



Office of Inspector General

United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Semiannual Report to the Congress

April 1, 2007, to September 30, 2007



Summary of OIG Accomplishments

Financial Results:

Questioned costs

Issued during the reporting period	\$ 40,654,000
Management decision during the reporting period	\$ 11,515,000

Recommendations for funds to be put to better use

Issued during the reporting period	\$48,000
Management decision during the reporting period	\$5,900,000

Investigative recoveries \$714,680.66

Investigative Results:

Cases opened	14
Cases closed	25
Judicial actions	34
Administrative actions.....	10
Hotline and complaint activity	259

Reports Issued: 62

Picture on the front cover: Embassy Nairobi, Kenya

Picture provided by Office of Overseas Buildings Operations

Requests for additional copies of this publication should be addressed to:

Office of Inspector General
U.S. Department of State
OIG/EX, Room 810
1700 North Moore Street
Arlington, VA 22209

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EXECUTIVE SUMMARY

The auditors, inspectors, investigators, and other professionals in the Office of Inspector General (OIG) promote effective management, accountability, and positive change in the Department of State (Department), the Broadcasting Board of Governors (BBG), and the foreign affairs community. They provide leadership to:

- promote integrity, efficiency, effectiveness, and economy;
- prevent and detect waste, fraud, abuse, and mismanagement;
- identify vulnerabilities and recommend constructive solutions;
- offer expert assistance to improve Department and BBG operations;
- communicate timely, useful information that facilitates decision-making and achieves measurable gains; and
- keep the Department, BBG, and the Congress fully and currently informed.

This report summarizes work carried out by OIG during the period April 1 through September 30, 2007, which included the issuance of 62 reports of audits, inspections, and other reviews with recommendations to improve Department and BBG programs and operations. A full list of reports issued by OIG during this period can be found in the Appendix 2 of each agency section of this report.

Iraq/Afghanistan Oversight

During this semiannual reporting period, OIG audited the government-owned personal property held by two contractors in Afghanistan responsible for implementing Department programs dealing with civilian police training, poppy elimination and eradication, humanitarian de-mining, and personal protective services. OIG found that the Department could not account for all the government-owned personal property furnished to and purchased by the contractors, and that contractor property lists did not include all government-owned property or all costs. Inadequate documentation raised questions about \$28.4 million, or 21 percent, of the \$133 million in charges on the vouchers OIG

reviewed. Contractor reports on the capitalized assets under these contracts, amounting to \$40.6 million, were understated by at least \$1.1 million to \$2 million. These deficiencies existed because the Department had not defined oversight responsibilities or developed policies and procedures to monitor contractor-held property and, as a result, could not accurately determine the total quantity and costs or track and control the property. Although the Department had recently taken steps to strengthen its oversight, OIG recommended additional actions to improve controls over contractor-held property.

An interagency assessment of the Counternarcotics Program in Afghanistan, issued by the Offices of Inspector General of the Departments of State and Defense, with staff on the assessment team from the Department of Justice OIG, found that the “Five Pillar” approach to counternarcotics in Afghanistan (eradication, alternative livelihoods, interdiction/law enforcement, justice reform, and public information) was reasonable and comprehensive, but that there are no quick fixes and achieving lasting success is a long-term proposition.

U.S. Government counternarcotics efforts depended on the Government of Afghanistan showing both a firm determination and demonstrated ability to deal with the issues. The assessment showed that progress on counternarcotics issues was linked to defeating the insurgency, combating corruption, and extending effective governance throughout the country. U.S. counternarcotics programs in Afghanistan were not adequately integrated and coordinated among participating departments and agencies. Considering that the \$420 million allocated by the U.S. for its counternarcotics programs was dwarfed by the roughly \$38 billion “street value” if the entire Afghan poppy crop were converted to heroin—and the report noted indications the 2007 poppy cultivation may equal or exceed 2006, with preliminary goals for eradication found not to be realistic—the assessment team found no realistic possibility of outspending economic incentives in the narcotics industry.

OIG performed certain agreed-upon procedures in response to a Bureau of International Narcotics and Law Enforcement Affairs (INL) request to assess its process for reviewing and approving DynCorp International (DynCorp) invoices related to the Jordan International Police Training Center (JIPTC), which provides training for Iraqi law enforcement personnel. OIG found that INL approved payments without assurance that the work or services were completed satisfactorily and that more than \$11.5 million in JIPTC invoices were not supported by complete, understandable, and clear documentation that complied

with federal regulations, Department acquisition procedures, and contract requirements. Subsequent improvements by INL to its invoice review and approval process, if implemented as described, should strengthen the oversight process. Streamlining documentation and optimizing best practices could further strengthen the process.

The Inspector General issued a memorandum on his limited review, and the more detailed inspection of the Camp by the Multi-National Forces – Iraq Inspector General (MNF-I IG), of the Construction Workers Camp at the New Embassy Compound in Baghdad. Based on the procedures specified in the memorandum, nothing came to the attention of the IG or MNF-I IG that caused them to believe trafficking violations of the kind referred to in the report, other than recruitment fees illegal in some workers' country of origin, occurred at the Camp.

Financial Management and Administrative Support

OIG issued six reports related to the financial statements of the Department of State, the Foreign Service Retirement and Disability Fund, and the International Boundary and Water Commission, United States & Mexico, U.S. Section, and two reports on financial systems assessments performed in conjunction with the financial statement audits. OIG also issued reports on seven indirect cost rate reviews. Overall, OIG identified \$40.7 million in questioned costs.

In conjunction with an investigation related to procurement practices at Embassy Berlin, OIG auditors assessed whether procurements made from eight contractors complied with federal regulations. OIG found that Embassy Berlin did not procure goods and services in compliance with procurement regulations because the embassy had not developed appropriate internal controls. The embassy did not maintain adequate separation of duties, ensure that transactions were properly authorized, or develop and maintain appropriate documents to support the transactions, and supervisors did not adequately monitor these procurement activities. OIG recommended, among other things, that the embassy work with the Department to develop and implement a plan to thoroughly review the embassy's procurement process to address the issues discussed in this report.

A mandated OIG audit of the annual financial transactions of the National Endowment for Democracy found that the Endowment had adequately accounted for federal funds, complied with applicable criteria, and implemented recommendations made in OIG's July 2004 report (AUD/CG-04-39). However, the Endowment needed to increase its oversight of the core institutes, which

had not always closed grants and returned expired funds, maintained adequate documentation to support travel costs, or practiced good cash management procedures. As a result, OIG classified \$215,885 as unallowable for expired grant funds not returned to the Endowment by the core institutes, and \$208,069 as unsupported because of a lack of adequate documentation for travel costs. OIG recommended that the Endowment increase its oversight of the core institutes to ensure corrective action and monitor their compliance with laws and regulations.

Security of People and Facilities

During this semiannual reporting period, OIG issued 12 security annexes in conjunction with inspections of overseas missions, reporting on security management at U.S. missions in Khartoum, Sudan, and its constituent post; Nairobi, Kenya; Kampala, Uganda; Kigali, Rwanda; Bujumbura, Burundi; Manila, Philippines; Phnom Penh, Cambodia; Baku, Azerbaijan; Tbilisi, Georgia; Caracas, Venezuela; Port-au-Prince, Haiti; and U.S. Interests Section, Havana, Cuba. A summary of these reports is included in the classified annex to this semiannual report.

A review of the Department's compliance with its cellular telephone security policies found that none of the ten bureaus reviewed were in full compliance. The review recommended reevaluating the Department's cellular telephone policies to balance user's needs against known threats and vulnerabilities; ensuring consistency of security requirements for all devices having cellular telephone capability; consolidating all cellular telephone security requirements in one location in the Foreign Affairs Manual; including cellular telephone security requirements in employee security briefings and in the unit security officer guidebook; and including cellular telephone security requirements on the Department's Blackberry Enterprise Server web site and in the Department's Blackberry user agreement.

Inspections of Department Missions, Bureaus, and Offices

During this reporting period, OIG issued management inspection reports at 12 embassies in Africa, Asia, Latin America, and the Caribbean. In addition, OIG inspected five bureaus and offices within the Department as well as the Florida Regional Center. During the course of these inspections, OIG identified a number of best practices as well as potential cost efficiencies and other improvements,

which are described in the Inspections section of this Semiannual Report. A two-part inspection of the Bureau of Human Resources (HR) found that the Director General of the Foreign Service and the bureau faced significant challenges in implementing the Secretary of State's vision of transformational diplomacy and ensuring the availability of a dynamic diplomatic corps that has a broad range of knowledge, skills, and capabilities. Before proceeding with additional rounds of the Global Repositioning Program, the Department needed to undertake more rigorous planning and analysis to lay out clear objectives and develop the most cost-effective means of achieving them. A controversial new assignment system had successfully met its short-term goal of filling Foreign Service vacancies in critical hardship embassies, but it was unclear whether the Department would continue to be able to staff Iraq on a voluntary basis or would have to move to directed assignments.

A management inspection of Embassy Manila found strong leadership of the embassy's highly complex and dynamic policy implementation activities. Coordination between U.S. federal departments and agencies working in the Philippines under chief of mission authority and those operating under the authority of the U.S. regional military command was close and productive. The management section was well managed, provided good services to its customers, and had developed a number of innovative approaches deemed "Best Practices."

The inspection of the Bureau of Administration's Office of Logistics Operations and Office of Program Management and Policy identified organizational, policy, and regulatory changes that could increase effectiveness and substantially reduce costs to the Department. There were serious deficiencies in the Department's management and oversight of about \$1.2 billion of nonexpendable property and motor vehicles valued at \$300 million. Policies and practices encouraged laxity, resulting in some organizations writing off shortages of property valued at over \$1 million without conducting any research to determine the cause of the shortages. In another area, inspectors recommended that policy responsibility for all diplomatic pouch and mail functions, currently split between the Office of Logistics Management and the Bureau of Information Resource Management, be transferred to the Bureau of Administration.

The inspection of the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) found that, despite its broad mandate, the office had not yet carved out a leadership role in the management of reconstruction and stabilization crises, but had remained on the periphery in the interagency handling of such crises. Although S/CRS had not played the role its proponents hoped it would, the S/CRS divisions had continued to develop doctrine, manage exercises, and provide useful, albeit limited, assistance to embassies through the Active

Response Corps. S/CRS had excellent leadership, an able committed staff, and surprisingly high morale, but its organizational pattern did not adequately reflect the actual delineation of responsibilities within the office, inhibiting coordination and communication.

Information Technology

During this semiannual reporting period, the Office of Information Technology (OIG/IT) worked with the Office of Inspections as part of larger multidisciplinary teams inspecting embassies in the Bureaus of African Affairs, East Asian and Pacific Affairs, and Western Hemisphere Affairs, as well as the Bureau of Human Resources, the Executive Office of the Bureau of Administration, and S/CRS. Information management and information security operations were evaluated to assess their effectiveness, resulting in Department actions to correct OIG-identified deficiencies in IT training, and the dissemination of additional information on standardizing the helpdesk process and change control board request procedures. Additionally, discussions were held regarding standardization and regionalization of IT support services.

Law Enforcement

OIG's Office of Investigations (OIG/INV) addresses allegations of waste, fraud, abuse, and mismanagement related to Department and BBG programs; investigates and reports to the Department of Justice possible violations of criminal law; and is committed to assisting each agency with preventing fraud. During this semiannual period, OIG conducted investigations involving visa malfeasance and fraud, passport fraud, embezzlement, false claims, employee misconduct, and impersonation of a government official, which resulted in seven convictions, nine indictments or informations, and approximately \$715,000 in fines, recoveries, and restitution.

As a result of OIG/INV investigations of the unauthorized resale of government-subsidized Metrocheks by Department employees, the Department issued two departmentwide notices regarding eligibility for and proper use of Metrocheks. OIG/INV also is coordinating with the Bureau of Human Resources to identify employees receiving Metrochek benefits while being enrolled in the Department's parking/car or van pool programs and to investigate further employee abuses of the Metrochek benefit.

As the result of a joint investigation with the Federal Bureau of Investigation, reported in the last semiannual report, a BBG employee pleaded guilty to a conflict of interest charge for knowingly and willingly accepting \$112,000 in unauthorized payments from two vendors. The employee was terminated from employment and, on April 18, 2007, was sentenced to 27 months imprisonment, three years probation, a \$5,000 fine, and an additional \$3,000 in legal fees for the court-appointed attorney.

International Broadcasting

An inspection of the Office of Cuba Broadcasting (OCB) found that OCB had significantly improved its broadcasting operations under the current director and with the support of the BBG and the International Broadcasting Bureau (IBB). The director and senior staff had implemented an organizational realignment that combined the radio and television components of OCB and streamlined its operations, thereby facilitating efforts to improve the quality of broadcasts.

The introduction of new technology had allowed OCB to broadcast television signals live into Cuba using airborne platforms that made it significantly more difficult for the Cuban Government to jam or disrupt the signal. The OCB-originated airborne platforms concept—an innovative approach that has applications for transmitting broadcast signals into other hostile theaters of operation—was considered by the inspection team to be a best practice. As Cuba transitions from the Castro regime, OCB will require a long-term strategic plan to anticipate the future needs of the Cuban audience, provide a template for competing with commercial broadcasters, and address what to do with OCB and its broadcasting facilities if and when uncensored broadcasting is allowed inside a democratic Cuba.

An inspection of BBG operations in Russia found that Radio Free Europe/Radio Liberty (RFE/RL), the IBB marketing office, and Voice of America (VOA) had well-run offices in Moscow and networks of freelancers across Russia that were committed to achieving BBG objectives. However, BBG broadcasting was losing its access to the Russian people due to changes in media trends and subtle pressure from Russian authorities to discourage Russian radio and television stations from hosting foreign programming. Keeping Russian staff was a growing challenge because comparable jobs in the Russian electronic media had better salary and benefit packages and because of a perception that working for U.S.-funded media could mean blacklisting in the domestic market.

Inspector General Activities

In September 2007, Inspector General Krongard traveled to Afghanistan, Iraq, Jordan, Qatar, and Turkey to participate with the Department of Defense Inspector General in an assessment of accountability for weapons provided to the security forces of Iraq and Afghanistan, to observe and consider potential sites for OIG's Middle East Regional Office, and to review and be updated on Rule-of-Law, Anticorruption, and other activities in the region. Inspector General Krongard met with numerous U.S. and host country senior officials and addressed various groups including the Association of all the Iraqi Inspectors General.



Inspector General Howard Krongard in Afghanistan in September 2007

During the reporting period, the Inspector General participated in numerous activities of the Inspector General community, including the 2007 Annual President's Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) Training Conference, meetings of the Iraq Inspectors General Council, the Intelligence Community Inspectors General Forum, and the Inspection and Evaluation Committee of the PCIE.

In his role as Chair of the Board of External Auditors of the Organization of American States (OAS), the Inspector General presented the Board's 2006 Report to the OAS Permanent Council, detailed the activities of the Board, highlighted certain internal control and programmatic weaknesses that had been identified by the Board, and made recommendations to the Permanent Council on how these issues could be addressed. At the request of the Secretary General of the OAS, Mr. Krongard also attended the OAS General Assembly session in Panama to provide advice and consultation regarding budgeting, financial, and managerial matters.

Among foreign visitors hosted by the Inspector General during the period were the head of Iraq's Commission on Public Integrity and the Chairman of the Mongolian Border Protection Service. Within the Department, the Inspector

General participated on various Department committees and spoke before various groups, including a presentation to the annual Foreign Service National (FSN) worldwide conference.

CONGRESSIONAL ACTIVITIES AND OUTREACH

TESTIMONY

During this reporting period, Inspector General Krongard testified before a joint hearing of the full House Oversight and Government Reform Committee and the Subcommittee on National Security and Foreign Affairs regarding allegations of trafficking in persons at the new embassy compound Baghdad project in Iraq.

CONGRESSIONAL MANDATES AND REQUESTS

In response to legislative mandates and requests from Congress, OIG conducted the following reviews during this semiannual period. Classified work undertaken at the request of Congress is addressed in a separate classified annex to this semiannual report.

- As mandated by the Chief Financial Officers Act of 1990 (Pub. L. No. 101-576, as amended), OIG directed and monitored the following financial statement audits and other work conducted by an independent external auditor:
 - o Independent Auditor's Report and the Related Management Letter on the Foreign Service Retirement and Disability Fund's 2006, 2005, and 2004 Financial Statements (AUD/FM-07-39 and AUD/FM-07-40).
 - o Independent Auditor's Report and the Related Management Letter on the International Boundary and Water Commission, United States and Mexico, U.S. Section's 2006 and 2005 Financial Statements (AUD/FM-07-43 and AUD/FM-07-42).
 - o Management Letter Related to the Audit of the Department of State's Restated 2006 and 2005 Financial Statements (AUD/FM-07-11).
 - o Independent Accountant's Report on the Application of Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management (AUD/FM-07-50).

- The National Defense Authorization Act for 2000 (Pub. L. No. 106-65) requires the Inspectors General of the Departments of Commerce, Defense, Energy, Homeland Security, and State, in consultation with the Director of Central Intelligence and the Director of the Federal Bureau of Investigation, to conduct an annual review, through 2007, to assess the adequacy of current export controls and counterintelligence measures in order to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. The Offices of Inspector General of these agencies conduct both agency-specific and interagency reviews. During this period, OIG followed up on prior recommendations that remained open and determined the actions needed to implement the recommendations (AUD/IP-07-44).
- The National Endowment for Democracy Act, as amended, [22 U.S.C. 4413(g)] mandates that OIG audit the annual financial transactions of the National Endowment for Democracy. OIG reviewed the financial transactions of the Endowment and its four core institutes for FYs 2003-05 to determine whether they accounted for federal funds, had adequate internal controls, and complied with applicable laws, regulations, policies, and terms of grant agreements (AUD/CG-07-33).
- In response to the Federal Information Security Management Act of 2002 (FISMA), OIG performed an independent evaluation of the information security program of the Department for sensitive compartmented information networks (IT-07-I-01). This report is summarized in the classified annex to this semiannual report.

MEDIA ASSISTANCE AND OUTREACH

During this semiannual period, OIG responded to media inquiries about work it performed and other related matters. Most of the inquiries focused on OIG work involving Department activities in the Middle East and the BBG's Office of Cuba Broadcasting. On July 31, 2007, OIG issued a press release on the release of the report entitled *Interagency Assessment of the Counternarcotics Program in Afghanistan*.

OIG staff participated in the following outreach activities during this semiannual period:

- Audit staff made a presentation on OIG at American University's Kogod School of Business Recruitment Fair.

- Audit and Inspection staff spoke at the International Association of Black Professionals in International Affairs 8th Biennial Training Conference.
- OIG senior staff from the Offices of Audits, Inspections, and Investigations made presentations at the Department's training for administrative management officials.
- Audit staff made a presentation on the importance of property administration at the Department-wide 2007 Contracting Officer's Representative training session.
- Inspection and Investigation staff made presentations at four Ambassadorial Seminars and two new Foreign Service Officers Classes.
- OIG staff from the Offices of Audits, Inspections, and Investigations spoke at the Department's training course for general services officers.
- Senior Inspection staff briefed a group of students from Hamilton College who were in Washington for a semester studying various government issues.
- Inspection staff chaired a panel session at the 18th Annual Women in International Security Summer Symposium at Georgetown University.
- Senior Inspection staff briefed Deputy Chief of Mission and Principal Officers courses.
- Inspection staff spoke at the Department's new training course for first-time political and economic section heads.
- Inspection and Executive Management staff briefed the Department's Advanced Human Resources class.
- Senior staff met with Ambassadors and Deputy Chiefs of Mission preparing to depart for new assignments to discuss areas of emphasis in their missions and provide suggestions to assist in the management of their mission.

LEGISLATION MONITORED

OIG reviewed and monitored the following legislation during this semiannual report period:

- H.R. 1585, the National Defense Authorization Act for Fiscal Year 2008, as it pertains to language establishing a Special Inspector General for Afghanistan Reconstruction. Also, S.A. 2150, an amendment to H.R. 1585, which establishes a Special Inspector General for Afghanistan Reconstruction.
- H.R. 2206, the U.S. Troops Readiness, Veteran's Care, Katrina Recovery and Iraq Accountability Act of 2007, which included funds for OIG for use in Iraq and Afghanistan.
- H.R. 2246, the Afghanistan Freedom and Security Support Act of 2007.
- H.R. 2740, the Military Extraterritorial Jurisdiction Act Expansion and Reinforcement Act of 2007, which would require Inspectors General working in any military theater of operations to coordinate their work with a newly created theater investigative unit within the FBI.
- H.R. 2764, the Department of State, Foreign Operations, and Related Appropriations Act of 2008, which includes funding for OIG for Fiscal Year 2008.
- H.R. 928 and S. 1723, Improving Government Accountability Act, as introduced in both the House and the Senate. Both bills amend the 1978 Inspector General Act.
- H.R. 2420, International Climate Cooperation Re-Engagement Act of 2007, which would assign oversight responsibility for the newly created International Clean Energy Foundation to OIG.
- H.R. 1469 and S. 991, the Senator Paul Simon Study Abroad Foundation Act of 2007, as introduced in the House and Senate. Both bills assign oversight responsibilities for the newly created foundation to OIG.
- S. 1825, Commission on Wartime Contracting Establishment Act, which would assign oversight review of security, intelligence, and reconstruction in Iraq and Afghanistan to the Special Inspector General for Iraq Reconstruction

in conjunction with State OIG and the Inspectors General from Defense Department and USAID.

- S. 680, Accountability in Government Contracting Act of 2007, which would amend Section 8G(e) of the 1978 Inspector General Act, and prohibit Inspectors General from receiving cash awards.
- S.A. 2709, an amendment to Fiscal Year 2008 appropriations for the Department of State, Foreign Operations and Related Programs, which Senator McCaskill proposes to introduce during conference. The amendment would place certain requirements on the websites of the Department and OIG.

IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT AND THE PRESIDENT'S MANAGEMENT AGENDA

In support of the Government Performance and Results Act and the President's Management Agenda, OIG reviewed Mission and Bureau Strategic Plans and rightsizing issues for each mission and bureau inspected during this reporting period.

At Embassy Phnom Penh, the mission had done an exemplary job of meeting the Department's goal of consolidating administrative services, though the greatest savings would only be realized when American direct-hire positions were eliminated. At Embassy Kigali, inspectors recommended the elimination of the assistant general services officer position. The OIG team also recommended that Embassy Caracas seek National Security Decision Directive-38 approval to formally eliminate the two U.S. Customs and Border Protection positions in the narcotics affairs section. The inspection of Embassy Bujumbura recommended that the embassy update its rightsizing report to reflect future staffing requirements for all agencies at post, make certain that plans for the new chancery will provide appropriate desk space and ancillary needs, and ensure that capital security cost-sharing assessments are sufficient.

The Interagency Assessment of the Counternarcotics Program in Afghanistan recommended that the Department, working through the Afghanistan Inter-Agency Operations Group, prepare a rolling five-year budget and performance plan for U.S. Government-funded counternarcotics programs in Afghanistan. The recommendation stated that the plan should include outcome measures to track the effectiveness of these programs.

The *Inspection of the Bureau of Human Resources, Part II*, recommended that the Department review the cost effectiveness of measures taken in the first two rounds of global repositioning and draw up a strategic plan to guide the process before continuing further with the initiative, including how the plan assesses how the limited resources of the Department could best be deployed to achieve the objectives of the transformational diplomacy strategy. The report also recommended that the Department develop a detailed, comprehensive implementation plan, written in coordination with stakeholders, that lays out specific milestones, resource requirements, and cost and service objectives for the Centers of Excellence reorganization. Based on this plan, a timeframe should be set that maintains momentum while allowing adequate time for implementation.

The Florida Regional Center (FRC), Fort Lauderdale, Florida, is a key component in carrying out the Department's regionalization and rightsizing policies, but the inspection noted that FRC had not developed and implemented a system for measuring the effectiveness of its programs. Without performance data, some important decisions relating to the future expansion of FRC may be made based on assumptions rather than fact. Through rightsizing and regionalization, the Bureau of Western Hemisphere Affairs eliminated six direct-hire positions at overseas embassies. This action improved security by reducing the U.S. presence abroad and resulted in annual savings of approximately \$2 million.

U.S. Department of State



**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

October 31, 2007

MEMORANDUM

TO: The Secretary

FROM: OIG – Howard J. Krongard *HJK*

SUBJECT: Semiannual Report to Congress, April 1, to
September 30, 2007

I am pleased to transmit to you the Office of Inspector General's (OIG) Semiannual Report to the Congress for the period ending September 30. This report is required by the Inspector General Act of 1978, as amended, and covers the work of this office during the period indicated. The Act requires that you transmit the report to the appropriate committees of the Congress by November 30, together with any comments you may wish to make.

OIG activities during the reporting period focused on key issues affecting the programs and operations of the Department and BBG, including Iraq/Afghanistan oversight, financial management, protection of people and facilities, inspections of overseas missions and domestic programs, and information technology. These activities and our achievements are summarized in this report, along with the required statistical data.

MEMORANDUM

Construction Workers Camp at the New Embassy Compound, Baghdad

In view of allegations regarding abuse and misconduct violations at the First Kuwaiti Trading and Contracting Company construction workers camp (FK Camp) at the New Embassy Compound site in Baghdad, the Inspector General requested that the Inspector General for Multinational Forces–Iraq conduct an on-site inspection of the FK Camp. MNF–I IG had significant experience and expertise in inspecting camps in Iraq and was in the course of planning for inspection of 57 other camps throughout Iraq. Initially, since the Inspector General and Deputy Inspector General were to be in Iraq anyway for other purposes, it was planned for them to join MNF–I IG’s inspection team. When MNF–I IG’s schedule got delayed, the IG and Deputy Inspector General did a more limited review of their own while in Iraq. Their limited review consisted of procedures set forth in the Memorandum – including interviews of construction workers following the questionnaire developed by MNF–I IG – and was designed to provide negative assurance rather than attestation regarding specified allegations of violations. Based only on the procedures set forth, nothing came to their attention that caused them to believe the specified violations had occurred at the FK Camp.

Subsequently, the MNF–I IG conducted its inspection over the course of two visits to the FK Camp. MNF–I IG’s procedures and experience were significantly more extensive than that of the IG and Deputy Inspector General. MNF–I IG reported that, except for recruitment fees illegal in some workers’ country of origin, no evidence was found of trafficking-in-persons violations at the FK Camp. The Memorandum set forth OIG’s work, included MNF–I IG’s memorandum on the results of its inspection, and described as well the results from a visit to the FK Camp by senior officials from Embassy Baghdad.

AUDITS

Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan (AUD/IQO-07-48)

OIG audited the government-owned personal property held by DynCorp International, LLC, and Blackwater USA in Afghanistan under their respective responsibilities for implementing Department programs dealing with civilian police training, poppy elimination and eradication, humanitarian de-mining, and personal protective services. The objective of this audit was to determine whether the Department could account for the government-owned personal property furnished to and purchased by the contractors.

OIG found that the Department could not account for all the property furnished to and purchased by the contractors. Contractor property lists did not include all government-owned property, nor did they include all costs. In addition, the contractors acquired property that was not specified in the contracts and provided payment vouchers that did not contain adequate information. The inadequate documentation raised questions about \$28.4 million, or 21 percent, of the \$133 million in charges on the DynCorp vouchers OIG reviewed. Further, contractor reports on the capitalized assets under these contracts, amounting to \$40.6 million, were understated by at least \$1.1 million to \$2 million.

These deficiencies existed because the Department neither defined oversight responsibilities nor developed policies and procedures to monitor contractor-held property. As a result, the Department could not accurately determine the total quantity and costs or track and control the property. Although the Department had recently taken steps to strengthen its oversight, OIG recommended additional actions to improve controls over contractor-held property.

Independent Auditor's Report on the Application of Agreed-Upon Procedures Related to Selected DynCorp Invoices (AUD/FM-07-41)

At INL's request, OIG assessed INL's process for reviewing and approving DynCorp International invoices for FY 2005 related to the Jordan International Police Training Center (JIPTC). The objective was to determine whether the process was effective and invoices were adequately supported. In addition,

OIG identified best practices for reviewing and approving invoices from other organizations.

Overall, OIG found that INL did not have an effective process for reviewing and approving DynCorp invoices. For example, INL approved payments without assurance that the work or services were completed satisfactorily. Further, OIG found that the JIPTC invoices were not supported by complete, understandable, and clear documentation that complied with federal regulations, Department acquisition procedures, and contract requirements. OIG identified more than \$11.5 million in inadequately supported invoice amounts.

In March and May 2007, INL provided OIG with information on improvements it had made in its invoice review and approval process. OIG did not assess the adequacy of INL's initiatives because this information was not provided until after the end of OIG's fieldwork. However, if the initiatives are implemented as described, the oversight process should be strengthened. The process could be further strengthened if INL streamlines documentation and optimizes best practices. Once INL implements OIG's recommendations related to JIPTC, it may want to consider expanding the processes to address all contract oversight within the bureau.

Procurement Practices at Embassy Berlin (AUD/FM-07-28)

In conjunction with an investigation related to procurement practices at Embassy Berlin, the OIG auditors assessed whether procurements made from eight contractors complied with federal regulations. These procurements were predominantly for construction-related items and facilities maintenance and repair work.

OIG found that Embassy Berlin did not procure goods and services in compliance with procurement regulations. For instance, the embassy did not always prepare scope of work or government estimates, justify sole-source contracts, include multiple contractors on blanket purchase agreements, rotate activities between contractors, or adhere to required monetary limits for certain procurement activities. This condition occurred because the embassy had not developed appropriate internal controls. The embassy did not maintain adequate separation of duties, ensure that transactions were properly authorized, or develop and maintain appropriate documents to support the transactions, and supervisors did not adequately monitor these procurement activities. OIG recommended, among other things, that the embassy work with the Department to develop and

implement a plan to thoroughly review the embassy's procurement process to address the issues discussed in this report.

Audit of the National Endowment for Democracy (AUD/CG-07-33)

The National Endowment for Democracy Act, as amended, mandates that the OIG audit the annual financial transactions of the National Endowment for Democracy. The purpose of the audit objectives is to determine whether the Endowment accounted for federal funds, had adequate internal controls, and complied with applicable laws, regulations, policies, and terms of grant agreements for FYs 2003-05.

In general, OIG found that the Endowment adequately accounted for federal funds, complied with applicable criteria, and implemented recommendations made in OIG's July 2004 report (AUD/CG-04-39). However, the results of OIG's work indicated that the Endowment needs to increase its oversight of the core institutes, who had not complied with federal requirements for grant administration. They did not always close grants and return expired funds, maintain adequate documentation to support travel costs, or practice good cash management procedures. As a result, OIG classified \$215,885 as unallowable for expired grant funds not returned to the Endowment by the core institutes, and \$208,069 as unsupported because of a lack of adequate documentation for travel costs.

OIG recommended that the core institutes return the \$215,885 in expired grant funds to the Endowment and comply with grant closure requirements and provide additional information on the unsupported travel costs totaling \$208,069, among other recommendations. In addition, OIG recommended that the Endowment increase its oversight of the core institutes to ensure corrective action and monitor their compliance with laws and regulations.

Management Letter Related to the Audit of the Department of State's Restated 2006 and 2005 Financial Statements (AUD/FM-07-11)

During the audit of the Department's restated 2006 and 2005 financial statements, the independent external auditor identified internal control weaknesses relating

to fund balance with Treasury, accounts receivable and payable, payroll accruals, payroll documentation, prompt payments, heritage assets, deferred maintenance, the Department's compliance with OMB Circular A-123, Management Responsibilities for Internal Control, cash and cash receipts at posts, state and federal income tax withholding, management's discussion and analysis, and the Foreign Service Retirement and Disability Fund's (FSRDF) actuarial liability. The auditor recommended that the Department take appropriate action to address these weaknesses.

Information Technology Assessment of the Consolidated American Payroll Processing System (AUD/FM-07-35) and Assessment of Information System Controls for the Foreign National Payroll System (AUD/FM-07-38)

Federal guidance requires that auditors assess the adequacy of the audited entity's internal controls, including those on automated systems processing financial data, during the audits of financial statements. OIG contracted with an independent external auditor to audit the Department's financial statements. The auditor used an IT specialist to perform an assessment of the Consolidated American Payroll Processing System (CAPPS) and the Foreign National Payroll System (FSN Pay).

CAPPS shares a user environment with the Regional Financial Management System (RFMS), which was evaluated during a vulnerability assessment of RFMS (*Information Technology Vulnerability Assessment of the Regional Financial Management System*, AUD/FM-07-13, Feb. 2007). The findings included in the RFMS report are also applicable to CAPPS.

The specialist concluded that FSN Pay had general information security controls in place, including physical security, to ensure that critical financial and operational data were maintained in a manner that ensured confidentiality, integrity, and availability. The Department had developed and documented operating procedures for FSN Pay, including those related to access control, segregation of duties, incident response, and configuration or change management. The general controls for FSN Pay were sound. The specialist recommended that the contingency plan in place at the Global Financial Services Center in Bangkok, Thailand, be tested.

Independent Auditor's Report on the Foreign Service Retirement and Disability Fund's 2006, 2005, and 2004 Financial Statements (AUD/FM-07-39)

The independent external auditor issued an unqualified opinion on the Foreign Service Retirement and Disability Fund's (FSRDF) financial statements as of September 30, 2006, 2005, and 2004, and did not identify any reportable conditions related to internal control or material instances of noncompliance.

Management Letter Related to the Audit of the Foreign Service Retirement and Disability Fund's 2006, 2005, and 2004 Financial Statements (AUD/FM-07-40)

During the audit of the FSRDF's financial statements as of 2006, 2005, and 2004, the independent external auditor identified an internal control weakness relating to overpayments to annuitants. The Department was not consistent in establishing an accounts receivable in a timely manner after it discovered overpayments to annuitants. The auditor recommended that the Department establish accounts receivable for collection of overpayments to annuitants as soon as overpayments are discovered. The auditor also noted opportunities for the Department to improve its actuarial report related to FSRDF.

Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section's 2006 and 2005 Financial Statements (AUD/FM-07-43)

The independent external auditor issued an unqualified opinion on the International Boundary and Water Commission, United States and Mexico, U.S. Section's (USIBWC) financial statements as of September 30, 2006 and 2005, and did not identify any reportable conditions related to internal control or material instances of noncompliance.

Management Letter Related to the Audit of the Financial Statements for the International Boundary and Water Commission, United States and Mexico, U.S. Section (AUD/FM-07-42)

During the audit of the USIBWC financial statements as of 2006 and 2005, the independent external auditor identified internal control weaknesses relating to USIBWC's internal audits and evaluations, property and equipment, accounts receivable, contract accruals, personnel issues, deferred maintenance, and financial reporting. The auditor recommended that USIBWC take appropriate action to address these weaknesses.

Independent Accountants' Report on the Application of Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management (AUD/FM-07-50)

Under OIG's direction, an independent external auditor performed agreed-upon procedures, as required by OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. These procedures were performed solely to assist the Office of Personnel Management (OPM) in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance withholdings and contributions, as well as enrollment information submitted by the Department through the Semiannual Headcount Report. The auditor identified one instance in which information on an employee's health insurance election contained in the Department's payroll system and information in the official personnel file was inconsistent and two instances of reportable differences between the auditor's calculations of life insurance coverage withholdings and the amounts submitted to OPM.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by The International Center (AUD/CG-07-21)

OIG contracted with independent external auditors to perform agreed-upon procedures to determine whether The International Center's proposed indirect cost rates for the years ended December 31, 2005, 2004, and 2003, complied with applicable regulations. The auditors found the Center's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of OMB Circular A-122, Cost Principles for Non-Profit Organizations, and Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.

The auditors reported that the indirect cost rates proposed by the Center for the years ended December 31, 2005, 2004, and 2003, were properly calculated, except for the year ended December 31, 2004, which the independent auditors adjusted to account for a computation error made by the Center. The auditors recommended that the Department accept and finalize the indirect cost rates for the stated years as recommended by the report.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by U.S. Civilian Research and Development Foundation (AUD/CG-07-22)

OIG contracted with independent external auditors to perform agreed-upon procedures to determine whether the U.S. Civilian Research and Development Foundation's proposed indirect cost rates for the year ended December 31, 2004, complied with applicable regulations. The auditors found the Foundation's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of OMB Circulars A-122 and A-110. For the year ended December 31, 2004, the indirect cost rates reported by the Foundation were properly calculated, and the accountants recommended that the Department accept and finalize these rates as submitted by the Foundation.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Woodrow Wilson International Center for International Scholars (AUD/CG-07-23)

OIG contracted with independent external auditors to perform agreed-upon procedures to determine whether the Woodrow Wilson International Center for Scholars' proposed indirect cost rates for the fiscal years ended September 30, 2005 and 2004, complied with applicable regulations. The auditors found the Center's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of OMB Circulars A-122 and A-110. The auditors reported that the indirect cost rates proposed by the Center for the fiscal years ended September 30, 2005 and 2004, were properly calculated, and they recommended that the Department accept and finalize the indirect cost rates for the stated years as proposed by the Center.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Sabre Foundation, Inc. (AUD/CG-07-24)

OIG contracted with independent external auditors to perform agreed-upon procedures to determine whether Sabre Foundation, Inc.'s proposed indirect cost rates for the years ended December 31, 2003, 2004, and 2005, complied with applicable regulations. The auditors found the Foundation's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of OMB Circulars A-122 and A-110. However, the independent auditors took exception to the rates proposed by the Foundation for the years ended December 31, 2005, 2004, and 2003, and recommended that the Department accept and finalize the Foundation's indirect cost rates for these years based on the recommended rates included in the report.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Costs Claimed by Atlantic Corridor, U.S.A., Inc., Under Department of State Grants (AUD/CG-07-29)

OIG contracted with independent external auditors to perform agreed-upon procedures on costs claimed by Atlantic Corridor, U.S.A., Inc., under four grants

awarded to Atlantic Corridor by the Department. The auditors' primary purpose was to determine whether Atlantic Corridor adequately accounted for federal funds and complied with applicable federal laws and regulations related to the terms and conditions of the grants.

The auditors' review disclosed that Atlantic Corridor did not properly manage the cash drawdowns related to the Department grants under the government's Payment Management System. As a result, Atlantic Corridor drew down \$226,705 more than its claimed costs under the grants. The auditors' review indicated that Atlantic Corridor used the excess funds to support operational needs of the organization, outside the scope of the Department grants. The auditors questioned \$142,749 of the costs claimed under the grants, including \$97,388 as unsupported costs and \$45,361 as unallowable. They recommended that the Department require Atlantic Corridor to reimburse the Department for the excess drawdowns and unallowable costs and also provide information to justify the unsupported costs.

In addition, the auditors noted three areas where Atlantic Corridor was not complying with the grants and other regulations related to documenting travel expenses, financial reporting to the Department, and preparing detailed time sheets. The independent auditors recommended that the Department require Atlantic Corridor to take steps to correct these noncompliance items. Lastly, based on their overall review of Atlantic Corridor's financial records, the accountants questioned the Atlantic Corridor's financial and management capability to continue as a going concern and recommended that the Department evaluate Atlantic Corridor's capability before awarding additional grants.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by International Research and Exchanges Board (AUD/CG-07-31)

OIG contracted with independent external auditors to perform agreed-upon procedures to determine whether the International Research and Exchanges Board's (IREX) proposed indirect cost rates for the years ended December 31, 2006, 2005, 2004, 2003, 2002, and 2001, complied with applicable regulations. The auditors found IREX's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of OMB Circulars A-122 and A-110.

The auditors' review disclosed that for the years ended December 31, 2006, 2005, and 2004, the indirect cost rates proposed by IREX were properly calculated. The review did not make any determination on the indirect cost rates proposed by IREX for the years ended December 31, 2003, 2002, and 2001, because IREX was unable to provide detailed invoices to support all the charges for indirect costs claimed in those years. However, the report notes that the indirect cost rates proposed by IREX in those years are consistent with those reviewed for the three subsequent years. The auditors recommended that the Department accept and finalize the indirect cost rates proposed by IREX for the years ended December 31, 2006, 2005, and 2004.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Maureen and Mike Mansfield Foundation (AUD/CG-07-34)

OIG contracted with independent external auditors to perform agreed-upon procedures to determine whether the Maureen and Mike Mansfield Foundation's proposed indirect cost rates for the fiscal years ended June 30, 2006, 2005, 2004, and 2003 complied with applicable regulations. The auditors found the Foundation's accounting system to be adequate for accumulating and reporting indirect costs under the provisions of OMB Circulars A-122 and A-110.

The auditors' review disclosed that for the fiscal years ended June 30, 2006, 2005, 2004, and 2003, the indirect costs proposed by the Foundation were properly calculated. They recommended that the Department accept and finalize the indirect cost rates for these years as recommended in the report. The auditors also noted one instance of noncompliance with the requirements of OMB Circular A-122 relating to travel documentation, and recommended that the Department require the Foundation to comply.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Costs Claimed by Meridian International Center Under Department of State Cooperative Agreements (AUD/CG-07-37)

OIG contracted with independent external auditors to perform certain agreed-upon procedures on the costs claimed by Meridian International Center under

cooperative agreements with the Department. The procedures were to determine whether the Center adequately accounted for federal funds related to the agreements and complied with the terms of the agreements and the cost principles of OMB Circulars A-122 and A-110.

For FYs 2005, 2004, and 2003, the Center developed a value for its cost share based on what it called lost conference facility revenues for space reserved for Department activities. The agreements, however, did not contain a line item for use of the Center's space; thus, the forgone opportunity cost related to conference facilities was not an appropriate cost. Further, the Center was also charging Department programs for a share of the meeting space costs through an allocation of the Center's maintenance and operations costs. Thus, the auditors questioned \$308,250 of the total share amounts the Center reported to the Department for the three fiscal years.

For the FYs ended September 30, 2005, 2004, and 2003, the auditors computed indirect cost rates that varied from the Center's provisional rates and recommended that, subject to the availability of funds, the Department accept and finalize the indirect cost rates for the FYs ended September 30, 2005, 2004, and 2003, at their recomputed or recommended rates.

The review also disclosed that the Center was not requiring employees to prepare detailed records of time charges as required by OMB Circular A-122. The auditors made recommendations to correct these deficiencies and questioned as unsupported \$31,580 in payroll costs related to lack of detailed records of employee time charges.

Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Strategy Information Center, Inc. (AUD/CG-07-45)

OIG contracted with independent external auditors to perform certain agreed-upon procedures to determine whether the National Strategy Information Center, Inc.'s (Center) proposed indirect cost rates for the fiscal years ended October 31, 2005 and 2004 complied with applicable regulations. The auditors found the Center's accounting system adequate for accumulating and reporting indirect costs under the provisions of the OMB Circulars A-122 and A-110.

The auditors did note, however, that the proposed indirect cost for general and administrative expenses for the fiscal year ended October 31, 2004, included \$154

for entertainment charges that contravene the provisions of OMB Circular A-122 and accordingly, disallowed those costs.

Overall, the auditors' review disclosed that for the fiscal years ended October 31, 2005 and 2004, except for the disallowed costs, the indirect cost rates reported by the Center were properly calculated, and that the Center's indirect cost rate structures complied with OMB Circular A-122. The auditors recommended that the Department accept and finalize the indirect cost rates for the fiscal years ended October 31, 2005 and 2004, as recommended by the report.

Compliance Follow-up Review on Export Controls (AUD/IP-07-44)

To comply with the requirements of the National Defense Authorization Act for FY 2000 (P. L. No. 106-65), the Inspectors General of the Departments of Commerce, Defense, Energy, Homeland Security, and State in consultation with the Director of Central Intelligence and the Director of the Federal Bureau of Investigation conducted an annual review. The overall objective of the Inspectors General as defined in the interagency implementation agreement, was to determine whether management had effectively addressed recommendations contained in the export control reports that were issued between 2000 and 2006. OIG's objective was to follow up on prior recommendations that remained open and determine the actions needed to implement the recommendations.

PM's Directorate of Defense Trade Controls (PM/DDTC) had implemented 28 of the 29 recommendations in OIG the reports. In the 2006 report, OIG recommended that PM/DDTC establish performance measures that detail benchmarks and timeframes for reducing and eliminating the number of unfavorable post-license end-use checks. In its response, PM/DDTC said that over the next year, it would consider whether such measures, along with time-lines and benchmarks, would be of value in its compliance and licensing functions. Therefore, the recommendation remains unresolved until PM/DDTC makes its final determination.

Return to Work: An Important Program for the Department of State To Implement (AUD/IP-07-47)

OIG conducted an audit to determine whether the Department had established an effective program for returning to work those employees who had been

injured on the job and had been receiving benefits under the Federal Employees' Compensation Act. OIG determined that a systematic effort to contact and encourage injured employees to return to work as soon as medically feasible is an industry and government best practice and a key internal control to reduce claimant fraud.

OIG found, however, that although officials in the Bureau of Human Resources (HR) had drafted a policy paper for such a program, they had not established a program. HR officials said there were uncertainties regarding which bureau within the Department should develop and manage the program. When developed and implemented, a return-to-work program should enable injured Department workers to return to the workplace more quickly and decrease workers' compensation costs. HR agreed with the need to establish a formal return-to-work program, using best practice elements presented in OIG's report.

INSPECTIONS

AFGHANISTAN PROGRAM REVIEW

Interagency Assessment of the Counternarcotics Program in Afghanistan (ISP-I-07-34)

An interagency assessment of the Counternarcotics Program in Afghanistan found that the “Five Pillar” approach to counternarcotics in Afghanistan (eradication, alternative livelihoods, interdiction/law enforcement, justice reform and public information) was reasonable and comprehensive. Attention to each pillar must move forward in a coordinated fashion. There are no quick fixes. Achieving lasting success is a long-term proposition. U.S. Government counternarcotics efforts depend on the Government of Afghanistan demonstrating both a firm determination and demonstrated ability to deal with the issues.

Progress on counternarcotics issues was linked to defeating the insurgency, combating corruption, and extending effective governance throughout the country. There was consensus within the U.S. Government that counternarcotics was critical to and interrelated with all aspects of U.S. Government’s involvement in Afghanistan. The priority of counternarcotics relative to other objectives was not clear and should be established and agreed to by all U.S. Government elements involved in the effort. In view of “market value” of poppy and heroin, there is no realistic possibility of outspending economic incentives in the narcotics industry.

U.S. Government counternarcotics programs were not adequately integrated and coordinated among participating departments and agencies. Management and oversight of these programs merited more staff resources. The quality and extent of interagency cooperation were highly dependent on the capabilities of the embassy ‘drug czar,’ a contract employee. A different management model was recommended to strengthen planning, oversight, and coordination.

Security in the poppy producing provinces was a growing concern. This necessitated further reliance on aircraft and air support for execution of counternarcotics programs. The airlift capacity was inadequate for a variety of funding, equipment, personnel and bureaucratic reasons.

Security

During this semiannual reporting period, OIG issued 12 security annexes in conjunction with inspections of overseas missions. These annexes reported on security management at missions Khartoum, Sudan and its constituent post; Nairobi, Kenya; Kampala, Uganda; Kigali, Rwanda; Bujumbura, Burundi; Manila, Philippines; Phnom Penh, Cambodia; Baku, Azerbaijan; Tbilisi, Georgia; Caracas, Venezuela; Port-au-Prince, Haiti; and U.S. Interests Section, Havana, Cuba. A summary of these reports is included in the classified annex to this semiannual report.

Review of Department Headquarters' Implementation of Cellular Telephone Security Policies (SIA-I-07-01)

This OIG review examined the Department's compliance with its cellular telephone security policies. The review was conducted through interviews and reviews of the policies and procedures at 10 of the Department's 50-plus bureaus and principal offices. The review found none of the 10 to be in full compliance. The review recommended: 1) reevaluating the Department's cellular telephone policies to balance user's needs against known threats and vulnerabilities; 2) establishing consistency among policies and consolidating them into one location in the Department's Foreign Affairs Manual (FAM); 3) including cellular telephone security requirements in employee security briefings and the unit security officer guidebook; and 4) including cellular telephone security requirements in the Department's Blackberry Enterprise Server web site and the user's agreement for users of the Department's Blackberry Personal Digital Assistant.

DOMESTIC BUREAUS AND OFFICES

Inspection of the Bureau of Human Resources (ISP-I-07-16)

Due to the large size of the Bureau of Human Resources (HR), and the wide scope of its responsibilities, OIG conducted this inspection in two parts. Part I of the inspection concluded that the Director General of the Foreign Service (Director General) and HR faced significant challenges in implementing the Secretary of State's vision of transformational diplomacy and ensuring the availability of a dynamic diplomatic corps that has a broad range of knowledge, skills, and capabilities. In addition, the Civil Service personnel system did not facilitate the optimal training, development, promotion, and utilization of these employees. The Department also needed to codify in one place and strengthen its commitment to locally employed staff.

A 15-percent deficit in mid-ranked Foreign Service positions that resulted from decreased hiring in the 1990s continued to hamper staffing for key Department positions worldwide. The Department could only overcome this problem before 2010 through an extraordinary intervention in the hiring and promotion process for Foreign Service officers.

The inspectors found that post assignment travel funds were at high risk for waste, fraud, and mismanagement because of a weak controls environment and a costly, inefficient system for managing employee travel and the transportation of household effects.

Inspection of the Bureau of Human Resources, Part II (ISP-I-07-45)

Part II of the inspection of HR found that the bureau had faced extraordinary challenges during the past few years but was able to meet urgent demands as well as address some longer term problems. A controversial new assignment system successfully met its short-term goal of filling Foreign Service vacancies in critical hardship embassies. However, it was unclear whether the Department would continue to be able to staff Iraq on a voluntary basis or would have to move to directed assignments.

A Global Repositioning Program moved 200 Foreign Service jobs from Washington, Europe, and elsewhere to India, China, and other countries to support transformational diplomacy. Before proceeding with additional rounds of this program, the Department needed to undertake more rigorous planning and analysis to lay out clear objectives and develop the most cost-effective means of achieving them.

The Department's efforts to establish shared services (Centers of Excellence), for certain HR functions needed to be put on a rational implementation schedule if it was to succeed. The Department also needed to explore consolidation of certain HR services in a single center. A new Foreign Service entry examination process will speed the hiring process, a long overdue reform. Close monitoring will be needed to determine whether the new approach would also meet its objective of bringing in more diplomats with relevant skills and experience.

Retirement processing has been one of the most criticized bureau functions. The Director General had augmented the staff, strengthened the management structure, and requested funding for a much needed upgraded information system. Should these efforts fail to produce results, the Department will need to assess the feasibility of transferring the function to another shared services center, whether inside or outside the Department.

The bureau needed to staff its conduct and suitability division fully to ensure timely and fair adjudication of all discipline cases. Also, the Department needed to make a significant investment in upgrading HR information systems to improve efficiency, consistency, and quality of service.

Best Practice: Permanent Change of Station Lodging Program

Issue: Department employees receive reduced per diem lodging payments for long-term training assignments. Employees assigned to training for longer than four months generally pay about \$80 a day out of pocket for hotel lodging expenses, creating a disincentive to long-term training.

Response: The Bureau of Human Resources contracted for lodging with a commercial hotel that agreed to provide rooms at 33 percent below the government per diem rate. The rooms were made available to students on a first-come, first-served basis with priority given to those on long-term training assignments. The program has filled 20,000 room-nights in its first three months and expects to exceed targets by year-end. The Bureaus of Diplomatic Security and Overseas Buildings Operations and the Foreign Service Institute plan to participate in the expanded program.

Result: The Department has removed a significant disincentive to long-term training at minimal or no cost to the U.S. government. Substantial costs savings to the government should result as the program expands to 200,000 room-nights a year later in FY 2007.

Inspection of the Bureau of Administration's Office of Logistics Operations and Office of Program Management and Policy (ISP-I-07-21)

The inspection of the Bureau of Administration's Office of Logistics and Office of Program Management & Policy found that the relatively new deputy assistant secretary for the Bureau of Administration's Office of Logistics Management had the opportunity to increase effectiveness and substantially reduce costs to the Department by implementing the organizational, policy, and regulatory changes outlined in the inspection. Full implementation of several existing programs, plus full utilization of the Hagerstown, MD, storage facility, could result in significant savings for the Department.

There were serious deficiencies in the Department's management and oversight of about \$1.2 billion of nonexpendable property and motor vehicles valued at \$300 million. Policies and practices encouraged laxity, resulting in some organizations writing off shortages of property valued at over \$1 million without any research to determine the cause of the shortages. In addition, the Department's Property Survey Board, which is responsible for assigning responsibility for shortages, had not convened for several years. Some property disposal reports were found by the team to be inaccurate, and shortages were identified in a substitute category, although the items should have been reported as missing.

The Office of Logistics Management managed, operated, and established procedures for all diplomatic pouch and mail functions; however, policy responsibility for these functions resided nominally in the Bureau of Information Resource Management. Policy responsibility for these functions should be transferred to the Bureau of Administration.

Inspection of the Bureau of Administration, Executive Office (ISP-I-07-33)

OIG's inspection of the Bureau of Administration's (A) Executive Office (A/EX) found that operations had changed significantly in the past three years, with its movement toward a shared-services delivery model. In addition, workload increased dramatically with the transfer of functions from the Bureau of Information Resource Management's (IRM) Executive Office (IRM/EX) and the establishment of the A/EX Human Resources division as a Center of Excellence — a shared services center.

Overall, A/EX had performed exceedingly well. It effectively managed a doubling of the number of personnel it supports. It also maintained control over a significant increase in funds, established a presidential travel program that is universally lauded, and successfully absorbed the management functions of several smaller offices and bureaus.

A/EX's Human Resources division had been designated as a pilot Center of Excellence. The Center of Excellence initiative is part of a larger Department move to implement a shared services model for delivering management support functions. Better Department planning to implement the initiative and to arrange for A/EX absorption of the IRM/EX human resources workload would have improved A/EX awareness of the considerable workload backlogs it would inherit. A/EX had not yet completed personnel and other administrative requirements inherited from the IRM merger, adversely affecting employee performance and morale.

As a result of assuming management functions from IRM, some A/EX activities, such as acquisitions, space planning, and management, were similar to and even duplicated the functions of other A Bureau offices, contrary to the implementation of the Department's shared services concept. The inspection noted that some realignment may be necessary. A/EX's management controls and oversight of the A Bureau's purchase card program also needed strengthening.

Inspection of the Office of the Coordinator for Reconstruction and Stabilization (ISP-I-07-26)

The inspection of the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) found that despite its broad mandate, S/CRS had not yet carved out a leadership role in the management of reconstruction and stabilization crises. It had remained on the periphery in the interagency handling of such crises, playing only an incremental role.

S/CRS had four central issues on its agenda that would determine whether it would expand significantly the parameters of its present responsibilities and establish for itself a viable institutional role. These issues were: a new relationship with the Director of Foreign Assistance, a major role in implementing the S/CRS charter in National Security Presidential Directive-44, a lead role in developing the Civilian Reserve Corps, and management of the Department of Defense's FY 2007 \$100 million transfer authority. Although S/CRS had not played the role its proponents hoped it would, the S/CRS divisions had continued

to develop doctrine, manage exercises, and provide useful, albeit limited, assistance to embassies through the Active Response Corps. S/CRS had excellent leadership, an able committed staff, and surprisingly high morale.

The inspection found that S/CRS needed to restructure. Its organizational pattern did not adequately reflect the actual delineation of responsibilities within the office and inhibits coordination and communication.

Inspection of the Office of the Executive Director, Executive Secretariat (ISP-I-07-38)

The inspection of the Office of the Executive Director of the Office of the Secretary (S/ES-EX) found the office was doing an impressive job in difficult circumstances. It received generally high marks for its managerial support to the Secretary and the other senior Department principals as well as the other offices under its responsibilities—some 34 in all. The executive leadership and the general services and security units received particularly high praise, as did support for the Secretary’s international travel.

At the same time, the inspectors found that S/ES-EX was clearly straining under its constantly growing administrative burden, now encompassing four large operating entities, three assigned to it since 2003. These large offices had programs totaling \$108 million (in FY 2006) with 320 personnel. Coupled with continuing growth in the offices directly attached to the Secretary and persisting vacancies in its key units, S/ES-EX was keeping its head above water, but in some areas, just barely. The human resources and financial management units particularly were struggling.

S/ES-EX needed to limit its management focus to support of the Secretary, other Department principals, and the offices traditionally attached to the Office of the Secretary. The Department needed to establish alternate management support mechanisms for the offices of the Director of Foreign Assistance, the Coordinator for Reconstruction and Stabilization, the U.S. Global AIDS Coordinator, and the Coordinator for Counterterrorism.

Providing travel support for the Secretary and other Department principals was spread throughout S/ES-EX and was taking an increasing toll on the ability of the various units to perform their other duties. Establishment of a VIP travel unit, as requested in the office’s FY 2008 Bureau Strategic Plan, would alleviate this burden. S/ES-EX also needed to strengthen its management controls over the

billing of the press corps traveling with the Secretary and establish better controls on overtime usage by its staff.

Inspection of the Florida Regional Center, Fort Lauderdale, Florida (ISP-I-07-50)

OIG inspected the Florida Regional Center (FRC), a collection of offices from five bureaus and the U.S. Marine Corps that supports embassies and consulates throughout the Bureau of Western Hemisphere Affairs (WHA) region. The tenant offices, collocated at the FRC, are extensions of their parent bureaus located in Washington, DC. Each office is responsible for administering most aspects of its own operations. There were no mechanisms in place to promote synergy among the tenant offices.

The inspection found that the Acting Director of the FRC and the WHA staff in Fort Lauderdale were effectively supporting regionalization. The FRC management team had the capacity to supervise additional regional staff, and the FRC building had space that could be remodeled to accommodate additional offices. A needs survey and a space management survey were recommended to be conducted before any construction or remodeling was considered.

The FRC is a key component in carrying out the Department's regionalization and rightsizing policies but had not developed and implemented a system for measuring the effectiveness of its programs. Performance measurement is a key requirement of the Government Performance and Results Act of 1993. Without performance data, some important decisions relating to the future expansion of FRC may be made based on assumptions rather than fact. Through rightsizing and regionalization, WHA eliminated six direct-hire positions at overseas embassies. This action improved security by reducing the U.S. presence abroad and resulted in annual savings of approximately \$2 million.

The FRC security program was operating without the benefit of formal standards. The Bureau of Diplomatic Security's Office of Domestic Facilities Protection was tasked to develop specific domestic security standards for the FRC to bring it into line with other Department operations in the United States.

Summary Review of Public Diplomacy Efforts (ISP-I-07-08)

OIG conducted a summary review of the Department's public diplomacy efforts, based in part on material OIG gathered during FY 2005 and FY 2006. The report stated that the Under Secretary for Public Diplomacy and Public Affairs had made a personal priority of improving public diplomacy coordination within the Department and in the interagency process and had made important progress in this area, including implementing recommendations of the OIG and the Government Accountability Office.

Public diplomacy strategic planning had improved but could be stronger, especially at the mission level. The Department had made important, promising progress in the difficult task of measuring the impact and outcomes of public diplomacy efforts rather than just totaling public diplomacy activities undertaken, as has primarily been done in the past. The prospects for further progress were encouraging.

The need to increase public diplomacy officers' foreign language capabilities was a long-term challenge. Public diplomacy officers wanted to expand their foreign language competencies, and other mission officers said they would like to assist with public diplomacy outreach but lack sufficient language skills. In general, the management controls of embassy public affairs programs were found to be good, but some areas needed improvement. Public affairs sections may also have been overburdened by the administrative requirements of grants monitoring and may require additional support.

The Office of Policy, Planning, and Resources for Public Diplomacy and Public Affairs had worked with a performance measurement consultant to identify 15 performance measurement indicators for public diplomacy programs, and these should prove useful tools for embassies to engage in quantitative assessment of their programs.

Best Practice: Sharing With Other Posts Documents Translated at Post

Issue: The Bureau of International Information Programs and the Office of Language Services cannot fulfill all of the document translation needs in the volume, breadth of subject matter, and time frame desired by embassies.

Response: The public affairs sections of embassies in Buenos Aires, Argentina, and Santiago, Chile, translate from English into Spanish a number of relevant public diplomacy documents and post the translations to a list-serve for use by other embassies in the Spanish-speaking world.

Result: Other embassies using this service can save limited resources, directing their public diplomacy staffs to other program-related activities. The Bureau of International Information Programs and the Office of Language Services can redirect their limited resources to filling other gaps in the provision of Spanish-language materials to embassies in the Spanish-speaking world.

OVERSEAS MISSIONS

Inspection of Embassy Khartoum, Sudan, and Constituent Post (ISP-I-07-23A)

The inspection of Embassy Khartoum reported that the mission effectively managed a difficult U.S.-Sudanese relationship complicated by an array of factors including the U.S. government's sanctions regime, accusations of genocide against Sudan, and inclusion of Sudan on the list of state sponsors of terrorism. Despite obstacles thrown up by both the U.S. and Sudanese governments, U.S. engagement with Sudan was extensive and important, and there was cooperation on counterterrorism, support for both the African Union and UN missions, and delivery of humanitarian assistance in the South and Darfur.

The political and bureaucratic jousting between the United States and Sudan hampered the embassy's operational effectiveness in such ways as delaying visa issuance, imposing travel restrictions, and impeding customs clearance. Furthermore, the lack of a "traditional" Sudan desk within the Bureau of African Affairs affected the embassy's capacity to manage some aspects of the bilateral relationship. The bureau's Sudan Programs Group and the embassy must work to strengthen coordination. The consulate general in Juba lacked adequate staff, facilities, and general services support to be fully effective. The Department must overcome these shortfalls in Juba.

Inspection of Embassy Nairobi, Kenya (ISP-I-07-29A)

An inspection of this mission found that Embassy Nairobi was ably managing the broad U.S.-Kenyan relationship while simultaneously overseeing and coordinating U.S. government priorities in Somalia in a period of crisis and rapid change. The embassy and the Bureau of African Affairs were establishing a Somalia unit at Embassy Nairobi that could implement U.S. government policy toward Somalia and plan for a U.S. presence in Somalia at an as-yet-undetermined future time. The Department needed to provide for continuity of leadership of this unit by creating a full-time senior position there. As long as the unit is based in Nairobi, its leader and staff should remain under chief of mission authority. Embassy Nairobi had overcome interagency reluctance and had initiated the consolidation of an administrative support platform for the Department and

the U.S. Agency for International Development. Despite being built only five years ago, Embassy Nairobi's consular area was inadequate. The embassy had identified possible renovations that would improve its functionality. The Department should identify funding for this work. With Nairobi as a guide, the projected increase in consular workload must be considered in consular space planning worldwide.

Inspection of Embassy Bujumbura, Burundi (ISP-I-07-31A)

In the inspection of Embassy Bujumbura, inspectors reported an urgent need to relocate the deteriorated and unsafe chancery and general services compound to a new embassy compound (NEC). The embassy had for some time been seeking unencumbered land meeting its size and security requirements, but challenges and obstacles remained. Because a NEC will not be ready for some years, improvements in the existing buildings were essential.

Embassy Bujumbura was utilizing its limited financial and human resources effectively to advance the key U.S. policy goals of promoting regional security, democratic practices, and economic growth. Embassy Bujumbura's Ambassador and deputy chief of mission had achieved a major leadership and management success by rebuilding the embassy staff and maintaining high morale to meet the demands of the post-conflict expansion of U.S. government activity in Burundi. The embassy's American and locally employed staff were working productively to improve the extremely difficult working environment, which included inadequate local infrastructure, unsafe working conditions, and a lack of adequate medical care. The Ambassador maintained a high-priority, well-planned, and well-executed representational and public diplomacy program that put her and the embassy staff in frequent contact with a full range of Burundian government, civil society, and international figures. This effort provided strong, active support for Burundi's democratic and economic progress.

Inspection of Embassy Kampala, Uganda (ISP-I-07-30A)

The inspection of Embassy Kampala found that the Ambassador's management by objectives provided a clear sense of direction for this organizationally complex mission, which was playing a major role in advancing regional and continental stability, promoting development and good governance, and carrying out major Presidential initiatives on HIV/AIDS and malaria.

Embassy Kampala was coordinating the full spectrum of mission resources and personnel across agencies in a creative transformational diplomacy effort that was building peace in northern Uganda and expanding development throughout the country. The President's Emergency Plan for AIDS Relief (PEPFAR) program carried out by the Centers for Disease Control and Prevention, Peace Corps, Department of Defense, and others has extended the major progress made in the rollback of HIV/AIDS. The mission recognized the need to undertake additional organizational changes to improve PEPFAR coordination and decisionmaking.

The management section was meeting mission needs and was working with the Ambassador, deputy chief of mission, and senior U.S. Agency for International Development (USAID) staff to meet the Department's and USAID's Joint Management Council's requirements to determine the most cost effective consolidated administrative platform. Reducing local and direct-hire staff was being considered.

Consolidating the embassy's warehouse into the U.S. government-owned space that houses USAID's warehouse would save nearly \$250,000 annually in leased costs and would eliminate the need for more than \$450,000 in security upgrade costs.

Inspection of Embassy Kigali, Rwanda (ISP-I-07-25A)

OIG inspected Embassy Kigali and found that the plan to relocate to a new embassy compound by January 2008 and the preparations for the Department and USAID consolidation by October 2008 required intensified coordination among embassy elements and strong proactive engagement from the Ambassador and the deputy chief of mission.

The Ambassador and deputy chief of mission provided strong mission leadership of the multiagency effort to implement the President's Emergency Program for AIDS Relief. The initiative in Rwanda was well managed and achieving its goals and involved excellent coordination among the Department, USAID, Centers for Disease Control and Prevention, and Department of Defense.

Embassy Kigali and the Bureau of Democracy, Human Rights (DRL), and Labor needed a more common appreciation of democratic and human rights practices in Rwanda. A visit by a regional expert from DRL, at the invitation of Embassy Kigali, could improve the efficiency and utility of human rights report preparation and assist the U.S. goal of advancing democratic and human rights in Rwanda.

The management section had emerged from a difficult period of understaffing and a lack of experienced personnel. Its management team still faced complex challenges.

Inspection of Embassy Manila, Philippines (ISP-I-07-36A)

An inspection of Embassy Manila found strong leadership of the mission's highly complex and dynamic policy implementation activities. Coordination between U.S. federal departments and agencies working in the Philippines under chief of mission authority and those operating under the authority of the U.S. regional military command was exceptionally close and productive.

The inspectors found that Manila's consular section was remarkably productive and service oriented, although the unrelenting visa workload affected staff morale and limited entry-level officer exposure to a range of embassy activities. Consular standard operating procedures needed updating. The embassy's political and economic reporting both received very high marks from policymakers and community analysts in Washington.

With strong support from the public affairs section, the Ambassador's frequent outreach efforts received high-profile coverage in print and electronic media. This media coverage has proved a successful method of conveying the mission's core messages to millions of Filipinos. Moreover, section officers met the challenges of a vigorous local press with innovative solutions.

The mission has grown by more than a third since 1999. The National Security Decision Directive-38 review process was not used effectively and could be more rigorous. The management section was well managed, provided good services to its customers, and developed a number of innovative approaches deemed "Best Practices." However, its strong infrastructure and abundant resources allowed it to be less than economical when making some financial decisions.

Best Practice: External Web Site for Solicitation Requirements at Embassy Manila, Philippines

Issue: The procurement and contracting section completed upwards of 6,500 procurement actions in FY 2006. To manage its human and financial resources more efficiently, realize savings, expand competition, and encourage more vendors to participate in solicitations, the procurement and contracting section had to adopt digital technology.

Response: Working in tandem with the Information System Center, the section created an external web site where prospective vendors could register the services/supplies they offer, download solicitations and requests for quotes and amendments, and upload offers of best values and updates to company profiles posted previously.

Result: With the web site, procurement and contracting gained substantial savings. Staff hours, advertising, paper, and photocopying costs are expected to decline markedly. In addition to improved staff productivity and customer service for ICASS subscribers, the web site will in time create a database of vendors, their fields of expertise, past performance evaluations, and a record of previously awarded embassy contracts. This information will become invaluable in determining the best vendor for specific requirements, such as cost reasonableness and their levels of technical capability. As more vendors participate, competition will increase, and the automation of vendor reports will help the transition to a paperless office.

Inspection of Embassy Phnom Penh, Cambodia (ISP-I-07-24A)

The inspection of Embassy Phnom Penh found the Ambassador and deputy chief of mission provided active leadership to all embassy elements. High quality public diplomacy and policy promotion activities were closely targeted on key goals and objectives. In particular, the relationships the Ambassador had developed with Cambodia's leadership had enabled him to lobby assertively for democratic reforms and improved human rights performance.

In late 2005, the embassy moved into a spacious new chancery. However, approval of new direct-hire positions to expand other agency programs in Cambodia had generated some problems with funding and provision of support to serviced agencies.

High quality reporting on political and economic developments was well received by Washington policymakers and analysts. The embassy's efforts in labor affairs and the garment sector were outstanding, and they represented a case study in successful transformational diplomacy.

Public diplomacy activities were woven into all aspects of embassy programmatic interactions with the Cambodian public. Coordination with public diplomacy activities conducted by other U.S. government agencies in Cambodia was productive and mutually supportive.

The consular section was in the midst of an almost complete renewal following the recent loss of several locally employed staff due to malfeasance, plus the return of immigrant visa processing after a five-year hiatus. Consular management had taken important steps toward rebuilding its capacity but has much more to accomplish.

The management section was very well managed and provided excellent support to the mission. The mission had done an exemplary job of meeting the Department's goals of consolidating administrative services, though the greatest savings will only be realized when American direct-hire positions are eliminated. The security and personal security awareness program at Embassy Phnom Penh was comprehensive and effective.

Inspection of Embassy Baku, Azerbaijan (ISP-I-07-40A)

The inspection of Embassy Baku noted that U.S. relations with Azerbaijan had intensified and deepened. The Ambassador had gained the confidence of the country's leadership and significantly advanced U.S. objectives in the fields of security, energy, and democratic and economic reform.

There was an exceptionally effective system of interagency coordination at Embassy Baku. The Ambassador and deputy chief of mission ensured synergy among programs and activities, drew the most from regional offices, and heightened attention to Azerbaijan in Washington.

The ramping up of the bilateral relationship substantially increased the workload throughout the embassy, and this had a negative effect on morale. Embassy leadership recognized that the pace since mid-2006 could not be sustained, and took steps to boost morale, and to reduce workload and prioritize further in the future.

Inspectors found that administrative operations overall were commendable. There were some problems, however, in human resources management and management controls that appeared to have resulted in the embassy's health insurance contractor realizing excess profits for the past two years. The embassy had not energetically pursued the recovery of these excess profits, nor had it renegotiated the contract to provide for lower initial contributions.

Embassy Baku was grappling with two thorny issues in the financial management area that required concerted attention by the new management counselor and deputy chief of mission. The accreditation of locally employed staff and the taxation of their salaries were serious issues. The embassy needed to find a way to accredit the locally employed staff to the government of Azerbaijan and simultaneously regularize their payment of local taxes. The embassy also needed to work towards a system where local staff could be paid by electronic fund transfer rather than by cash payroll. Progress depended on reforms in Azerbaijan's treasury and banking sectors and required lengthy negotiations.

Embassy Baku's information management section had adapted a system used by the Bureau of International Information Programs to streamline the updating of its classified servers and workstations. This best practice was saving the embassy work time while reducing the potential for vulnerabilities in its classified computer systems.

Best Practice: Development of Patch Update by Batch System

Issue: The Department uses a reliable tool called IPost to track the application of vulnerability patches to unclassified local area network servers and workstations. With the discontinuance of Baseline Tool Kit and the inconsistencies of the vulnerability assessment and reporting tool for the classified network, it takes extensive staff time to keep the vulnerability patch level current on classified workstations and servers. Consequently, reporting of vulnerabilities is inconsistent and includes many false positives. The classified vulnerability assessment and reporting tool is not always kept current on the vulnerability patches, creating a vulnerability risk on the classified local area network. The information management staff has to visit each workstation physically to update patches as a result.

Response: Embassy Baku obtained a patch update-by-batch system used by the Bureau of International Information Programs to install and log all patches applied to servers and workstations. Embassy Baku modified the patch update-by-batch system, deployed the scheduling function, and created the logs to update and log patches on the embassy's classified local area network.

Result: The patch update-by-batch system increased staff productivity, generated vulnerability application information from the logs, eliminated redundancy of efforts, and reduced the false positives of vulnerability patches on the classified local area network, thus helping to eliminate the risk of vulnerabilities. The information technology staff does not have to visit each classified workstation or server physically to update and verify the application of patches, resulting in a more efficient workforce.

Inspection of Embassy Tbilisi, Georgia (ISP-I-07-42A)

An inspection of Embassy Tbilisi found the mission was succeeding in helping Georgia transform its government and society and become a model in the region. The Ambassador and the deputy chief of mission worked productively with the Georgian leadership to keep democratic and economic reforms on track and to address issues related to the separatist conflicts. These objectives, along with Georgia's integration with the West and the promotion of common values, constitute the Mission Strategic Plan (MSP) priorities.

The extensive U.S. assistance program in Georgia was carefully organized, nonduplicative, and targeted towards MSP objectives. Frequent coordination and working group meetings provided direction as well as rationalization of the assistance activities, both within the U.S. government and among international donors.

Embassy Tbilisi needed additional personnel in the political and economic section in order to match the embassy's MSP goals, which all require sustained attention from that section. The Office of Inspector General team endorsed the FY 2009 MSP request for an additional economic officer and an office management specialist.

Management's focus on the MSP goals and the move to the new embassy compound had unintentionally pushed attention to morale – particularly locally employed staff morale – to the background. Embassy leadership needed to give priority to workforce retention through a number of initiatives including the resolution of the real loss in earnings over the past few years.



OIG Inspections Team Leader Ambassador Pamela Smith with U.S. Ambassador to Georgia John Tefft during the 2007 inspection of the U.S. Embassy in Tbilisi

Inspection of Embassy Caracas, Venezuela (ISP-I-07-28A)

The inspection of Embassy Caracas reported that the Ambassador's leadership had kept the U.S. government as effectively engaged as possible in Venezuela. All nine agency heads at Embassy Caracas credited the effectiveness of the Ambassador and deputy chief of mission (DCM) with ensuring that each agency and section had set the proper strategic direction. The embassy's senior staff members all viewed the Ambassador as an evenhanded steward of interagency

relationships and the country-team process, which maximizes cooperation among the embassy's many agencies involved with law enforcement or military issues. The Ambassador and DCM collaborated with a talented public affairs section chief and team to ensure the embassy provided minimized responses to the regime's provocations and chose the issue, time, and locale for delivering the message. The embassy could achieve major savings through the use of the legal, parallel-exchange rate and the melding of the narcotics affairs and political sections.

Inspection of U.S. Interests Section Havana, Cuba (ISP-I-07-27A)

In the inspection of U.S. Interests Section Havana (USINT), OIG reported that the Chief of Mission and deputy chief of mission were working effectively to provide a management platform for the key objectives of democracy promotion and migration, despite poor Cuban infrastructure and official hostility. In seeking to ready USINT for possible rapid expansion, the Chief of Mission and deputy chief of mission have been imaginative in developing a realistic planning scenario.

The public affairs section was managing innovative and effective outreach, training, and broadcast monitoring programs despite the constraints of operating in Cuba, but staffing gaps limited the possibilities for program expansion. The political and economic reporting of USINT Havana was of high quality, but expansion of the mission's contact base would be useful. Law enforcement, military-to-military, and counternarcotics cooperation with Cuba was minimal; however, migration control operations between the U.S. Coast Guard, USINT, and the Cuban government were satisfactory.

Restrictions imposed on Cuban diplomats in Washington and New York, and outreach activities in Cuba that provoked Cuban government ire, triggered retaliatory measures that complicate USINT's ability to carry out some of its core functions.

Inspection of Port-au-Prince, Haiti (ISP-I-07-39A)

OIG's inspection of Embassy Port-au-Prince noted that the relationship the Ambassador had developed with Haiti's political leadership had enabled her to lobby assertively for reforms and respect for human rights.

In 2008, all mission elements will move to a well-designed and spacious new chancery for which the Bureau of Overseas Buildings Operations deserved praise. Planning by mission components for the move and consolidation with the USAID mission on administrative support was just starting. Consolidating all mission elements on one new embassy compound, coupled with merging Department and USAID administrative services, should result in reduced staffing and cost savings, particularly in the local guard program.

Reporting on political developments was high quality and well read by Washington policymakers and analysts. Staffing gaps in the economic section required reorganization to better cover reporting on trade and investment. Public diplomacy activities needed to be expanded and coordinated with all agencies to publicize American policy and assistance programs. The consular section was well staffed and well led. Some internal controls on files and cashing needed to be strengthened, and careful planning needed to begin for the move to the NEC. There was a marked improvement in administrative operations since the Office of Inspector General inspection of 2000. The locally employed staff was proficient and professional.

Security concerns affected everyone at the mission. Embassy Port-au-Prince had correctly focused its efforts toward protecting embassy personnel and their families against the critical crime environment in Haiti that posed the most serious and immediate day-to-day threat. Violent crime was pervasive.

INFORMATION TECHNOLOGY

Protecting personally identifiable information, sensitive information, information related to national security, and information systems continues to receive significant congressional and executive management attention. With the passing of the E-Government Act, Congress formally recognizes the importance that it plays in protecting national security and the economic interests of the United States. More specifically, the Federal Information Security Management Act (FISMA), requires federal agencies to develop, document, and implement a

comprehensive plan to protect the confidentiality, integrity, and availability of mission critical information and systems. In response to FISMA, OIG performed an independent evaluation of the information security program of the Department for sensitive compartmented information networks (IT-07-01). This report is summarized in the classified annex to this semiannual report.

During this semiannual reporting period, the OIG Office of Information Technology (OIG/IT) worked with the OIG Office of Inspections as part of larger multidisciplinary teams inspecting embassies in the Bureaus of African Affairs, East Asian and Pacific Affairs, and Western Hemisphere Affairs, as well as several domestic bureaus. Overseas embassies inspected included U.S. missions and consulates in Uganda, Rwanda, Burundi, Cuba, Venezuela, Sudan, Kenya, Philippines, Azerbaijan, Georgia, and Cambodia. Additionally, OIG/IT inspected the Executive Office of the Bureau of Administration and the Office of Coordinator for Stabilization and Reconstruction. Information management and information security operations were evaluated to assess their effectiveness. As a result, a number of issues requiring attention and action by the Department were identified, resulting in recommendations being issued. These included, but were not limited to, the development and review of service level agreements for consolidated IT support, standardized training program for IT staff, change control management for hardware and software deployment, review of submissions for dedicated internet networks at embassies, and the usage of the Department's helpdesk ticket system.

During this semiannual review cycle, OIG recommendations prompted the Department to respond with several actions for correcting deficiencies noted in the evaluation and inspection reports. Many involved initiatives and development of project teams addressing issues such as IT training, dissemination of additional information on standardizing the helpdesk process and change control board request procedures. Additionally, discussions were held regarding standardization and regionalization of IT support services.

INVESTIGATIONS

VISA MALFEASANCE OR FRAUD

OIG initiated an investigation based upon a request for assistance from the Federal Bureau of Investigation, Miami Field Office, in a matter involving involuntary servitude. The case involved a Haitian national who was taken from an orphanage as a minor and trafficked to the United States to be used as a domestic servant and not paid for services rendered. The activity occurred over a six-year period until the victim, who did not receive proper schooling and was held in inhuman conditions, escaped from the captors. OIG assisted the investigation by obtaining the victim's visa records as well as the passport records of the subjects. The photographs in the passport applications were used by the FBI to help the victim identify the subjects. On April 19, 2007, both subjects were indicted on three counts, including charges of forced labor and harboring illegal aliens. The subjects were arrested by the FBI the following day. The defendants are awaiting trial scheduled for January 22, 2008.

OIG conducted a joint investigation with the Labor Department, Office of Inspector General; the Department of Homeland Security, Bureau of Immigration and Customs Enforcement, and the State Department, Bureau of Diplomatic Security (DS), of a construction company allegedly committing employment based visa fraud by filing labor certifications for workers they did not intend to employ. The investigation determined that the company filed more than 65 labor certifications for foreign workers, many of whom never worked for the company, and paid in excess of \$20,000 for their labor certifications. The president of the construction company pleaded guilty to one count criminal information charging the subject with conspiracy to commit visa/immigration fraud and making false statements. The company president also agreed to an order of forfeiture in the amount of \$250,000 and is scheduled to be sentenced on October 19, 2007. On September 12, 2007, the company vice president and another co-conspirator were indicted on charges of conspiracy to commit visa/immigration fraud and false statements, visa/immigration fraud, conspiracy to encourage an alien to unlawfully reside in the United States, and bringing to the United States an alien without official authorization to enter. In addition, the vice president was charged with obstruction of justice.

OIG conducted a joint investigation with the Labor Department, Office of Inspector General; the U.S. Department of Homeland Security, Bureau of Immigration and Customs Enforcement; and the Internal Revenue Service, Criminal Investigations Office of an immigration and tax preparation company allegedly committing employment-based visa fraud. The investigation determined that the company fraudulently filed numerous labor certifications for foreign workers on behalf of current and former clients without their knowledge. Both the owner and office manager of the company pleaded guilty to one-count criminal informations charging them with conspiracy to commit visa/immigration fraud. The company owner also agreed to an order of forfeiture in the amount of \$275,000. The owner is scheduled to be sentenced on November 30, 2007, and the office manager is scheduled to be sentenced on December 21, 2007.

PASSPORT FRAUD

As part of the Passport Sentinel initiative, OIG/INV conducted a joint investigation with the Bureau of Diplomatic Security of a private citizen in California who fraudulently obtained a valid U.S. passport using the name and Social Security number of a deceased infant. The individual was found guilty by jury trial of making a false statement on a U.S. passport application and sentenced to nine months incarceration, to be followed by two years supervised release.

As part of the Passport Sentinel initiative, OIG conducted an investigation of a private citizen in Florida who fraudulently obtained a valid U.S. passport using the name and Social Security number of a deceased infant. On August 23, 2007, the subject was indicted on two counts for making false statements on her application for a U.S. passport and application for citizenship. OIG agents arrested the subject on August 23, 2007, at the subject's place of business and made her initial appearance on August 24, 2007, where she entered a plea of "not guilty" and requested a jury trial.

EMPLOYEE MISCONDUCT

OIG/INV conducted an investigation of a Department employee who was operating a resume writing service from a government office on government time using government resources. Interviews with several Department employees revealed that they paid the subject up to \$80 to prepare resumes to apply for government jobs. Forensic analysis of the subject's government computer

revealed that nine employee resumes and related documentation had been prepared on the computer. When interviewed, the subject admitted to sending the resumes out via the subject's government e-mail account but denied preparing the resumes on the government computer. The case was declined for criminal prosecution, and OIG submitted a report of investigation to the Bureau of Human Resources (HR) for administrative action. HR is reviewing the report of investigation to determine the appropriate administrative action.

EMBEZZLEMENT

OIG/INV conducted an investigation into allegations that a former Department contractor had manipulated the Travel Manager system to receive travel reimbursement payments in excess of \$54,000. Subsequent investigation determined that the contract employee had created a travel profile for a nonexistent employee and had received travel advances in the amount of \$57,496 to which the subject was not entitled. When interviewed, the former contract employee confessed to the embezzlement. The former contract employee pleaded guilty to a one-count criminal information charging the subject with theft of public money and on June 26, 2007, was sentenced to five years probation and ordered to pay restitution to the Department in the amount of \$57,496.

FOLLOW UP ACTIONS

Embezzlement

OIG conducted an investigation into allegations that a Department employee embezzled \$48,300 through travel advances she obtained in the names of several authorized travelers without their permission or consent. When interviewed, the employee confessed to the embezzlement. However, OIG's investigation, with the assistance of the Office of Audit and Department officials, determined that the employee actually embezzled over \$103,000 through the travel advance scheme. On July 17, 2006, DS suspended the subject's security clearance. On December 20, 2006, the subject officially resigned from her position at the Department.

On January 8, 2007, the subject pleaded guilty in U.S. District Court for the District of Columbia to one count of embezzlement. On September 4, 2007, the subject was sentenced to 15 months imprisonment, 36 months supervised release (probation), and was ordered to repay \$103,000 in restitution to the U.S. Treasury for credit to the Department's Office of International Conferences.

Impersonation of an Ambassador

OIG opened an investigation concerning allegations that a resident of the U.S. Virgin Islands was impersonating U.S. government officials, illegally obtaining services including motorcades and police protection, and attempting to illegally obtain diplomatic passports and other official U.S. government credentials. On September 6, 2005, OIG and agents from the Bureau of Diplomatic Security and the Department of Homeland Security Office of Inspector General arrested the subject for impersonating a U.S. ambassador and using fraudulent State Department credentials. The subject was charged in federal court with one count of impersonating a U.S. government official and one count of misuse of an official pass or permit.

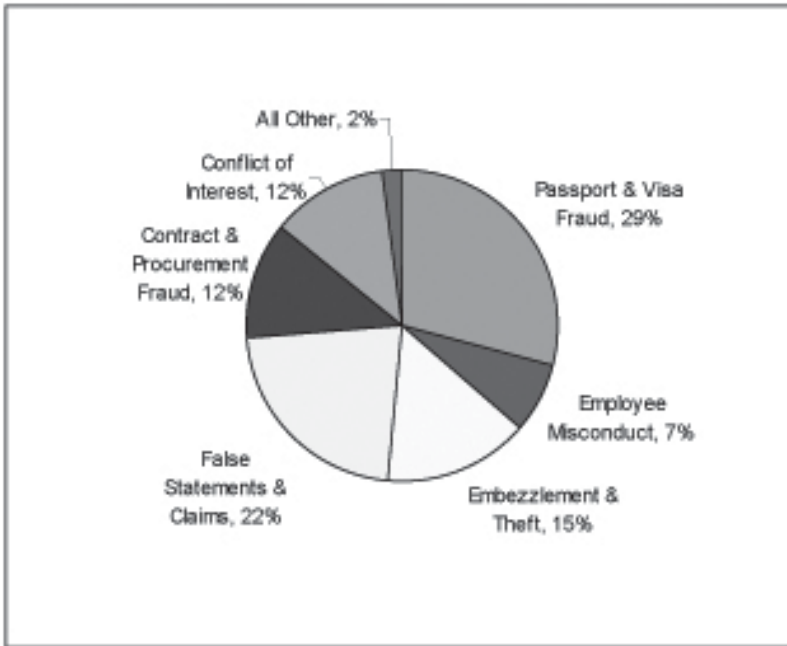
On June 6, 2007, the subject entered a pretrial diversion under which the subject was prohibited from violating any federal, state, or local laws; sentenced to serve 18 months probation; and prohibited from using any diplomatic titles unless legally authorized to do so.

PROACTIVE INITIATIVES

As a result of the investigations conducted by OIG/INV involving the unauthorized resale of employee Metrocheks, the Department issued two Department Notices to employees regarding eligibility and proper use of Metrocheks and forwarded to the Department of Transportation the complete list of Department carpool and vanpool members with a request to cross-check the names against Metrochek participants. From these lists, 126 Department employees were identified as being enrolled in both the Metrochek and parking permit/car or van pool programs. INV is coordinating with HR to determine why these employees were receiving both benefits and will continue to work with the Department to identify and investigate any further abuses.

As a result of OIG's inspection of A/LM/OPS, OIG/INV was invited to be a non-voting member of the Department Property Survey Board chaired by the Director of the Office of Program Management and Policy. INV has added value to the Department's property program by bringing together the Commerce Department's Office of Export Control (OEE) and A/LM/PMP to partner proactively on educating Department personnel about OEE licensing requirements particularly with respect to disposal of damaged, surplus and obsolete items at embassies. A/LM/PMP is partnering with OEE and OIG/INV in a series of educational actions.

Types of Cases



Hotline

Held for action within OIG	35
Referral to other offices for action	155
No action Necessary	69
Total Allegations received	259

APPENDIX 1: DEPARTMENT OF STATE INVESTIGATIVE ACTIVITIES

Criminal Investigative Activities

Indictments/Informations	9
Convictions	7
Sentencings	5
-Jail	36 Months
-Probation	150 Months
Referrals for Prosecution	5
Referrals for Prosecution Declined	2
Criminal Judgments/Restitutions	\$706,680.66

Civil Investigative Activities

Civil Referrals	2
Civil Declinations	2
Civil Recoveries	0

Administrative Investigative Activities

Administrative Referrals	4
Personnel Actions	
-Removals	3
-Suspensions	0
-Reprimands/Admonishments	0
-Reimbursements	0
Administrative Recoveries	0
Total Investigative Recoveries (Judicial and Administrative)	\$706,680.66

Investigative Workload

Cases Pending (03/31/07)	63
New Cases Opened	12
Cases Closed	24
Cases Pending (9/30/07)	51
Preliminary Inquiries Pending (03/31/07)	7
Preliminary Inquiries Opened	19
Preliminary Inquiries Closed	23
Preliminary Inquiries Converted to Cases	2
Preliminary Inquiries Pending (09/30/07)	3

APPENDIX 2: REPORTS ISSUED

AUDITS

AUD/FM-07-11	Management Letter Related to the Audit of the Department of State's Restated 2006 and 2005 Financial Statements
AUD/CG-07-21	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by The International Center
AUD/CG-07-22	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by U.S. Civilian Research and Development Foundation
AUD/CG-07-23	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Woodrow Wilson International Center for Scholars
AUD/CG-07-24	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Sabre Foundation, Inc.
AUD/FM-07-28	Procurement Practices at Embassy Berlin
AUD/CG-07-29	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Costs Claimed by Atlantic Corridor, U.S.A., Inc., Under Department of State Grants
AUD/CG-07-31	Independent Accountants' Report on Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by International Research and Exchanges Board
AUD/CG-07-33	Audit of the National Endowment for Democracy

AUD/CG-07-34	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Maureen and Mike Mansfield Foundation
AUD/FM-07-35	Information Technology Assessment of the Consolidated American Payroll Processing System
AUD/CG-07-37	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Costs Claimed by Meridian International Center Under Department of State Cooperative Agreements
AUD/FM-07-38	Assessment of Information System Controls for the Foreign Service National Payroll System
AUD/FM-07-39	Independent Auditor's Report on the Foreign Service Retirement and Disability Fund's 2006, 2005, and 2004 Financial Statements
AUD/FM-07-40	Management Letter Related to the Audit of the Foreign Service Retirement and Disability Fund's 2006, 2005, and 2004 Financial Statements
AUD/FM-07-41	Independent Auditor's Report on the Application of Agreed-Upon Procedures Related to Selected DynCorp Invoices
AUD/FM-07-42	Management Letter Related to the Audit of the International Boundary and Water Commission, United States and Mexico, U.S. Section's 2006 and 2005 Financial Statements
AUD/FM-07-43	Independent Auditor's Report on the International Boundary and Water Commission, United States and Mexico, U.S. Section's 2006 and 2005 Financial Statements
AUD/IP-07-44	Compliance Follow-up Review on Export Controls

AUD/CG-07-45	Independent Accountants' Report on the Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Strategy Information Center, Inc.
AUD/IP-07-47	Return-to-Work: An Important Program for the Department of State To Implement
AUD/IQO-07-48	Accounting for Government-Owned Personal Property Held by Selected Contractors in Afghanistan
AUD/FM-07-50	Independent Accountant's Report on the Application of Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management

INSPECTIONS

ISP-I-07-08	Summary Review of Public Diplomacy Efforts
ISP-I-07-16	Inspection of the Bureau of Human Resources
ISP-I-07-21	Inspection of the Bureau of Administration's Office of Logistics Operations and Office of Program Management and Policy
ISP-I-07-23A	Inspection of Embassy Khartoum, Sudan, and Constituent Post
ISP-I-07-24A	Inspection of Embassy Phnom Penh, Cambodia
ISP-I-07-25A	Inspection of Embassy Kigali, Rwanda
ISP-I-07-26	Inspection of Office of the Coordinator for Reconstruction and Stabilization
ISP-I-07-27A	Inspection of U.S. Interests Section Havana, Cuba

ISP-I-07-28A	Inspection of Embassy Caracas, Venezuela
ISP-I-07-29A	Inspection of Embassy Nairobi, Kenya
ISP-I-07-30A	Inspection of Embassy Kampala, Uganda
ISP-I-07-31A	Inspection of Embassy Bujumbura, Burundi
ISP-I-07-33	Inspection of the Bureau of Administration, Executive Office
ISP-I-07-34	Interagency Assessment of the Counternarcotics Program in Afghanistan
ISP-I-07-36A	Inspection of Embassy Manila, Philippines
ISP-I-07-38	Inspection of the Office of the Executive Director, Executive Secretariat
ISP-I-07-39A	Inspection of Port-au-Prince, Haiti
ISP-I-07-40A	Inspection of Embassy Baku, Azerbaijan
ISP-I-07-42A	Inspection of Embassy Tbilisi, Georgia
ISP-I-07-45	Inspection of the Bureau of Human Resources, Part II
ISP-I-07-50	Inspection of the Florida Regional Center, Fort Lauderdale, Florida
SIA-I-07-01	Review of Department Headquarters' Implementation of Cellular Telephone Security Policies

INFORMATION TECHNOLOGY

IT-I-07-01	Review of the Information Security Program for Sensitive Compartmented Information Systems at the Department of State
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SECURITY ANNEXES

ISP-S-07-23A	Classified Annex to the Inspection of Embassy Khartoum, Sudan
ISP-S-07-24A	Classified Annex to the Inspection of Embassy Phnom Penh, Cambodia
ISP-S-07-25A	Classified Annex to the Inspection of Embassy Kigali, Rwanda
ISP-S-07-27A	Classified Annex to the Inspection of U.S. Interests Section Havana, Cuba
ISP-S-07-28A	Classified Annex to the Inspection of Embassy Caracas, Venezuela
ISP-S-07-29A	Classified Annex to the Inspection of Embassy Nairobi, Kenya
ISP-S-07-30A	Classified Annex to the Inspection of Embassy Kampala, Uganda
ISP-S-07-31A	Classified Annex to the Inspection of Embassy Bujumbura, Burundi
ISP-S-07-36A	Classified Annex to the Inspection of Embassy Manila, Philippines
ISP-S-07-39A	Classified Annex to the Inspection of Embassy Port-au-Prince, Haiti
ISP-S-07-40A	Classified Annex to the Inspection of Embassy Baku, Azerbaijan
ISP-S-07-42A	Classified Annex to the Inspection of Embassy Tbilisi, Georgia

APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

Table 1
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH QUESTIONED COSTS

	Number of Reports	Question Costs (Dollars in Thousands)	Unsupported Costs (Dollars in Thousands)
A. For which no management decision has been made by the commencement of the reporting period	4	\$11,467	\$1,341
B. Which were issued during the reporting period	4	\$40,654	\$37,590
C. For which a management decision was made during the reporting period	1	\$11,515	\$11,515
D. For which no management decision has been made by the end of the reporting period	7	\$40,606	\$27,416
Reports for which no management decision was made within 6 months of issuance	2	\$1,438	\$1,341

¹Questioned costs that are questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of audit, such costs are not supported by adequate documentation; or finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable

Table 2

**INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE²**

	Number of Reports	Dollar Value (in thousands)
A. For which no management decision has been made by the commencement of the reporting period	1	\$5,900
B. Which were issued during the reporting period	1	\$48
Subtotals (A+B)	2	\$5,948
C. For which a management decision was made during the reporting period	1	\$5,900
(i) dollar value of recommendations that were agreed to by management -based on proposed management action	1	\$5,900
-based on proposed legislative action		0
(ii) dollar value recommendations that were not agreed to by management	0	
D. For which no management decision has been made by the end of the reporting period	1	\$48
Reports for which no management decision was made within 6 months of issuance	0	0

²A recommendation that funds be put to better use is a recommendation by the OIG that funds could be used more efficiently if Department management took actions to implement and complete the recommendations, including: reductions in outlays, deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; costs not incurred by implementing recommended improvements related to the operations of the Department, a contractor, or a grantee, avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified.

APPENDIX 4: RESOLUTION OF REPORTS AND RECOMMENDATIONS

Section 5 (a)(3) of the Inspector General Act, as amended, requires identification of each significant recommendation described in previous semiannual reports that the Department has agreed to implement but for which corrective action has not yet been completed. OIG continues to work with the Department toward completion of the corrective actions required on these recommendations.

Significant Recommendations Pending Final Action

Report Number	Rec. Number	Title	Date Issued
Audits			
AUD/CG-02-44	1	Awards to the Iraqi National Congress	10/2002

OIG recommended that the A/LM/AQM grants officer, in coordination with the Bureau of Near Eastern Affairs, should withhold, or at least restrict, future funding to the Iraqi National Congress Support Foundation until the Foundation has implemented adequate and transparent financial controls.

AUD/CG-04-31	1	Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by National Council for International Visitors (NCIV)	10/2002
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OIG recommended that a Department of State, Bureau of Administration, Office of Acquisition grants officer require NCIV to exclude such unallowable costs from its future indirect cost proposals. OIG recommended, further, that the grant officer ensure that NCIV adjust its cumulative cost reporting.

AUD/FM-05-06 1 **Assessment of the Certification and Accreditation, Change Management, and Patch Management Process** 12/2004

OIG recommended that the Bureau of Information Resource Management revise the security test and evaluation of the certification and accreditation process to include a complete vulnerability scan of the systems being assessed.

AUD/CG-06-26 1 **Choctaw Archiving Enterprise's Proposed Direct Labor and Indirect Labor Rates** 05/2006

OIG recommended that the Department's, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management use the recommended rates set forth in Schedule A-2 to price delivery orders that Choctaw will perform under the proposed contract.

Inspections

ISP-I-07-12 5 **Inspection of the Bureau of Administration's Office of the Procurement Executive, Office of Acquisitions Management, and Office of Small and Disadvantaged Business Utilization** 12/2006

In its inspection, OIG recommended that the A Bureau, in coordination with DS, establish a plan to progressively consolidate local guard contracting in the Office of Acquisitions Management. A/LM and DS are working to identify issues, develop solutions, and determine if centralization of local guard program contracts would substantially benefit the Department.

Significant Management Success in Resolving and Implementing Recommendations

Inspection of Global Financial Services – Charleston (GFS-C) (ISP-I-06-33, Issued June 2006)

In the Inspection of GFS-C, OIG recommended that the Bureau of Resource Management (RM) review the differences in the Fund Balance with Treasury Accounts, reconcile the differences from prior fiscal years, and report the changes to the Treasury. The Department responded by making permanent adjustments to its reconciliation procedures including: 1) Greater emphasis on root cause analysis and identification of long-standing systemic issues (2) Improved collaboration with other financial operations and financial systems offices; and (3) Coordination of analyses with the Treasury Statement of Differences project. RM's revised approach more correctly takes into account issues that contributed to original and current imbalances with the Treasury.

Broadcasting Board of Governors



**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

October 31, 2007

MEMORANDUM

TO: Mr. James K. Glassman, Chairman
Broadcasting Board of Governors

FROM: OIG – Howard J. Krongard *HJK*
Inspector General

SUBJECT: Semiannual Report to Congress, April 1,
to September 30, 2007

I am pleased to transmit to you the Office of Inspector General's (OIG) Semiannual Report to the Congress for the period ending September 30. This report is required by the Inspector General Act of 1978, as amended, and covers the work of this office during the period indicated. The Act requires that you transmit the report to the appropriate committees of the Congress by November 30, together with any comments you may wish to make.

During this reporting period, OIG inspected the BBG's Office of Cuba Broadcasting and BBG's Operations in Russia, as well as the International Broadcasting Bureau's Philippines Transmitting Station.

This and other activities are summarized in this report.

INSPECTIONS

Inspection of the Office of Cuba Broadcasting (ISP-IB-07-35)

The Office of Cuba Broadcasting (OCB) had significantly improved its broadcasting operations under the current director and with the support of the Broadcasting Board of Governors (BBG) and the International Broadcasting Bureau (IBB). The director and his senior staff had implemented an organizational realignment that combined the radio and television components of OCB and streamlined its operations. This reorganization had facilitated efforts to improve the quality of broadcasts.

IBB quality reviews showed that radio and television broadcasts had markedly improved over the past two years in production quality and content. Greater emphasis was needed on internal quality control to ensure editorial standards were followed. The introduction of new technology allowed OCB to broadcast television signals live into Cuba using airborne platforms. These continuously moving aircraft make it significantly more difficult for the Cuban government to jam or disrupt the signal. Indications were that more Cubans were watching Television Marti broadcasts, and OCB had increased the quantity of daily programs.

The airborne platforms concept was originated by the technical operations staff at OCB. Now operational, this innovative approach has applications for transmitting broadcast signals into other hostile theaters of operation. The OIG team considered the use of an airborne platform, Aero Marti, to be a Best Practice.

As Cuba transitions from the Fidel Castro regime, OCB will be challenged to continually produce high-quality programs that meet the informational and entertainment needs of the diverse Cuban populace. What was missing was a long-term strategic plan to anticipate the future needs of the Cuban audience, provide a template for competing with commercial broadcasters, and address what to do with OCB and its broadcasting facilities if and when uncensored broadcasting is allowed inside a democratic Cuba.

The responsibilities of many employees had changed, and some position descriptions were out of date. OCB needed a detailed position classification review, a formal awards and recognition program, greater training opportunities,

and enhanced efforts to improve communication through such mechanisms such as a monthly electronic newsletter.

Inspection of the Broadcasting Board of Governors Operations in Russia (ISP-IB-07-32)

BBG carried out significant and diverse programs in Russia. Radio Free Europe/Radio Liberty (RFE/RL), an International Broadcasting Bureau (IBB) marketing office, and Voice of America (VOA) had well-run offices in Moscow, and networks of freelancers across Russia were committed to achieving BBG objectives.

BBG broadcasting was losing its access to the Russian people due to changes in media trends and to subtle pressure from the authorities to discourage Russian radio and television stations from hosting foreign programming. In addition, shortwave listenership was rapidly declining. VOA's Russian news service was shifting from radio to television as a more effective way to reach a wider audience, but it was increasingly difficult to find stations that will place BBG programs.

IBB recruited affiliate stations to rebroadcast VOA and RFE/RL products. Russian authorities who license and tax broadcasters were discouraging potential affiliates from rebroadcasting BBG material. The three dozen BBG affiliates of a few years ago were reduced to four. The embassy was working with BBG on this issue.

Keeping Russian staff was a growing challenge because comparable jobs in the Russian electronic media had better salary and benefit packages and because of a perception that working for U.S.-funded media can mean blacklisting in the domestic market.

Inspection of International Broadcasting Bureau's Philippines Transmitting Station (ISP-IB-07-37A)

The Philippines Transmitting Station was effectively operating two sites located 115 miles apart that send medium wave and short wave broadcasts. An authorized, but vacant, American direct-hire position for a transmitting plant supervisor was unneeded due to technological advances allowing the Poro site to be operated remotely from the Tinang site. The responsibilities of the Asia regional resource management specialist, located at the chancery compound in Manila, could be successfully conducted in Washington. This position should be relocated to Washington. The information technology support staff recognized how critical they were to the worldwide mission of the IBB and were providing quality support not only to the Philippines but to the other stations of East Asia, the Pacific region, and Kuwait.

The classified annex to the *Inspection of International Broadcasting Bureau's Philippines Transmitting Station* report is summarized in the classified semi-annual report.

INVESTIGATIONS

FOLLOW UP ACTIONS

Conflict of Interest

OIG conducted a joint investigation with the Federal Bureau of Investigation into allegations of possible kickbacks being received by a BBG employee from two vendors. The employee was interviewed and confessed to improperly receiving payments from two vendors and knowing that it was a conflict of interest. On November 16, 2006, the employee was indicted on one count of conflict of interest and three counts of making false statements. The employee was arrested the next day and placed on indefinite suspension without pay pending the outcome of the case.

On February 13, 2007, the subject pleaded guilty to the conflict of interest charge, and admitted to knowingly and willfully receiving unauthorized payments from the vendors in the amount of approximately \$112,000. On March 20, 2007, the BBG sent a letter of termination to the employee. On April 18, 2007, the employee was sentenced to 27 months imprisonment, three years probation, a \$5,000 fine and an additional \$3,000 in legal fees for the court-appointed attorney. (See OIG Semiannual Report, October 1, 2006, to March 31, 2007, pp 69-70)

APPENDIX 1: BROADCASTING BOARD OF GOVERNORS INVESTIGATIVE ACTIVITIES

Investigative Workload	Number
Cases pending 3/31/07	5
New cases opened	2
Cases closed	1
Cases pending 9/28/07	6
Preliminary inquiries pending 3/31/07	1
Preliminary inquiries opened	1
Preliminary inquiries closed	0
Preliminary inquiries converted to cases	0
Preliminary inquiries pending 9/28/07	2
Total Judicial Actions	2
Prosecutive Referrals	1
Prosecutive Declination	0
Criminal Indictments/Arrests	0
Criminal Convictions	0
Criminal Sentencings	1
Time Sentenced	27 Months
Time Probation	36 Months
Court Ordered Fine	\$5,000
Court Ordered Restitution	\$3,000
Administrative Investigative Activities	
Personnel Actions	
-Referrals	2
-Removals	1
-Suspensions	0
-Reprimands/Admonishments	0
-Reimbursements	0
-Administrative Recoveries	0
Total Investigative Recoveries	\$8,000

APPENDIX 2: REPORTS ISSUED

ISP-IB-07-32	Inspection of the Broadcasting Board of Governors Operations in Russia
ISP-IB-07-35	Inspection of the Office of Cuba Broadcasting
ISP-IB-07-37A	Inspection of International Broadcasting Bureau's Philippines Transmitting Station
ISP-IB/S-07-37A	Classified Annex to the Inspection of International Broadcasting Bureau's Philippines Transmitting Station

APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

Table 1
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH QUESTIONED COSTS³

	Number of Reports	Question Costs (Dollars in Thousands)	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	0	0	0
C. For which a management decision was made during the reporting period	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0
Reports for which no management decision was made within 6 months of issuance	0	0	0

³Questioned costs that are questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of audit, such costs are not supported by adequate documentation; or finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable

Table 2

**INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE⁴**

	Number of Reports	Dollar Value (in thousands)
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	0	0
C. For which a management decision was made during the reporting period	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
Reports for which no management decision was made within 6 months of issuance	0	0

⁴A recommendation that funds be put to better use is a recommendation by the OIG that funds could be used more efficiently if Department management took actions to implement and complete the recommendations, including: reductions in outlays, deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; costs not incurred by implementing recommended improvements related to the operations of the Department, a contractor, or a grantee, avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified.

APPENDIX 4: RESOLUTION OF REPORTS AND RECOMMENDATIONS

Significant Recommendations Pending Final Action

There are no significant recommendations identified in the previous SAR that BBG has agreed to implement but for which corrective action has not been completed.

Significant Management Success in Resolving and Implementing Recommendations

Inspection of the International Broadcasting Bureau's Office of Engineering and Technical Services (Report No. ISP-IB-07-03, October 2006)

In its inspection, OIG recommended that the IBB's Office of Engineering and Technical Services develop and implement a plan of actions to emphasize the internal and external communications of ideas, goals and current tasks. IBB responded by developing a written communications action plan as well as aligning its efforts with BBG to address the results of the OPM's 2006 Federal Human Capital Survey.

ABBREVIATIONS

A/EX	Bureau of Administration, Executive Office
A/LM/OPS	Bureau of Administration, Logistics Management, Office of Logistics Operations
A/LM/PMP	Bureau of Administration, Logistics Management, Office of Program Management and Policy
BBG	Broadcasting Board of Governors
BPA	Blanket Purchase Agreement
CAPPS	Consolidated American Payroll Processing System
DCM	Deputy Chief of Mission
Department	Department of State
Director General	Director General of the Foreign Service
DOT	Department of Transportation
DS	Bureau of Diplomatic Security
DynCorp	DynCorp International
ECIE	Executive Council on Integrity and Efficiency
Endowment	National Endowment for Democracy
FAM	Foreign Affairs Manual
FECA	Federal Employees' Compensation Act
FISMA	Federal Information Security Management Act

FSRDF	Foreign Service Retirement and Disability Fund
FBI	Federal Bureau of Investigation
FRC	Florida Regional Center
FSI	Foreign Service Institute
FSN Pay	Foreign Service National Payroll System
FY	Fiscal Year
GFS	Global Financial Services
HR	Bureau of Human Resources
H.R.	House Resolution
HRK	Harper, Rains, Knight & Company, P.A.
IBB	International Broadcasting Bureau
IG	Inspector General
INL	Bureau of International Narcotics and Law Enforcement Affairs
IREX	International Research and Exchanges Board
IRM/EX	Bureau of Information Resource Management, Executive Office
JIPTC	Jordan International Police Training Center
LGB	Leonard G. Birnbaum and Company, LLP
MSP	Mission Strategic Plan
NDAA	National Defense Authorization Act
NEC	New Embassy Compound

OCB	Office of Cuba Broadcasting
OEE	Department of Commerce, Office of Export Control
OIG	Office of Inspector General
OIG/INV	Office of Inspector General, Investigations
OIG/ISP	Office of Inspector General, Inspections
OIG/IT	Office of Inspector General, Information Technology
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PEPFAR	President's Emergency Plan for AIDS Relief
PM	Bureau of Political-Military Affairs
PM/DDTC	Bureau of Political-Military Affairs, Directorate of Defense Trade Controls
Pub.L.	Public Law
RFE/RL	Radio Free Europe / Radio Liberty
RFMS	Regional Financial Management System
S.	Senate Bill
S.A.	Senate Amendment
S/CRS	Office of the Coordinator for Reconstruction and Stabilization
S/ES-EX	Office of the Executive Director of the Office of the Secretary
UN	United Nations

U.S.	United States
USINT	U. S. Interests Section
U.S.C.	United States Code
USAID	United States Agency for International Development
USIBWC	International Boundary and Water Commission, United States and Mexico, U.S. Section
VOA	Voice of America
WHA	Bureau of Western Hemisphere Affairs

INDEX OF REPORTING REQUIREMENTS
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Section 5(a)(9)	Audit reports—funds to be put to better use	78, 96
Section 5(a)(10)	Prior audit reports unresolved	none
Section 5(a)(11)	Significant revised management decisions	none
Section 5(a)(12)	Significant management decisions with which OIG disagreed	none

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