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AND THE BROADCASTING BOARD OF GOVERNORS
OFFICE OF INSPECTOR GENERAL

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Office of Inspections

January 2015

Inspection of Embassy Baku, Azerbaijan

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PURPOSE, SCOPE, AND METHODOLOGY OF THE INSPECTION

This inspection was conducted in accordance with the Quality Standards for Inspection and Evaluation, as issued in 2012 by the Council of the Inspectors General on Integrity and Efficiency, and the Inspector's Handbook, as issued by the Office of Inspector General for the U.S. Department of State (Department) and the Broadcasting Board of Governors (BBG).

PURPOSE AND SCOPE

The Office of Inspections provides the Secretary of State, the Chairman of the BBG, and Congress with systematic and independent evaluations of the operations of the Department and the BBG. Inspections cover three broad areas, consistent with Section 209 of the Foreign Service Act of 1980:

- **Policy Implementation:** whether policy goals and objectives are being effectively achieved; whether U.S. interests are being accurately and effectively represented; and whether all elements of an office or mission are being adequately coordinated.
- **Resource Management:** whether resources are being used and managed with maximum efficiency, effectiveness, and economy and whether financial transactions and accounts are properly conducted, maintained, and reported.
- **Management Controls:** whether the administration of activities and operations meets the requirements of applicable laws and regulations; whether internal management controls have been instituted to ensure quality of performance and reduce the likelihood of mismanagement; whether instances of fraud, waste, or abuse exist; and whether adequate steps for detection, correction, and prevention have been taken.

METHODOLOGY

In conducting this inspection, the inspectors: reviewed pertinent records; as appropriate, circulated, reviewed, and compiled the results of survey instruments; conducted on-site interviews; and reviewed the substance of the report and its findings and recommendations with offices, individuals, organizations, and activities affected by this review.



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

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

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

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

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

A handwritten signature in cursive script that reads "Robert B. Peterson".

Robert B. Peterson
Assistant Inspector General for Inspections

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Key Findings

- The embassy team successfully presses forward on U.S. national security priorities and champions human rights and democratic values under difficult local circumstances.
- The embassy's 100-year-old physical structure is in deplorable condition, despite the best efforts of a hard-working management section. The Government of Azerbaijan has repeatedly blocked embassy efforts to acquire a site for a new embassy compound. The embassy continues to pursue options vigorously.
- Given the high-fraud, cash-based local economy, the combined financial management and human resources officer position provides inadequate oversight of the embassy's financial operations. Separate positions should be authorized.
- The public affairs section does not coordinate sufficiently with other mission entities.

All findings and recommendations in this report are based on conditions observed during the on-site review and the standards and policies then in effect.

The inspection took place in Washington, DC, between April 7 and 25, 2014, and in Baku, Azerbaijan, between April 29 and May 16, 2014. Ambassador Carol van Voorst (team leader), Laurent Charbonnet (deputy team leader), William Booth, Ronda Capeles, Robert Eckert, Robyn Hinson-Jones, Michael Hurley, Dolores Hylander, Barry Langevin, Charles Rowcliffe, Alexandra Vega, and Colwell Whitney conducted the inspection.

Context

Azerbaijan became independent with the breakup of the Soviet Union in 1991 and established diplomatic relations with the United States the next year. A Caspian Sea nation rich in energy resources, Azerbaijan shares borders with Iran, Georgia, Russia, and Armenia. A violent territorial dispute with Armenia over control of Nagorno-Karabakh, an enclave whose largely Armenian population lies within Azerbaijan's recognized borders, has dominated Azerbaijani foreign policy since 1988.

The energy sector accounts for nearly 50 percent of Azerbaijan's gross domestic product and roughly 70 percent of government revenue. Energy wealth has fueled strong economic growth over the past decade, reducing the poverty rate significantly. The economy, however, continues to be plagued by corruption and inequality.

Although Azerbaijan has made some progress in economic reform, the United States has been critical of developments in other areas, particularly civil governance and human rights. President Ilham Aliyev, son of the previous president, was elected to a third term in October 2013. U.S. criticism of the flawed elections—and of subsequent legislation curbing Azerbaijani civil rights—irritated the Aliyev Government.

Despite troubling trends toward authoritarianism and a recent crackdown on dissent, Azerbaijan has remained an important partner in U.S. security efforts in the region, providing transit, logistical, and combat support for the North Atlantic Treaty Organization mission in Afghanistan and working with the United States to counter terrorism and nuclear nonproliferation from Iran. The embassy played a major role in assisting the Azerbaijani Government to reach agreement with foreign investors on the Southern Gas Corridor, which will increase European energy security by funneling Azerbaijani energy resources into Western gas networks. Mission priorities also include ensuring Azerbaijan's development as a democratic, well-governed, peaceful nation with a market-based economy, integrated into Euro-Atlantic institutions.

The mission's top management priority is construction of a new embassy building to replace the overcrowded and physically vulnerable 100-year-old chancery and a separate commercial annex 1 mile away. The Azerbaijani Government has frustrated at least seven U.S. site acquisition efforts over the past decade. Most recently, the government canceled a signed property agreement after the United States criticized the 2013 election. Secretary Kerry wrote President Aliyev in February 2014 to urge cooperation.

The 448 mission employees include 85 U.S. direct hires from 6 separate U.S. agencies, 15 U.S. local hires, and 348 foreign national staff members. In FY 2015, the total foreign assistance request for Azerbaijan was \$16.3 million, a dramatic decrease from FY 2006, when U.S. Government assistance to Azerbaijan totaled nearly \$89 million.

Leadership

The Ambassador's and deputy chief of mission's (DCM) substantive expertise and collaborative management styles foster an informed, focused, and integrated staff. Talented and committed personnel, particularly at the section chief level, support mission goals, appreciate embassy leadership, and possess good morale, as indicated by OIG administered surveys.

The Ambassador is a second-time chief of mission completing his second year at post. An expert in post-Soviet Union energy and assistance issues with long experience in Washington policy circles, he is a prime resource for the embassy. The Ambassador meets frequently with President Aliyev, whom he has known for almost two decades, and with other senior government leaders. He maintains good contacts with business and energy representatives and advocates on behalf of members of Azerbaijan's human rights and democracy movements. The Ambassador speaks often in public and regularly travels beyond the capital to promote U.S. values and assistance programs.

Under the Ambassador's close supervision, the embassy has made progress toward its strategic security goals despite the frequently strained bilateral relationship. He has headed an effective multiagency effort to strengthen cooperation with Azerbaijan on countering terrorism and nuclear proliferation. The embassy has coordinated successfully with Azerbaijani partners to improve government controls over its land and maritime borders as well as to ensure Azerbaijan continues to provide logistical support and crucial transit rights to the North Atlantic Treaty Organization mission in Afghanistan. Drawing on the Ambassador's expertise, the embassy helped the government reach agreement in December 2013 with investors in a multi-billion-dollar project that will reduce European dependence on Russian energy supplies. Senior embassy officials report that the Ambassador fully supports their programs, in word and deed, and that he engages skillfully on their behalf with government and other interlocutors.

Embassy efforts to encourage the government to improve Azerbaijan's democratic and human rights record have been stymied by a crackdown on dissent and civil society that has become more pronounced in recent months. In the lead-up to the October 2013 elections, the Ambassador and embassy provided support to democratic and civic groups while working hard to persuade the government to conduct a fair and transparent vote. Mission efforts to engage constructively with officials of Azerbaijan's authoritarian government became more difficult after the elections, even in areas of mutual interest. Despite the frustrations of doing business, the Ambassador has led a calibrated push for continued progress in the security, energy, and economic portfolios, while making clear U.S. expectations in human rights and civil government. During the inspection, he delivered balanced but critical remarks to a joint U.S.-Azerbaijan forum, expressing U.S. concern over the country's failures in human rights and democracy and calling for a more open society.

The Ambassador supports the mediation efforts of the U.S. special representative for Nagorno-Karabakh by encouraging the Azerbaijan Government to be more constructive in its approach to Armenia.

The Ambassador is well respected in Washington; his contacts and experience serve him well in stoking interest in Azerbaijan issues. His engagement with Washington agencies helps

foster a commonality of outlook and approach. Policymakers in Washington agencies regard the Ambassador as effective and judicious and commend him for pursuing the full spectrum of U.S. goals despite recent setbacks.

The DCM arrived at post in summer 2013. He and the Ambassador form a close partnership with detailed insight into mission programs and personnel. Washington policymakers and embassy staff note the Ambassador's knowledge, policy acumen, and diplomatic skills; embassy officers also cite the DCM for his energy, intellect, and good counsel. Embassy personnel appreciate the front office's inclusiveness and accessibility as well as its solicitation of input, discussion, and debate.

The Ambassador plans to leave post in summer 2014 and is preparing the DCM to lead the embassy during what is expected to be an extended period as chargé. In addition to mentoring him in leadership and management skills, the Ambassador is positioning the DCM vis-à-vis senior Azerbaijani officials, such as including him in what were formerly one-on-one official meetings. Embassy personnel expressed confidence in the DCM's ability to direct the mission during a transition period.

Mission Coordination

The Ambassador's short, disciplined daily meeting of section heads and core agency representatives is the key venue for executive direction and interagency coordination and ensures that mission personnel in both locations fully understand the Chief of Mission's priorities and expectations. The meetings also keep the mission's strategic objectives and policy tactics under constant review. The Ambassador uses the broader weekly country team meeting as a further opportunity for information dissemination and coordination. An interagency committee, run by a coordinator, maintains oversight on assistance programs; its subsidiary thematic working groups provide for deconfliction and good teamwork. In addition, the DCM's biweekly meetings with agency heads and his weekly sessions with Department of State (Department) section chiefs constitute another avenue for two-way communication. With the exception of the public affairs section, whose perceptions are discussed later in this report, embassy section chiefs and agency heads uniformly report they coordinate closely with the front office and one another. Staff told inspectors they appreciated the front office's initiative in holding an all-day leadership seminar for 75 U.S. direct-hire and locally employed (LE) supervisors.

First- and Second-Tour Professionals

The embassy's 17 first- and second-tour (FAST) generalists and specialists say they appreciate the DCM's interest and career guidance. The DCM and FAST personnel have jointly developed a well-rounded program of professional development, which includes a speaker program for monthly brown bag luncheons, contacts with visitors, and rotations in embassy meetings. The DCM also is alert to opportunities to assign FAST personnel responsibilities for other mission programs and events, including public speaking and reporting.

Locally Employed Staff

The DCM meets all newly hired LE staff and sees the elected LE committee approximately every 2 months. The Ambassador sees the group periodically. The committee is

~~SENSITIVE BUT UNCLASSIFIED~~

satisfied with the level and frequency of their contact with the front office, describing both the Ambassador and DCM as available, supportive, and responsive. Committee members were impressed when the Ambassador held a town hall last fall to discuss a spate of LE terminations for misconduct. Concerned that salaries are not keeping pace with the rising cost of living, LE staff members would like the embassy leadership to develop other ways of motivating staff and rewarding performance. The OIG team made suggestions on possible initiatives.

Policy and Program Implementation

Political and Economic Sections

The political and economic sections are colocated but not combined; they share an office management specialist. Foreign Service officers of grade 02 (FS-02) who arrived in 2013 lead each section—when either is away from post, the other acts as chief to both sections. Contrary to the actual staffing arrangement, the official Embassy Baku staffing pattern shows a combined political/economic section with an FS-01 section chief, though a previous Ambassador separated the sections and eliminated the FS-01 chief position. The two-section arrangement works to the satisfaction of the current Ambassador, the DCM, and all the officers involved. In accordance with 3 *Foreign Affairs Manual* (FAM) 2617 (1) and (3), the Department is responsible for maintaining effective control over personnel resources and structures, which is impossible to do without up-to-date staffing pattern documents.

Recommendation 1: The Bureau of European and Eurasian Affairs, in coordination with the Bureau of Human Resources, should revise the Embassy Baku staffing pattern to reflect FS-02 section chiefs in separate political and economic sections. (Action: EUR, in coordination with DGHR)

Interagency Cooperation

The political and economic sections contributed to the Integrated Country Strategy and have responsibility for several of its goals. Both sections contributed to the Mission Resource Request section on diplomatic engagement and foreign assistance justifications. Representatives of other U.S. Government agencies at the embassy exchange information daily with the political and economic sections and confirm a cooperative relationship.

Reporting and Advocacy

Analysts and other Washington end users praised the embassy's political and economic reporting. A daily email to the Bureau of European and Eurasian Affairs alerts Washington to relevant reporting, new bilateral developments, Azerbaijani reactions to ongoing issues, and upcoming events worth watching. Timed to arrive in Washington at the opening of business, the email is distributed broadly to a variety of agencies. Washington end users say that the email is a valuable tool for offices that follow Caucasus affairs. Although the email contains important information that should be archived and retrievable as U.S. Government records, the embassy does not send it as a record email, as per 5 FAM 443.

Recommendation 2: Embassy Baku should use record email for the daily summary and important policy discussions to the Bureau of European and Eurasian Affairs. (Action: Embassy Baku)

The front office clears all reporting cables, except reports of delivered demarches. Officers report that approvals are prompt. Political and economic reporting plans support the Integrated Country Strategy. Cables include substantive analyses and comments that predict likely courses of action by the government and/or civil society. In addition to domestic

developments and U.S.-Azerbaijan relations, the political and economic sections cover external relations with neighbors Russia, Georgia, Iran, Armenia, and Turkey.

In the 6 months preceding the inspection, the five political section officers, the LE staff members, and the intern drafted roughly 40 substantive cables. The high quality and quantity of the political reporting is noteworthy because only the section chief had reporting experience before arriving in Baku. Political officers keep a close eye on human rights and show support for free speech by attending trials of Azerbaijanis, including students and journalists, who speak out and peacefully question government policies. Cables on human rights, civil society, and restrictive legislation against nongovernmental organizations keep Washington well informed on the impact of domestic politics on U.S. strategic goals.

The five-officer economic section drafted 29 cables on a diverse array of topics, including Iran, energy, World Trade Organization accession, and economic diversification. The economic section includes a Farsi-speaking Iran watcher and a commercial officer. The environment, science, technology and health officer position is vacant, with no replacement named, reducing coverage of these issues. The economic chief is redistributing the various elements of this portfolio to others in the section.

The economic chief maintains an economic engagement action plan that parallels the Integrated Country Strategy economic goals and looks ahead to specific activities that Embassy Baku will address in the coming 6 months. Updated regularly, the plan links embassy goals to a timeline with the name of the responsible action officers and indicators of success. Key elements of the plan include outreach by the Ambassador, DCM, and the economic chief through speeches, meetings, roundtables, economic assistance activities, and commercial engagement and advocacy. This comprehensive planning process addresses themes and objectives that include the benefits of World Trade Organization accession, improved government transparency, broader economic diversification, and building and strengthening public-private dialogue.

Trade and Business Promotion

The Ambassador and other officers actively promote the benefits to Azerbaijan of working with U.S. companies, including those in the large energy sector. Working with the Azerbaijani Government, the embassy advocates for better, more transparent regulations to help U.S. businesses find good partners. The embassy has a strong relationship with the American Chamber of Commerce and local business associations in Baku. Imports from the United States increased from \$222 million in 2009 to \$378 million in 2013.

Baku became a U.S. and Foreign Commercial Service partnership post at the end of 2012. With the closest Commercial Service post in Ankara, Turkey, U.S. Department of State officers carry out most business promotion functions. One economic officer handles commercial advocacy and services, investment disputes, transportation, and agriculture. The officer has not had Foreign Service Institute commercial training. An experienced LE staff member supports the section, and the officer recently visited Ankara for consultations. The economic section provides U.S. Department of Commerce Gold Key Services and the International Company Profile to U.S. businesses that inquire about selling to or investing in Azerbaijan. Embassy Baku organized and actively participated in 2 recent trade missions that helped 20 U.S. firms (9 of which are based in Turkey) develop commercial relationships in Azerbaijan. Partnering with the British Embassy,

the commercial section organizes an annual Caspian Oil and Gas Summit that brings together partners from the U.S. Government, the private sector, and the Azerbaijani Government.

Embassy Baku has no U.S. Foreign Agriculture Service office, although agriculture is an important part of the embassy's strategy to assist Azerbaijan with economic diversification. The economic section commercial officer acts as the embassy's liaison with the U.S. Department of Agriculture, which implements university curriculum assistance programs.

Grants Management

The total U.S. foreign assistance request for Azerbaijan for FY 2015 was \$16.3 million. Several Department bureaus, including Democracy, Human Rights and Labor; International Narcotics and Law Enforcement (INL); and Population, Refugees, and Migration, have assistance programs in Azerbaijan that are administered from Washington or Tbilisi, Georgia. The political and economic sections are not responsible for administering or monitoring grants at post. Program officers keep the embassy sections informed of the projects with status reports and routinely invite section representatives to accompany them on on-site monitoring visits.

INL assistance programs focus on trafficking in persons, rule of law, and legal education for attorneys and other legal professionals. In 2013, INL-funded training programs contributed to Azerbaijan's first successfully prosecuted labor trafficking-in-persons case. Partially as a result, the Department raised its assessment of Azerbaijan's anti-trafficking-in-persons efforts from Tier 2 Watch List to Tier 2. INL programs are monitored from Washington, and an INL foreign affairs officer visits post every 6 months.

Biographic Reporting

A shared political/economic section hard drive stores biographic reporting; however, a large segment of biographies has not been updated in recent memory. The OIG team counseled Embassy Baku to strengthen efforts to update biographic files on a consistent and timely basis, including tapping into the connections of the front office and other embassy sections.

Representation

The embassy allocates adequate representational funds to the political and economic sections, but the sections spent very little on events during the current fiscal year. Seven months into the year, the political section had spent 3 percent of its representation budget and the economic section had spent 24 percent. Representational events are a useful tool for performing necessary outreach and contact work. Both chiefs are revising their plans to maximize representational outreach by officers and LE staff during the remaining fiscal year.

Leahy Vetting

Lack of cooperation from the Azerbaijani Government impedes Leahy vetting. The government's reluctance to provide needed details on nominees for training eliminates many candidates. Anecdotal information suggests that many potential trainees may not apply or may not complete their applications to avoid providing the information needed for vetting. In 2013, 345 Leahy-vetted cases were approved. An additional 67 cases were suspended, including 54 for

possible human rights violations. The shared political and economic sections' office management specialist is responsible for the International Vetting Security Tracking system, for which she has received training.

Public Diplomacy

Section Management

The public affairs section makes good use of conventional and social media to clarify U.S. policy positions when the latter are distorted by local media. Cultural and exchange programs are innovative in the face of intractable issues, such as the decades old dispute over Nagorno-Karabakh, a primarily Armenian-populated ethnic enclave within the territory of Azerbaijan where thousands have died in a dispute over who will govern the territory. Budget planning and accountability, however, are deficient.

Coordination between the public affairs section and other embassy sections is insufficient. The public affairs officer (PAO) and the DCM have a scheduled meeting weekly. The PAO is included in the Ambassador's daily small group meeting but has no regular meetings with the Ambassador to discuss public outreach strategy. The front office approves the section's social media efforts but rarely engages in interactive social media itself. Other sections of the embassy feed limited social media content to public affairs and do not participate actively in the International Visitor nomination process. The OIG team counseled the PAO in ways to increase information sharing and coordination with other embassy sections—including attendance at each other's meetings—as well as with the front office. This could increase the use of available public diplomacy tools by other sections.

A position reclassification exercise remains incomplete for some public affairs LE positions whose assignments have changed over the years. Two LE staff members were employees of the Information Resource Center until it closed in 2007. They continued doing information- and research-related tasks until 2012. The PAO then gave them new tasks concerning American Centers and English-language training and changed their position descriptions to reflect their new duties. These two employees and the LE education specialist are not certain what has become of efforts to have their positions reclassified.

Recommendation 3: Embassy Baku should complete the position classification process for locally employed staff in the public affairs section. (Action: Embassy Baku)

Budget Planning Is Weak

The public affairs section lacks an effective system for budget planning or funds accounting, a situation that has persisted through a succession of PAOs. Public affairs sections globally now use as planning tools the Public Diplomacy Implementation Plan and the Public Diplomacy Country Context, both of which are linked to the Integrated Country Strategy. The Baku public affairs section does not use these and does annual planning on an ad hoc basis. One employee commented, "I never know how much money we have."

Recommendation 4: Embassy Baku should implement the Public Diplomacy Implementation Plan and complete the Public Diplomacy Country Context. (Action: Embassy Baku)

The public affairs LE staff member responsible for tracking the budget is currently in the United States on extended leave, and her return date is unknown (see the Telework Policy section of this report). She remains part time on the payroll but has no access to Department computer systems. Other LE staff members who might step into this role already have a full workload. The public affairs section has started the hiring process to temporarily fill the LE staff budget position for at least 1 year. The section will be unable to judge available funds for fixed costs and grants without someone in the section to monitor the budget and accounts.

Recommendation 5: Embassy Baku should hire a locally employed staff member to monitor the public affairs section's budget. (Action: Embassy Baku)

After meeting with the OIG team, the financial management officer (FMO) proposed an interim solution: to have the LE staff member in the financial management office who handles the public affairs account visit the public affairs office every week. The OIG team supports this interim arrangement, with the understanding that the embassy must complete the hiring of an LE staff member for the budget position in public affairs.

Media Engagement

Azerbaijani Government control of all major television outlets and the partisan political loyalties of newspaper owners complicate public outreach via the media. The press section produces an early morning email digest of local press reports for embassy principals, a summary of top news items, and a daily press brief for senior country team officers. The press section maintains a robust schedule of interviews with media outlets across Azerbaijan's political spectrum but also spends much time correcting incorrect interpretations of U.S. statements in the press. Public affairs staffers do a thorough job of recording all public statements by embassy officers and visiting officials and producing a transcript. News outlets usually correct their mistakes when they receive a transcript.

Social Media

The public affairs section makes regular use of YouTube, Facebook, and Twitter and manages the embassy's English- and Azeri-language public Web sites. (The audience for each Web site is about 1,500 daily readers.) The section monitors social media use and produces a daily summary of social media content that other sections find useful.

The embassy has 23,000 followers on its Facebook page, which is aimed at an audience of 18- to 24-year-old students. The embassy also uses Facebook to distribute videos of embassy officials making public statements or engaging in cultural activities. The section monitors its effectiveness on Facebook by creating a database with questions from followers and adjusts Facebook content on the basis of requests by the target audience. Public affairs has signed up one-third of Azerbaijan's 3,400 Twitter users. Small but growing, this audience is interested in policy statements from the embassy. On May 6, the section tweeted a statement by the Ambassador on a court case, which reached journalists, human rights activists, and Foreign Ministry officials.

The consular section makes good use of Web sites and social media to communicate with Azerbaijani and American citizens. The front office and other sections of the embassy contribute

official statements to traditional and social media. Given Azerbaijan's politically controlled media, the embassy would benefit by making greater use of interactive social media to speak directly to Azerbaijanis, especially the youth. A cross-sectional embassy working group of social media users could map out a social media strategy that provides content from all sections of the embassy, including the front office.

Recommendation 6: Embassy Baku should establish a working group to implement a social media strategy that derives content from a broad range of sections. (Action: Embassy Baku)

Cultural and Educational Exchanges

Azerbaijan has no Fulbright Commission. The Azerbaijani Government supports the small Fulbright program and this year will pay for five students, while the United States pays for four. Cultural programs are more difficult outside Baku because they require time-consuming permissions from the Ministry of Culture and regional officials. One big success this year was placing a senior English-language fellow in the autonomous republic of Nakhchivan, a disconnected part of Azerbaijan accessible only by air. This teacher-training program is in an isolated area where the embassy has not had any programs for several years.

Grants

The passage of a new law in Azerbaijan has greatly complicated the grants process. Grant recipients now must register all foreign-origin grants with the Ministry of Justice, confirming the amount and purpose of the grant. Improper registration can generate fines much greater than the grant itself. The public affairs section received \$640,000 in Economic Support Funds for FYs 2013–14 that it uses for democracy commission grants and other programs, in accordance with the Integrated Country Strategy. The normal public affairs section budget total for FY 2014 is \$578,218. The section reports that the grants portion of the budget is adequate.

Grants files are generally in compliance with the Bureau of Administration, Office of the Procurement Executive regulations. The PAO and the cultural affairs officer have current grants warrant certificates for up to \$100,000 each. One LE staff member is the grants officer representative and has the latest required training. Grants to individuals and small entities in the regions outside Baku are more problematic because they are less accustomed to dealing with receipts and not adept at turning in reports. The public affairs section has not debarred any grantees.

The public affairs section does not keep copies of grants documents with the FMO's certification of funds signatures. The FMO, located in a separate annex not easily accessible from the embassy, keeps the original grants documents. Employees in the public affairs section can only ascertain that funds are available by requesting the signed grants document from the FMO.

Recommendation 7: Embassy Baku should file originals of public affairs grants files in the public affairs section. (Action: Embassy Baku)

American Spaces

The public affairs section manages five American Centers in Azerbaijan, with funding in hand for a sixth. The Baku Center at the University of Languages far exceeds the “gold standard” established by the Department’s Bureau of Educational and Cultural Affairs for American Spaces. Foot traffic at the Baku Center exceeds 200 people per day and can reach 800 in the case of an event. The Baku Center teaches English, performs plays, hosts performing groups sponsored by the embassy, houses an Education USA adviser, and has a collection of thousands of books and videos. The embassy and the university will fund a planned expansion and upgrade of the space.

American Centers outside Baku are a different story and require a new memorandum of understanding with the Ministry of Culture every 3 years. The latest memorandum expired in April 2014, and the embassy and ministry had drawn up a new one, hoping to sign it by the time the inspection ended. Local officials carefully monitor political relations between the two countries and sometimes create bureaucratic barriers (such as trying to charge for English-language lessons when these are offered for free). Corruption also hampers operations: public affairs recently closed the Center in the town of Lankaran, close to the Iranian border, after the library director demanded a cut of the fees charged for English-language classes. The embassy returned equipment to Baku and will look for a new site.

International Visitor Leadership Program Needs More Effort

The International Visitor Leadership Program selection committee meets annually, but not all embassy sections have taken advantage of the visitor program to solidify relationships with contacts. This year’s slate of candidates matches exactly the numbers of slots offered—27—but Azerbaijani officials often drop out at the last minute. The public affairs section could get better results in the selection process if it has continued, strong support from the front office and better coordination with other embassy sections.

Recommendation 8: Embassy Baku should implement a plan to gain embassywide participation in the selection process for the International Visitor Leadership Program. (Action: Embassy Baku)

Consular Management

Embassy Baku provides timely and professional American citizen and nonimmigrant visa services. The embassy estimates the U.S. citizen resident population in Azerbaijan at 3,800, heavily concentrated in Baku, with the majority affiliated with the multinational petroleum industry. The embassy processed only 7,031 nonimmigrant visa applications in FY 2013, but applications have increased by 5 to 10 percent in each of the past 5 years. The embassy plans to install an additional interview window in August 2014 to accommodate increased visa volume. In FY 2013, about 5 percent of the embassy’s nonimmigrant visa applicants were Iranian citizens. Consular management controls are generally in place and functioning appropriately. Consular subcashiers, however, were not securing cash box advances in approved safes during nonbusiness hours. The embassy corrected this vulnerability before the OIG team departed.

Lack of Privacy Affects Operations and Security

Consular office space is small and cramped. The consular chief's office is the only place where two people can have a conversation that is not heard by everyone else in the section. All other staff members, including the consular FAST officer, are assigned to desks without partitions or dividers. Further, consular clients, including U.S. citizens, have no secure place to speak confidentially with consular staff. To do so, consular officers must go outside the hard line, creating risks to physical security. The current design for an additional interview window does not address this problem.

Recommendation 9: Embassy Baku should construct a private or semi-private space on the customer side of the planned additional interview window to permit consular customers to discuss sensitive matters with consular staff. (Action: Embassy Baku)

Excessive Resources Devoted to Routine Consular Inquiries

The consular section spends up to 4 hours daily responding to routine telephone and email visa inquiries, contravening instructions in 14 STATE 280. This effort takes time away from other responsibilities and largely duplicates information services available through the Bureau of Consular Affairs' contractor-operated Global Support System.

Recommendation 10: Embassy Baku should require visa applicants to use the Global Support System contractor-operated call center to respond to routine inquiries. (Action: Embassy Baku)

Visa Referral Processing Errors

Inspectors reviewed all visa referrals from the previous 12 months and identified instances in which documentation was incomplete or when cases were entered in the wrong referral category. Inspectors counseled the consular chief to monitor visa referral processing carefully to ensure compliance with Department regulations.

Resource Management

Agency	U.S. Direct-Hire Staff	U.S. Local-Hire Staff	Foreign National Staff	Total Staff	Total Funding FY 2013
U.S. Department of State	62	14	318	394	\$16,765,593
Diplomatic and Consular Programs	39	3	14	56	\$2,645,800
ICASS	5	9	289	303	\$10,964,500
Public Diplomacy	3	1	11	15	\$917,931
Diplomatic Security	6	1		7	\$1,995,982
Marine Security	8		4	12	\$212,980
Representation				0	\$28,400
Overseas Buildings Operations	1			1	
U.S. Department of Defense	13	1	9	23	\$1,565,739
Defense Attaché Office	7		2	9	\$566,665
Office of Defense Cooperation	3		3	6	\$462,057
Defense Threat Reduction Office	1	1	3	5	\$275,717
Partnership for Peace			1	1	\$261,300
Surface Deployment and Distribution Command	2			2	
U.S. Department of Justice	1		1	2	\$152,500
Legal Attaché Office	1		1	2	\$152,500
U.S. Department of Energy	1		1	2	\$103,000
U.S. Agency for International Development	5		17	22	\$9,949,285
Peace Corps	3		2	5	\$1,870,400
Totals	85	15	348	448	\$30,406,517

Source: Embassy Baku

Management

The chancery lacks work space for embassy staff; most management team staff members and all U.S. Agency for International Development staff work from a leased floor in a commercial building. In 2013 and 2014, the embassy terminated a total of seven local employees for fraud and misconduct. The workload of the joint financial management/human resources officer (FMO/HRO) position is excessive for one person. Despite the many hurdles, the management team delivers an excellent level of service to its customers in 27 of the 29 designated service categories. The management platform received a good International Cooperative Administrative Support Services (ICASS) survey score of 4.27 out of 5 (above regional and global averages) and several favorable comments in the OIG survey questionnaires.

Financial Management

Ratings for the financial management office in a preinspection survey administered by the OIG team averaged 3.3 out of 5, which is lower than the average range seen in prior OIG inspections. The financial management section struggles to keep up with its budgeting, financial planning, and vouchering responsibilities. The absence of the LE financial specialist (on long-term leave) and time constraints weaken oversight.

Since 2011, the embassy terminated five LE staff members for procurement and insurance fraud. Since these and other terminations, embassy leadership has strongly promoted a work environment with zero tolerance for fraud and abuse of power. Embassy efforts to decrease the risk of fraud in procurement include increasing cash counts and tightening procedures to guarantee that the financial management office receives all invoices. These efforts, however, have increased the workload in the section.

The current focus of the FMO/HRO is to devise a system to transfer the delivery of LE staff salaries from cash to electronic payments through a local bank. This system will improve efficiency and accountability. The embassy and the U.S. disbursing office have established a memorandum of agreement with the bank for the transfer of the biweekly LE staff payroll to individual employee accounts. A pilot program is underway with a group of employees; the embassy was planning to convert to electronic payments by June 30, 2014.

Financial Management Officer/Human Resource Officer Position

The combined workload of the FMO/HRO position does not afford the officer the time required to strengthen and oversee operations, including safeguarding against fraud in this mostly cash-based economy. Officers who previously held the position agree that the workload is too heavy. Inspectors concur with the embassy's determination that the financial management responsibilities require a level of expertise and attention impossible to achieve with part-time management.

Recommendation 11: The Bureau of European and Eurasian Affairs, in coordination with the Bureau of Human Resources, should authorize separate human resources officer and financial management officer positions at Embassy Baku. (Action: EUR, in coordination with DGHR)

The need for an increase in the sophistication and rigor of financial oversight is amply demonstrated in the 2012 Cashier Monitor Report, which rated the embassy as “high risk” because of a substantial authorized advance (currently \$440,000), large collection amounts, a high number of cash transactions greater than \$500, high-dollar-amount accommodation exchange transactions, receipt of machine-readable visa fees in cash, and a system of handling payroll in cash. In the 2013 management control statement of assurance, the Chief of Mission reported no material weaknesses at Embassy Baku but recognized that in this high-fraud environment, embassy management must be vigilant in implementing effective management controls.

Voucher Processing Is Slow

A review of invoices and vouchers showed the financial management office did not process some vendor payments for up to 3 months after the embassy received the invoices. Delays were the result of missing invoices, incorrect vendor codes in the Regional Financial Management System, and a recurring technical error in the Regional Financial Management System that resulted in certified vouchers not reaching Global Financial Services Bangkok for payment disbursing.

In January 2014, Embassy Baku tightened procedures to ensure that only the financial management office receive invoices. A selection of invoices from one shipping company showed 14 invoices that the embassy never received, for reasons unknown. According to 4 *Foreign Affairs Handbook* (FAH)- 3 H-422.3, posts must periodically identify unpaid invoices that need to be solicited for goods and services already received. Failure to pay invoices on time will result in the embassy incurring penalties, as mandated in the Prompt Payment Act and 4 FAM 434 c., which requires the Department to pay its bills on time and to pay interest penalties when payments are late. Since August 2013, Embassy Baku has paid more than \$1,000 in prompt payment penalties for late voucher payments.

Recommendation 12: Embassy Baku should periodically review completed purchase requests and solicit invoices for those that have not been liquidated. (Action: Embassy Baku)

Although the certifying officer initially certified and submitted the vouchers that the inspectors reviewed in a timely manner, the officer remains responsible for promptly submitting the vouchers for payment to the designated disbursing office, as required by 4 FAM 434 a. The FMO and Global Financial Services Bangkok are working to identify and resolve the technical error preventing certified vouchers from reaching Global Financial Services Bangkok. Failure to submit vouchers in a timely manner to the disbursing office can result in the embassy incurring late payment fees.

Recommendation 13: Embassy Baku should run a regular unprocessed transactions report to identify and resubmit any certified vouchers not received at Global Financial Services Bangkok. (Action: Embassy Baku)

Embassy Baku’s invoice and voucher processing delays result from a problem in which vendor codes in the Windows Automated Cashier System do not match the vendor codes in the Regional Financial Management System and cause voucher payment rejections. This problem will be resolved in August 2014 when the embassy upgrades from the Windows Automated

Cashier System to the Consolidated Overseas Accountability Support Toolbox. Understaffing in the procurement and financial management units also caused delays. Both sections are expecting to hire additional staff, but inspectors found existing technology should be used more effectively to track invoices and vouchers better. Inspectors counseled the FMO and general services office supervisors on how to make better use of the Integrated Logistics Management System's Ariba comments functionality for procurement tracking.

Travel Voucher Processing

Travel voucher payments are often delayed for several months after travel is completed. Embassy Baku has only one travel voucher examiner to receive and upload hard-copy receipts, follow up on missing receipts, request additional funding when needed, and correct voucher rejections in the Regional Financial Management System. To reduce travel voucher processing delays, Embassy Baku has trained additional travel arrangers, begun stamping and dating receipts once received in the financial management office, and subscribed to the Bureau of the Comptroller and Global Financial Service's Post Support Unit for travel voucher processing services, effective June 2014.

Cashier Hours

The scores in the OIG workplace and quality of life questionnaire for cashier services were 3.56 out of 5, which are below the range normally seen at surveyed posts. Several employees commented in their personal questionnaires about insufficient cashier availability to conduct accommodation exchange. The cashier is open 1 hour a day at the annex and at the embassy, except for an additional hour at the embassy on Wednesdays. Providing services in two locations is a challenge. Management has struggled to balance customer needs with the requirements (in the cashier user guide) that the cashier have sufficient time to maintain accountability and reconcile cash advances. The OIG team supports expanded hours to improve customer service. With the move to make LE staff salaries and more vendor payments electronically, some additional time should be freed up for the cashier to expand accommodation exchange hours.

Recommendation 14: Embassy Baku should increase its cashier accommodation exchange hours. (Action: Embassy Baku)

Suspense Deposit Abroad Account

Embassy Baku is using the Suspense Deposit Abroad account in unauthorized ways, including cost-construct travel, salary payments, and third-party checks. According to 4 FAH-3 H-326.2, the account can be used only for deposits from proceeds of sale, bulk value-added-tax refunds, schools, or other authorized purposes and should be reconciled on a regular basis. Per 4 FAH-3 H-326.2-8, the embassy can request an exception to these limitations from the Office of Financial Policy, but it has not done so. Using the Suspense Deposit Abroad account for unauthorized purposes reduces the embassy's control and oversight of funds.

Recommendation 15: Embassy Baku should discontinue unauthorized use of the Suspense Deposit Abroad account or request an exception from the Office of Financial Policy. (Action: Embassy Baku)

International Cooperative Administrative Support Services

Baku is considered an “ICASS Lite” embassy because the mission supports five agencies and ICASS demand does not overburden management. All agencies are satisfied with the ICASS costs and services provided, as evidenced by the 2014 customer satisfaction survey scores, which showed a slight overall decrease from 4.40 to 4.27, out of 5. The two areas that scored below 4 were in financial planning and vouchering.

International Cooperative Administrative Support Services Temporary Duty Policy

The embassy recently issued a partial-year invoice for a military unit that had two extended temporary-duty personnel; however, the mission does not have a written policy describing the process for charging agencies. The guidelines in 6 FAH-5 H-363.1-5 explain the procedures for charging other agencies for temporary duty employees using the ICASS temporary duty module. By not fully recovering costs from other agencies for temporary employees, ICASS members are paying more than their fair share of support costs. Instituting a formalized billing procedure to recover costs from other eligible agencies will ensure that the ICASS allotment is reimbursed.

Recommendation 16: Embassy Baku should establish a mission temporary duty policy in accordance with Department of State guidelines. (Action: Embassy Baku)

Human Resources Office

The human resources office, with an experienced local staff headed by an American direct-hire joint FMO/HRO, provides good customer service. The ICASS customer satisfaction survey scores and the OIG workplace and quality life questionnaire results attest to the community’s satisfaction with these services.

The embassy has nine eligible family member positions, with five currently filled and four security escorts pending security clearances.

The local compensation plan had no serious issues. The last salary increase for LE staff members was in March 2013. The LE staff committee complained to inspectors, however, that local prices for gas, utilities, and food have increased by more than 20 percent over the past year, a figure that the economic section confirmed. The committee also supported moving to electronic salary payments.

At the time of the inspection, four LE staff performance reports were overdue. The embassy widely distributes all position vacancy announcements, both within and outside the embassy. The OIG team confirmed that embassy management followed proper procedures in the seven employee terminations in 2013 and 2014, including the fraud cases referred to in the Management Controls section of this report.

The embassy has a defined contribution fund for LE staff retirement; the embassy contributes 12 percent of an employee’s salary into the employee’s account. The Government of Azerbaijan, however, has mandated that all foreign embassy employees contribute to the national social security system. The policy of the Bureau of Human Resources’ Office of Overseas

Employment is to support only one retirement program at each embassy. Embassy management is conducting an assessment of the new Azerbaijani legislation and will present a proposal to the Department's offices of the Legal Advisor and of Overseas Employment to either participate in the Azerbaijani social security system or retain the defined contribution fund.

Telework Policy

The embassy has no telework policy and, therefore, can make no authorization or agreement for an employee to work from home. Two LE staff members have been on extended maternity and sick leave. They are authorized up to 3 years of leave under local labor law. Both have been living in the United States for between 6 and 12 months and continue to claim part-time regular duty hours as well as leave, with the approval of their American supervisors. For example, one employee has claimed an average of 36 hours of work in each of the past 8 pay periods; the other claims 16–20 hours per pay period. In accordance with 3 FAM 2362.3, employees should be covered under a telework agreement defining the work required, including if on an irregular basis.

Telecommuting at home also requires regional security office approval, in addition to approval from the management chief and Ambassador, in accordance with 12 FAM 625.2-3(14) regarding computer and systems requirements. Guidance in 11 STATE 61275, dated June 20, 2011, provided additional clarification that the telework policy extends to LE staff members and refers embassy management to the Bureau of Human Resources, Office of Overseas Employment for guidance. Embassy Baku has no telework agreement with these employees, which should include a written description of their assignments, an estimate of the time involved, and reporting requirements.

Recommendation 17: Embassy Baku, in coordination with the Bureau of Human Resources, should establish a telework policy and telework agreements for employees, as required. (Action: Embassy Baku, coordination with DGHR)

Post Orientation Program for Locally Employed Staff

The embassy does not have a formal orientation program for new LE staff members and has not updated the employee handbook for LE staff members since April 2007. Thus, newly hired employees may not be fully informed about post policies on compensation, leave, benefits and Equal Employment Opportunity (EEO) regulations. The embassy's human resources section provides each new LE staff member with a check-in sheet, which tracks completion of various forms with different sections, as well as a meeting with the DCM. Per 3 FAM 7244, all newly appointed employees should be briefed on the conditions of the employment by way of a planned orientation program. An orientation program is important for employee morale and performance at any mission, especially Baku, where security and fraud are concerns.

Recommendation 18: Embassy Baku should establish a post orientation program for newly hired locally employed staff. (Action: Embassy Baku)

Hotel and Restaurant Survey

Embassy Baku has not submitted a current hotel and restaurant survey to update embassy per diem rates. The embassy submitted its last report in April 2009. According to the Department's Standardized Regulations post classification and payment table (Section 920), Embassy Baku should complete the hotel and restaurant survey every August of odd years or whenever substantial changes occur in hotel costs, as per Section 074.32. The current per diem rates of \$259 for lodging and \$114 for meals and incidental expenses have not been reviewed in relation to current prices and rising inflation.

Recommendation 19: Embassy Baku should submit an updated hotel and restaurant report to the Bureau of Administration. (Action: Embassy Baku)

Equal Employment Opportunity and the Federal Women's Program

EEO postings throughout the chancery and annex building are outdated and do not include the current EEO counselor contact information. Furthermore, the current Federal Women's Program coordinator is departing the embassy in summer 2014, and the embassy has not identified a replacement. Per 3 FAM 1514.2 a., the chief of mission shall publicize the name(s) and contact information of the EEO counselor(s); and per 3 FAM 1514.2 b., the chief of mission shall designate a Federal Women's Program coordinator and publicize the name and contact information of the coordinator. Failure to post EEO information and designate a Federal Women's Program coordinator could result in embassy employees being unaware of their rights and in EEO violations going unreported.

Recommendation 20: Embassy Baku should designate a replacement Federal Women's Program coordinator. (Action: Embassy Baku)

Recommendation 21: Embassy Baku should update Equal Employment Opportunity postings with the name, telephone numbers, and address of the Equal Employment Opportunity counselor. (Action: Embassy Baku)

General Services Operations

The general service office received high scores in customer services. With a staff of 50 dispersed at 3 separate work locations, general services employees spend much of their day supporting customers at multiple sites. The condition and location of the warehouse is a long-term dilemma with limited options. The property and procurement units have improved their operations but need stronger management controls. Customs and shipping is understaffed, with only 2 employees to support a mission of 406 direct-hire Americans and LE staff members; the ICASS committee recently approved funding for hiring an additional shipping clerk. Inspectors found no noteworthy issues in the housing, motor pool, and travel units.

Personal Property Management

The embassy made significant progress in property accountability during the past year but will require more work to improve management controls in inventory and warehousing.

Embassy Baku's FY 2014 inventory reported a shortage of less than 1 percent, or \$21,729 out of the current nonexpendable holdings of \$9,270,521.

Property is stored in a warehouse off site in a developing area surrounded by high-rise apartment buildings, detached homes, and shops. The OIG team found that the accountable property officer had not conducted periodic, unannounced spot counts of inventory at the warehouse because of competing priorities. In accordance with 14 FAM 411.2-2 c., spot checks are required to verify the accuracy of property records and to reconcile any discrepancies discovered between the physical count and property records. Without regular spot checks, stolen or misused property may not be discovered until the annual inventory, when corrective action is more difficult.

Recommendation 22: Embassy Baku should conduct periodic, unannounced spot checks of expendable and nonexpendable property. (Action: Embassy Baku)

Procurement and Contracting

The procurement unit is properly maximizing the use of blanket purchase orders and purchase cards. Mission contracts contain the required Federal Acquisition Regulation 52.222-50 clause, Combating Trafficking in Persons. Three weeks before the OIG team's visit, a representative from the Bureau of Administration, Office of the Procurement Executive visited the embassy to review the unit's procurement and contract files. All the findings from that visit are resolved. The procurement and financial management unit are working together to improve the workflow of processing invoices and vouchers.

Facilities Management

Embassy Baku was on the Capital Security Construction Program schedule for a new embassy compound (NEC) in FY 2016 but has been moved to be an out-year project, which will be awarded after FY 2019. Acquisition of a property suitable for NEC construction has been blocked repeatedly in the past 10 years by the Government of Azerbaijan. The deplorable condition of the overcrowded, 100-year-old chancery compels the facilities maintenance staff to continuously find ways to maintain a functional and safe work environment for embassy personnel. Given the time lag for site acquisition and construction of an NEC, the current chancery is likely to remain in use for a minimum of 5 to 6 years and must be sufficiently funded and maintained for security, safety, and function. Although the chancery and warehouse demand the attention of an experienced facilities manager, Embassy Baku only received a direct-hire facilities manager in 2014. The manager effectively supervises a staff of 42, located at multiple sites.

Warehouse

The U.S. Government purchased the warehouse in 1994; the facility is inadequate. The embassy's storage and handling requirements far exceed available space in the warehouse, necessitating the use of shipping containers to store property on the embassy and warehouse compounds.

Maintaining the chancery compound and the acquisition of a NEC site are the embassy's top management priorities; conditions for the 43 employees who work at the substandard warehouse have received less attention. According to 15 FAM 632.1-1, the U.S. Government is primarily responsible for maintenance and repair of U.S. Government-owned/capital lease real property. Many warehouse employees are required to work in unsuitable—and sometimes very hot or cold—work spaces. The embassy has few options to lease or purchase alternative warehouse space but could determine ways to improve the safety and working environment of warehouse-based embassy staff. Noncapital projects, such as heating/air conditioning system repair, cement floor repair, and painting throughout the facility, would improve the working conditions.

Recommendation 23: Embassy Baku should conduct an assessment of the warehouse compound to determine what noncapital projects should be submitted to the Bureau of Overseas Buildings Operations for funding. (Action: Embassy Baku)

Information Management

The information management section is an effective, well-managed operation that meets customer needs and expectations, despite being located in a constricted and century-old facility. The section received good scores on ICASS customer survey ratings and consistently received A+ ratings from the Department's network and systems monitoring software. The OIG team observed that the staff has received regular formal training, including internal cross-training, and all employees are capable of filling in for absent employees. OIG surveys indicate that morale among staff members is high. Most LE staff members have remained with the embassy for several years.

The OIG team interviewed all information management employees; inspected their facilities; and evaluated classified and unclassified computer systems, telephone and radio programs, mail room and pouch services, communications security, and emergency planning. Three Americans and 8 LE staff members provide information management support to 360 users in multiple agencies. The information systems officer is the acting information officer. When all positions are encumbered, the embassy's information management staffing level is appropriate to current operational requirements. All recommendations from the 2013 Bureau of Information Management computer security assessment have been resolved. The OIG team noted one deficiency—outdated computer room access lists—but it was corrected during the inspection. The classified annex to this report contains recommendations concerning physical and communications security and pouch operations, which represent the greatest challenge operating in an outmoded and inadequate infrastructure.

Quality of Life

Health Unit

A U.S. direct-hire nurse practitioner runs Embassy Baku's health unit, which received a good employee survey score of 4.03 out of 5. The unit is well stocked and organized, and all supplies are clearly labeled. Staff properly secure controlled medications in a bar-lock safe and keep an inventory of use. Other medications are stored in a locked supply room. Medical records are stored in new, lockable cabinets; medical archives, in a locked closet. The regional medical officer visits post four times a year, and the regional psychiatrist visits twice a year.

Schools

[Redacted] (b) (6) the Baku International School or the International School of Azerbaijan. Embassy employees serve on the school board.

The Department's Office of Overseas Schools issued a \$20,000 grant to the Baku International School in 2013 to apply toward teacher salaries, library books, and an English-language coordinator. The Azerbaijan Government has not yet recognized the school, which causes some problems, particularly with visa renewals for foreign teachers. The U.S. Government has provided no security funding to the school in several years, but the embassy currently is considering requesting security-enhancement grants for upcoming construction projects. Given the pending construction projects, the OIG team provided several security recommendations to the school.

Employee Association

The Baku Employee Association currently operates a small retail store, which also sells postage stamps and facilitates homeward-bound mail and duty free orders. The association also established cafeteria and dry cleaning concessions in 2011, which now are under review for rebid. An energetic new board was elected in October 2013.

Guidance in 6 FAM 557 requires that a qualified accounting firm conduct an audit of the employee association's financial statements and take a physical inventory of stock. The audit is due by May 1 and must include a management letter attesting to the association's internal controls. The association, however, has not maintained a current and accurate balance sheet or income statement because the accounting software it uses was out of date and was only recently upgraded. By not having an annual audit conducted by an outside auditing firm, the association is not verifying the financial condition of the organization. The association has requested an extension until June 30, 2014, from the Office of Commissary and Recreation Affairs.

Recommendation 24: Embassy Baku should require the Baku Employee Association to submit the annual audit report of its financial statements and management letter to the Bureau of Administration, Office of Commissary and Recreation Affairs. (Action: Embassy Baku)

In accordance with 6 FAM 531 d., boards of directors must conduct monthly random unannounced spot checks of inventory and document them for audit purposes. Without an

accurate inventory and reconciliation process, the Baku Employee Association is vulnerable to pilferage and potential waste and abuse. Inspectors counseled the board of directors about this; they subsequently carried out a complete inventory reconciliation before the inspectors departed.

Community Liaison Office

Two eligible family member employees share a 40-hour work week as community liaison office coordinators. Baku's community liaison office received a good score of 4.18 out of 5 in the employee survey; the office's new-employee sponsorship program scored 4.13. One of the coordinators has received the requisite security clearance and appropriately attends the emergency action committee and country team meetings. The more-recently hired coordinator is awaiting her clearance. The community liaison office's main fundraising activity is an annual auction of donated items, with occasional yard sales and bake sales. The office's funds are kept in an account controlled by the Baku Employee Association.

Management Controls

The annual chief of mission management controls statement of assurance, dated July 11, 2013, identified no material weaknesses or reportable conditions. The inspection team judged that the management officer did an excellent job in conducting risk assessments by section and completing the checklist on guidance for management control reviews. The chief of mission's statement noted that the use of cash was its most serious vulnerability. The embassy has developed a plan to reduce its use of cash by paying LE staff members' salaries electronically. Embassy policy requires management officer or DCM authorization for large cash purchases.

After recent terminations of employees for submitting fraudulent medical claims, the Ambassador held a town hall last October with all employees to stress the "no tolerance" policy for fraudulent activities and encouraged employees to report any instances of waste, fraud, or mismanagement. Management provided additional training in March 2014 to the financial management staff on monitoring cash payments and reducing opportunities for fraud. The general services office is moving toward using blanket purchase agreements for more recurring procurements to improve transparency and efficiency.

Under the safety, health, and environmental program, the embassy has completed or is in the process of completing several improvement projects in residences at both the chief of mission residence and the chancery. The embassy plans to install an additional antiram barrier upon completion of the work on the chancery roof.

Locally Employed Staff Overtime

The human resources functional questionnaire and inspector reviews of time and attendance reporting indicated that supervisors did not always approve LE staff members' overtime in advance, as required by 4 FAH-3 H-523.2. ICASS members paid more than \$250,000 for overtime (not counting the local guard program) in FY 2013. The embassy recently issued a management notice reminding employees that overtime must be approved in advance, but the OIG team counseled embassy supervisors to enforce more strongly pre-approval of overtime, ensuring adequate justification and a reasonable number of requested hours. Close oversight of overtime is a necessary internal control to prevent abuse. With the management sections returning to full staff following last year's hiring freeze, overtime should be reduced.

Accounts Receivable

The financial management office maintains a centralized ledger to track official and personal cellphone and BlackBerry calls of all employees and issues bills for any charges over a 30 Azeri Manat (U.S. \$38) limit, according to embassy policy. The billing and collection process is deficient, however, and the embassy does not recover costs that it should. First, certain embassy sections are not distinguishing between official and unofficial calls on their itemized bills: \$20,000 in outstanding charges was not itemized as personal or official in FY 2013. Second, \$12,000 in outstanding bills has not been paid. Management must establish a procedure to notify employees with outstanding charges and require payment from them. If bills remain unpaid after the required notices are sent, in accordance with 4 FAM 493.2, the embassy should

forward the bills to the Bureau of the Comptroller and Global Financial Services for collection action. Debt collection techniques include administrative or salary offset and wage garnishment.

Recommendation 25: Embassy Baku should refer any delinquent outstanding bills to the Bureau of the Comptroller and Global Financial Services for collection. (Action: Embassy Baku, in coordination with CGFS)

Allowance Overpayments

In 17 cases, U.S. direct-hire employees were overpaid post allowances during absences from the country; these cases require repayment and are from 100 to 653 days overdue. The main cause of the overpayments is the embassy's failure to ensure stoppage of Baku post differential (or other) payments when employees travel to the United States. If the human resources office is not informed of the employee's travel plans and departure date from Baku, differential payments continue through American payroll. This also applies to employees transferring to Baku from other posts, whose allowances from the previous post are not stopped upon departure. The human resources office recently instituted a procedure to receive a copy of the individual travel request (as sent to the travel and security office) as notification of an employee departure.

Embassy management issued an administrative notice reminding employees of their responsibility to complete the travel request and inform human resources. In accordance with 4 FAM 492.2, overpayment of an allowance requires the individual to reimburse the U.S. Government. The American payroll office at the Bureau of the Comptroller and Global Financial Services in Charleston is responsible for notifying employees of their indebtedness. Failure to make timely notifications to employees will further delay settlement of these outstanding debts.

Recommendation 26: The Bureau of the Comptroller and Global Financial Services should identify and collect overpayment of post allowances from Embassy Baku employees who received overpayments. (Action: CGFS)

List of Recommendations

Recommendation 1: The Bureau of European and Eurasian Affairs, in coordination with the Bureau of Human Resources, should revise the Embassy Baku staffing pattern to reflect FS-02 section chiefs in separate political and economic sections. (Action: EUR, in coordination with DGHR)

Recommendation 2: Embassy Baku should use record email for the daily summary and important policy discussions to the Bureau of European and Eurasian Affairs. (Action: Embassy Baku)

Recommendation 3: Embassy Baku should complete the position classification process for locally employed staff in the public affairs section. (Action: Embassy Baku)

Recommendation 4: Embassy Baku should implement the Public Diplomacy Implementation Plan and complete the Public Diplomacy Country Context. (Action: Embassy Baku)

Recommendation 5: Embassy Baku should hire a locally employed staff member to monitor the public affairs section's budget. (Action: Embassy Baku)

Recommendation 6: Embassy Baku should establish a working group to implement a social media strategy that derives content from a broad range of sections. (Action: Embassy Baku)

Recommendation 7: Embassy Baku should file originals of public affairs grants files in the public affairs section. (Action: Embassy Baku)

Recommendation 8: Embassy Baku should implement a plan to gain embassywide participation in the selection process for the International Visitor Leadership Program. (Action: Embassy Baku)

Recommendation 9: Embassy Baku should construct a private or semi-private space on the customer side of the planned additional interview window to permit consular customers to discuss sensitive matters with consular staff. (Action: Embassy Baku)

Recommendation 10: Embassy Baku should require visa applicants to use the Global Support System contractor-operated call center to respond to routine inquiries. (Action: Embassy Baku)

Recommendation 11: The Bureau of European and Eurasian Affairs, in coordination with the Bureau of Human Resources, should authorize separate human resources officer and financial management officer positions at Embassy Baku. (Action: EUR, in coordination with DGHR)

Recommendation 12: Embassy Baku should periodically review completed purchase requests and solicit invoices for those that have not been liquidated. (Action: Embassy Baku)

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~~SENSITIVE BUT UNCLASSIFIED~~

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Recommendation 16: Embassy Baku should establish a mission temporary duty policy in accordance with Department of State guidelines. (Action: Embassy Baku)

Recommendation 17: Embassy Baku, in coordination with the Bureau of Human Resources, should establish a telework policy and telework agreements for employees, as required. (Action: Embassy Baku, coordination with DGHR)

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Recommendation 19: Embassy Baku should submit an updated hotel and restaurant report to the Bureau of Administration. (Action: Embassy Baku)

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Recommendation 24: Embassy Baku should require the Baku Employee Association to submit the annual audit report of its financial statements and management letter to the Bureau of Administration, Office of Commissary and Recreation Affairs. (Action: Embassy Baku)

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Principal Officials

	Name	Arrival Date
Ambassador	Richard Morningstar	08/12
Deputy Chief of Mission	Dereck Hogan	07/13
Chiefs of Sections:		
Management	Michael Dickerson	06/13
Consular	Eric Morin	08/11
Political	Colleen Crenwelge	08/13
Economic	Hagen Maroney	08/13
Public Affairs	Stephen Guice	08/13
Regional Security	Dan Hunt	08/13
Other Agencies:		
U.S. Department of Defense	Chris Monahan	06/13
U.S. Department of Energy	Jeremy Patterson	07/13
U.S. Department of Justice	James Benedetto	04/14
U.S. Agency for International Development	Brooke Isham	08/13
Peace Corps	Macie Whittington	7/11

Abbreviations

DCM	Deputy chief of mission
Department	U.S. Department of State
EEO	Equal Employment Opportunity
FAH	<i>Foreign Affairs Handbook</i>
FAM	<i>Foreign Affairs Manual</i>
FAST	First- and second tour
FMO	Financial management officer
FMO/HRO	Financial management/human resources officer
ICASS	International Cooperative Administrative Support Services
INL	International Narcotics and Law Enforcement
LE	Locally employed
NEC	New embassy compound
OIG	Office of Inspector General
PAO	Public affairs officer



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