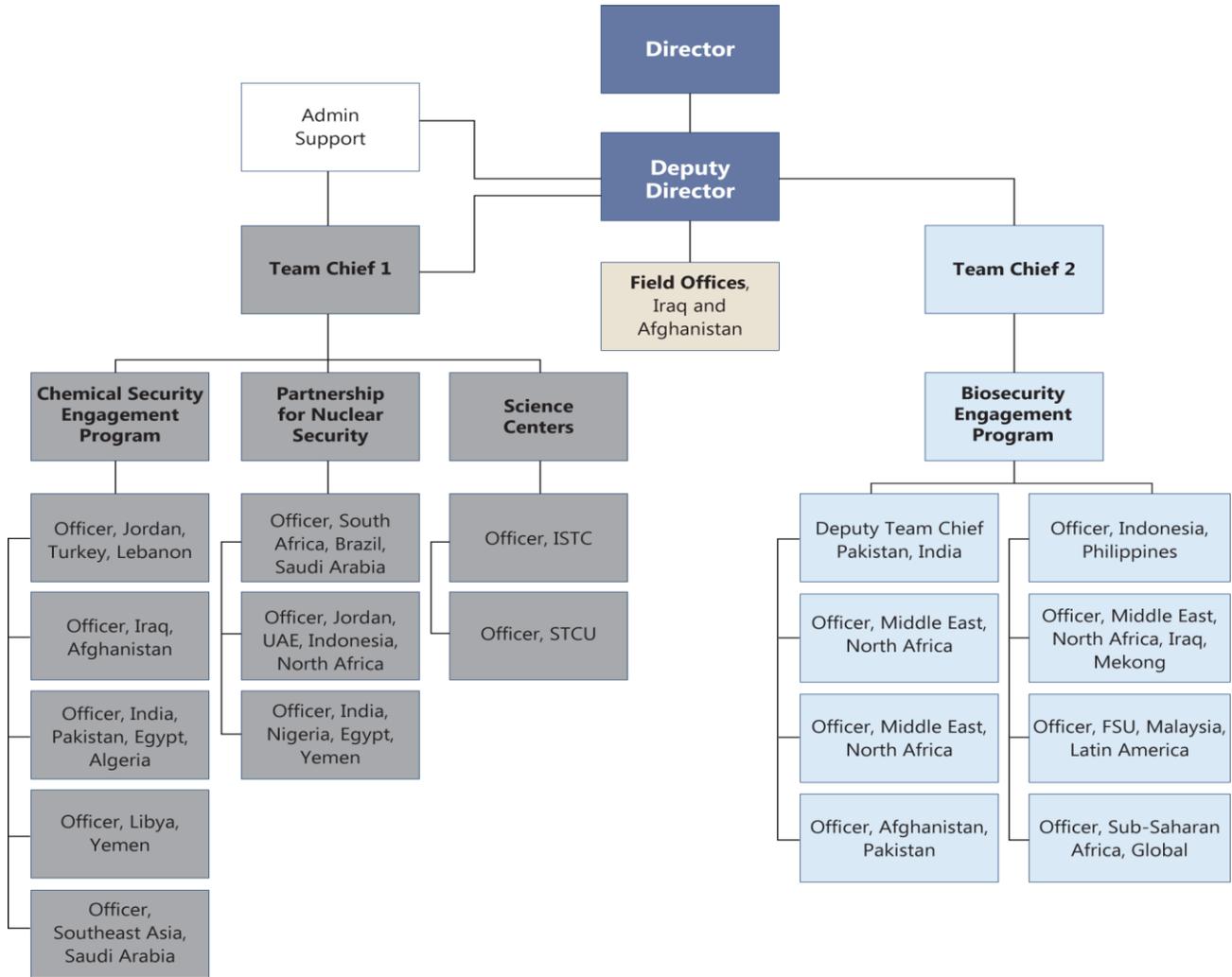
⁵ A grant and a cooperative agreement are similar types of assistance with the only distinction being that under a grant award it is anticipated that there will be no substantial involvement between the agency and the grantee during its performance, while under a cooperative agreement it is anticipated that there will be substantial involvement.

⁶ Interagency agreements are reimbursable agreements between the Department and other U.S. agencies.

⁷ Transfers are made to three International Organizations: the World Health Organization and the International Science and Technology Centers in Moscow and Kiev. These transfers are characterized as Letter Grants with associated Memoranda of Understanding with Terms and Conditions developed by the Office of the Legal Adviser.

⁸ Besides grant awards during FYs 2012 and 2013, ISN/CTR had 29 active interagency agreements totaling \$63.5 million and 6 transfers totaling \$12.9 million. Interagency agreements and transfers were excluded from testing. See Appendix A: Scope and Methodology for further details.

geographic areas for the foreign assistance programs. As shown in Figure 1, ISN/CTR is organized using a team-based structure to oversee the GTR program.



ISTC: International Science and Technology Center, Moscow

STCU: Science and Technology Center, Ukraine

Figure 1: ISN/CTR Organizational Chart.

Source: ISN/CTR.

Locally employed staff members are responsible for monitoring local developments relevant to the BEP program operations and assisting with program implementation; coordinating logistics for training, equipment donations, site visits, and conferences; and liaising with local government officials, multi-partner donors, and other embassy staff.

Grants Officer and Grants Officer’s Representative

Two key officials involved in cooperative agreements and grants management are the grants officer (GO) and the grants officer’s representative (GOR). The GO is authorized to award, amend,

or terminate a grant and is charged with exercising prudent management over grant funds. The GOR should have the technical expertise related to program implementation and be designated, in writing by the GO, to administer certain aspects of a grant, including monitoring, evaluation of performance, and closeout.

The GOR assists with ensuring that the Department exercises prudent management and oversight of the award through the monitoring and evaluation of the recipient's performance. The GORs coordinate activities with ISN/CTR Team Chiefs and U.S. Government personnel at posts and in the field. Responsibility for ensuring the Department exercises prudent management and oversight of its grants is shared among the GO and GORs.

Depending on the amount of the grant,⁹ an employee from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM) or ISN/CTR is designated to be the GO. When an employee from A/LM/AQM is the GO, an ISN/CTR Team Chief will serve as the GOR. When an employee from ISN/CTR is the GO, a program officer will serve as the GOR. The GOR must be certified by the Bureau of Administration, Office of the Procurement Executive (A/OPE), Federal Assistance Division.

ISN/CTR Collaboration and Partnerships

The President's 2009 *National Strategy for Countering Biological Threats* and the President's 2010 *National Security Strategy* promote methods for diplomats, development experts, and others in the U.S. Government to work side by side to support a common agenda. Both strategies stress that the U.S. Government will seek to advance effective communications with all stakeholders and increase transparency in actions by encouraging Federal departments and agencies to coordinate outreach efforts, to include conducting joint or multi-partner activities.

With this goal in mind, ISN/CTR is responsible for closely coordinating with other ISN offices, the Department's regional bureaus, and other U.S. Government agencies. At the Headquarters level, ISN/CTR assists the Coordinator for Threat Reduction Programs¹⁰ in U.S. efforts to expand and extend the G8¹¹ Global Partnership and coordinate related cooperative threat-reduction initiatives. ISN/CTR participates in G8 Global Partnership activities and seeks increased nonproliferation assistance from other governments. ISN/CTR tracks program data regarding U.S. Government and other government contributions for cooperative threat-reduction activities.

⁹ According to an ISN/CTR GO, he is authorized to sign awards up to \$500,000.

¹⁰ The Coordinator for Threat Reduction Programs promotes the coordination of CTR and U.S. Government programs in chemical, biological, nuclear, and radiological security (CBRN). Also, the Coordinator works closely with international partners in coordinating global CBRN security programs and funding to help ensure a coordinated approach when governments implement these programs internationally. As noted in 1 FAM 452.2, the office of the Coordinator is directly attached to the Assistant Secretary for International Security and Nonproliferation.

¹¹ Group of 8 (Canada, France, Germany, Italy, Japan, Russia [suspended 2014], United Kingdom, United States, European Union).

According to ISN/CTR, Section 583 of the Foreign Assistance Act of 1961, as amended,¹² incorporating the authorities of Section 573 of that Act, foreign government partners may establish a Memorandum of Understanding with the Department of State to contribute funding and implement programs that further ISN/CTR's mission. The foreign government funds are tracked separately from ISN/CTR's U.S. Government allocations. The contributions vary by year since government funds depend on end-of-year balances. For example, ISN/CTR has received funds from the Republic of Korea, the United Kingdom Ministry of Defense, and the United Kingdom Department of Energy and Climate Change.

Reporting on Program Performance

The GPRA [Government Performance and Results Act] Modernization Act of 2010 (GPRA),¹³ requires Federal agencies to establish and utilize program performance indicators that measure and align with program goals. According to the Government Accountability Office,¹⁴ GPRA "is clearly outcome-oriented, and thus, an agency's performance plan should include outcome goals whenever possible. Outputs can be defined as the direct products and services delivered by a program. Outcomes are the results of those products and services."¹⁵

Within the Department, the Office of U.S. Foreign Assistance Resources, which reports to the Deputy Secretary for Management and Resources, and the Bureau of Budget and Planning, which reports to the Under Secretary for Management, are responsible for overseeing and supporting the Department's annual strategic and performance planning and meeting GPRA requirements. The Office of U.S. Foreign Assistance Resources issues a Department Notice annually that requests performance information from all operating units¹⁶ for the annual Performance Plan and Report. Performance information should include the successes and challenges of U.S. foreign assistance in the security, development, and humanitarian assistance sectors. The Performance Plan and Report is submitted to the President, the Congress, and the American public. It is published on the Department website.

The most recent Department Notice addressing the FY 2014 Performance Plan and Report, dated October 28, 2014, stated that:

[Performance Plan and Report] PPR data reflects the successes and challenges of U.S. foreign assistance in the security, development and humanitarian assistance sectors, and is used

¹² The Foreign Assistance Act of 1961, as amended, codified at 22 United States Code (U.S.C.) § 2349aa-2.

¹³ The GPRA Modernization Act of 2010 (Public Law No. 111-352) amended the Government Performance and Results Act.

¹⁴ The Results Act - An Evaluator's Guide to Assessing Agency Annual Performance Plans, United States General Accounting Office (GAO/GGD-10.1.20, Apr. 1998).

¹⁵ *Outcome* is a type of measure that indicates progress against achieving the intended result of a program. It indicates changes in conditions that the U.S. Government is trying to influence. *Output* is a type of measure, specifically the tabulation, calculation, or recording of activity or effort, usually expressed quantitatively. Outputs describe the level of product or activity that will be provided over a period of time.

¹⁶ An operating unit is an entity, e.g., office, bureau, etc., that receives funding for foreign assistance programs.

throughout the year to fulfill mandated reporting requirements such as the Government Performance and Results Act, and the Modernization Act of 2010, and to justify our programs and resource requests.

Changes in Federal Regulations and New Department Policies Pertaining to Federal Awards

Government-wide Transition From the OMB Circulars to Uniform Requirements

Effective December 26, 2013, the Office of Management and Budget (OMB) published the "Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards."¹⁷ This guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which have been placed in OMB guidance); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up. The uniform guidance consolidates the guidance previously contained in the aforementioned citations into a streamlined format that aims to improve both clarity and accessibility. This guidance does not broaden the scope of applicability from existing government-wide requirements affecting Federal awards to non-Federal entities including state and local governments, Indian tribes, institutions of higher education, and nonprofit organizations.

New Department Guidance on Administering Federal Financial Assistance Awards

Effective March 13, 2015, the Department published a new Directive¹⁸ intended to be a single document that sets forth internal guidance, policies, and requirements to be complied with by all domestic and foreign grant-making bureaus and posts within the Department when administering Federal Financial Assistance awards. The Directive is effective for all awards initiated on or after March 13, 2015.

Grants Policy Directives (GPDs), issued by A/OPE, are now incorporated in this Directive and intended solely as an instrument of internal Department management to require Department staff to follow the policies and standards set forth. Although the Directive was not in effect during the audit period (October 1, 2011–September 30, 2013), the GPDs were in effect, and were applied throughout the conduct of the audit work. Since the GPDs were incorporated into the new Department guidance (the Directive), there was no impact on the audit findings under the "then applicable authorities," versus recommendations, under the new authorities.

¹⁷ Title 2 of the Code of Federal Regulations, Part 200.

¹⁸ *U.S. Department of State Federal Assistance Policy Directive.*

AUDIT RESULTS

Finding A: ISN/CTR Administration and Oversight of the Global Threat Reduction Program Did Not Fully Comply With Department Policies

The Office of Inspector General (OIG) found that ISN/CTR administration and oversight of foreign assistance funding related to the GTR program were not always performed in accordance with Department policies. Specifically, OIG found that ISN/CTR Headquarters personnel did not:

- develop monitoring plans for each award;
- review and take action on findings in Financial Statement audit reports;
- conduct required risk assessments; and
- maintain award files in accordance with Department policy.

These weaknesses occurred, in part, because ISN/CTR management did not have internal controls or standard operating procedures in place to ensure required actions were completed as required by OMB Circular A-123.¹⁹ As a result, ISN/CTR personnel could not demonstrate that they had safeguarded the integrity of GTR funds or reduced financial risk to the program.

OIG identified \$1.7 million in unsupported costs²⁰ associated with a grant awarded to the U.S. Civilian Research and Development Foundation (CRDF).²¹ OIG also found that, in general, unliquidated obligations (ULOs) related to ISN/CTR grant activities were valid and properly closed. OIG identified 1 of 10 ULOs tested, valued at \$2.2 million, that was not closed in a timely manner. However, ISN/CTR had a process in place to review obligation balances monthly, which generally seemed to be sufficient to oversee ULOs. OIG also found that ISN/CTR adequately collaborated with other agencies at the Headquarters level. See Appendix A for the audit scope and methodology. See Appendix B for ISN/CTR's response to the recommendations in the draft report.

Monitoring Plans Specific to Awards Not Developed

GPD Number 42²² states that it is the responsibility of the GOR, in consultation with the GO, to develop a monitoring plan that is appropriate for the program. The GPD further states that the monitoring plan should document the types of monitoring activities to be performed, the

¹⁹ OMB Circular A-123, *Management's Responsibility for Internal Control*.

²⁰ The period of the grant performance was for 5 years from September 27, 2010, through September 26, 2015. To estimate the \$1.7 million of service fees, OIG took the average of the quarterly service fees that it observed during the audit period, from October 1, 2011, to September 30, 2013, and multiplied that amount by 20 quarters (5 years).

²¹ CRDF Global is an independent nonprofit organization that promotes international scientific and technical collaboration through grants, technical resources, training, and services.

²² GPD Number 42, "Monitoring Assistance Awards." As of March 13, 2015, GPDs were superseded by a new directive, "U.S. Department of State Federal Assistance Policy Directive," which applies to all new awards made on or after that date. The new policy includes the same requirement for monitoring plans that GPD Number 42 included.

frequency of these activities, and the individuals responsible for each activity. OIG found that none of the 10 grant and cooperative agreements in our audit sample had monitoring plans that complied with GPD Number 42 requirements. Instead, ISN/CTR officials prepared monitoring plans for each of the implementers, but not specific monitoring plans for each grant award as required. In addition, the monitoring plans developed by ISN/CTR for the implementers did not contain required information such as the types of activities to be monitored (site visits, emails, and audit reports), or an assessment of goals and objectives and the expected outcomes.²³ Although GPD Number 42 was issued in September 2010, ISN/CTR officials did not have controls in place to ensure GORs developed monitoring plans specific to the grant award. As a result, the ISN/CTR awards made for programs to promote cooperative research and development opportunities in the Middle East, North Africa, and South Asia regions were not monitored in accordance with Department policy.

Recommendation 1: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, develop and implement standard operating procedures to prepare and complete formal monitoring plans in accordance with Department policies ("U.S. Department of State Federal Assistance Policy Directive," Sub-Chapter 3.01-A).

ISN/CTR Response: ISN/CTR concurred with this recommendation and stated that in August 2014, it developed monitoring plans for all cooperative agreements in accordance with Grants Policy Directive 42 and has since been utilizing those plans. ISN/CTR further stated that it modified its office's standard operating procedures for administering foreign assistance funds to include developing monitoring plans consistent with Department policies.

OIG Reply: OIG considers this recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation (such as copies of implemented standard operating procedures) showing that ISN/CTR has implemented the standard operating procedures for preparing and completing formal monitoring plans.

Financial Statement Audit Reports Not Always Reviewed and Acted Upon

According to GPD Number 42, single or programmatic audits, such as those required by OMB Circular A-133,²⁴ can be an effective and valuable method for monitoring a recipient's financial performance, particularly with regard to the adequacy of recipient internal controls and compliance with Federal laws and regulations.²⁵ According to GPD Number 28,²⁶ the GO should

²³ ISN/CTR officials stated that ISN/CTR began developing monitoring plans for grants awarded in FY 2015.

²⁴ OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

²⁵ Circular A-133 is issued pursuant to the Single Audit Act of 1984, Pub. L. 98-502, and the Single Audit Act Amendments of 1996, Pub. L. 104-156. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of states, local governments, and non-profit organizations expending Federal awards. The circular states that recipients that expend \$500,000 a year or more from all combined Federal awards must have either

follow up on audit recommendations as well as conduct periodic reviews of OMB Circular A-133 audit reports, when applicable. OIG found no evidence that ISN/CTR officials obtained, reviewed, and took appropriate action to address deficiencies identified in the implementer's OMB Circular A-133 audit reports. For example, OIG reviewed the 2011 and 2012 audit reports for each of the implementers selected in our sample and discovered the A-133 audit report for Relief International disclosed several instances of fraud at field offices in an Asian country. Had the GO or GOR reviewed the audit report they would have been aware of the potential risks associated with the grant. This occurred primarily because ISN/CTR officials did not enforce Department policies on grants administration or promote the review of A-133 audit reports. When a GOR does not review and follow up on the independent auditor's report specific to a grantee/cooperative agreement recipient, there is an increased risk that deficiencies identified in the audit report could go unnoticed and unaddressed. In contrast, reviewing implementer financial statement audit reports could disclose important issues related to internal controls and/or noncompliance with Federal laws and regulations.

Recommendation 2: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, develop and implement standard operating procedures to obtain, review, and take appropriate corrective action on issues identified in Office of Management and Budget Circular A-133 audit reports.

ISN/CTR Response: ISN/CTR concurred with this recommendation and stated that in June 2015, it incorporated the review of A-133 audit reports into its office's standard operating procedures for administering foreign assistance funds. ISN/CTR further stated that review of A-133 audits is a multi-step process, and any derogatory findings are used to evaluate the risk of the overall award. ISN/CTR also stated that it leverages the Federal Audit Clearinghouse and the Contracting Performance Assessment Reporting System to ensure that its reviews are as thorough as possible in identifying potential concerns about the management capabilities of its grant recipients.

OIG Reply: OIG considers this recommendation resolved. This recommendation can be closed when OIG receives and accepts documentation (such as copies of the implemented standard operating procedures) showing that ISN/CTR has implemented standard operating procedures to obtain, review, and take appropriate corrective action on issues identified in Office of Management and Budget Circular A-133 audit reports.

a single or programmatic audit conducted by an independent auditor for that year. The grantee is also responsible for identifying and taking appropriate actions on all discrepancies reported.

²⁶ GPD Number 28, "Roles and Responsibilities for the Award and Administration of Federal Assistance."

Required Risk Assessments Not Completed

GPD Number 57 requires risk assessments to be performed throughout the grant life cycle to detect early warning signs of “potentially (a) ‘high risk’ award recipients, (b) ‘at-risk’ recipient performance, and/or (c) risky political/security/geographic operating environments, and develop appropriate plans to mitigate such risk(s).”²⁷ ISN/CTR funds activity in difficult operating environments where U.S. Government employees often have limited ability to travel due to travel restrictions imposed by host governments and U.S. security restrictions. In these instances, OIG found that ISN/CTR relied on self-reporting of performance by “high risk” award recipients²⁸ and did not perform required risk assessments, such as those called for under the Department’s GPDs. For example, since 2011, implementers funded by ISN/CTR have been performing in an Asian country, but due to travel restrictions imposed on U.S. Government personnel, ISN/CTR has relied upon the implementer, and the implementer’s sub-grantee, to self-report on program performance. In cases such as these, ISN/CTR should perform a comprehensive risk assessment to weigh the risks of not validating performance versus the benefits of continuing the project. Once the risk assessment is completed, and if ISN/CTR elects to accept the risk, it should develop an enhanced monitoring plan to mitigate the risk and prescribe alternatives for monitoring and ensuring performance (e.g., consider hiring a private contractor to review the contractor’s sub-award work in the field in order to validate program performance).

Additionally, GPD Number 57 requires that risk assessments be performed when significant funds are added to a grant or if the period of performance extends beyond 2 years.²⁹ OIG found that 4 of 10 grants (40 percent) reviewed had significant funds added to the grant during the period covered during the audit. For example, \$3.7 million was added to the Relief International grant for the continuation and expansion of their programs aimed at combating zoonotic diseases and reducing the threat of bioterrorism in Yemen, Afghanistan, and Somalia; and \$17.7 million was added to the Civilian Research and Development Foundation grant to update the scope of work and provide assistance in support of BEP. However, ISN/CTR could not provide evidence that it had performed a risk assessment for any of the four grants.

ISN/CTR officials informed OIG that risk assessments were not performed throughout the life cycle for grants awarded before FY 2014 because ISN/CTR officials were not aware of the Department’s policy to conduct risk assessments. ISN/CTR’s office director advised OIG that A/OPE issued guidance on risk management in GPD Number 57 in May 2011. The director further stated that many bureaus did not immediately disseminate this new requirement and A/OPE provided the template risk assessment form sometime after the initial communication.

²⁷ GPD Number 57, “Risk Management Policy.”

²⁸ High-risk recipients generally require more extensive monitoring and oversight by the GO or GOR.

²⁹ GPD Number 57, “Risk Management Policy.” Under the new directive (“U.S. Department of State Federal Assistance Policy Directive,” Mar. 13, 2015), a risk assessment must be performed annually for agreements whose period of performance is longer than 12 months in duration.

Risk assessments consider the potential significance of an identified weakness or concern and the likelihood of a problem developing, along with possible consequences. For example, in the case of the ISN/CTR implementer in an Asian country (Relief International), had a risk assessment been performed in accordance with Department policy, ISN/CTR might have been able to appropriately designate the implementer as "high risk." ISN/CTR might have then taken steps to manage the risk, such as hiring private contractors experienced in the subject and not bound by U.S. Government travel restrictions to validate performance on ISN/CTR's behalf. Subsequent to the completion of audit fieldwork, ISN/CTR provided OIG with the following:

As of FY 2014, CTR consistently performs a risk assessment of the potential awardee for every new award and for any modification to an existing award. The CTR budget team provides a quality control check to ensure that all risk assessments are complete and accurate. This requirement is now described in email guidance and in an annual training to CTR program officers. CTR will ensure the continuing adherence to this Department Policy moving forward.

OIG looked at the steps taken by ISN/CTR to adhere to Department policy regarding risk assessments. Based on this information, OIG found it important that ISN/CTR develop and implement standard operating procedures to ensure the consistent application of risk assessments for all ISN/CTR awards.

Recommendation 3: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement standard operating procedures to verify that risk assessment processes are performed as required by "U.S. Department of State Federal Assistance Policy Directive," Sub-Chapter 2.03-A.

ISN/CTR Response: ISN/CTR concurred with this recommendation and stated that, as of FY 2014, ISN/CTR had consistently performed a risk assessment of the potential awardee for every new award and for any modification to an existing award. ISN/CTR further stated that it has incorporated risk assessments into the office's standard operating procedures for administering foreign assistance funds. Additionally, ISN/CTR stated that it provided OIG a copy of its risk assessment survey tool during the course of the audit.

OIG Reply: OIG considers this recommendation resolved. OIG reviewed the risk assessment survey tool during the audit and found it to be sufficient for assessing risk. This recommendation can be closed when OIG receives and accepts documentation (such as the implemented standard operating procedures and evidence of actual risk assessments completed) verifying that ISN/CTR's risk assessment processes are being performed using the newly implemented standard operating procedures.

Maintenance of GTR Program Award Files Needs Improvement

The Department's Federal Assistance Policy Handbook outlines the mandatory use of the Federal Assistance File Folder, or Form DS-4012, for all Department Federal assistance actions. In addition, the Department's GDP Number 23³⁰ provides guidance for maintaining the official Department file for a Federal assistance award.

OIG reviewed ten grant and cooperative agreement award files associated with the GTR program,³¹ valued at approximately \$31 million, awarded or modified during FY 2012-FY 2013, from a universe of 27 GTR Award files valued at \$52.9 million.³² OIG found that ISN/CTR's GTR Award files did not always contain evidence that ISN/CTR conducted sufficient oversight of the GTR program awards. Specifically, ISN/CTR officials did not monitor the GOR files to ensure that the files included all required documentation such as requiring the monitoring plans previously discussed. In some instances, OIG did find oversight documentation was included in the State Assistance Management System (SAMS),³³ while in other instances some documentation was missing or incomplete. For example, OIG found no evidence demonstrating that the GORs reviewed the program progress and financial status reports for any of the ten grants and cooperative agreements reviewed. Specifically, there was no evidence that the GOR periodically reviewed the grant expenses reported in the quarterly reports or analyzed the financial transactions for accuracy and allowability. Further, for 2 of 10 (20 percent) GTR Award files reviewed, OIG was unable to locate the original GOR designation letter, which is required in accordance with GPD Number 16.³⁴

ISN/CTR officials did not give a specific reason as to why the GTR Award files were not complete; however, the officials stated that some grants were initiated before SAMS was deployed. Therefore, some documents may have been maintained in a hard copy file but were not later scanned into SAMS. When award files are incomplete, the U.S. Government may not have the necessary documentation to act against implementers who fail to conform to grant terms, potentially resulting in paying for services that do not meet the grant terms and conditions. Also, failure to maintain adequate GTR Award files can create financial risk and hinder the transition of oversight when new GORs are assigned.

³⁰ GDP Number 23, rev. 2, "Federal Assistance File Folder, Form DS-4012."

³¹ The oversight requirements of grants and cooperative agreements are the same. Therefore, in the remainder of the report, OIG will refer to grants and cooperative agreements as "grants."

³² Additional information on the sample selected is included in Appendix A: Scope and Methodology.

³³ In FY 2011, A/LM/AQM began the transition toward using SAMS as its official record keeping source for all GTR Award files. SAMS is used by grant officials responsible for administration of grants. SAMS collects and processes data for grants management. SAMS simplifies data entry, as information is entered once and retained, thus eliminating the need to enter the same data multiple times. Based on this information, for our audit period of FYs 2012 and 2013, SAMS was considered the official grant file.

³⁴ GDP Number 16, "Designation of Grants Officer Representatives."

OIG issued a Management Alert on Grants Management Deficiencies³⁵ in September 2014, which underscored grants management as a significant management challenge for the Department. Because the Management Alert on Grants Management Deficiencies offered Department-wide recommendations to address deficiencies found with award files, OIG is not offering a recommendation in this report.

Results of Transaction Testing of Four GTR Program Grants

OIG tested the transactions associated with 4 of the 10 grants in our audit sample and selected a sample of 59 transactions from a universe of 36,760 transactions from the four grants.³⁶ The sample totaled \$2.7 million from a universe of \$25.1 million. The intent of the testing was to determine whether the costs charged to the grants were supported and allowable. The selection was judgmental to ensure each of the four implementers included in our audit sample was tested.

OIG identified \$1.7 million in unsupported costs³⁷ associated with a grant to U.S. Civilian Research and Development Foundation. OIG questions the costs because the foundation charged a service fee of 12 percent to the grant³⁸ for “payment facilitation services.” This fee is separate and distinct from the direct costs³⁹ and the negotiated indirect cost rates charged to the grant.⁴⁰ A representative of U.S. Civilian Research and Development Foundation stated that the service fee represented direct costs and included a suite of financial, project management, and information technology services; however, OIG was not provided the basis for the 12 percent service fee. ISN/CTR officials stated that they were aware of the service fee but neither ISN/CTR nor the A/LM/AQM provided OIG supporting documentation that explained the fee. Consequently, OIG questions the reasonableness of the service fee and the associated costs.

³⁵ *Management Alert – Grants Management Deficiencies*, September 2014 (MA-14-03).

³⁶ For detailed information on the sample selected and the results of the transaction testing, see Appendix A: Scope and Methodology.

³⁷ The period of the grant performance was for 5 years from September 27, 2010, through September 26, 2015. To estimate the \$1.7 million of service fees, OIG took the average of the quarterly service fees that it observed during the audit period, from October 1, 2011, to September 30, 2013, and multiplied that amount by 20 quarters (5 years).

³⁸ The grant provides cooperative research and development opportunities that enable scientists, technicians, and engineers with weapons of mass destruction or weapons-applicable expertise to address critical security, medical, and other societal needs, improve awareness of international nonproliferation standards, and advance knowledge of laboratory best practices in a variety of scientific fields, among other things.

³⁹ OMB Circular A-122 defines direct costs as those costs that can be identified specifically with a particular final cost objective that is a particular award, project, service, or other direct activity of an organization. Indirect costs are defined as those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

⁴⁰ Domestic organizations that receive Federal assistance may be reimbursed for indirect costs only if they have a negotiated indirect cost rate established either by their “cognizant” agency or by the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, International Programs Division.

In respect to unallowable costs, OIG determined that documented support for the transactions tested was generally adequate and identified 3 of the 59 transactions, totaling \$11,727, that are unallowable. Specifically:

- Grantee, American Society for Microbiology, used \$2,825 in Federal funds to purchase baseball tickets for a group visiting Washington, D.C. OMB Circular A-122⁴¹ states that "costs of entertainment including social activities are unallowable."
- Grantee, U.S. Civilian Research and Development Foundation, overpaid \$1,752 for a 14-night stay in a hotel related to a training session, when the employees attending the training stayed at the hotel for only 13 nights. OMB Circular A-122 requires that to be allowable, costs must meet the standard of reasonableness.
- Grantee, U.S. Civilian Research and Development Foundation, lacked adequate supporting documentation for the costs of accommodations for GTR trainees, totaling \$7,150. The contractor's billing did not agree with the charges made to the grant and no lodging receipts were maintained. OMB Circular A-122 requires that to be allowable under an award, costs must be adequately documented.

Recommendation 4: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management and the Bureau of the Legal Adviser, Office of Buildings and Acquisitions, (a) determine whether the 12 percent service fee for the U.S. Civilian Research and Development Foundation grant (a total of \$1.7 million over 5 years) questioned by OIG is allowable; (b) obtain support for the basis for the fee; and (c) recover any costs determined to be unallowable.

ISN/CTR Response: ISN/CTR concurred with this recommendation and stated that it was aware of OIG's concerns related to the IMPACT fee charged by U.S. Civilian Research and Development Foundation (CRDF Global). ISN/CTR further stated that it began a discussion several months ago with the grant recipient and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management about the allowability of the costs. Additionally, ISN/CTR stated that it concurred with OIG's recommendation that the Department should obtain additional support for the basis of the fee. However, ISN/CTR noted that the fee was explicitly referenced in CRDF Global's Notice of Grant Award, including in Department-approved budgets. Also, ISN/CTR stated that the fee structure resulted in a substantial cost savings to the U.S. taxpayer since, unlike other activities funded under the grant, IMPACT services were not burdened with a negotiated indirect cost rate. ISN/CTR stated that it will work with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, and the Office of the Legal Adviser's Office of Buildings and Acquisitions to resolve the issue.

⁴¹ OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B.

OIG Reply: OIG considers the recommendation unresolved. While ISN/CTR stated that it concurred with OIG's recommendation, the response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the allowability of the 12 percent service fee for the U.S. Civilian Research and Development Foundation grant (a total of \$1.7 million over 5 years) questioned by OIG. This recommendation can be resolved when OIG receives and accepts documentation demonstrating that ISN/CTR has determined, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, and the Office of the Legal Adviser's Office of Buildings and Acquisitions, the allowability of the 12 percent service fee. This recommendation will be closed when OIG receives and accepts documentation showing that, for amounts determined to be unallowable, ISN/CTR has either recovered the 12 percent service fee or established an accounts receivable for unallowable, unrecovered amounts.

Recommendation 5: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether questioned grant transaction costs of \$1,752 and \$7,150 (hotel accommodations), and \$2,825 (baseball tickets) are allowable; and (b) recover any costs determined to be unallowable.

ISN/CTR Response: ISN/CTR concurred with the recommendation and stated that it will work with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, to determine whether the questioned transactions were allowable, and if determined to be unallowable, will recover the costs.

OIG Reply: OIG considers the recommendation unresolved. While ISN/CTR stated that it concurred with OIG's recommendation, the response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the allowability of the OIG questioned transactions under the American Society for Microbiology and the U.S. Civilian Research and Development Foundation grants (a total of \$11,727). This recommendation can be resolved when OIG receives and accepts documentation demonstrating that ISN/CTR has determined, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, the allowability of the questioned costs under these foreign assistance grants. This recommendation can be closed when OIG receives and accepts documentation showing that ISN/CTR has either established an accounts receivable for or recovered the amount of the questioned costs if determined to be unallowable.

Reviews of Unliquidated Obligations Were Adequately Performed

The Department's *Foreign Affairs Manual*⁴² requires that all officers responsible for managing, tracking, and obligating allotted funds must implement procedures for reviewing obligations and available fund balances on a monthly basis. Within ISN/CTR, the budget officer is delegated responsibility for funds control. The *Foreign Affairs Manual*⁴³ further requires that obligations with no activity in more than a year must be targeted and adjusted to zero if they cannot be documented as valid obligations. In addition, ISN/CTR's own procedures require reviews of ULOs on a monthly basis, and "in cases where a ULO is found to be unnecessary – either because the activity/agreement has been completed or the activity/agreement can no longer be executed due to political constraints or implementer performance – the obligation will be promptly adjusted."

During audit fieldwork, OIG obtained a report dated October 23, 2014, that showed 53 ULOs related to ISN/CTR grants. OIG tested 10 of the 53 ULOs, which reflected \$32.8 million of the \$75.1 million in total ULOs.⁴⁴ ISN/CTR officials provided support to validate 9 of the 10 obligations tested.⁴⁵ The one invalid ULO identified, totaling \$2.2 million, was created in September 2011 and remained open and inactive through September 2014.⁴⁶ During discussions with ISN/CTR officials, OIG found that no activity had occurred on the obligation for 3 years. OIG learned that the project was suspended in 2011, but until OIG's Office of Inspections issued its report in July 2014,⁴⁷ which highlighted ISN's inadequate management of ULOs and its ongoing audit, no action had been taken to deobligate or reprogram the funds.

According to ISN/CTR officials, the budget officer conducts monthly and quarterly reviews of obligation balances and, as warranted, requests are submitted to cancel or adjust ULOs.⁴⁸ OIG is not making a recommendation because ISN/CTR advised OIG that they have a process in place to regularly review ULOs. Also, OIG validated that ISN/CTR took action to reprogram the one invalid ULO identified by OIG.

ISN/CTR's Interagency Collaboration at the Headquarters Level

The President's 2009 *National Strategy for Countering Biological Threats* directs the U.S. Government to "communicate effectively with all stakeholders." It also directs participants to advance effective communications and increase transparency in our actions by "encouraging

⁴² 4 FAM 225 (a), "Accounting Controls and Obligation Management."

⁴³ 4 FAM 225 (d), "Accounting Controls and Obligation Management."

⁴⁴ Additional information on the sample selected is included in Appendix A: Scope and Methodology.

⁴⁵ To test for validity, the audit team requested justification for the bona fide purpose for those obligations to remain open. OIG also compared the open ULOs in September 2014 to those outstanding in the June 2014 ULO Review conducted by the ISN Executive Office.

⁴⁶ ISN/CTR rebudgeted the obligated funds on September 30, 2014.

⁴⁷ *Inspection of the Bureau of International Security and Nonproliferation* (ISP-I-14-19).

⁴⁸ The ISN Executive Office will cancel or adjust ULOs in the financial management system, based on the written notification from program personnel.

that—whenever possible—Federal departments and agencies coordinate their outreach efforts to include conducting joint or multi-partner activities.” The President’s 2010 *National Security Strategy* promotes a whole-of-government approach in which “diplomats, development experts, and others in the United States Government must be able to work side by side to support a common agenda,” that is, a world without weapons of mass destruction.

OIG found that ISN/CTR personnel at the Headquarters level maintained ongoing collaboration with U.S. agency partners to strengthen and promote the GTR program. This collaborative relationship is fostered by ISN/CTR conducting annual planning meetings where interagency participants and implementers set program priorities and funding levels to meet non-proliferation threats.

Finding B: Performance Indicators Did Not Measure Progress Toward Achieving Goals

As stated earlier in the report, the GPRA Modernization Act of 2010 (Pub. L. No. 111-352), which amended the Government Performance and Results Act, requires Federal agencies to establish and utilize program performance indicators that can measure and that align with program goals; and, according to the Government Accountability Office,⁴⁹ an agency’s performance plan should include outcome based goals, whenever possible.

OIG found that ISN/CTR used GTR program funds to provide training, workshops, seminars, and equipment to partner countries. However, OIG could not determine the extent to which foreign assistance funding provided to grantees in FYs 2012-2013 achieved ISN/CTR’s goal of combating proliferation threats because the performance indicators used by ISN/CTR to measure the success of its programs were outputs rather than outcomes. As shown in Table 1, the performance indicators used for the award instruments we reviewed measured outputs such as the number of activities performed rather than outcomes that demonstrate the goals of the GTR program were being achieved.

⁴⁹ *The Results Act, An Evaluator’s Guide to Assessing Agency Annual Performance Plans, United States General Accounting Office* (GAO/GGD-10.1.20, Apr. 1998).

Table 1: Examples of GTR Program Goals and Performance Indicators**FY 2013**

Program Goals	Performance Indicators
Counter WMD Proliferation and Combat WMD Terrorism	Number of activities carried out to improve Pathogen Security, Laboratory Biosafety, and Biosecurity.
Counter WMD Proliferation and Combat WMD Terrorism	Number of activities funded by the GTR program across the Chemical and Nuclear program elements.

FY 2012

Program Goals	Performance Indicators
Counter WMD Proliferation and Combat WMD Terrorism	Number of activities funded by the GTR program across all program elements.
Counter WMD Proliferation and Combat WMD Terrorism	Number of activities carried out to improve Pathogen Security, Laboratory Biosafety, and Biosecurity.

Source: ISN/CTR.

Beginning in 2011, ISN/CTR commissioned four studies (a fifth study is to be completed in 2016) to measure GTR program progress and identify better performance indicators for its programs. Specifically, ISN/CTR commissioned the Monterey Institute of International Studies/Center for Nonproliferation Studies (Monterey Institute) to develop performance indicators to measure the impact GTR programs have on biological, chemical, and nuclear security. According to ISN/CTR officials, the performance indicators that the Monterey Institute developed were garnered from best practices in international standards for security, and used an outcome based approach to measure the impact of ISN/CTR's programs on nonproliferation, rather than output based (i.e., counting the number of activities funded or completed). The new CTR evaluation tool (using outcome-based performance indicators) developed by the Monterey Institute was first used in a pilot implementation of the metrics and indicators developed, examining progress of ISN/CTR programs in four of its partner countries. The results of the trial were completed in October 2013. The pilot was subsequently expanded to include 12 partner countries, and that study was completed in December 2014.⁵⁰

⁵⁰ The types of data used in the Monterey Institute studies included national metrics data, institutional metrics, and contextual indicators. Please refer to the Monterey Institute's complete report on the "Results of Metrics Implementation for Nuclear, Biological, and Chemical Security Programs," dated December 19, 2014, for more detailed descriptions of the data elements and their application.

The study showed that the Monterey Institute created a multi-level, multi-disciplinary tool to provide a comprehensive picture of the activities and evolution of security culture in the countries under study. Twelve countries were included in the study, along with one country used as a control case (Sweden).⁵¹ The new tool developed in the study introduced new performance indicators. One example of the indicators developed for ISN/CTR is referred to as “contextual indicators.” The contextual indicators include eight categories of information regarding a country: 1. Openness to foreign aid; 2. Science culture; 3. Business culture; 4. Education level; 5. Governance; 6. International commitments; 7. Relationship with the U.S.; and 8. Related sister cultures. Each category of performance indicators helps shed light on each country’s process toward establishing a security culture that helps explain the environment in that country. ISN/CTR first began using the outcome-based performance indicators prescribed by the Monterey Institute in its performance reporting for FY 2014, but they were not implemented for the FYs 2012 and 2013 awards contained in our audit sample, as previously discussed. OIG did not assess the effectiveness of the new performance indicators in relation to the President’s 2010 *National Security Strategy*, but did review the Monterey Institute study and held discussions with ISN/CTR management. According to ISN/CTR officials, additional work will need to be done with the model to complete the integration of project data for all partner countries where ISN/CTR programs are performed.

Recommendation 6: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction (ISN/CTR) complete the integration of project data for each of its partner countries into the baseline model, using the performance indicators and metrics developed by the Monterey Institute, which were garnered from best practices and based on ideal standards, to better assess and report on the performance of ISN/CTR programs relative to the President’s 2010 *National Security Strategy*.

ISN/CTR Response: ISN/CTR concurred with this recommendation and stated that in May 2012, it funded the Monterey Institute so that it could develop performance indicators and metrics to evaluate ISN/CTR’s programs. ISN/CTR further stated that the project started as a pilot and expanded to include 12 partner countries. Additionally, ISN/CTR stated that it will continue to integrate additional countries as appropriate, and as resources permit, to evaluate ISN/CTR’s performance toward reducing biological, chemical, and nuclear threats.

OIG Reply: OIG considers this recommendation resolved. This recommendation can be closed when OIG receives and accepts documentation demonstrating that ISN/CTR has integrated project data from each of its partner countries into the baseline model using the performance indicators and metrics developed by the Monterey Institute relative to the President’s 2010 *National Security Strategy*.

⁵¹ The 12 countries are Afghanistan, Algeria, Egypt, Indonesia, Iraq, Jordan, Libya, Morocco, the Philippines, Saudi Arabia, South Africa, and Yemen. Sweden was used as the control case.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, develop and implement standard operating procedures to prepare and complete formal monitoring plans in accordance with Department policies ("U.S. Department of State Federal Assistance Policy Directive," Sub-Chapter 3.01-A).

Recommendation 2: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, develop and implement standard operating procedures to obtain, review, and take appropriate corrective action on issues identified in Office of Management and Budget Circular A-133 audit reports.

Recommendation 3: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement standard operating procedures to verify that risk assessment processes are performed as required by "U.S. Department of State Federal Assistance Policy Directive," Sub-Chapter 2.03-A.

Recommendation 4: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management and the Bureau of the Legal Adviser, Office of Buildings and Acquisitions, (a) determine whether the 12 percent service fee for the U.S. Civilian Research and Development Foundation grant (a total of \$1.7 million over 5 years) questioned by OIG is allowable; (b) obtain support for the basis for the fee; and (c) recover any costs determined to be unallowable.

Recommendation 5: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether questioned grant transaction costs of \$1,752 and \$7,150 (hotel accommodations), and \$2,825 (baseball tickets) are allowable; and (b) recover any costs determined to be unallowable.

Recommendation 6: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction (ISN/CTR) complete the integration of project data for each of its partner countries into the baseline model, using the performance indicators and metrics developed by the Monterey Institute, which were garnered from best practices and based on ideal standards, to better assess and report on the performance of ISN/CTR programs relative to the President's 2010 *National Security Strategy*.

APPENDIX A: SCOPE AND METHODOLOGY

The objective of this audit was to determine whether the administration and oversight of the Department of State (Department), Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction (ISN/CTR) ensured foreign assistance funding related to the Global Threat Reduction (GTR) program was expended in accordance with Department policies, achieved the desired results, and contributed to meeting the President's 2010 *National Security Strategy*.

The Office of Inspector General (OIG) conducted fieldwork for this performance audit from May through December 2014 at ISN/CTR Headquarters, Embassy Jakarta (Indonesia), and Embassy Kuala Lumpur (Malaysia). Fieldwork was also performed in an Asian country, but the audit team was restricted from performing fieldwork at other locations in that country due to security concerns. In addition, OIG conducted site visits to various grantees in Washington, D.C.

OIG 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 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.

To obtain background information for this audit, OIG researched and reviewed Federal laws and regulations, as well as Department internal guidance. Specifically, OIG reviewed the *Foreign Affairs Manual*, the *Federal Assistance Policy Handbook*,¹ the Code of Federal Regulations; Office of Management and Budget (OMB) Circulars A-122,² A-123,³ and A-133;⁴ the Department's Grants Policy Directives;⁵ and the GPRA [Government Performance and Results Act] Government Modernization Act of 2010 (GPRA) (Pub. L. No. 111-352), which amended the Government Performance and Results Act.⁶

To obtain an understanding of ISN/CTR grant administration and oversight procedures, OIG met with ISN/CTR officials at Headquarters; Economics officers; Environment, Science, Technology, and Health officers and individuals who received grants and training in Indonesia and Malaysia;

¹ Federal Assistance Policy Handbook, Version 1.2 03-2011.

² OMB Circular A-122, Rev. May 10, 2004, *Cost Principles for Non-Profit Organizations*.

³ OMB Circular A-123, Rev. December 21, 2004, *Management's Responsibility for Internal Control*.

⁴ OMB Circular A-133, Rev. June 26, 2007, *Audits of States, Local Governments and Non-Profit Organizations*.

⁵ The Grants Policy Directives were superseded on March 13, 2015, by a new consolidated directive, "U.S. Department of State Federal Assistance Policy Directive." The Grants Policy Directives are still in effect for the grants that OIG reviewed during this audit. However, new grants awarded after this date would need to comply with the new standards. For any recommendations that OIG made to comply with standards, OIG reviewed the new policy to ensure that it included similar requirements to the Grants Policy Directives.

⁶ GPRA Modernization Act of 2010, Public Law No. 111-352.

and interagency partners both at selected overseas locations and Headquarters. OIG reviewed and analyzed grant documentation. To validate that grant performance indicators were achieved, OIG reviewed monthly reporting documents, reviewed training materials, inspected laboratory upgrades, and interviewed training participants in Indonesia and Malaysia.

Limitations

Because ISN/CTR does not have dedicated contacts at post who work with the program implementers and the Algerian government requires nationals to obtain prior approval before meeting with foreigners, OIG was unable to arrange meetings with GTR program partners and participants in Algeria. As an alternative, OIG conducted teleconference interviews with the Embassy Algiers Economics Officer and the Algerian in-country Biosecurity Engagement Program partner. The audit team also faced travel restrictions in an Asian country due to security concerns. This limited our review to validate services provided. Although attempts were made to contact personnel via e-mail and by phone, we were not able to complete all scheduled tests.

Work Related to Internal Controls

To assess the adequacy of internal controls related to policies, procedures, and processes, OIG took the following actions:

- obtained and reviewed the policies, procedures, and processes related to the administration and oversight of ISN/CTR program-related grants;
- interviewed ISN/CTR personnel responsible for the administration and oversight of ISN/CTR program-related grants; and
- reviewed GTR Award files for significant deficiencies and noncompliance with Federal and Department regulations.

OIG identified a number of internal control weaknesses, which are summarized in the Audit Results section of this report.

Prior Reports

Between 2005 and 2014, OIG issued two Management Alerts related to grant management and one inspection report related to ISN/CTR.

- A March 2014 OIG Management Alert⁷ emphasized significant deficiencies in the Department's grant management process, including insufficient oversight of grants and inadequate documentation. OIG urged the Department to take immediate action to ensure that adequate numbers of properly trained grants officers and grants officer's

⁷ *Grants Management Deficiencies* (MA-14-03).

representatives are assigned and required documentation is maintained in GTR Award files. The Under Secretary for Management and the Bureau of Administration, Office of the Procurement Executive (A/OPE), agreed with their respective recommendations and have taken steps to implement them, but the recommendations remained open as of April 2015.

- A January 2015 OIG Management Assistance Report⁸ identified grant improprieties by Nour International Relief Aid during an OIG audit of contracts and grants administered by the Department. The audit objective was to determine the extent to which the Department's administration and oversight of contracts and grants were in accordance with Federal laws and Department guidance. OIG found that the grantee did not adhere to Federal procurement laws and regulations and that the grantee procured goods that were not allowed by the grant agreement. For example, the purpose of the grant tested was to supply pharmaceuticals and medical supplies to the people of an African country. The grant award permitted the grantee to procure only the pharmaceuticals identified in an attachment to the grant award. Any deviation required approval from the grants officer via an amendment to the grant award. The grantee did not always comply with the grant terms and conditions and items were not approved by the grants officer. Despite these items not being included in the grant award or approved by the grants officer, the Department paid the invoice. Among the several recommendations made regarding procurement and grants management, OIG recommended that the grants officer determine whether these costs were allowable, and if not, to take steps to recoup the costs from the grantee.
- In August 2014, an OIG audit report⁹ was issued on the Bureau of African Affairs' (AF) administration and oversight of contracts and grants awarded domestically, and on its use of contracting officer representatives and grants officer's representatives. Its primary objective was to determine to what extent AF's administration and oversight of contracts and grants were in accordance with applicable Federal laws and Department guidance. In its report, OIG identified numerous deficiencies within AF's oversight of its contracts and grants that may have inhibited AF's ability to achieve its mission. For example, AF oversight personnel in Sierra Leone accepted the purchase of equipment that did not meet contract specifications used for the African Union and United Nations peacekeeping missions. Similar conditions existed with the grants OIG reviewed. For instance, AF oversight personnel did not identify the misuse of grant funds intended to advance the economic and social empowerment of women in Uganda. As a result, the Department may not always have had reasonable assurance that AF spent Federal funds in accordance with its contract and grant awards, that recipients performed program activities as dictated in the grant awards, and that recipients achieved the goals and objectives outlined in their grants. Without appropriate oversight, AF could not ensure

⁸ *Grant Improprieties by Nour International Relief Aid* (AUD-CG-15-19).

⁹ *Audit of the Administration and Oversight of Contracts and Grants* (AUD-CG-14-31).

that it achieved its mission of supporting African democracy, economic growth, conflict prevention, counterterrorism, and improving global health. OIG made two recommendations to the Bureau of Administration, Office of the Procurement Executive and 22 recommendations to AF. Based on Bureau of Administration, Office of the Procurement Executive's management response to the report, OIG considers both recommendations resolved pending further action. Similarly, AF generally concurred with the recommendations. OIG considered 21 of the 22 recommendations to AF resolved pending further action.

Use of Computer-Processed Data

OIG used computer-processed data obtained from ISN/CTR; the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management; and the implementers. Employing these data, OIG identified ISN/CTR's grant awards and modifications during FY 2012 and FY 2013, its unliquidated obligations as of October 23, 2014, and expense transactions.

To assess the reliability of the grant awards and modifications data, OIG traced these data to source documentation and compared ISN/CTR-compiled data to publicly available information on USASpending.gov. OIG reconciled the ISN/CTR-provided data to information on awards obtained via a query of USASpending.gov and identified discrepancies between the two data sources. Specifically, ISN/CTR identified 13 grants that were not recorded in USASpending.gov.

These discrepancies gave rise to the concern that the data that ISN/CTR provided may not be sufficiently accurate or complete. OIG therefore took additional steps to assess the quality of the data. Specifically, OIG performed a further data review by obtaining additional information related to ISN/CTR grants from the State Assistance Management System, Office of Acquisitions Management GTR Award files, and the implementers' files. As a result of this effort, OIG determined that these data were sufficiently reliable to support the conclusions and recommendations of this report.

OIG also assessed the reliability of unliquidated obligations and implementer transactions data, primarily via corroboration with source documents. OIG did not identify any anomalies with the data. Consequently, these data were also deemed sufficiently reliable to support the report's findings and recommendations.

Detailed Sampling Methodology and Results

OIG employed a nonstatistical sampling method known as judgment sampling to select grants, unliquidated obligations, and expense transactions for review. Because this method uses discretionary criteria to effect sample selection, the audit team was able to use information garnered during its preliminary work to aid in making informed selections.

Selection of Grants for Review

OIG selected FYs 2012 and 2013 because at the outset of the audit FY 2014 had not yet been closed. OIG requested and received from ISN/CTR a listing of active projects for FY 2012 and FY 2013. ISN/CTR provided a list of 62 projects that included grants and cooperative agreements, interagency agreements, and transfers totaling \$129,381,060. The audit team excluded the 29 interagency agreements and the 6 transfers from the sample selection population. The team excluded interagency agreements because they are under the oversight of other audit agencies. The transfers were excluded because they represent direct transfers to other agencies or organizations. OIG sorted the remaining 27 grants and cooperative agreements¹⁰ by unique implementer and selected the implementers of grants who received award(s) that totaled more than \$1 million. Of these 27 grants, the team identified 10 grants and cooperative agreements associated with 4 implementers, namely—U.S. Civilian Research and Development Foundation (CRDF), the National Academy of Science (NAS), Relief International (RI), and the American Society for Microbiology (ASM)—that met the selection criteria, for a total of about \$31.3 million awarded during the audit period (as shown in Tables A.1 and A.2).

Table A.1: ISN/CTR Awards of More Than \$1 Million (FYs 2012-2013)

Implementer	Number of Awards	Amount of Awards
CRDF	1	\$17,719,126
NAS	6	2,789,584
RI	2	8,947,420
ASM	1	1,869,019
Total	10	\$31,325,149

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

¹⁰ A grant and a cooperative agreement are similar types of assistance with the distinction being that under a grant award it is anticipated that there will be **no** substantial involvement between the agency and the grantee during its performance, while under a cooperative agreement it is anticipated that there will be substantial involvement (4 FAH-3 H-612.2).

Table A.2: Awards to Four ISN/CTR Grantees

Implementer	Award Number	Amount Awarded
CRDF	S-LMAQM-10-GR-0090	\$17,719,126
Sub-total		\$17,719,126
NAS	S-ISNCTR-12-CA-1003	\$300,000
	S-ISNCTR-12-GR-1001	279,000
	S-LMAQM-09-GR-0056	339,500
	S-LMAQM-10-GR-0087	839,814
	S-LMAQM-11-CA-0057	275,000
	S-LMAQM-13-CA-1304	756,270
Sub-total		\$2,789,584
RI	S-LMAQM-11-GR-0066	\$3,728,418
	S-LMAQM-13-CA-1302	5,219,002
Sub-total		\$8,947,420
ASM	S-LMAQM-13-CA-1303	\$1,869,019
Sub-total		\$1,869,019
Total		\$31,325,149

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

Selection of Unliquidated Obligations for Review

In October 2014, OIG obtained an unliquidated obligation (ULO) report, dated October 23, 2014, containing all the obligations outstanding for ISN/CTR from the ISN Executive Office. The ISN Executive Office identified 53 ULOs for grants totaling \$75.1 million. OIG chose a sample of ULOs for review using judgment sampling, confining its selection to the top four implementers that were awarded foreign assistance funds during FYs 2012 and 2013 (CRDF, NAS, RI, and ASM). As shown in Table A.3, this sample of 10 ULOs totaled \$32.8 million, or about 43 percent of the universe of ISN/CTR grant ULOs.

Table A.3: Sample ULOs Selected for Testing

Document Number	Awardee	Amount Obligated	Amount Closed	Outstanding Balance as of October 23, 2014
1054140050	NAS	\$2,182,148	\$0	\$2,182,148
1054261062	CRDF	14,504,869	667,963	13,836,906
1054261064	NAS	839,814	685,368	154,446
1054261091	CRDF	2,987,547	2,807,199	180,348
1054261093	CRDF	226,710	0	226,710
1054361062	CRDF	17,209,350	2,837,885	14,371,465
1054361065	NAS	275,000	0	275,000
1054361073	ASM	1,869,019	908,795	960,224
1054361076	NAS	756,270	154,593	601,677
1054361124	CRDF	50,000	0	50,000
Total		\$40,900,727	\$8,061,803	\$32,838,924

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

Selection of Expense Transactions for Testing

Judgment sampling was employed to select expense transactions for testing. To effect sample selection, OIG obtained a detailed general ledger for the grant award with most activity for the quarter ending September 30, 2013, from the four implementers (CRDF, RI, NAS, and ASM). In total, OIG sampled and tested 59 transactions totaling \$2,836,522 from these four implementers, as shown in Table A.4.

Table A.4: Expense Transactions Selected for Testing

Implementer	Number of Expenditures	Amount of Expenditures	Number Sampled	Amount Sampled
CRDF	17,931	\$17,496,013	17	\$1,989,750
RI	16,744	5,667,804	13	257,736
NAS	1,408	925,477	11	278,456
ASM	677	1,026,788	18	223,913
Total	36,760	\$25,116,082	59	\$2,749,855

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

For CRDF, RI, and NAS, OIG ranked the General Ledger accounts that were related to expenses to identify the five largest expense accounts for each of these implementers. To select the specific transactions within these accounts for testing, we sorted each of the accounts from highest to lowest value. Generally, we sampled transactions proportionately (that is, more from the larger value accounts and less from the smaller value accounts), as shown in Tables A.5, A.7, A.9, and A.11. From CRDF Global, for example, six transactions for the Sub-award account and six from the Payment account were selected because they each comprised about 40 percent of the total expenses in the five largest accounts, while a sample of one each was selected from the

Sub-award Labor account and the Travel account because they only accounted for 5 percent and 3 percent, respectively.

Table A.5: CRDF Sample Size

Account Name	Amount of Expenditures	Percentage of Total Universe	Number of Transactions Sampled
Sub-Award	\$6,435,851	37	6
Payment	6,241,248	36	6
Direct Labor	3,075,578	18	3
Sub-award Labor	852,914	5	1
Travel	494,845	3	1
Other*	395,576	1	0
Total	\$17,496,012	100	17

* OIG did not test any transactions from the "Other" accounts because the amount of the transactions in that category fell below the established threshold for testing.

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

For CRDF, OIG selected and reviewed 17 transactions totaling \$1,989,750. Generally, OIG found most of the transactions to be allowable and supported. However, OIG questioned the allowability of two of the transactions totaling \$8,902. Both of these transactions involved travel expenses. For one transaction, the grantee overpaid \$1,752 for a 14-night stay in a hotel related to a training session, when the employees attending the training stayed at the hotel for only 13 nights. OMB Circular A-122 requires that to be allowable, costs must meet the standard of reasonableness. For a second transaction, the grantee lacked adequate supporting documentation for the costs of accommodations for GTR trainees, totaling \$7,150. The contractor's billing did not agree with the charges made to the grant and no lodging receipts were maintained. OMB Circular A-122 requires that to be allowable under an award, costs must be adequately documented. Table A.6 provides the results of the transaction review.

Table A.6: CRDF – Results of Transactions Selected for Testing

Sample Number	Account Name	Transaction Amount	Unallowable or Unsupported Cost
1	Sub-Award	\$4,162	\$0
2	Sub-Award	4,094	0
3	Sub-Award	3,924	0
4	Sub-Award	264,000	0
5	Sub-Award	264,000	0
6	Sub-Award	240,037	0
7	Payment	238,400	0
8	Payment	220,000	0
9	Payment	129,744	1,752
10	Payment	106,581	0
11	Payment	105,663	0
12	Payment	83,825	0
13	Direct Labor	83,209	0
14	Direct Labor	76,019	0
15	Direct Labor	75,642	0
16	Sub-Award Labor	83,300	0
17	Travel	7,150	7,150
Total		\$1,989,750	\$8,902

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

Table A.7: RI Sample Size

Account Name	Amount of Expenditures	Percentage of Total Universe	Number of Transactions Sampled
Agriculture & Animal Husbandry	\$1,562,379	28	4
Salaries - National	1,293,047	23	4
Indirect Cost Allocation	958,464	17	3
Vehicle Rentals	297,052	5	1
Salaries - International	233,570	4	1
Other*	1,323,292	23	0
Total	\$5,667,804	100	13

* OIG did not test any transactions from the "Other" accounts.

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

OIG selected and reviewed 13 transactions for RI totaling \$257,736. OIG found all of the transactions to be allowable and supported. Table A.8 provides the results of the transaction review.

Table A.8: RI – Results of Transactions Selected for Testing

Sample Number	Account Name	Transaction Amount	Unallowable or Unsupported Cost
1	Agriculture & Animal Husbandry	\$35,069	\$0
2	Agriculture & Animal Husbandry	22,528	0
3	Agriculture & Animal Husbandry	19,480	0
4	Agriculture & Animal Husbandry	19,040	0
5	Salaries - National	6,933	0
6	Salaries - National	3,360	0
7	Salaries - National	3,360	0
8	Salaries - National	3,290	0
9	Indirect Cost Allocation	53,122	0
10	Indirect Cost Allocation	42,119	0
11	Indirect Cost Allocation	36,360	0
12	Vehicle Rentals	8,400	0
13	Salaries - International TCN	4,675	0
Total		\$257,736	\$0

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

Table A.9: NAS - Sample Size

Account Name	Amount of Expenditures	Percentage of Total Universe	Number of Transactions Sampled
Overhead	\$180,681	20	3
Labor On-Site	173,728	19	3
General & Admin	130,436	14	2
Sub agreement	90,661	10	2
Committee Foreign Travel	78,460	8	1
Other*	271,512	29	0
Total	\$925,478	100	11

* OIG did not test any transactions from the "Other" accounts.

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

OIG selected and reviewed 11 transactions for NAS totaling \$278,456. OIG found all of the transactions to be allowable and supported. Table A.10 provides the results of the transaction review.

Table A.10: NAS – Results of Transactions Selected for Testing

Sample Number	Account Name	Transaction Amount	Unallowable or Unsupported Cost
1	Overhead	\$45,080	\$0
2	Overhead	41,586	0
3	Overhead	32,754	0
4	Labor- Onsite	10,666	0
5	Labor- Onsite	6,860	0
6	Labor- Onsite	4,661	0
7	General & Admin	35,099	0
8	General & Admin	31,119	0
9	Sub-agreement	35,665	0
10	Sub-agreement	29,607	0
11	Committee Foreign Travel	5,359	0
Total		\$278,456	\$0

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

For ASM, OIG followed a similar procedure, but the 10 largest accounts were identified rather than the top 5. More specifically, the average expense transaction was calculated to determine the accounts with the highest average transactions, as shown in Table A.11. The dollar amount of the transactions was the criterion used to select the specific transactions for testing. Again, proportional selection was maintained to the extent possible. Consequently, the supplies accounts for an Asian country and the Yemen supplies accounts for with the first and second highest average transactions had the largest number of transactions of any of the expense accounts, that is, three each.

Table A.11: ASM - Sample Size

Account Name	Amount of Expenditures (A)	Number of Transactions (B)	Avg. Transaction (A/B)	Number of Transactions for Sample
Participant Travel	\$165,301	139	\$1,189	2
Supplies an Asian country	71,076	6	11,846	3
Other Operating Expenses (travel an Asian country)	52,799	31	1,703	1
Supplies Yemen	44,813	8	5,602	3
Overhead (Malaysia)	43,314	35	1,238	1
Overhead (Yemen)	42,999	36	1,194	1
Overhead (an Asian country)	41,588	24	1,733	1
Indirect costs (an Asian country)	39,876	13	3,067	2
Indirect costs (AMB ¹¹)	39,461	9	4,385	2
Travel Staff	33,756	12	2,813	2
Other*	451,805	364	\$1,241	0
Totals	\$1,026,788	677		18

* OIG did not test any transactions from the "Other" accounts.

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

For ASM, OIG selected and reviewed 18 transactions totaling \$220,988. Additionally, OIG looked at one other transaction totaling \$2,825 for baseball tickets due to the nature of the expense. OIG found the 18 transactions to be allowable and supported. However, OIG found that one transaction tested was unallowable due to the nature of the expense (entertainment—baseball tickets totaling \$2,825). Table A.12 provides the results of the transaction review.

¹¹ ASM Ambassadors for Safe Science program.

Table A.12: ASM – Transaction Selected for Testing

Sample Number	Account Name	Transaction Amount	Unallowable or Unsupported Cost
1	Participant Travel	\$17,722	\$0
2	Participant Travel	14,066	0
3	Supplies an Asian country	46,451	0
4	Supplies an Asian country	12,587	0
5	Supplies an Asian country	10,000	0
6	Other Operating Expenses (travel an Asian country)	10,382	0
7	Supplies Yemen	11,623	0
8	Supplies Yemen	10,200	0
9	Supplies Yemen	10,000	0
10	Overhead (international, Malaysia)	3,680	0
11	Overhead (international, Yemen)	5,520	0
12	Overhead (international, an Asian country)	4,750	0
13	Indirect costs (an Asian country)	8,404	0
14	Indirect costs (AMB)	6,984	0
15	Indirect costs (an Asian country)	15,759	0
16	Indirect costs (ASM)	13,454	0
17	Travel Staff	11,188	0
18	Travel Staff	8,218	0
Total		\$220,988	\$0
Additional Transaction Reviewed			
	Tickets Washington Nationals	\$2,825	\$2,825
Total		\$2,825	\$2,825

Source: Generated by OIG from data provided by ISN/CTR and Office of Acquisitions Management.

APPENDIX B: BUREAU OF INTERNATIONAL SECURITY AND NONPROLIFERATION RESPONSE TO DRAFT REPORT



United States Department of State
Bureau of International Security and
Nonproliferation
Washington, D.C. 20520

August 26, 2015

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TO: OIG/AUD – Norman P. Brown

FROM: ISN/CTR – Phillip Dolliff ^{PO}

(U) SUBJECT: Response to the Draft Report on *Audit of the Bureau of International Security and Nonproliferation Administration and Oversight of Foreign Assistance Funds Related to the Global Threat Reduction Program*

(U) The Bureau of International Security and Nonproliferation Office of Cooperative Threat Reduction (ISN/CTR) welcomes the recommendations provided by the Office of the Inspector General (OIG). OIG has identified critical areas where ISN/CTR can enhance the administration and oversight of foreign assistance funds. ISN/CTR concurs with all six recommendations and will take corrective actions to implement increased oversight mechanisms in accordance with Department policy guidance. As noted below, ISN/CTR has already developed processes that address Recommendations 1-3, and 6, and CTR will continue to review office practices to assure the appropriate management controls are in place.

(U) Please see below for specific responses to each OIG Recommendation:

OIG Recommendation 1: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, develop and implement standard operating procedures to prepare and complete formal monitoring plans in accordance with Department policies (“U.S. Department of State Federal Assistance Policy Directive,” Sub-Chapter 3.01-A).

ISN/CTR Response to Recommendation 1: ISN/CTR agrees with Recommendation 1. In August 2014, ISN/CTR developed monitoring plans for all cooperative agreements in accordance with Grants Policy Directive 42 and has since been utilizing those plans. ISN/CTR has modified the office’s standard operating procedures for administering foreign assistance funds to include developing monitoring plans consistent with Department policies.

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OIG Recommendation 2: OIG recommends that Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, develop and implement standard operating procedures to obtain, review, and take appropriate corrective action on issues identified in Office of Management and Budget Circular A-133 audit reports.

ISN/CTR Response to Recommendation 2: ISN/CTR agrees with Recommendation 2. In June 2015, ISN/CTR incorporated the review of A-133 audit reports into the office's standard operating procedures for administering foreign assistance funds. ISN/CTR review of A-133 audits is a multi-step process, and any derogatory findings are used to evaluate the risk of the overall award. Moreover, ISN/CTR is leveraging the Federal Audit Clearinghouse and the Contracting Performance Assessment Reporting System (CPARS) to ensure that our reviews are as thorough as possible in identifying potential concerns about the management capabilities of our grant recipients.

OIG Recommendation 3: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and implement standard operating procedures to verify that risk assessment processes are performed as required by "U.S. Department of State Federal Assistance Policy Directive," Sub-Chapter 2.03-A.

ISN/CTR Response to Recommendation 3: ISN/CTR agrees with Recommendation 3. As noted in the draft report, as of FY 2014, ISN/CTR consistently performs a risk assessment of the potential awardee for every new award and for any modification to an existing award. ISN/CTR has incorporated risk assessment into the office's standard operating procedure for administering foreign assistance funds. ISN/CTR provided the OIG auditors with a copy of our risk assessment survey tool during the course of this audit.

OIG Recommendation 4: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management and the Bureau of the Legal Adviser, Office of Buildings and Acquisitions, (a) determine whether the 12 percent service fee for the U.S. Civilian Research and Development Foundation grant (a total of \$1.7 million over 5 years) questioned by OIG is allowable; (b) obtain support for the basis for the fee; and (c) recover any costs determined to be unallowable.

ISN/CTR Response to Recommendation 4: ISN/CTR agrees with Recommendation 4. ISN/CTR is aware of OIG's concerns related to the IMPACT fee charged by U.S. Civilian Research and Development Foundation (CRDF Global) and began a discussion several months ago with the grant recipient and AQM about the allowability of these costs. We concur with OIG's recommendation that that the Department should obtain additional support for the basis of the fee. However, we would note that the fee is

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explicitly referenced in CRDF Global's Notice of Grant Award, including in Department-approved budgets. Moreover, the fee structure has resulted in a substantial cost savings to the U.S. taxpayer since, unlike other activities funded under the grant, IMPACT services are not burdened with a negotiated indirect cost rate. ISN/CTR will work with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, and the Office of the Legal Adviser's Office of Buildings and Acquisitions, to resolve this issue.

OIG Recommendation 5: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether questioned grant transaction costs of \$1,752 and \$7,150 (hotel accommodations), and \$2,825 (baseball tickets) are allowable; and (b) recover any costs determined to be unallowable.

ISN/CTR Response to Recommendation 5: ISN/CTR agrees with Recommendation 5. ISN/CTR will work with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, to determine whether the questioned transactions are allowable, and if determined to be unallowable, will recover costs.

OIG Recommendation 6: OIG recommends that the Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction (ISN/CTR) complete the integration of project data for each of its partner countries into the baseline model, using the performance indicators and metrics developed by the Monterey Institute, which were garnered from best practices and based on ideal standards, to better assess and report on the performance of ISN/CTR programs relative to the President's National Security Strategy.

ISN/CTR Response to Recommendation 6: ISN/CTR agrees with Recommendation 6. In May 2012, ISN/CTR funded the Monterey Institute to develop performance indicators and metrics to evaluate ISN/CTR's programs. This project started as a pilot and has expanded to include twelve partner countries. ISN/CTR will continue to integrate additional countries as appropriate, and as resources permit, to evaluate ISN/CTR's performance toward reducing biological, chemical, and nuclear threats.

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ABBREVIATIONS

A/OPE	Office of the Procurement Executive
AF	Bureau of African Affairs
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Aquisitions Management
ASM	American Society for Microbiology
BEP	Biosecurity Engagement Program
CRDF	U.S. Civilian Research and Development Foundation
CSP	Chemical Security Engagement Program
GO	Grants Officer
GOR	Grants Officer's Representative
GPD	Grants Policy Directive
GPRA	[Government Performance and Results Act] Modernization Act
GTR	Global Threat Reduction
ISN/CTR	Bureau of International Security and Nonproliferation, Office of Cooperative Threat Reduction
NAS	National Academy of Science
OIG	Office of Inspector General
OMB	Office of Management and Budget
RI	Relief International
SAMS	State Assistance Management System
ULOs	Unliquidated Obligations
WMD	Weapons of Mass Destruction

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