



Office of Inspector General
U.S. Department of State
and the
Broadcasting Board of Governors

MONTHLY REPORT OF ACTIVITIES

audits, inspections, testimony, and special activities

June 2004

This report describes testimony provided by the Inspector General or other OIG officials and lists OIG reports issued during the period indicated. This report includes unclassified summaries of classified reports; all text in this report is unclassified. Classified reports are not distributed publicly. On occasion, OIG distributes an unclassified version of a classified report; in such a case, this listing also indicates the issued date of the original report. In addition, all major reports, together with OIG investigative activities, are summarized in the Inspector General's semiannual reports to the Congress, which are publicly available every June and December.

Office of Audits

Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Sister Cities International, Inc. (AUD/CG-04-26)

At the request of the Department of State's Bureau of Educational and Cultural Affairs, the Office of Inspector General, Office of Audits, performed a review of Sister Cities International, Inc.'s proposed indirect cost rates for fiscal years 1993 through 2002. The grantee's accounting system was adequate to accumulate and report indirect costs and allocate costs equitably among final cost objectives and procedures existed to determine allowable costs for fiscal years 2001 and 2002. The absence of any supporting records for fiscal years 1993 through 2000 prevented OIG from performing the necessary procedures to enable OIG to comment on, or recommend acceptance of rates for fiscal years 1993 through 2000. OIG recommended that the Bureau of Administration, Office of Acquisitions, grants officer accept and finalize the fiscal year 2001 and 2002 indirect cost rates submitted by the grantee.

Application of Agreed-Upon Procedures on Indirect Cost Rates Proposed by Graduate School, USDA (AUD/CG-04-29)

At the request of the Department of State's Bureau of Educational and Cultural Affairs, the Office of Inspector General, Office of Audits, performed a review of the Graduate School, USDA's proposed indirect cost rates for fiscal years 1999 through 2001. OIG's review disclosed that, for the fiscal years ending September 30, 1999, 2000 and 2001, the indirect costs reported by the grantee were properly calculated and allowable under the provisions of OMB Circular A-122. However, OIG did note that the indirect cost proposals for each fiscal year 1999 through 2001 include, as a separate category, an administrative fee charge for participant support costs and other program enhancement costs. The administrative fee is not supported by any recorded costs. Accordingly, OIG has questioned those fees in their entirety. OIG recommends that a Department of State, Bureau of Administration, Office of Acquisition, grants officer obtain reimbursement for the questioned costs.

Review of the World Relief Corporation Indirect Cost Rates for Fiscal Year 2002 (AUD/CG-04-33)

At the request of the Department of State (the Department), Bureau of Administration, Office of Acquisition Management (A/LM/AQM), the Office of Inspector General (OIG) conducted a review of FY 2002 indirect cost rates for World Relief Corporation (WR). OIG determined whether the indirect cost structure complied with applicable regulations and recommended final rates for the stated period.

As of February 29, 2004, WR had not submitted its FY 2002 indirect cost rate proposal to the Department as required by Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*. During OIG's fieldwork, WR provided a draft indirect cost proposal. OIG found that the indirect cost rate reported by WR in its draft indirect cost proposal for the stated period was mathematically correct. However, OIG also noted that this rate did not comply with OMB Circular A-122. For example, WR excluded bad debt expense from the indirect cost base.

OIG questioned and adjusted unallowable and misclassified costs in the indirect pools. As a result, OIG adjusted the indirect cost rates and reduced the USA Program Management rate and the Overseas Program Management rate.

OIG recommends that A/LM/AQM require the World Relief Corporation to comply with the Office of Management and Budget Circular A-122 by submitting an annual indirect cost rate proposal within the required timeframe; and accept the recommended indirect cost rates for FY 2002, as a basis for negotiating the final indirect cost rates with World Relief Corporation.

Review of the International Republican Institute Indirect Cost Rates for Fiscal Years 1999, 2000, 2001, 2002 and 2003 (AUD/CG-04-35)

At the request of the Bureau of Administration's Office of Logistics Management, Office of Acquisitions Management and as part of the overall audit of the National Endowment for Democracy, the Office of Inspector General, Office of Audits, conducted a review of the indirect costs reported by the International Republican Institute (IRI) for fiscal years ending September 30, 1999, 2000, 2001, 2002 and 2003. OIG determined whether the indirect cost rate structure complied with applicable regulations and recommended final rates for the stated periods.

OIG found that the indirect cost rates reported by IRI in its Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*,

single audit reports for the stated periods were mathematically correct for FYs 1999 through 2003. However, the FY 2003 indirect cost rate was calculated incorrectly due to the misclassification of certain fringe benefit expenses. The proposed rates in IRI's indirect cost rate submission make the correction for this item. OIG also noted that these rates did not comply with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. For example, IRI did not break out the indirect cost component into the required facilities and administration categories.

For the stated periods, the recommended indirect cost rates were equal to or lower than the provisional rates, which resulted in excess reimbursements to IRI for indirect expenses. In addition, OIG found questioned costs of \$10,168 for advertising and public relations costs and adjusted this amount from the overhead base for the portion of a fundraising contract that does not receive an allocation of overhead.

OIG recommends that A/LM/AQM require IRI to comply with OMB Circular A-122 by breaking out its rates by facilities and administration, or provide the grantee with a written waiver of the requirements, and accept the recommended indirect cost rates for fiscal years 1999, 2000, 2001, 2002 and 2003 as a basis for negotiating the final indirect cost rates with IRI.

Office of Inspections

Inspection of Embassy Ankara, Turkey, and Constituent Posts (ISP-I-04-20A)

During its inspection, OIG found Embassy Ankara engaged with the Turkish government on an impressive high priority policy agenda, including Iraq, Cyprus, Afghanistan, Turkish economic reform, and counterterrorism. The U.S.-Turkish bilateral relationship was returning to an even keel after a very difficult period in 2003 emanating from the March 1, 2003, Turkish decision to refuse U.S. military movement through Turkey into Iraq at the outbreak of the conflict.

The Ambassador provided effective leadership and had a strong supporting cast in key embassy sections and the country team. The political-military and economic sections performed well under the exceptionally demanding pressures of the Iraq conflict and Turkey's crisis driven economic reform. The public affairs and political sections had also performed well. The consular section was a model operation.

OIG found major management issues facing the embassy, most notably the need for a new embassy compound and the need for prompt action to counter the dramatic drop in Foreign Service national pay precipitated by the dollar's decline against the Turkish lira. There were also significant problems relating to unwieldy procurement practices, delayed vouchers, and the reception of new arrivals. Those problems impacted on morale and mission efficiency and needed senior level attention. On the positive side, OIG found that the management section had done a good job handling the construction of a new consulate general in Istanbul; moving Consulate Adana to new, more secure quarters; and managing a torrent of senior visitors.

Consulate General Istanbul is well led and well run as is the small Consulate Adana. The Izmir American Presence Post had not justified the investment in resources and personnel and should be closed.

Inspection of Embassy Athens, Greece, and Constituent Posts (ISP-I-04-21A)

OIG's inspection of Embassy Athens found that, reflecting high-level Washington

concerns, security against terrorism at the Olympic games was the embassy's dominant priority. Embassy Athens was the driving force and the de facto central U.S. government coordinator for a massive interagency effort, in conjunction with the Greek government, to create a secure environment for the Athens Games.

In preparation for the Olympic games, the embassy was burgeoning with every agency adding personnel, including the Department. There was constant interchange with the highest levels of the Greek government and the coordination of myriad joint law enforcement, intelligence, and military preparatory activities. Upon completion of the games, OIG recommended the embassy be prepared to promptly release all personnel assigned for Olympic support. In the immediate post-Olympic period, OIG also recommended that the embassy undertake a broad mission-wide reassessment of its policy priorities and consequent personnel and resource needs.

The embassy was performing exceptionally in meeting the challenges it faced. Overall, morale was high. OIG found the mission's primary strengths to be a highly motivated, cohesive country team actively engaged in support of the embassy's major objectives, and strong performances from the public affairs section, the regional security office, and the political and economic sections. In the post-Olympic period, OIG recommended the embassy establish a broadly structured public diplomacy outreach program, encompassing other mission elements.

The consular section was managing its workload well but had managerial/morale issues that required correcting and may need continuing executive office attention. Overall, the management section was performing adequately, but its component unit American managers needed to take a more proactive stance in dealing with their unit's problems, particularly general service operations. Consulate General Thessaloniki had management/morale problems that need attention. Internal controls were in place and functioning adequately in Embassy Athens. However, OIG found several weaknesses and left corrective recommendations.

Inspection of Embassy Doha, Qatar (ISP-I-04-23A)

During its inspection of Embassy Doha, OIG found that management performed well in coordinating with the U.S. military presence in Qatar, including the forward headquarters of U.S. Central Command. Embassy Doha obtained full support from Qatar for Operation Iraqi Freedom and the war on terrorism. U.S. economic interests have grown with the economic boom fueled by the development of Qatar's enormous natural gas reserves.

The embassy had grown appropriately to keep pace with the full bilateral agenda, with some additional growth anticipated. However, positions were not easy to fill, and the embassy needed to advertise itself as a good place to work. Housing, schooling, and medical care were good, and the work interesting.

Overall the embassy was well managed, and morale was generally good. However, locally employed staff had concerns about some work environment and benefit issues. Communication on these issues was underway with embassy management.

OIG recommended the embassy initiate the steps necessary with the Bureau of Overseas Buildings Operations for the purchase of the 12.8-acre compound where the chancery is located. At the time of the inspection, the property was on a short-term lease with rental costs expected to escalate dramatically. The United States had already made a significant investment in outfitting the chancery and was about to build a Marine house on the compound.

Review of Embassy Kabul, Afghanistan (ISP-I-04-35)

OIG conducted a management assessment review of Embassy Kabul and found it had responded well to the President's decision of summer 2003 to "accelerate success" in Afghanistan. The Ambassador exercised extraordinary influence for positive change on the Afghan political scene, supported by a hard-working staff willing to endure the challenges of living in Kabul. Morale was generally good.

Embassy Kabul and the Combined Forces Command (CFC) were a model of tandem coordination to achieve joint goals. Collocation of the CFC Commanding General in the embassy is a concept that may have application in Iraq and future emergency situations. The embassy also coordinated closely with the International Security Assistance Force. Provincial Reconstruction Teams, combining U.S. and coalition military and civilian officers, were helping to restore order and promote development.

Embassy Kabul's Mission Performance Plan was a living management tool. The Embassy Interagency Planning Group (EIPG) regularly reviewed performance indicators with

all units at post, providing progress reports to post management and the Deputies Committee¹ in Washington. Employing military officers to staff the EIPG was innovative; the Department may wish to consider whether the EIPG concept could be used in other emergencies and staffed on an interagency basis.

Another innovative concept, the Afghanistan Reconstruction Group was off to a slow start. Its purpose, duration, and relationship to the rest of the embassy needed clarification. All three aspects of U.S. counternarcotics strategy, eradication, judicial and legal reform, and the creation of a strong police, required urgent attention. The Department had not been able to staff key positions at post, and Embassy Kabul had not made counternarcotics programs a priority.

The volume and quality of reporting from the mission was good, particularly given the difficulty of the operating environment. Better coordination of the numerous mission elements able to contribute to reporting was needed.

Proactive and energetic work by Embassy Kabul's management team had alleviated, to the extent possible, the primitive living and working conditions. Completion of major construction projects will allow a more normal post profile to develop over the next year. The Embassy and the Bureau of Overseas Buildings Operations (OBO) worked well together to manage these massive projects. As building moves toward completion, OIG urged OBO to find a way to provide earthquake and blast protection for the renovated office building and to restore funding for the basic necessities and amenities cut due to cost overruns.

¹ The Deputies Committee is an interagency policymaking body of the U.S. government made up of the number two or other high-ranking officer from the relevant agencies, depending on the issue. They have policymaking authority on their own but sometimes meet to prepare an issue for consideration by their bosses, as members of the Principals Committee.

Office of Information Technology

Information Technology Security Inspection of Embassy Bucharest, Romania **(IT-I-04-01)**

The Office of Inspector General inspected the management, operational and technical information technology (IT) security controls implemented by the mission. These controls involved IT security policies, procedures, activities, and software and hardware settings. OIG identified a number of key areas where information security management could be improved.

Specifically, the mission needed to improve

- management controls by periodically assessing its IT security vulnerabilities and risks, preparing and implementing IT security plans to mitigate the identified vulnerabilities and risks, and routinely reviewing and improving the established IT security controls;
- implementation of operational controls by ensuring the adequacy of IT data integrity, contingency planning, and security awareness, training and education for American IT administrators and, as appropriate, users; and
- technical controls through enhanced management of its identification, authentication, configuration, and audit trail controls.

Information Technology Security Inspection of Embassy Sofia, Bulgaria (IT-I-04-02)

The OIG inspected the management, operational and technical IT security controls implemented by the mission. These controls involved IT security policies, procedures, activities, and software and hardware settings. OIG identified a number of key areas where information security management can be improved. Specifically,

- the mission can improve in the area of management controls, by periodically assessing its IT security vulnerabilities and risks, implementing the IT security

plans to mitigate the identified vulnerabilities and risks, and routinely reviewing and improving the established IT security controls;

- the mission needs to ensure in its implementation of operational controls the adequacy of IT security experience, training and education for its cleared American IT administrators, and of its annual IT security awareness training for all users; and
- the mission needs to improve finally, in the area of technical controls, the management of its identification, authentication, configuration, and audit trails controls.

Information Technology Security Inspection of Embassy London, United Kingdom (IT-I-04-03)

The OIG inspected the management, operational and technical IT security controls implemented by the mission. These controls involved IT security policies, procedures, activities, and software and hardware settings. OIG identified a number of key areas where information security management can be improved. Specifically,

- the mission can, in the area of management controls, improve its management controls by periodically assessing its IT security vulnerabilities and risks, preparing and implementing IT security plans to mitigate the identified vulnerabilities and risks, and routinely reviewing and improving the established IT security controls;
- the mission needs to ensure in its implementation of operational controls the adequacy of IT security experience, training and education for its cleared American IT administrators, and of its annual IT security awareness training for all users; and
- the mission needs to improve, in the area of technical controls, the management of its identification, authentication, configuration, and audit trails controls.

Office of Security and Intelligence Oversight

During this reporting period, OIG security inspection reports were published for the following embassies: Ankara, Turkey, and Constituent Posts, and Doha, Qatar.