



United States Department of State  
and the Broadcasting Board of Governors

## Office of Inspector General

Semiannual Report to the Congress

April 1, 2003 to September 30, 2003



Office of Inspector General



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## Summary of OIG Accomplishments

### Financial Results:

#### Questioned costs

Issued during the reporting period	\$4,795,000
Management decision during the reporting period	\$2,600,000

#### Recommendations for funds to be put to better use

Issued during the reporting period	\$ 231,000
Management decision during the reporting period	\$ 657,000

#### Investigative recoveries

\$ 828,912

### Investigative Results:

Cases opened	17
Cases closed	21
Judicial actions	16
Administrative actions	10
Hotline and complaint activity	158

### Reports Issued:

75

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Pictured on the front cover: Courtyard of Embassy Mexico City, Mexico

All embassy pictures 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/ADM, Room 810  
1700 North Moore Street  
Arlington, VA 22209

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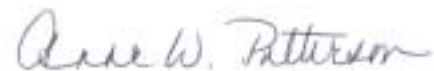
## PREFACE

The Inspector General Act of 1978, as amended (PL 95-452), requires each Inspector General to prepare a semiannual report summarizing the activities of that Office of Inspector General for submission to the appropriate congressional committees or subcommittees. The attached report provides information on our activities during the indicated period ending September 30, 2003. The summaries reflect the conditions at the post or office at the time of the inspection or audit.

In this reporting cycle, we are commemorating a milestone – the 25<sup>th</sup> Anniversary of the Inspector General Act of 1978. In the “Special Event” section of this report, we have included a brief discussion regarding the history of the act and of the Department of State’s Office of Inspector General.

The mission of the Office of Inspector General is to serve as an independent, objective reviewer and evaluator of the operations and activities of the U.S. Department of State and the Broadcasting Board of Governors.

The Office of Inspector General assesses those operations and activities with a view toward promoting effectiveness, efficiency, and economy and seeks out instances of fraud, waste, abuse, and mismanagement as we work to prevent them. The Office of Inspector General reports to the Secretary of State, the Broadcasting Board of Governors, and the Congress, keeping them fully and promptly informed of significant developments and serious concerns.



Anne W. Patterson  
Deputy Inspector General  
October 31, 2003



## SPECIAL EVENT

### The 25<sup>th</sup> Anniversary of the Inspector General Act

Nearly 40 years ago, Congress sought to increase oversight of federal programs and operations and to create a mechanism to report independently the results. Congress passed the Inspector General Act of 1978, which established Inspectors General to keep agency heads and Congress informed about program or operational deficiencies. The Act gave Inspectors General the authority and responsibility to be independent forces for effectiveness, efficiency, and economy within the federal government.

The various offices of Inspectors General were not all created at the same time. On August 27, 1986, the U.S. Department of State's Office of Inspector General (OIG) was established. Legislative history shows that the Foreign Relations Authorization Act for FY 1986 and 1987 (PL 99-93) amended the Inspector General Act to include the U.S. Department of State (Department) and the Foreign Service. The Omnibus Diplomatic Security and Antiterrorism Act of 1986, (PL 99-399) required the establishment of an independent OIG at the Department by October 1, 1986. The next page includes a list of the names of those who served as Inspectors General for the Department since 1978.

Below them are the names of those who served as Inspectors General for the U.S. Information Agency (USIA). Passage of the Omnibus Appropriation Act of 1996 (PL 104-28) merged the Office of Inspector General of the USIA, including the Broadcasting Board of Governors with that of the Department and Arms Control and Disarmament Agency (ACDA), effective April 26, 1996. The Foreign Affairs Reform and Restructuring Act of 1998 (PL 105-277) integrated ACDA into the Department on April 1, 1999, and USIA into the Department on October 1, 1999.

Today, there are 57 Inspectors General. The President's Council on Integrity and Efficiency reported that in FY 2002 Inspectors General efforts accounted for nearly \$72 billion in potential savings as a result of recommendations and investigative recoveries. The Inspectors General generated: 10,700 successful prosecutions;

suspensions or debarments of over 7,600 individuals or businesses; and almost 2,200 civil or personnel actions. The community as a whole processed more than 234,000 complaints, received primarily through OIG fraud hotlines; issued more than 4,600 reports; and testified before Congress more than 90 times.

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### Former Inspectors General (Since 1978)

<b><u>Name</u></b>	<b><u>Date</u></b>
Vacant	August 25, 2003 (As of)
Anne M. Sigmund (Acting)	January 24, 2003
Clark Kent Ervin	August 3, 2001
Anne M. Sigmund (Acting)	February 4, 2001
Jacquelyn L. Williams-Bridgers	April 7, 1995
Harold Geisel (Acting)	June 12, 1994
Roscoe S. Suddarth (Acting)	February 15, 1994
Sherman M. Funk	August 14, 1987
H. Byron Hollingsworth (Acting)	August 27, 1986
William C. Harrop (Acting)	August 16, 1985
William C. Harrop	November 15, 1983
Robert L. Brown	January 21, 1981
Robert C. Brewster	January 14, 1979
Theodore L. Eliot, Jr.	July 5, 1978

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### United States Information Agency (Since 1987) (est. 1988 Amendments)

<b><u>Name</u></b>	<b><u>Date</u></b>
Marian C. Bennet	November 28, 1993 – April 26, 1996
Terence J. Shea (Acting)	May 1, 1993
George F. Murphy, Jr.	August 6, 1990
Anthony J. Gabriel	July 2, 1987

## EXECUTIVE SUMMARY

During this semiannual reporting period, Office of Inspector General (OIG) reviewed and monitored Department of State (Department) and Broadcasting Board of Governors (BBG) programs, activities and operations, continuing to focus on the following four strategic goals:

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The Department and BBG adequately protect the people, information, and facilities under their control in the United States and abroad.

The protection of people, information, and facilities of the Department and BBG is paramount to each agency's mission and operations. OIG enhances their protection by conducting physical security inspections, audits, and special reviews. Security oversight inspections examine the full scope of a mission's security program--physical, personal, procedural, technical, and information systems security and emergency preparedness. OIG also conducts information security inspections and reviews, which assess vulnerabilities of each agency's automated information systems. During this reporting period, the Office of Security and Intelligence Oversight conducted 20 security oversight inspections and two follow-up security reviews. These reports discuss specific security vulnerabilities within Department and BBG missions. Therefore, they are discussed in a classified annex.

The Office of Information Technology conducted two information security inspections that also are included in the classified annex concerning Embassy Vienna and Embassy Athens. In addition, OIG conducted two information security reviews in accordance with the Federal Information Security Management Act of 2002 (PL 107-347)(FISMA). Each review — one of the Department and the other of BBG — examined each agency's compliance with key requirements of FISMA.



In terms of the Department's compliance with FISMA, OIG found that significant improvements had been made over the past year. However, several key areas, including the Department's financial system, require senior management attention in order to develop fully and ensure the continuity of the Department's systems security program. The Department concurred with OIG's assessment and reiterated its commitment to continued emphasis on cyber security compliance.

OIG also reviewed the Information Security Program at BBG based on the requirements of FISMA, and found that BBG has made limited progress in the past year and that much more needs to be done. BBG has developed a comprehensive system security plan for the International Broadcasting Bureau's (IBB) Office of Computing Services and hired a contractor to assist in its efforts to meet FISMA requirements. BBG concurred with the five recommendations in OIG's FISMA evaluation report and will be taking steps to ensure their implementation.

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The Department and BBG effectively, efficiently, and economically advance the Foreign Policy interests of the United States.

As an objective reviewer of operations and activities of the Department and BBG, OIG conducts comprehensive inspections of embassies and diplomatic posts worldwide, international broadcasting installations, and the various bureaus and offices of the Department and BBG. OIG's goal in conducting these reviews is to promote effectiveness, efficiency, and economy. During this reporting period, OIG conducted 33 inspections, of which 11 were of missions within the Bureau of European and Eurasian Affairs; five were of missions within the Bureau of Western Hemisphere Affairs; six were of missions within the Bureau of East Asian and Pacific Affairs; one inspection and two compliance reviews were of missions within the Bureau of African Affairs; seven were of domestic bureaus within the Department; and one was of a mission to an international organization.

Key among OIG's post inspections this period was that of Embassy Mexico City and its constituent posts, comprising the largest U.S. nonmilitary presence outside the United States. As such, this mission faces significant management challenges, including visa operations, rightsizing and administrative support. The magnitude of visa operations at Embassy Mexico City and Consulate General Ciudad Juárez is enormous – the embassy handles the largest volume of U.S. nonimmigrant visas of all overseas diplomatic missions and the consulate general processes the largest volume

of immigrant visas. Immigration remains one of the most sensitive bilateral issues between the United States and Mexico. The mission must deal aggressively with the propensity for visa fraud and malfeasance at the border, since a series of recent incidents has implicated Foreign Service, Civil Service, Foreign Service national, and contract employees. The significant growth in mission staffing is challenging. Staffing grew by more than 35 percent between December 1996 and December 2002, chiefly due to the size of consular operations, improved law enforcement cooperation, and national security emphasis in the aftermath of September 11, 2001.

OIG found that missions promote effective relations with host countries. Embassy Helsinki is actively engaged in public outreach to raise the U.S. profile in Finland and is working hard to bolster the bilateral relationship through regionally focused initiatives and a strong network of people-to-people programs. Embassy Belgrade also has been effective in the bilateral relationship since diplomatic relations were restored in November 2000. Proactive embassy engagement resulted in Yugoslav cooperation with the International Criminal Tribunal in The Hague, including the surrender of Slobodan Milosevic. OIG's inspection of Embassy Canberra and its constituent posts revealed a strong bilateral relationship with Australia that has led to highly productive defense, intelligence, and scientific cooperation.

Some missions were experiencing significant internal management and operational challenges that require aggressive managerial responses. For example, even though Embassy Port of Spain pursues an extensive agenda in furthering U.S. bilateral and regional foreign policy objectives, rightsizing this post's staff in the aftermath of recent personnel turmoil and long-standing administrative problems will be challenging. Poor vertical and lateral communication within Embassy Oslo detract from effective operations and program development, and unclear lines of authority for executive decisionmaking intensify these problems. Although Embassy Lisbon has been effective in garnering Portuguese support for key U.S. policy objectives, the mission suffers from an unusually wide range of administrative and personnel management problems that predate the current managerial team. These long-standing problems adversely affect morale. In each of these cases, OIG recommended aggressive and proactive managerial responses.

Some posts face significant challenges to their physical conditions and environment. However, OIG commends personnel for persevering in carrying out their duties despite conditions that might otherwise affect post operations. For instance, Embassy Skopje continued to operate smoothly despite a series of crises that resulted in an ordered departure. In the case of Embassy Antananarivo inspectors noted serious concerns over the physical conditions of the chancery but praised reporting, particularly regarding internal instability. For several posts, OIG noted

significant improvements in consular operations but identified a need for reconfiguration or additional space to accommodate new mandated requirements for visa operations.

With regard to domestic bureaus and the U.S. Mission to the United Nations (USUN), OIG noted concerns over organizational alignment and staffing issues. In its inspection of the Office of Foreign Missions (OFM), OIG noted a lack of oversight and accountability by the Bureau of Diplomatic Security (DS). The Assistant Secretary for Diplomatic Security serves as the director of OFM, yet OFM focuses on implementing two priorities of the Office of the Under Secretary for Management. OIG recommended that OFM come under the direct supervision of the Under Secretary for Management. The Department disagreed, and remains committed to improving oversight and accountability of OFM. OIG will continue to monitor actions taken by the Department on this issue. The inspection of the Office of the Chief of Protocol (Protocol) also identified some overlapping duties between OFM and Protocol concerning the accreditation process. OIG recommended actions to better align each office's mission and eliminate duplication. OIG praised the USUN for an appropriate mix of staffing and resources based on the Mission Performance Plan (MPP) to deal with current U.S. interests in the multilateral arena, although, OIG cautions that the Economic and Social Affairs Council section requires additional personnel to cover all of its issues in depth. OIG also recommended that the Department assess the impact of the longer tour of duty on the pool of available Foreign Service candidates.

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The Department and BBG have the necessary financial and support systems and controls to meet legal and operational requirements.

OIG provides the Department and BBG with the benefit of timely, balanced, and credible assessments and audits toward improving each agency's management and conduct of programs. During this reporting period, OIG continued reviewing the Department's procurement practices, financial and information technology systems, and grant procedures.

In response to a Senator's request, the Office of Audits examined the Department's procurement process and contract administration for obtaining legal services from a private law firm. The purpose of those legal services was to support

the Department in pending litigation before the Merit Systems Protection Board. The Senator expressed concern about whether the Department had complied with applicable contracting requirements in making the award and to ascertain whether contract billings were properly supported and in accordance with contract terms. Overall, OIG found that the Department had followed appropriate federal procurement regulations in the solicitation and award phases for the contract and that costs were generally supported but noted some areas for improving the process. The Department generally agreed with OIG's findings and recommendation.

Foremost among OIG's reviews during this period was a review of allegations concerning a contract with the Department's Humanitarian Demining Program (PM/HDP) for integrated mine action services that were made in an independent contractor's report. That report identified contract irregularities and made recommendations concerning strengthening contractor performance and PM/HDP's contract management. OIG's review found that only four of the 30 alleged deficiencies identified in the contractor's report were valid and that the methodology used and the purported evidence were weak or nonexistent. In fact, OIG found that the validated contract weaknesses appeared to be exceptions rather than systemic problems. OIG is of the opinion that the independent contractor's work is so deficient that its poor performance should be made a matter of record and the responsible contracting officer should consider contractor suspension or debarment proceedings against the independent contractor.

In accordance with the Government Management Reform Act (Public Law 103-356), OIG directed an independent, external, computer specialist to perform a vulnerability assessment of the HYPERION Financial Management Application. As a result, specialists found that the specific security features associated with the HYPERION application appeared to function correctly and were well managed, that security responsibilities were properly assigned and executed, and that a reasonable set of security policies and procedures existed and were being implemented. However, most of the procedures were undocumented. A technical examination of the information technology infrastructure that supported the HYPERION application revealed only a limited number of relatively minor vulnerabilities.

Also noteworthy is the Office of Information Technology's assessment of the Department's effort to implement knowledge management (KM) strategies toward improving its business operations. Specifically, OIG examined the Department's implementation through the Office of e-Diplomacy. OIG recommended the implementation of five key principles, including: (1) recognizing the benefits of KM to the Department; (2) ensuring Department-wide support for KM; (3) appreciating the cultural factor in KM; (4) building KM communities; and (5) using information

technology in KM. Prior to their implementation, OIG recommends that the Department identify its business requirements, such as its core diplomatic functions, as the basis for formulating its knowledge sharing approach.

OIG conducted three reviews of BBG operations. OIG audited the BBG's workforce restructuring plans and outline for a human capital plan, as required by the President's Management Agenda. Although the agency had begun to address its human capital needs, OIG found that these plans did not include all staff, meet the criteria set forth in the consolidated guidance, nor fully comply with OMB standards. In part, OIG found that BBG is facing major human capital challenges and recommended improving its workforce planning effort.

OIG reviewed Radio Free Asia (RFA) and found that although RFA is achieving its broadcasting mission, it could improve its administrative policies and procedures. Its budget process should include more input from its managers, and its hiring practices should be more standardized. This should help to improve the morale of RFA employees. OIG found that RFA was not following procurement policies and procedures and recommended that it revise its financial and administrative policies and procedures manual to address OMB requirements.

OIG conducted a management review to evaluate the assignment of benefits for health, life, and retirement for Radio Free Europe/Radio Liberty (RFE/RL) and analyzed the process for selecting benefit providers. OIG found that RFE/RL had a consistent, equitable process in place for the assignment of employee benefits. The process RFE/RL uses to select benefit providers considers a range of factors. OIG recommended automatic enrollment of eligible employees for the Retirement Savings Plan.

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The Department and BBG ensure accountability and prevent or eliminate fraud, waste, abuse, and mismanagement in programs and operations.

OIG addresses allegations of fraud, waste, abuse, and mismanagement related to Department and BBG programs and is committed to assisting each agency with preventing fraud. During this semiannual period, OIG conducted investigations in the areas of theft, employee misconduct, and grant mischarges.

In December 2002, OIG opened an investigation into an allegation that a contract employee in a Department warehouse in Virginia, was stealing government property and selling the items at various pawnshops. OIG confirmed that the contract employee had pawned and sold specific items that had been listed in Department inventory records. During an interview with OIG investigators in April 2003, the contract employee admitted pawning a total of 55 warehouse items valued at approximately \$18,000. The contract employee was immediately terminated from employment. Subsequently, in July 2003, the contract employee pleaded guilty to a felony charge of theft of government property. Sentencing was pending at the end of this reporting period.

In terms of employee misconduct, OIG investigated information alleging that an employee had falsely claimed two-days' absence from work for jury duty. As a result of that investigation, OIG determined that the employee had falsified and submitted District of Columbia Superior Court documents to justify her absence. The employee later admitted that she had not served on jury duty on the days in question and had falsified the documents to preclude her from taking leave without pay. In July 2003, the Bureau of Human Resources issued a four-day suspension to the employee. OIG also investigated an allegation that a senior Department manager had improperly released non-public information to an external entity. As a result of OIG's investigation, the Bureau of Human Resources issued a Letter of Admonishment to the Department manager on May 23, 2003.

In July 2001, OIG opened an investigation based on information developed in an OIG audit indicating that a Department grantee had charged Department grant funds for travel costs that were not incurred. During the investigation, OIG investigators and auditors provided detailed information regarding this practice to the U.S. Attorney for the Eastern District of Virginia. On April 7, 2003, OIG was informed that the grantee organization had agreed to a settlement. In accordance with its terms, the grantee repaid the U.S. government \$25,000.

# CONGRESSIONAL ACTIVITIES AND OUTREACH

## Testimony

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### Subcommittee on National Security, Emerging Threats, and International Relations of the House Committee on Government Reform

On April 7, 2003, Ambassador Anne M. Sigmund, the Acting Inspector General testified before the Subcommittee on National Security, Emerging Threats, and International Relations of the House Committee on Government Reform on OIG's observations concerning, "The President's Management Agenda: Rightsizing the U.S. Presence Abroad." The Acting Inspector General's testimony highlighted OIG's efforts to systematically examine rightsizing of overseas presence as a part of our routine inspections of missions, addressing the challenges faced and the advancements made by the Department in this area. She also discussed OIG's general findings concerning security conditions at overseas missions. Ambassador William H. Itoh, the Acting Deputy Inspector General, also testified at this hearing, but in his former capacities as member and executive secretary of the Overseas Presence Advisory Panel.

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### House Budget Committee

On July 9, 2003, the Acting Inspector General Anne M. Sigmund, submitted testimony to the House Budget Committee regarding waste, fraud, and abuse in mandatory spending programs within the Department. Most of the Department's spending is on discretionary programs rather than mandatory spending programs. Therefore, the Acting Inspector General's testimony focused on OIG's working



relationship with the Department and BBG to improve efficiency and effectiveness within their respective programs and operations to prevent fraud, waste, and mismanagement.

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## House International Relations Committee

Similarly, on September 4, 2003, Ambassador Anne M. Sigmund testified before the House International Relations Committee regarding, “Government Accountability: Efforts to Identify and Eliminate Waste and Mismanagement” as it pertains to the Department. Her testimony again focused on OIG’s working relationship with the Department and BBG to improve efficiency and effectiveness within their respective programs and operations in an effort to prevent fraud, waste, and mismanagement. Subsequently, OIG responded to questions for the record received from the Chairman and Ranking Member of the Committee.

## Congressional Requests

During this reporting period, OIG conducted an internal assessment of our inspection process as requested in Conference Report 108-10 (February 12, 2003). Conferees expressed concern over waiving the statutory requirement that every post be inspected every five years. Specifically, they requested OIG to report on an approach to our work that re-engineered the inspection process and reprioritized tasks within existing resources. As a result of that self-assessment, OIG developed a multidisciplinary approach to the inspection process, incorporating key aspects of our traditional post, security and intelligence oversight, and information technology inspections. This integrated approach will enhance OIG’s ability to achieve economies and efficiencies in conducting our work. On July 2, 2003, OIG reported to the House and Senate Appropriations Committees; the Senate Subcommittee on Commerce, Justice, State and the Judiciary; the House Appropriations Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies; the Senate Committee on Foreign Relations; and the House Committee on International Relations. Roll out on this new approach began with our September 2003 inspection cycle.

OIG conducted the following additional reviews in response to legislative mandates and requests from Congress:

- In response to a request by the Chairman for the House Appropriations Subcommittee on the Departments of Commerce, Justice, State, the Judiciary and Related Agencies, OIG conducted a review and briefed subcommittee staff regarding whether visa laws, policies, and procedures in effect at that time were properly followed with regard to visas issued to the September 11, 2001, hijackers.
- In response to a request from a Senator, OIG conducted a review into the procurement and contracting procedures used by the Department to obtain legal services and support from a private law firm for litigation before the Merit Systems Protection Board.
- At the request of the Chairman of the House International Relations Committee, OIG provided information concerning OIG projects and subsequent recommendations for improving economy and efficiency within Department operations and methods for preventing fraud, waste, and mismanagement, including steps taken by the Department to address many of our concerns and recommendations.
- In August 2002, OIG provided preliminary information concerning the Department's actions to comply with FISMA in response to a request from the House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census for the Committee on Government Reform.
- As mandated by FISMA, OIG conducted independent assessments of the Department's and the Broadcasting Board of Governors' compliance in establishing and ensuring effective controls over information technology resources.

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## Proposed Legislation Reviewed by the Office of Inspector General

During this reporting period, OIG monitored the following proposed legislation:

- HR 1950, S 790, and S 925 – The Foreign Relations Authorization Act, Fiscal Year 2004
- HR 1966, S 1240, and S 1160 – The Millennium Challenge Act of 2003

- HR 2799 and S 1585 Departments Of Commerce, Justice, State, the Judiciary, and Related Agencies Appropriation Bills, 2004

The Acting Inspector General also met with staff of the House and Senate to review and comment on a variety of issues and questions on operations and programs of the Department and BBG.

## Outreach/Media Assistance

OIG briefs all newly appointed ambassadors and new Foreign Service officers on the role and function of the OIG, as well as specific issues related to their respective assigned embassies. OIG also participates in classes of new Civil Service employees on the role, mission, and services provided by OIG. During this semiannual reporting period, OIG participated in three Ambassadorial Seminars, two Deputy Chief of Mission Briefings, three Foreign Service Officer Orientations, two New Civil Service Officer Orientations, a Presidential Management Intern Briefing, and the annual Worldwide Foreign Service Nationals Conference.

In May 2003, the Acting Inspector General initiated a successful pilot effort to distribute OIG reports to members of Congress and their staffs via CD-ROM.

In July 2003, OIG hosted a delegation from the National Counter Corruption Commission of Thailand and presented a briefing on OIG's anti-corruption efforts.

During this reporting period, OIG responded to media inquiries on its 2001 and 2002 reviews of the Iraqi National Congress Support Foundation, OIG's investigation of a company providing bomb sniffing dogs, as well other OIG activities and reports.

## Policy Review

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### Review of existing and proposed regulations

During this period, OIG continued its practice of reviewing and making suggestions on regulations and policies to improve the programs and operations of the Department. OIG made numerous recommendations that were adopted by the Department on security, information technology, communications, human resources, accounting for funds, strengthening management and internal controls, and more clearly defining lines of authority to ensure accountability, and preventing fraud, waste and mismanagement.

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### Participation on the President's Council on Integrity and Efficiency

OIG continued to participate on the President's Council on Integrity and Efficiency and the various committee projects on crosscutting issues.

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### Federal Managers' Financial Integrity Act

OIG continued to play an essential role as a non-voting member of the Department's Management Control Steering Committee, which implements the provisions of the Federal Managers' Financial Integrity Act and Office of Management and Budget (OMB) Circular A-123 on Management Accountability and Control. OIG provides an independent, objective quality assurance for the committee to determine if material weaknesses or reportable conditions exist and if corrective actions have been implemented by the Department to meet the committee's criteria for removal from the annual accountability report.

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## Progress in Implementing the Government Performance and Results Act

During this period, OIG issued several reports that addressed Department and BBG efforts to establish effective performance measures for their programs and operations, as required under the Government Performance and Results Act. OIG reports issued under requirements of FISMA addressed Department and BBG efforts to establish effective performance measures in support of their information security goals (see IT-A-03-14 and IT-A-03-15). For the Department, OIG found that, although a process for establishing information security performance goals had been put in place, it was still immature and not fully operational.

An OIG audit of the Department's Domestic Travel Card Program found that the Department had not developed measurable performance goals specific to the travel card program. OIG recommended that the Department develop objectives, strategies, and performance measures for the program as a useful tool to improve management of the program.

In addition to its audits and inspections, OIG has begun working more closely with the Department's Office of Strategic Policy and Planning in the Bureau of Resource Management (RM/SPP) to improve coordination of OIG and Department planning efforts and to better align OIG planning and activities with the Department's goals and priorities. For example, OIG inspection teams also have begun meeting with RM/SPP representatives prior to the beginning of domestic bureau inspections to ensure that OIG is aware of key issues related to the Bureau Performance Plan, Department priorities, and other areas of concern in order to provide a more effective and meaningful review of bureau performance and effectiveness.

OIG has assisted the Department in identifying programs to be reviewed under the Office of Management and Budget's Performance Assessment Review Tool (PART) and has identified OIG reports and recommendations that support the Department's PART assessments. OIG also has coordinated with the Department in establishing a schedule for program evaluation of Department programs, as required under the strategic planning requirements set forth in OMB Circular A-11.

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## Progress on the Department's Federal Financial Management Improvement Act Remediation Plan

Agency financial management systems must comply with the Federal Financial Management Improvement Act of 1996 (FFMIA) requirements. If they do not, the agency must establish a remediation plan, which includes the resources, remedies, and intermediate target dates to bring the systems into substantial compliance. In March 2000, the Department established a remediation plan to bring its systems into compliance by September 2003. It updated the plan in October 2001.

Under FFMIA, OIG is required to report semiannually instances when, and reasons why, an agency has not met the intermediate target dates established in the remediation plan. OIG reviewed the Department's progress as of May 2003 in meeting the intermediate target dates it had established.

The Department had made considerable progress in its efforts to comply with FFMIA by completing 71 percent of its remediation plan projects and, as a result, reducing its degree of noncompliance. However, OIG found that the Department had extended intermediate and completion target dates for three projects: Business Continuity and Contingency Plans, Information Systems Network Security, and Central Financial Planning System. Extended target dates for the first two projects were the result of delays in project initiation and adding steps deemed critical to the project. The Department restructured the third project, the Central Financial Planning System, and established new milestones and target dates. The above projects are not expected to be fully completed until FY 2004 and FY 2005.

Additionally, in the Audit of the U.S. Department of State 2002 and 2001 Principal Financial Statements (AUD/FM-03-18, February 1, 2003), an independent contractor reported that the Department's remediation plan also needed to address specifically the management of grants and other types of federal assistance. As of May 2003, the Department had not addressed this issue in its remediation plan.



# SECURITY

During this reporting period, the Office of Security and Intelligence Oversight conducted 20 security oversight inspections, two follow-up reviews, and one special review. Eleven of these inspections were conducted in conjunction with management reviews by OIG's Office of Inspections and were limited to an examination of physical security and emergency preparedness. Full-scope inspections, covering the full-range of a mission's security program were conducted at nine missions.

Because these reports discuss specific security vulnerabilities at the Department and its missions, report summaries will be published as a separate, classified annex to this report. A list of the classified reports issued during this semiannual period may be found in Appendix 2 of this report.

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## Review of the Issuance of Visas to the September 11, 2001, Terrorists (ISP-CA-03-27)

The report was issued at the request of the Chairman of the House Appropriations Subcommittee on the Departments of Commerce, Justice, State, the Judiciary and Related Agencies regarding pre-September 11, 2001, visas issued to the 19 terrorist hijackers. OIG reviewed whether visa laws, policies, and procedures in effect at the time were properly followed with regard to visas issued to the hijackers. Specifically, the request focused on whether their visa applications were (1) destroyed, (2) filled in completely, (3) subject to denial or further scrutiny, including personal interviews, or (4) accepted and visas issued within existing policy and regulation. In addition, it asked whether the Department had information linking any of the hijackers to terrorist concerns prior to granting visas. OIG ascertained that prior to granting the hijackers visas, the Department had no information linking them to terrorist concerns.





# INSPECTIONS

## Western Hemisphere Affairs

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### Embassy Mexico City, Mexico, and Constituent Posts (ISP-I-03-50)

Mission Mexico is, overall, the largest nonmilitary U.S. government presence abroad. It is also arguably the most complex. In addition to the super-sized Embassy Mexico City, there are four consulates general (each of which is larger than many embassies), five consulates, and 13 consular agencies. In many respects it is a loose federation of self-contained operations.

Staffing at Mission Mexico grew 35.5 percent between December 1996 and December 2002 (from a total of 1259 to 1670). Much of this increase reflected more rigorous requirements for visa processing, and the need for improved law enforcement and national security cooperation after September 11, 2001. There is a continuing, seemingly relentless pressure for further growth. This is being addressed piecemeal.

Difficult judgments are required to address rightsizing issues at Mission Mexico. All agencies need to define projected staff requirements, with approval of the respective headquarters in Washington. These projections are required immediately in anticipation of construction of a new embassy compound at Mexico City and a new consular office building at Ciudad Juárez.

Mission leaders need to pay greater attention to administrative aspects of the mission. The Department bears a disproportionate share of International Cooperative Administrative Support Services (ICASS) participation at Embassy Mexico City, although there are 35 participants. Administrative support, whether in terms of personnel or financial resources, has not kept pace with the growth in program staff. Financial management is an area of relative weakness. Complicated and tardy processing of vouchers is the most persistent complaint at constituent posts.

Immigration, both legal and illegal, is one of the most sensitive bilateral issues. Visa processing is done efficiently at Embassy Mexico City, the world's highest volume nonimmigrant visa (NIV) post. However, immediately preceding and during the inspection, the mission confronted a series of incidents of visa fraud and malfeasance at border posts. Foreign Service, Civil Service, Foreign Service national (FSN), and contract personnel have been implicated. Senior mission management should have acted more aggressively to address the problems, especially in the case of blatant mismanagement of the NIV function at Consulate General Ciudad Juárez.

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### Inspection of Embassy La Paz, Bolivia (ISP-I-03-15)

Embassy La Paz suffers from lack of leadership and plummeting morale in the absence of an ambassador. The Bureau of Western Hemisphere Affairs should designate an experienced manager to oversee the embassy until the new ambassador arrives.

The narcotics affairs section is doing a good job of implementing and coordinating U.S. counternarcotics policies and programs in Bolivia. The Bureau of International Narcotics and Law Enforcement Affairs (INL) should continue regional meetings between the narcotics affairs section and U.S. counternarcotics agencies in the region. Populist leaders opposed to coca eradication are vying for the support of the marginalized poor indigenous majority. The embassy should develop, together with Department bureaus and USAID, a comprehensive strategy and action plan to reach out to this population.

Consular agents in Santa Cruz and Cochabamba adequately meet needs for consular services and perform valuable and cost-effective services for American citizens. The Department of Homeland Security's Directorate of Border and Transportation Security should assume responsibility for anti-alien smuggling and counterterrorism efforts in Santa Cruz and not leave that responsibility for the consular agent.

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## Inspection of Embassy Georgetown, Guyana (ISP-I-03-32)

The embassy does a good job managing its limited portfolio, and relations with the Guyanese government are as good as they have ever been. The embassy and the other agencies work well together and within the framework of the Mission Performance Plan (MPP). However, the embassy does not have an effective mechanism for integrating public diplomacy into the mission's activities and into its MPP performance goals and objectives. It needs to put organizational responsibility for public diplomacy in the political section and develop a concrete public diplomacy plan in support of the MPP.

Internally, the embassy sections function well in a difficult environment. The consular section is restoring its image in the aftermath of a notorious visa fraud scandal that occurred in 2000. The administrative section is working on a backlog of chronic support problems. The political/economic section, with only first-tour junior officers, does a good job.

Given the accelerating projected pace of Centers for Disease Control (CDC) programs and presence in Guyana, the embassy and CDC need to establish a working group to address systematically the administrative demands and costs attendant to that growth. The embassy also needs to strengthen management controls.

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## Inspection of Embassy Paramaribo, Suriname (ISP-I-03-37)

Embassy Paramaribo does a good job representing U.S. interests in an unpromising political and economic environment. The embassy works hard on its key MPP goals: regional stability, economic growth, and law enforcement cooperation. It has good working relationships throughout the spectrum of government, business, and social elites.

The embassy's public diplomacy activities and its initiative in establishing an American Chamber of Commerce are to be commended. In striving to meet its ambitious agenda of MPP and other mission goals, the embassy may be overreaching and projecting unrealistic future resource requirements.

Overall, the political/economic section, administrative section, and regional security office get high marks for their performance. Adequate management controls are in place. The embassy must address the implications for the current building of the Department's decision eventually to locate a new chancery on another site. The consular section needs to restructure and to realign its staff to reflect better the low workload.

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### Inspection of Embassy Port of Spain, Trinidad and Tobago (ISP-I-03-39)

Embassy Port of Spain pursues an extensive agenda in furtherance of U.S. bilateral and regional objectives. However, over the past year, the embassy has been distracted by internal managerial, morale, and communication problems that have overshadowed its program efforts. The embassy now needs to put these problems behind it and focus on achievement of its MPP goals. In part, this will require changes in the embassy leadership's management approach; in part, the problems are a product of recent personnel turmoil and long-standing administrative problems. The embassy needs a more structured approach to address the major substantive issues and report on its activities. The administrative section is grappling well with cleaning up the legacy of past administrative failings. However, the section is overstretched and needs additional Foreign Service national (FSN) positions.

Both the political and public affairs sections require senior-level attention. Because INL programs are too large and too complex to be handled by a single person in an already burdened political section, the embassy needs to establish a narcotics affairs section headed by an experienced officer. The public affairs section tends to view itself as quasi-autonomous, contributing to mission goals and activities on its terms, not as a responsive mission element working under the embassy leadership.

With the continuing growth of other agencies' programs and personnel, the present embassy facilities are overstretched, posing major space, security, and safety concerns. For the long term, the embassy, in coordination with the Bureau of Overseas Buildings Operations (OBO), needs to identify a new chancery site. It also has to move promptly in considering midterm steps to ease its most pressing space problems, particularly in the management and consular sections. Management controls are in place, but vulnerabilities exist. The embassy needs funding for new positions to institutionalize and maintain a sound management controls program.

## European and Eurasian Affairs

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### Inspection of Embassy Belgrade and Consulate Podgorica, Yugoslavia (ISP-I-03-11)

Embassy Belgrade has developed good working relations with the Yugoslav government in the two years since diplomatic relations were restored in November 2000. Proactive embassy engagement resulted in Yugoslav cooperation with the International Criminal Tribunal in The Hague, including surrender of former strongman Slobodan Milosevic.

The embassy is functioning effectively despite disruptive reconstruction to repair extensive damage sustained while the chancery was vacant and unguarded. As the pace of construction winds down, administrative practices, particularly in the budget and fiscal and procurement areas, need to be strengthened, irregularities eliminated, and internal controls improved. As Belgrade is once again a well-supplied, livable city, a three-year tour-of-duty policy should replace the current two-year pattern.

FSN morale is high. Those who were kept on salary during the break in diplomatic relations are grateful for U.S. government support. Recently hired FSNs are competent and will benefit from a more structured training plan. The embassy needs to resolve issues flowing from the underreporting of FSN income to the government.

A new consulate in Podgorica was opened in 2002 in space located in a USAID building. Embassy Belgrade has provided strong management support but made important savings in overall costs by agreeing that USAID, under ICASS, will provide administrative support.

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### Inspection of Embassy Helsinki, Finland (ISP-I-03-14)

Finland supports a strong transatlantic relationship with the United States and is a valuable partner to help advance political and economic development in the Baltic

region. Nevertheless, Finland's European Union membership may present both a challenge and an opportunity for strengthening the bilateral relationship with the United States over the next decade. The embassy is working to bolster the bilateral relationship through initiatives with a regional focus and a strong network of people-to-people programs.

The Ambassador has tapped her extensive private sector experience to develop new directions for Embassy Helsinki. She was the driving force behind the Helsinki Women's Business Leaders Summit – an initiative that contributed to strengthened bilateral relations with Finland and U.S. regional interests. The Ambassador's focus has been to extend public outreach and raise the U.S. profile in Finland and the region. This achievement advances the MPP and Northern European Initiative goals. It is a testament to her ability to rally foreign governments and groups to her vision. In contrast, however, the Ambassador has had some difficulty in achieving as full a sense of teamwork and enthusiasm among her embassy staff. The Ambassador and DCM recognize that some staff have concerns about lines of control and responsibility with regard to some front office initiatives. OIG administrative services questionnaires revealed low scores on overall embassy morale and front office attention to morale. The Ambassador and DCM must take care to ensure that staff is brought together as a team.

Embassy management and operations are hampered by physical workplace concerns -- poor allocation of workspace in several buildings -- and questions about the future of the Malmi warehouse. OBO has scheduled a major rehabilitation project for 2005 that should address physical layout. The Department should address the issue of the warehouse in the near term to ensure proper planning and potential savings.

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## Inspection of Embassy Oslo, Norway (ISP-I-03-16)

Embassy Oslo effectively advances the broad U.S. agenda with Norway. Strong substantive engagement in Oslo, coupled with an equally strong Norwegian embassy in Washington, has ensured that political and military cooperation remains firm. The Ambassador's engagement with the leadership of Norway is productive and his public outreach efforts have been very well received. Weak vertical and lateral communication within Embassy Oslo has hindered effectiveness of operations and program development. Lines of authority for executive decisionmaking are unclear.

Mission-wide planning of programs has been inadequate. The DCM has not been sufficiently engaged with internal mission operations. Morale at the mission is low.

Political, economic, public diplomacy, and commercial efforts should be better coordinated. Officers in Embassy Oslo's combined political/economic section have fully integrated political, economic, and global issues portfolios. The section also has provided invaluable coverage of Norway's involvement in conflict mediation efforts, but there should be greater attention to strategic, long-range reporting and analysis. Although the public affairs section manages its core programs well, other mission elements need to make better use of the range of available public diplomacy programs.

Consular operations are improving, and a reconstruction of the section now beginning will improve morale and effectiveness further. Visa adjudication is judicious. Rationalization of staffing within consular operations and the limited use of overtime is required to meet demands on the section.

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### Inspection of U.S. Office Pristina, Kosovo (ISP-I-03-17)

Pristina and most of the rest of Kosovo are calm. The mission's one-year, unaccompanied, tour-of-duty policy does not conform to this reality and should be reviewed. Until tours of duty are lengthened, the Regional Support Center in Frankfurt should provide more regular oversight to U.S. Office Pristina, particularly in the areas of human resources and financial management.

The mission transmits a significant volume of spot reporting on political developments but few analytic pieces. The political/economic section is large and includes several officers who deal with law enforcement and refugee issues. A separate economic section would allow more systematic coverage of economic issues of importance to Kosovo's future and would provide a more manageable span of control for section chiefs.

A hastily assembled compound of 20 cheaply constructed private homes provides sufficient, but inefficient office space and residential quarters for most staff. The fact that the U.S. government must return the structures to their owners in their original condition should be borne in mind before any major new construction, including a projected \$1.8 million for a Marine security guard Post One, is undertaken.



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## Inspection of Embassy Skopje, Macedonia (ISP-I-03-20)

Embassy Skopje functioned smoothly during a series of crises, which included ethnic violence and an ordered departure. The embassy helped lead a successful multinational effort to defuse the violence and provided Washington with a large volume of good reports. As stability returns and political and security concerns recede, the embassy should reexamine its programs and activities in light of the other goals identified in its MPP.

The absence of a public affairs officer has hindered effective public diplomacy. Temporary supervisors – 13 in 15 months – kept routine programs going well but could not provide consistent focus on policy goals. Mission coordination is hampered by the dispersal of offices in a half dozen locations around the city of Skopje. Several concerns could be resolved by relocating additional offices to the unclassified annex, which opened in summer 2002.

The embassy is well administered with the exception of property management procedures. It possesses a strong cadre of well-educated FSNs, but major responsibilities are concentrated in the hands of too few senior FSNs with little backup or cross-training. The FSN committee is inactive, and the embassy needs to develop a plan for regular contact with a representative group of FSNs.

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## Inspection of Embassy Stockholm, Sweden (ISP-I-03-21)

Although there are areas of common interest, Sweden's traditional neutrality makes it a "hard target" and can put it at odds with U.S. priorities. Overcoming profound Swedish differences with U.S. policy and ensuring that Sweden finds common ground with the United States is the foremost challenge for this Ambassador and this embassy. The Ambassador has frequent interaction with a broad cross-section of Swedish government, industry, and society. He is also working with other U.S. embassies in the region to develop approaches that will tap into common Scandinavian views and initiatives. The Ambassador engages in public diplomacy

opportunities, and plans are in place to have other officers do the same throughout Sweden. Embassy Stockholm's visa adjudication process now works smoothly, with clear procedures for adjudication and review.

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### Inspection of Embassy Tirana, Albania (ISP-I-03-22)

Embassy Tirana continues to grow rapidly, and the Department assigns and embassy management seeks new American positions, both direct hires and contract advisors, without regard to administrative support requirements or available space. Mission policies concerning contract advisors are neither transparent nor uniform.

The transition from unaccompanied, one-year tours of duty to accompanied, two-year assignments would have been smoother had the embassy had a functional medical unit, community liaison office coordinator, better orientation programs, and more information about local facilities, notably schools.

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### Inspection of Embassy Lisbon, Portugal (ISP-I-03-35)

Embassy Lisbon has worked diligently to cement a close bilateral relationship and strengthen cooperation. It has given the highest priority to maintaining Portuguese support for key U.S. policy objectives and to ensuring access to Portuguese military facilities that have assumed special importance in the present global context. At the same time, it has been successful in gaining Washington's attention to issues of concern to the Portuguese government.

The priority given to the political and security agendas is understandable given the war on terrorism and the effort to deal with the threat posed by Iraq. The embassy is developing a strategic plan to expand economic and commercial relations. However, more can be done to take advantage of short-term opportunities for economic dialogue and commercial advocacy. A more effective integration and coordination of the work of the Foreign Commercial Service and the Foreign Agricultural Service would facilitate this task.

In contrast to its good performance on most policy matters, the mission is suffering from an unusually wide range of administrative and personnel management problems. In many cases, these problems are the result of an unfortunate history of management neglect, going back many years. However, they have been compounded by the performance, attitudes, and behaviors of some recent and current staff members occupying key management positions.

The persistence of these problems has adversely affected mission morale, especially but not exclusively among FSN staff. The mission's executive leadership was more aware of and actively concerned about these issues than most employees realized or appreciated. Nevertheless, OIG judged that the seriousness of the situation required more aggressive and purposeful action. To their credit, the Ambassador and the DCM strongly welcomed key OIG recommendations and are proposing urgent remedial action, seeing an opportunity to correct long-standing problems and to improve mission performance and morale.

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### Inspection of Embassy Madrid and Consulate General Barcelona, Spain (ISP-I-03-36)

Embassy Madrid's goals are well defined and sharply focused on the deepening of already good bilateral cooperation on issues such as terrorism, defense, and economic and commercial issues. Two other goals that have assumed even greater importance in the current international context are ensuring the welfare and protection of 90,000 American citizens living in Spain and an estimated one million American



Consulate General Barcelona, Spain

visitors, and improving the functionality and security of official U.S. facilities.

Despite significant downsizing in recent years, the consulate general in Barcelona maintains a high level of consular services to resident and visiting American citizens and active programs in

support of U.S. policy, commercial, and public diplomacy interests. The consulate general has been adversely affected by extended staffing gaps, the lack of a full-time management officer position, and inadequate attention from Embassy Madrid to its personnel and administrative needs.

At the time of the inspection, the embassy was awaiting a response from the Bureau of European and Eurasian Affairs to its urgent request for assistance in meeting a significant shortfall in funding for administrative support operations. The shortfall, attributed to errors made in the previous fiscal year that were not caught or corrected at subsequent review stages, threatened severe adverse consequences for both locally hired staff and embassy operations. It was also preventing the embassy from implementing plans to enhance staffing and performance in key areas of administrative support.

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### Inspection of Embassy Copenhagen, Denmark (ISP-I-03-46)

Embassy Copenhagen is doing a good job advancing U.S. foreign policy interests in Denmark. The embassy has well-managed administrative operations.

Bilateral and regional counterterrorism and law enforcement programs are well coordinated. The consular section is well managed, but consular space needs reconfiguring to handle the new mandated visa interview requirements. Better cooperation between the service provider and the ICASS council is needed to accomplish important joint administrative goals. In calculating Embassy Copenhagen's cost of living allowance, the Department should factor in the 25 percent local Value Added Tax (VAT) refunded to employees.

## Cost of Living Allowance (ISP-I-03-51)

In several recent inspections, OIG has identified a compensation issue with potentially large consequences worldwide. The Department has a policy of computing the post allowance, known as the cost of living allowance (COLA), for U.S. direct-hire employees without making an adjustment by deducting VAT reimbursement. Making the adjustment would result in savings to the Department.

Worldwide, the VAT for general merchandise and services varies but may reach 25 percent, which is a significant part of the local consumer prices reported to the Department. In those countries where all U.S. government employees receive VAT reimbursement, the COLA indices may be overstated. At OIG's request, the Department calculated the COLA index without including the VAT for the U.S. embassies in Helsinki and Copenhagen. The calculations showed a five percent overstatement once VAT refunds were factored in. Given average salaries and family-size, the five percent index overstatement could amount to over \$90,000 at each mission.

Although the retail price surveys provide the raw data for the Office of Allowances in the Bureau of Administration to calculate COLA at every overseas mission, OIG noted that the survey forms do not specifically ask whether mission employees receive VAT reimbursement, in full or in part. In addition to Helsinki and Copenhagen, OIG found similar VAT issues during its inspections of U.S. embassies in Oslo, Stockholm, and most recently, Mexico City. OIG recommended that the Department require all missions to submit retail price surveys that list local prices net of Value Added Tax reimbursement.

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## Inspection of Embassy Reykjavik, Iceland (ISP-I-03-49)

Embassy Reykjavik is a well-managed Special Embassy Program post. The Ambassador and DCM are successfully mobilizing the small staff to promote U.S. interests in Iceland. The consular function at the embassy is being restructured and will require additional support from CA to enhance internal controls and to imple-

ment recent changes in consular interviewing procedures. Administrative operations are adequately managed. However, OIG recommended improvements in the management of human resources and general services. The embassy needs the assistance of OBO to reconfigure chancery space for more effective use.

## African Affairs

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### Compliance Follow-up Review of the Inspection of Embassy Abuja and Consulate General Lagos, Nigeria (ISP-C-03-28)

Embassy Abuja and Consulate General Lagos have turned in a mixed performance in addressing most of the problems contained in OIG's 2002 inspection of the post. For example, compliance in the consular area (almost entirely involving the consular section at Consulate General Lagos) was very good. Only one consular recommendation requiring the mission's action now remains open. Compliance in the administrative area was sufficient to permit OIG to close four recommendations outright and reissue or modify six others. However, the recommendations requiring action by mission management will require more work.



Embassy Abuja, Nigeria

OIG made a net total of 14 compliance follow-up review recommendations. OIG made recommendations to improve supervision and communication between mission management and staff. Other recommendations covered developing a systematic approach to the ongoing transition of the embassy from Lagos to Abuja and rationalizing space use and staffing levels.

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## Inspection of Embassy Antananarivo, Madagascar (ISP-I-03-29)

OIG identified serious physical deficiencies with the chancery, but noted that significant improvements to the current facility would be futile. OIG urged the Bureau of African Affairs to reexamine the priority assigned to this project.

During a year of preelection violence and instability between January and December 2002, Embassy Antananarivo's reporting drew praise from Washington analysts and observers.

The embassy's MPP is a high-quality document for articulating mission policy goals and priorities. All mission elements contributed to the development of the MPP, which clearly defines program activities, but fails to identify support resources needed to implement fully program increases. This oversight results in an administrative section that is unable to satisfy requirements without excessive overtime. Future MPPs should include support requirements as an integral part of the planning process.

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## Compliance Follow-up Review of the Inspection of Embassy Luanda, Angola (ISP-I-03-44)

This review focused on morale and working conditions at Embassy Luanda. OIG found that morale had improved significantly since its last inspection due to the personal efforts of the new Ambassador and management team. Working conditions at the embassy's Casa Inglesa annex have been improved by upgrading existing space and creating new office space from a former storage area.

OIG also found that Embassy Luanda's new administrative leadership has made progress in overcoming administrative problems. The ICASS council now has a chairperson but still needs to develop and implement standards. The new management officer and general services officer have improved the procurement process since the inspection but need to implement an automated system if improvements are to continue.

## East Asian and Pacific Affairs

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### Inspection of Embassy Apia, Samoa (ISP-I-03-30)

The primary goals of Embassy Apia are to maintain good relations with the small, island-based state of Samoa and to deliver consular services to its inhabitants and visitors. The embassy does both satisfactorily. The embassy's record shows commendable initiative in applying limited program resources to highlight mutual political, economic, commercial, and security interests. Periodic visits, seminars, and other events are symbolic and important but have diverted the embassy from its heavy resource management workload.

With general guidance from the Ambassador in Wellington, the chargé d'affaires in Apia executes policy and consular functions well but struggles against severe infrastructure problems. Embassy Wellington and Consulate General Auckland have provided increasingly effective support. Embassy Apia should expand and rationalize collaboration with Wellington on both program and administrative affairs.

Facing severe limitations in facilities and telecommunications infrastructure, Embassy Apia should establish clear priorities, define standard operating procedures, and sharply define workable management controls, in coordination with Embassy Wellington and the Bangkok Financial Services Center.

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### Inspection of Embassy Canberra, Australia, and Constituent Posts (ISP-I-03-31)

A paramount policy priority for Embassy Canberra and Washington is to maintain the U.S.-Australian alliance, a relationship that has led to highly productive defense, intelligence, and scientific cooperation. High-level exchanges between the two executive branches attest to the mutually felt importance of the relationship. The negotiation of the key economic issue in bilateral relations – a Free Trade Agreement – is the focus of Washington officials' interest in reporting.



The diplomatic mission's staff is appropriately matched to its goals and relatively stable. The mission should attempt to counter the pressure for increased American staff by relying more on locally hired staff.

The Office of Public Affairs has not been integrated satisfactorily into the Department's structure in Canberra. Daily operations have remained much as before, and it is time to push through the measures required for effective integration. The full range of consular services is provided from the consular base in Sydney, with limited consular services at the embassy and other consu-



Consulate General Perth, Australia

lates general. New security requirements after September 11, 2001, have added an additional layer of work. There is concern about how future changes may affect staffing and space requirements.

OIG commends the effort and attention to detail evident in Embassy Canberra's annual statement of assurance regarding internal management controls, required by the Federal Manager's Financial Integrity Act. However, Embassy Canberra can improve its mission-wide oversight of management controls by increasing coordination with the consulates general.

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### Inspection of Embassy Phnom Penh, Cambodia (ISP-I-03-38)

Executive direction at Embassy Phnom Penh is effective. Management received high marks for communication, engagement, and feedback. The embassy compound is the single largest stumbling block to safe and effective operations. A new embassy compound is under construction.

Office space for USAID is also a problem because the new embassy is not sized to accommodate USAID staff, and funding for a USAID building has not been provided. A temporary location for USAID needs to be identified and approved.

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## Inspection of Embassy Rangoon, Burma (ISP-I-03-40)

The chargé d'affaires and DCM have worked to improve Embassy Rangoon, but some areas need increased attention. The chargé d'affaires should work more diligently to expand her interactions and engagement with a greater range of key figures in the country. Although economic reporting earned praise for its timeliness and insights, Washington readers have questioned the adequacy of reporting on human rights concerns. Internally, the executive office should establish regular senior staff meetings to focus mission priorities and task officers with initiatives.

Although Burma is the second largest producer of opium in the world and a major developer of methamphetamines, direct counternarcotics assistance from the U.S. government to Burma was suspended in 1988. Narcotics trafficking is an inherently cross-border issue and requires regional coordination to confront it effectively. The Bureau of International Narcotics and Law Enforcement Affairs could explore establishing a regional narcotics affairs office.

Public diplomacy is one of the few activities that allow the embassy to expand U.S. engagement with Burma. The section is making significant strides in its outreach efforts and conducts successful information and English teaching programs in Rangoon. The embassy is exploring options to establish outreach in Mandalay and elsewhere.

Real property issues continue to plague Embassy Rangoon. The property in Mandalay is underutilized, and OBO and the embassy need to reevaluate the Washington Park site for a new embassy compound in Rangoon.

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## Inspection of Embassy Vientiane, Laos (ISP-I-03-42)

At this Special Embassy Program post, the Ambassador and DCM are providing the required direction to ensure mission priorities are advanced. The Ambassador has properly raised the standards and expectations for embassy operations. Given the difficult operating environment in Vientiane, embassy management must be careful not to place too great a burden on the small staff.

Embassy Vientiane fully supports the U.S. government's Joint Task Force efforts to recover the remains of missing Americans from the Vietnam conflict. The Joint Task Force has made significant progress in reaching a full accounting for those missing in action.

Embassy coordination with the Drug Enforcement Administration's (DEA) office in Udorn, Thailand, supervised through Embassy Bangkok's DEA office, provides additional information on narcotics trafficking from Laos, across the Mekong River, into Thailand. Exchanges should be regularized.

The Laotian government is now willing to provide a no-cost exchange for the U.S. government-owned property, known as Silver City, that the Laotian government has occupied since 1975 and will not vacate. Embassy Vientiane should immediately explore and finalize this exchange.

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## Inspection of Embassy Wellington, New Zealand (ISP-I-03-43)

The U.S. mission in New Zealand generally enjoys strong leadership, a solid relationship with the country's leadership, and the best morale it has seen in years. However, management should be more attentive to employee concerns, notably those of both Department and non-Department FSNs.

During the inspection, Embassy Wellington completed this year's MPP and included a request for another four American positions. OIG found the American staffing level, with the position increases already planned, to be sufficient and encouraged Embassy Wellington to use locally employed staff to meet its needs for

improved front office support and additional expertise in the political/economic, public affairs, and management sections.

Embassy Wellington's administrative operations are highly centralized and effective and efficient. With the full support of the DCM and with talented locally employed staff, the management officer and his team have in recent years significantly improved the embassy's facilities, streamlined routine functions, installed superb telecommunications and inspired local staff to excellence. The embassy's policies correctly encourage the prudent management of resources, and its procedures are logical and practical.

## Domestic Bureaus and Missions

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### Inspection of the Office of Foreign Missions (ISP-I-03-13)

The Office of Foreign Missions (OFM) performs many of its functions with distinction, but it cannot be described as a well-run operation. Organizational anomalies are a root cause of its problems.

The Assistant Secretary for the Bureau of Diplomatic Security (DS) is dual-hatted as the Director of OFM. The focus of OFM is primarily domestic. As a result, oversight and accountability suffer in OFM, and the impression is conveyed to foreign diplomats that their presence in the United States requires scrutiny of the Department's "security" bureau. Moreover, two of OFM's critical issues are priorities of the Office of the Under Secretary for Management (M): reducing overseas taxation of U.S. government entities and securing privileges for technical and administrative staff at U.S. missions abroad. The Department should move OFM from the Bureau of Diplomatic Security and place it within the M family of organizations. The deputy director who actually runs OFM should be empowered to do so.

OFM needs to reorganize two of its areas of responsibility. Foreign officials in Washington and other cities are dissatisfied with the cumbersome accreditation and documentation processes. Reorganization and stronger management are required, starting with consolidation of the Office of Protocol adjudication process and OFM documentation process. OFM also needs to reorganize its Diplomatic Motor Ve-

hicles Division to ensure timely data entry and production. Related to this, OFM's computer program requires major improvements.

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## Inspection of the Office of the Chief of Protocol (ISP-I-03-18)

A small office with direct responsibility to both the President and the Secretary, the Office of the Chief of Protocol (Protocol) enjoys a widespread and well-deserved reputation for excellence. During the time that the present senior management has been in office, it has handled two and a half times the number of high-level visitors handled by their predecessors, while at the same time maintaining the same level of staffing, instituting tighter management, and improving internal procedures. Management has been strong, but office morale needs attention.

The Visits Division's assistant chief and his staff excel in planning and arranging programs for foreign dignitaries that the President invites to the United States. The assistant chief is highly regarded, but demands for his services often cause him to be away from the office. When he is absent, it is not clear who is in charge. The Visits Division should be reorganized to establish a hierarchy with clear lines of authority.

The rigorous measures installed at the nation's airports following the September 11, 2001, terrorist attacks have caused several unfortunate incidents involving high-ranking foreign officials entering or leaving the United States. The Assistant Secretary for every regional bureau recounted incidents when a foreign dignitary suffered embarrassment at security checkpoints. Some foreign governments have indicated that they intend to respond in kind to treatment they consider unwarranted, and at least one has done so. The Office of Homeland Security reporting to the Deputy Secretary is expected to become the Department's interface with transportation security authorities to deal with this vexing and embarrassing issue.

Liaison services to foreign government officials in the United States are rendered with dedication and sensitivity to the national interest. Still, Protocol needs to modernize the accreditation and adjudication process for foreign officials by adopting electronic registration procedures.

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## Inspection of the Bureau of International Organization Affairs (ISP-I-03-33)

In a particularly challenging period, the Bureau of International Organization Affairs (IO) is doing an effective job managing U.S. policy in the United Nations and in a wide range of international bodies. IO and the U.S. Mission to the United Nations (USUN) have an extremely close relationship. IO has most recently shown its ability to backstop USUN effectively in its handling of the Iraqi crisis. In this effort, IO worked daily with the Secretary, White House, and National Security Council to coordinate U.S. diplomatic efforts. In addition, IO deals with virtually every part of the Department and with many other government entities. Relations are in general productive, although continuing attention must be given to dealing with some functional bureaus where interests and portfolios at times overlap and compete.

The new Assistant Secretary and his deputies practice an effective but informal leadership style. Bureau leadership follows an open-door policy, and free discussion of ongoing topics is welcomed. Although working hours are long in several offices, morale is generally good.

IO has seen virtually no growth in the number of permanent positions over the past ten years. Some permanent positions have been vacant for prolonged periods and the lengthy recruitment process to fill vacant Civil Service positions has led to misunderstandings and frustration. IO has filled most Foreign Service position vacancies during this year's recruitment cycle, but the number of candidates from which to choose for mid-level positions is limited. All levels of IO management currently participate in recruitment, but there is need for a more aggressive outreach program to attract and retain talented, motivated officers.

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## Inspection of the Office of the Legal Adviser (ISP-I-03-34)

The Office of the Legal Adviser (L) provides outstanding legal services to the Secretary of State and other clients. It often plays a key role in the Department senior leadership decisionmaking. The Legal Adviser is exceptionally effective as a lawyer and a leader. The office is correctly focused on current Administration

priorities, most importantly the war on terrorism. Morale is generally good despite a growing workload following the terrorist attacks of September 11, 2001, and some understaffing.

L needs to create a more robust management structure and develop long-term strategies to obtain resources to correct deficiencies that negatively affect its work environment. Its critical needs in improving office space, records management, and information technology support are strongly interrelated and bear testimony to a long-standing lack of attention to management. L's management needs to engage in more active advocacy for resources, and the Department should be responsive to L's critical needs.

L's administrative staff is too small and insufficiently experienced or trained to support a staff of almost 300. L's Bureau Performance Plan needs to devote more resources to administrative support. L needs to intensify its efforts to recruit minorities. Since the last inspection in 1991, L has made major progress in reducing security violations.

#### **DS Shows Improvement in Response Time for Investigations of Suspect Passport Cases**

OIG, in its Review of Domestic Passport Operations Phase II: Fraud Prevention Programs, (ISP-CA-03-25, December 2002), recommended that the Bureau of Diplomatic Security seek to improve the response time of DS field offices in the investigation of passport cases suspected of fraud. Follow-up information collected by OIG from 16 U.S. passport agencies subsequent to the review indicates that DS field offices have substantially improved their response time in fraud investigations and have improved information sharing through regularly scheduled meetings. In fact, several passport agencies reported that there are now DS agents available to interview walk-in passport applicants should the need arise.

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## Inspection of the Bureau of Democracy, Human Rights and Labor (ISP-I-03-49)

Under the purposeful direction of the Assistant Secretary of the Bureau of Democracy, Human Rights and Labor (DRL), and with the support of Department senior leadership, the bureau is doing a good job integrating the promotion of human rights and democracy into U.S. foreign policy.

The bureau's leadership has been successful in securing increased funding for its human rights and democracy promotion efforts and in giving these efforts greater strategic focus and impact. Grants and programs are generally well managed, but the bureau is aware that the recent rapid growth of programs has created a need for a more systematic monitoring and evaluation process.

Despite some apprehensions, DRL's expanded involvement in programming and grantmaking does not appear to have affected its commitment to the bureau's traditional human rights advocacy role. In a number of instances, the bureau's ability to offer advice and resources for addressing human rights issues has enhanced its influence with regional bureaus and other key players.

Although DRL is generally doing a good job in managing its relationships with important constituencies, correspondents, and partners, its relationship with IO needs improvement. Disagreements over how best to advance U.S. human rights interests in the multilateral context, as well as disputes over respective roles and responsibilities in this area, have hampered the Department's ability to develop a coherent approach and strategy. The problems in the policy development process are not without consequences for U.S. foreign policy interests.

The current structure that places the congressionally mandated office of the Ambassador-at-Large for International Religious Freedom within DRL is at odds with the Department's organizational guidelines and has proved to be unworkable. As a consequence, the purposes for which the religious freedom function was created are not being adequately served.

DRL's executive office also supports the Bureau of Oceans and International Environmental Scientific Affairs. The substantial growth of both bureaus has placed severe strains on the office, justifying the establishment of separate executive offices.



### **Post Assignment Travel (ISP-I-03-53)**

In 2002, OIG investigated a multimillion-dollar fraud case in which a local-hire financial management employee at an overseas mission created and processed false transportation invoices and vouchers payable to his bogus company. As a follow-up to that investigation, OIG inspection teams verified whether inspected missions were monitoring charges made against Washington-held allotments for transportation of personnel and effects – post assignment travel (PAT) expenses. Further, the Department requested that OIG help them in assessing the process and controls for PAT during post management inspections.

Over the last inspection cycle, OIG found that without the appropriate internal controls in place, the risk still exists for employees serving at overseas missions to perpetrate this type of fraud against the Department's \$160 million PAT allotment held in the Executive Office in the Bureau of Human Resources.

In recent inspections, OIG has recommended that missions establish locally maintained records for the centrally funded PAT invoices that they process. In a separate memorandum, the OIG recommended that the Department advise overseas missions in writing on methods to ensure that all PAT invoices are valid, approved by their shipping section, and paid only once. OIG also recommended that the Department evaluate whether decentralizing PAT allotments, in whole or in part, would enhance internal controls.

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### **Inspection of U.S. Mission to the United Nations (ISP-I-03-41)**

U.S. interests in the multilateral arena are well served by the USUN. This is a stressful time for U.S. diplomacy. Nowhere is that more evident than at the United Nations where demands are high and the mission's working infrastructure is remarkably poor. Most personnel at the mission see their jobs as fulfilling and exciting. The challenge for mission leadership is to ensure that the pace, morale issues, and a difficult work environment do not erode this enthusiasm. Communication and coordination within the current mission is difficult and will need to be improved before the mission is relocated to temporary offices next year.

The mix of USUN staffing and resources is appropriate, in light of essential U.S. goals and objectives as described in the MPP, although the Economic and Social Affairs Council section does not appear to have sufficient personnel resources to cover all of its issues in depth. The Department must assess the impact of the longer tour of duty on the pool of available Foreign Service candidates in this expensive, high stress mission.

Mission employees ranked overall administrative performance relatively high in the administrative services satisfaction questionnaire. General services is a unit that needs improvement. Excepted service employment status, affecting the majority of mission employees, continually raises concerns. All would profit from information and a better understanding of the federal employment system.

## Consular Affairs

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### Inspection of the Directorate of Visa Services, Bureau of Consular Affairs (ISP-CA-03-46)

Senior managers and staff in the Bureau of Consular Affairs, Directorate of Visa Services (CA/VO), have shown strong leadership in addressing key issues arising after the terrorist attacks of September 11, 2001. They have taken a proactive approach to concerns about the security of the visa issuance process expressed in reports prepared by OIG and the General Accounting Office (GAO).

CA/VO does not have sufficient resources to carry out its current mission effectively. It responded with maximum flexibility to the greatly increased workload after September 11, 2001, but the resulting ad hoc contractual arrangements for temporary positions need to be reviewed and, where appropriate, replaced by regular staff. The Office of Field Support Liaison, Post Liaison Division, needs additional personnel to maximize oversight of worldwide consular visa operations.

An OIG worldwide survey found that many consular managers overseas are satisfied with the support and oversight they receive from CA/VO. They are frustrated, however, over lengthy delays in the security advisory opinions process. More timely updates of the Foreign Affairs Manual replacing the myriad of highly detailed instructional cables would provide easier access to current operational guidance.

OIG found significant vulnerabilities in management controls of cash collections for visa services at the National Visa Center at Portsmouth, New Hampshire, and in the Office of Public and Diplomatic Liaison. CA/VO management has already initiated action to correct these specific lapses in controls.

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### Diversity Visa Program (ISP-CA-03-52)

As part of OIG's overall review of the Department's visa process following the terrorist attacks of September 11, 2001, OIG reviewed the Diversity Visa (DV) program. Section 306 of the Enhanced Border Security and Visa Reform Act of 2002 (P.L. 107-173) generally limits issuance of nonimmigrant visas to aliens from state sponsors of terrorism. There are no parallel restrictions for the DV program.

To strengthen the DV application process in general and to eliminate specifically its possible use by terrorists as a means of gaining permanent residence in the United States, OIG recommended that the Department do the following:

- Propose legislative changes that would bar from the DV program all aliens from states that sponsor terrorism;
- Propose legislative changes that would permanently bar all adults identified as fraudulent applicants from future DV programs;
- Request legal authority to make the DV program self financing; and
- Establish standards to improve the application of DV eligibility criteria.

# AUDITS

## Interagency Review of Federal Export Enforcement Efforts (April 2003)

As required under specific provisions of the National Defense Authorization Act, the Inspectors General of the Departments of Commerce, Defense, State, and Treasury, in cooperation with the Inspector Generals of the Central Intelligence Agency and the U.S. Postal Service, conducted an interagency review. To comply with the fourth-year requirement of the act, the Offices of Inspector General focused on the federal government export enforcement activities to prevent the illegal transfer of militarily sensitive technologies to countries and entities of concern. The overall objectives of this review were to examine efforts to (1) prevent the illegal export of dual-use and munitions items, and (2) investigate and assist in the prosecution or administrative sanctioning of violators of the Export Administration Regulations and the International Traffic in Arms Regulations. The Inspectors General found several weaknesses related to verification of export license conditions, end-use monitoring of exports, and the enforcement of export controls over dual-use and munitions items.

## Contracts and Grants

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### Follow-up Review of the Institute of International Education (AUD/CG-03-41)

The Office of Audits, conducted a follow-up review of actions taken on OIG recommendations in its *Independent Accountant's Report of Indirect Cost Rates Proposed by the Institute of International Education (USIA-99-CG-015, May 1999)* and *Independent Accountant's Report of Review of Sale and Leaseback Arrangement Proposed by the Institute of*

*International Education* (USIA-99-CG-016, May 1999). OIG performed this work at the request of the Department's Office of Acquisitions Management in the Bureau of Administration, Office of Logistics Management.

Specifically, OIG reviewed reimbursements for depreciation expenses related to the sale, lease, and repurchase of an office building by the Institute of International Education (IIE) and also examined IIE's indirect cost structure and methodology for claiming reimbursement of indirect cost expenses for fiscal years (FYs) 1999 through 2001. In this review, OIG found the following:

- The Department had negotiated provisional rates for 1999 as recommended in report USIA-99-CG-015. Therefore, OIG considers this recommendation closed.
- During the prior reporting period, the Department negotiated and IIE agreed to repay over \$1.1 million to resolve OIG's open issues in report USIA-99-CG-016. On August 6, 2003, IIE repaid the \$1.1 million; therefore, all open issues in the prior report are considered closed.
- IIE's indirect cost rate structure complied with regulations. However, OIG questioned \$1.2 million in claimed costs, which resulted in lowered rates. OIG recommended that the Department finalize the indirect cost rates for 1999-2001.

## Procurement, Property, and Administrative Support

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### Review of Allegations Regarding the Office of Humanitarian Demining Programs' Contract for Integrated Mine Action Services (AUD/PPA-03-24)

At the request of the Assistant Secretary for the Bureau of Political-Military Affairs (PM), OIG reviewed allegations pertaining to the Office of Humanitarian Demining Programs (PM/HDP). The allegations were made in an independent contractor's report titled, *Review of the Integrated Mine Action Support (IMAS) Contract*. The report alleged internal control weaknesses, citing approximately 30 deficiencies,

including inadequate support for IMAS contractor billings and inadequate monitoring of the contractor's performance by PM/HDP.

The report identified contract issues and recommended strengthening contractor performance and PM/HDP contract management. OIG found only four of the 30 alleged deficiencies identified in the independent contractor's report to be valid, and that the methodology used in the contractor's report and purported evidence given were weak or nonexistent. Overall, the report conclusions were inaccurate and misleading in stating that these 30 issues "identified the failures of the IMAS Contract Prime Contractor to adhere to the contractual obligations contained within the IMAS Contract" or "exposed weaknesses regarding the manner in which HDP administers the IMAS Contract."

OIG found that the validated contract weaknesses appear to be exceptions rather than systemic problems. OIG also believes that the independent contractor's work was so deficient that its poor performance should be made a matter of record, and the responsible contracting officer should consider contractor suspension or debarment proceedings against the independent contractor.

OIG's review found that the IMAS contractor was complying with most contract terms and conditions. OIG concluded that the IMAS contractor had an adequate basis to estimate prices and, upon the request of the PM/HDP project manager, provided sufficient documentation and support during the technical review assessment process. Moreover, there were adequate checks and balances to support the cost-reimbursable and fixed-price elements of the IMAS contract.

OIG's work identified two contract issues concerning administrative cost factors and hazardous duty pay that required further review by the contracting officer. OIG brought these issues to the attention of the contracting officer because of the material impact that the questioned costs could have on the contract. OIG identified more than \$1.6 million in possible overcharges of indirect costs applied to overseas labor. The contracting officer has initiated discussions with the IMAS contractor and PM/HDP personnel to clarify or correct these contract issues.

OIG recommended that the contracting officer also clarify other contract provisions and associated costs. One such item involves additional payments of \$50 per day for IMAS expatriate employees in locations with demining activities. The contract does not address this issue but allows hazardous duty pay in locations designated by the Department. OIG estimates that the costs claimed since the inception of the IMAS contract are well over \$1 million. The contracting officer has agreed to decide on the eligibility of these costs.

During site visits overseas, OIG found that embassy-designated demining officers were not carrying out the full administrative responsibilities described in the *Humanitarian Demining Programs Policy and Procedures Manual*. Officers were not always aware of the administrative responsibilities and functions assigned to their position, or in some cases, left the execution of these responsibilities and functions to the IMAS contractor. As a result, internal controls and reporting mechanisms established by PM/HDP were not being properly carried out. OIG also found that PM/HDP managers need to make more frequent visits to the embassies to provide program guidance and management oversight, including a review and assessment of administrative and financial procedures.

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## Review of Legal Services Contract Memorandum Report (AUD/PPA-03-35)

In response to a congressional request dated February 12, 2003, OIG reviewed the procurement process and contract administration related to a contract for commercial services with the law firm of Williams & Connolly LLP. This contract, with a total award amount of \$1.46 million, was signed on April 2, 2002, and completed on December 12, 2002. Its purpose was to provide legal services and support to the Department in pending litigation before the Merit Systems Protection Board.

This litigation involved a former employee, who alleged that high-level officials at the Department had taken retaliatory action in response to protected disclosures made by the employee to Congress and the media regarding waste, fraud, and abuse.

The primary objective of OIG's review was to address a Senator's request for information about the Department's actions in contracting for legal services to assist in this case. The Senator expressed concern as to whether:

- the Department had first sought representation from the Department of Justice before contracting with an outside law firm;
- the Department had complied with applicable contracting requirements in making the award and to describe the process used; and
- billings by the law firm were properly supported and in accordance with contract terms.

Finally, the Senator asked OIG to provide a listing of expenses and costs incurred under the contract.

The OIG review found that the Department had first asked the Department of Justice to provide legal services before contracting with an outside law firm. When the Department of Justice declined, the Department followed appropriate federal procurement regulations in the solicitation and award phases for acquiring legal services. Overall, OIG found that the costs claimed by the contractor, \$674,000 out of a total \$676,000 billed, were supported and in accordance with the contract terms and provisions. OIG is recommending that minor contract billing errors be corrected which may result in a final contract cost of \$687,000. OIG noted some areas for strengthening contract competition and administration and reported these issues to appropriate officials in the Bureau of Administration and the Office of the Legal Adviser.

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### Review of Allegations Regarding Office of Foreign Missions Information System Procurements (AUD/PPA-03-39)

OIG evaluated an allegation that dealt with procurement irregularities in OFM. The allegation concerned a number of issues regarding a contract awarded in December 1997 to identify and establish user requirements for a new OFM management information system. Also questioned was the monitoring of a second contract to use those requirements to develop and implement new software.

OIG found that there was no evidence of a financial conflict of interest as defined in the Code of Federal Regulations. The allegation claimed inadequate contract competition and indicated a potential conflict of interest because an OFM staff member was a “personal friend” of the awardee. In addition, the OFM employee and another OFM official were allegedly to be hired by the contractor at a later date. OIG confirmed that an OFM staff member, who approached the president of the company that was later selected for the contract award, was a prior tenant of the president and maintained a casual social relationship. The staff member participated in the technical evaluation of the contract submitted and later served as one of the contracting officer’s representatives. OFM officials did not know of this relationship. OIG did not find any substance to the allegations that an OFM employee was hired by the contractor, promised future employment, or received any form of compensation for official government actions.

The first contract pre-award and award processes were adequately documented, followed required federal and Department policies and procedures, and resulted in a



final product accepted by OFM. However, the second contractor indicated that the product delivered by the first contractor was of poor quality and had limited value for the next phase of software development. The second contractor discarded the product and started over, at an estimated cost of \$148,000 to redo this work. OIG found that the official files for both contracts had inadequate documentation of the monitoring for contractor performance. In addition, the first contract for about \$450,000 had doubled to about \$900,000 with little explanation.

OIG also found that OFM management did not have adequate assurance that its management information system contained accurate information. OFM has had to fix 803 errors over a period of 18 months ending December 2002. Also, OFM has reported that its system does not have an automated information security program. As a result, OFM cannot be assured of the safety of sensitive information in its system. OIG recommended corrective action that should strengthen OFM contract management and improve the accuracy and security of its information systems.

### Department Competitive Sourcing Program Continues to Improve

During this reporting period, OIG continued to monitor the progress the Department was making in complying with the Federal Activities Inventory Reform Act of 1998 (FAIR Act), which directs federal agencies to issue an inventory each year of all commercial activities performed by federal employees that are not inherently governmental. OIG found that the 2001 inventory of positions available for competition was developed in an inconsistent manner and consequently, was inaccurate. OIG's review found that the Department is continuing to make progress in conducting the inventories. The Department took a more comprehensive, systematic approach to compiling the 2002 inventory, and is in the process of further refining its 2003 inventory.

The Department has taken several other actions to improve its competitive sourcing program, including the creation of a Department-wide council and a separate competitive sourcing staff as well as a training program for employees. OIG will continue to monitor the Department's progress in its competitive sourcing program.

## Financial Management

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### Assessment of the Department of State's Connection Approval Process, Independent Validation and Verification Protocol, and System Certification and Accreditation Process (AUD/FM-03-30)

Beginning in 1997, in its independent auditor's report on the Department's financial statements, a contract auditor reported a material weakness related to information system security. The Department stated that two recommended corrective actions for this material weakness would be addressed as part of its process to implement OpenNet Plus, which would constitute a program of system vulnerability assessment and mitigation.

At the direction of OIG, an external systems contractor reviewed the Department's OpenNet Plus connection approval process, including the independent validation and verification protocol, and the system certification and accreditation process. The systems contractor found that, although the connection approval process was a positive step, it was not sufficient to constitute a program of system vulnerability assessment and mitigation. In addition, the Department had not established a Department-specific certification and accreditation process.

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### Information Technology Vulnerability Assessment of the HYPERION Financial Management Application (AUD/FM-03-37)

The Government Management Reform Act of 1994 (PL 103-356) requires that the Department's principal financial statements be audited annually. Audits of the principal financial statements require, among other things, understanding and assessing the adequacy of the internal control process for recording, accumulating, and reporting financial data. This, in turn, requires an assessment of the security over the automated systems that process financial data. At OIG's direction, independent external computer specialists performed a vulnerability assessment of the HYPERION Financial Management Application.

The independent specialists found that the specific security features associated with the HYPERION application appeared to function correctly and were well managed. In addition, security responsibilities were properly assigned and executed. A reasonable set of security policies and procedures existed and were being implemented. However, they were largely undocumented. A technical examination of the information technology infrastructure that supported the HYPERION application revealed only a limited number of relatively minor vulnerabilities.

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### International Boundary and Water Commission, United States and Mexico, U.S. Section, Financial Statements, FY 2002 (AUD/FM-03-38)

Under OIG's direction, an independent external auditor audited the International Boundary and Water Commission, U.S. Section's (USIBWC), financial statements as of September 30, 2002, to report on:

- whether the financial statements fairly present USIBWC's financial position and results of financial operations in accordance with generally accepted accounting principles,
- to determine whether USIBWC has an internal control structure that provides reasonable assurance of achieving internal control objectives, and
- to determine whether USIBWC complied with applicable laws and regulations.

USIBWC is charged by a series of treaties between the governments of the United States and Mexico with the application, regulation, and exercise of the provisions of such agreements for the solution of water and boundary problems along the U.S. Mexico boundary. For FY 2002, USIBWC reported assets of \$357 million.

OIG issued an unqualified opinion on the USIBWC principal financial statements as of September 30, 2002. The audit did not identify any instances of non-compliance with laws and regulations that were considered necessary for disclosure.

# INFORMATION TECHNOLOGY

## Knowledge Management at the Department of State: Learning From Successful Principles and Practices (IT-A-03-08)

Organizations increasingly are implementing knowledge management (KM) strategies to maximize the benefits of what they know to help improve the efficiency and effectiveness of their business operations. KM is a collaborative and integrative approach to creating, capturing, organizing, accessing, using, and reusing intellectual assets—to get the right information to the right people at the right time to support management and decision-making. The Department is working to coordinate its KM activities through the establishment of an Office of e-Diplomacy, which is responsible for ensuring that information technology (IT) investments meet the Department's needs, are consistent with the administration's e-government initiatives, and fully exploit existing networks and web technologies.

This report presents the results of OIG's study of the Department's strategy for implementing KM through its Office of e-Diplomacy. Specific objectives of OIG's study were to evaluate the Department's plans and project management structure for coordinating KM initiatives and identify how effective practices from other federal, international, and private organizations could be applied to help strengthen the Department's KM approach.

The Office of e-Diplomacy is working to develop its strategy for implementing KM Department-wide. The office has networked extensively with a range of public and private organizations to compile ideas on effective approaches to instituting KM in the Department. The office is undertaking a number of knowledge sharing initiatives, including greater use of existing classified and unclassified government networks for information exchange and collaboration, as well as the Group of Eight KM project.

In developing its Department-wide strategy, the Office of e-Diplomacy can benefit from the effective approaches and lessons that OIG gleaned from its study of the KM activities of other federal, international, and private organizations. Specifically, OIG identified five key principles and corresponding practices that exemplify the various aspects of KM. The five principles are:

- recognizing the benefits of KM to the organization;
- ensuring organization-wide support for KM;
- appreciating the cultural factor in KM;
- building KM communities; and
- using information technology in KM.

Noteworthy examples and case studies of successful KM activities illustrate how organizations carried out these principles and practices in real life. While providing useful ideas for developing a KM strategy, these principles and practices also serve to highlight the challenges the Department faces to successful KM implementation. The Department recognizes some of these challenges and has taken steps to address them, such as ensuring senior management oversight of KM. However, considering other barriers to effective KM and determining how best to overcome them will be key. For example, the Department still needs to identify business requirements, such as those of its core diplomatic functions, as a basis for formulating its knowledge sharing approach.

Further, it needs to translate that planned approach into real-life implementation through community-building and IT tools, as well as ensure organization-wide commitment and a support structure for coordinating KM initiatives. A major challenge is to identify the cultural barriers to KM and determine how best to counteract them.

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## Information Security Inspection & Evaluation of Embassy Vienna, Austria (IT-I-03-09)

Embassy Vienna has a complex information systems security program that must cover three missions, each with exacting information needs and demanding security requirements. Much effort has been expended to bring the tri-missions into compliance with Department information systems security requirements in preparation for OpenNet Plus connectivity.

In their August 18, 2003, response to the draft report, Embassy Vienna officials reported that all recommendations had been addressed or were in process. Specific actions on the recommendations are contained in the body of the report.

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## Review of the Information Security Program at the Department (IT-A-03-15)

In its FY 2003 evaluation of the effectiveness of the Department's information security program, OIG noted significant improvements since its 2002 report (IT-A-02-06, September 2002), but found several key areas of security that still require senior management attention. The Department recognizes that much more must be done to develop fully and ensure the continuity of its systems security program. It has provided an overview of its management approach to information security in its FY 2003 draft Cyber Security Program Management Plan.

During the first quarter of FY 2003, the Department's Chief Information Officer (CIO) asked the National Institute of Standards and Technology's Computer Security Expert Assist Team (CSEAT) to conduct an independent review of its information security program, paying particular attention to what the Department suspected to be its weakest areas. The Department concurred with the CSEAT observations and recommendations and noted in its third quarter corrective action plan report to OMB that it would be taking action to implement each of CSEAT's 17 recommendations. OIG also found that the Department developed, and was implementing, a systems authorization plan to provide certification and accreditation for its new and existing major applications and general support systems.

However, OIG noted several areas that still require senior management attention. There was a material weakness in internal controls regarding the Department's financial management system, and a plan of action and milestones process to correct this material weakness has not been reported to OMB in the quarterly corrective action plans. The CIO reported in comments to a draft of this report that major elements of the auditor findings are represented in different elements of the plan of action and milestones process. However, OIG notes that a comprehensive plan of action and milestones process addressing all aspects of the material weakness has not been developed. Although a number of building blocks for a Department IT security program are being developed, they are still immature and cannot yet be used as management tools.

Also, even though the Diplomatic Security Training Center and Foreign Service Institute separately track training, OIG found that the Department does not centrally track training for its personnel with significant responsibilities for information and information systems security. Some overseas missions OIG visited while conducting

IT inspections had developed mission-wide information systems security plans, and OIG's technical evaluations identified several weaknesses in mission information security management and technical and operational controls.

The results from OIG's two surveys were mixed and contained both improvements and setbacks from the previous year. In the first survey, for example, in FY 2003, bureaus reported that 77 percent of their applications had security-level determinations (up from 72 percent in FY 2002). However, only three percent of applications had security plans (down from 15 percent in FY 2002). From the second survey, OIG learned that all five selected systems had a security-level determination, but none had been certified and accredited.

This report presents the results of OIG's evaluation work in assessing the security of the Department's IT resources. Several recommendations OIG made to correct the deficiencies identified in this evaluation either were already made in prior reports or will be made in reviews currently under way. The two recommendations contained in this report reflect the importance of making progress toward the completion of identifying, documenting, and creating linkages in IT security work that is currently under way within the Department.

The Department is in agreement with the findings and recommendations of the report and reiterated its commitment to continued emphasis on cyber security to develop fully the initiatives that it has undertaken.

# INVESTIGATIONS

## Theft

OIG opened an investigation in December 2002, based on information that a contract employee in a Department warehouse in Virginia was stealing government property, including digital cameras and power tools, and was selling these items to various pawnshops. The investigation confirmed that the contract employee had pawned and sold specific items that had been listed on Department inventory records. In April 2003, in an interview with OIG investigators, the contract employee admitted to having pawned a total of 55 warehouse items valued at approximately \$18,000, and was immediately terminated from employment at the Department. In July 2003, the contract employee pleaded guilty to a felony charge of theft of government property. Sentencing was pending at the end of this reporting period.

## Employee Misconduct

OIG received information that an employee falsely claimed two days of absence from work for jury duty. OIG's investigation determined that the employee falsified documentation from the District of Columbia Superior Court that the employee submitted to justify the leave. When interviewed, the employee admitted to not having served on jury duty on the days in question and having had submitted the phony documentation to avoid taking leave without pay. On July 22, 2003, the Bureau of Human Resources issued a four-day suspension to the employee.

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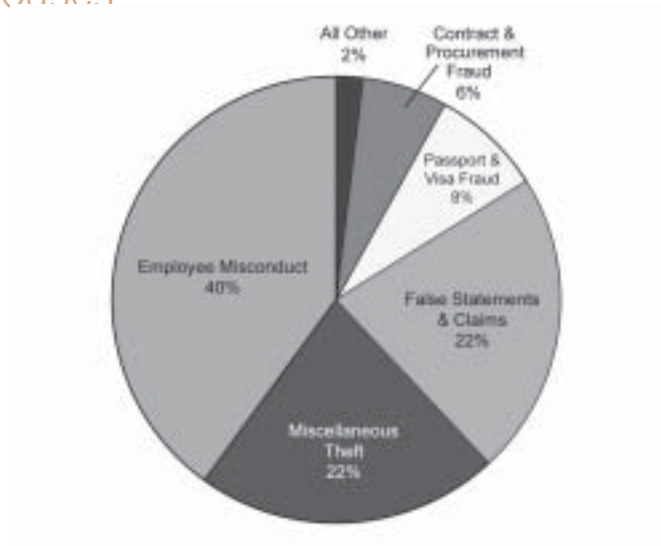
OIG received information that a contract employee of the Department sent a letter to an assistant state's attorney in Charles County, Maryland on Department letterhead. The contract employee was requesting favorable consideration in the upcoming sentencing of the contract employee's spouse. When interviewed, the contract employee admitted to having sent the letter in question, but added that it



was at the instruction of the contract employee's attorney's assistant to use Department letterhead when writing the letter. On August 19, 2003, the contract employee was terminated from employment with the Department.

OIG conducted an investigation into allegations that a senior Department manager improperly released non-public information to an outside entity. On May 23, 2003, the Bureau of Human Resources issued a Letter of Admonishment to the employee.

## Types of Cases



## Grant Mischarges

OIG opened an investigation in July 2001, based on information developed in an OIG audit indicating that a Department grantee had apparently charged Department grant funds for travel costs that were not incurred. During the investigation, OIG investigators and auditors provided detailed information regarding this practice to the U.S. Attorney's Office for the Eastern District of Virginia. On April 7, 2003, the U.S. Attorney's Office informed OIG that the grantee organization had signed a settlement agreement and, in accordance with the terms of this agreement, had repaid the U.S. government \$25,000.

## Follow-up Actions

OIG opened an investigation in 2002, based upon a complaint that the president of a company providing explosives ordnance detection (EOD) dogs and handlers to the Department as a subcontractor had made false statements about the company's qualifications and was providing the Department with dogs and handlers that could not meet the standards claimed by the company. The company had begun to provide EOD detector dogs and handlers to several federal entities, including the Department, after September 11, 2001. This became a joint investigation with the Offices of Inspector General of the Department of Homeland Security, the Federal Reserve System, and the Department of the Treasury Inspector General for Tax Administration.

In April 2002, at the request of the Department's Bureau of Diplomatic Security, officials of the Bureau of Alcohol, Tobacco and Firearms administered a standardized test to six of the EOD dogs that the company had assigned to work at the Department. All six of the dogs failed the test. Immediately following this test, the primary contractor terminated its subcontract with this company.



On March 13, 2003, the president of the company was indicted by a federal grand jury in Alexandria, Virginia on multiple felony counts. On June 20, 2003, after an eight-day trial, the company president was found guilty on all counts in the indictment, including 25 counts of wire fraud and two counts of false statements. On September 8, 2003, the company president was sentenced to 78 months' imprisonment, and three years' supervised probation. The company president was also fined \$2,700 and ordered to make restitution of \$708,450.78. (See OIG Semiannual Report, October 1, 2002 to March 31, 2003, p. 59)

OIG opened an investigation in April 2002, based on information that the controller of a nonprofit organization receiving grant funds from the Department had improperly written checks to the controller and to the controller's family. An OIG investigator, working with OIG auditors, was able to confirm this through analysis of available financial records. The subject of the investigation admitted to theft during an interview and in March 2003, pleaded guilty to a felony charge. On July 2, 2003, the controller was sentenced to five months' incarceration, five months' home detention, and three years' supervised probation, and also fined \$100 and ordered to make restitution of \$62,162.67. (See OIG Semiannual Report, October 1, 2002 to March 31, 2003, p. 60)

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OIG opened an investigation in March 2001, based on information from the Office of Audits indicating that a former employee of a Department grantee may have been involved in the theft of grant funds. The purpose of the grant was to provide resources to a nongovernmental organization (NGO) to influence public opinion in favor of indicting Iraqi war criminals. The investigation developed evidence that the former employee of the NGO had charged personal expenditures to grant funds and had fraudulently increased the former employee's own salary without the approval or knowledge of the supervisor. In November 2002, the former NGO employee pleaded guilty to a misdemeanor charge of bank larceny. On May 6, 2003, the former NGO employee was sentenced to six months' home detention, and 18 months' probation. The employee was fined \$2,025, and was ordered to make restitution to the Department of \$12,874.27. (See OIG Semiannual Report, October 1, 2002 to March 31, 2003, pp. 59-60)

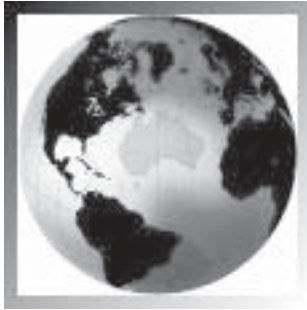
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OIG received information that a Foreign Service officer (FSO) failed to file two required annual Financial Disclosure Reports despite repeated written reminders from the FSO's own office. On January 24, 2003, the Bureau of Human Resources issued a three-day suspension of the officer for failure to follow instructions by not filing the Financial Disclosure Reports. On March 5, 2003, OIG referred the matter to the Civil Division of the Department of Justice because of the FSO's continuing failure to file financial disclosure reports.

On April 29, 2003, the FSO agreed to pay the Department of Justice \$15,000 to settle the civil case. On May 9, 2003, the FSO paid the Department \$600 in late filing fees for not filing three financial disclosure reports in a timely manner. (See OIG Semiannual Report, October 1, 2002 to March 31, 2003, p. 61)

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## Geographic Distribution of Ongoing Investigations



<b>Near East and South Asia</b> .....	<b>0%</b>
<b>East Asia and Pacific Islands</b> .....	<b>2%</b>
<b>Africa</b> .....	<b>2%</b>
<b>Europe</b> .....	<b>11%</b>
<b>Western Hemisphere</b> .....	<b>13%</b>
<b>Domestic</b> .....	<b>72%</b>

### Non-compliance with Dodd Amendment

Section 209 (c)(5)(B)(i) of the Foreign Service Act requires that any person named in an OIG final report of investigation be given the opportunity to refute any allegation of wrongdoing or assertion with respect to a material fact regarding that person's actions. Instances of non-compliance are required to be reported to Congress in the OIG's semiannual report with an explanation. During this reporting period, OIG issued a report of investigation to the Bureau of Human Resources for appropriate administrative/disciplinary action concerning a FSO's submission of fraudulent travel vouchers. Although assertions were made about the FSO's spouse, who prepared and submitted the fraudulent vouchers, OIG did not interview the spouse. According to the employee and the Department's Office of Medical Services, the spouse is in poor health. Because of the delicate nature of the spouse's medical condition, OIG made the decision not to interview the spouse during the investigation. Action on the Report of Investigation is still pending.

## Hotline

The OIG Hotline, operated by the Office of Investigations, is a prompt, effective channel for employees and others to report incidents of fraud, waste, abuse, and mismanagement to the Inspector General. Below is a summary of Hotline activity for the Department and BBG.



Held for action within OIG	15
Referral to other offices for action	112
No action necessary	31
Total allegations received	158

## APPENDIX 1: INVESTIGATIVE ACTIVITIES

<b>Workload</b>		<b>Total Judicial Actions</b>	<b>16</b>
Cases pending 3/31/03	43	<b>Criminal</b>	
New cases opened	15	Prosecutive referrals	3
Cases closed	21	Prosecutive declinations	3
Cases pending 9/30/03	37	Prosecutive dismissals	0
Preliminary inquiries pending 3/31/03	22	Acquittals	0
Preliminary inquiries opened	29	Indictments	2
Preliminary inquiries closed	26	Convictions	2
Preliminary inquiries		Sentencings	3
converted to cases	7	Time sentenced	89 months
Preliminary inquiries pending 9/30/03	18	Time probation	90 months
<b>Total Administrative Actions</b>	<b>9</b>	Court-ordered fines	\$4,825.00
		Court-ordered restitutions	\$783,487.72
Admonishments	1	<b>Civil</b>	
Counseling	0	Referrals	1
Curtailment	0	Declinations	0
Demotions	0	Complaints	0
Reimbursements	0	Judgments	0
Reprimands	0	Court-ordered fines	\$40,600.00
Resignations	0	Recoveries	2
Suspensions	2	<b>Total judgments</b>	
Terminations (DOS employees)	0	<b>and recoveries</b>	<b>\$40,600.00</b>
Terminations (Contract employees)	1		
Administrative referrals	5		
Program Fraud and			
Civil Remedies Act referrals	0		
Savings	0		

Administrative recoveries	\$ -0-
Judicial recoveries	\$ 828,912.72
<b>Total Investigative Recoveries</b>	<b>\$ 828,912.72</b>

This appendix reflects investigative statistics for the Department only; investigative statistics for BBG are in Appendix 1 of the BBG section of this report. The statistics and narrative case descriptions of investigative activities appearing in this Semiannual Report are the result of reports received from prosecutive and administrative authorities. The final actions may be changed at a later date by individual use of administrative and judicial appeals processes.

**Indictments** include formal criminal charges brought against a subject. The manner in which charges are brought varies from country to country. **Judicial recoveries** include recoveries from judicial actions, including court-ordered fines and restrictions and civil judgments and recoveries. **Administrative recoveries** include recoveries from administrative actions, such as reimbursements and savings.



## APPENDIX 2: REPORTS ISSUED

### Security and Intelligence Oversight

SIO-I-03-22	Limited-Scope Security Inspection of Embassy Port of Spain, Trinidad & Tobago	08/03
SIO-I-03-27	Security Inspection of Embassy N'Djamena, Chad	06/03
SIO-I-03-31	Limited-Scope Security Inspection of U.S. Office Pristina, Kosovo	04/03
SIO-I-03-36	Limited-Scope Security Inspection of Embassy Brasilia, Brazil, & Constituent Posts	05/03
SIO-I-03-37	Security Compliance Follow-up Review of Embassy Berlin, Germany & Constituent Posts	05/03
SIO-I-03-42	Limited-Scope Security Inspection of Embassy Rangoon, Burma	06/03
SIO-I-03-43	Security Inspection of Embassy Khartoum, Sudan	07/03
SIO-I-03-44	Security Inspection of Consulate General Hamilton, Bermuda	08/03
SIO-I-03-45	Limited-Scope Security Inspection of Embassy Phnom Penh, Cambodia	07/03
SIO-I-03-47	Limited-Scope Security Inspection of Embassy Madrid and Consulate General Barcelona, Spain	08/03
SIO-I-03-48	Limited-Scope Security Inspection of Embassy Vientiane, Laos	06/03
SIO-I-03-49	Limited-Scope Security Inspection of Embassy Lisbon & Consulate Ponta Delgada, Portugal	08/03
SIO-I-03-50	Limited-Scope Security Inspection of the U.S. Mission To the United Nations	07/03
SIO-I-03-51	Security Inspection of Embassy Suva, Fiji	09/03
SIO-I-03-52	Security Inspection of Embassy Port Moresby, New Guinea	08/03
SIO-I-03-53	Security Inspection of Embassy Kolonia, Federated States of Micronesia	09/03
SIO-I-03-54	Security Inspection of Embassy Koror, Republic of Palau	09/03
SIO-I-03-55	Security Inspection of Embassy Majuro, Marshall Islands	09/03
SIO-C-03-56	Compliance Follow-up Review and Annual Foreign National Employee Review of Embassy Moscow & Constituent Posts	09/03
SIO-I-03-59	Security Inspection of Embassy Lusaka, Zambia	09/03
SIO-I-03-60	Limited-Scope Security Inspection of Embassy Copenhagen	09/03
SIO-I-03-61	Limited-Scope Security Inspection of Embassy Reykjavik, Iceland	09/03



## Inspections

ISP-I-03-11	Inspection of Embassy Belgrade and Consulate Podgorica, Yugoslavia	07/03
ISP-I-03-13	Inspection of the Office of Foreign Missions	06/03
ISP-I-03-14	Inspection of Embassy Helsinki, Finland	07/03
ISP-I-03-15	Inspection of Embassy La Paz, Bolivia	04/03
ISP-I-03-16	Inspection of Embassy Oslo, Norway	07/03
ISP-I-03-17	Inspection of U.S. Office Pristina, Kosovo	07/03
ISP-I-03-18	Inspection of the Office of the Chief of Protocol	07/03
ISP-I-03-20	Inspection of Embassy Skopje, Macedonia	07/03
ISP-I-03-21	Inspection of Embassy Stockholm, Sweden	07/03
ISP-I-03-22	Inspection of Embassy Tirana, Albania	05/03
ISP-CA-03-27	Review of the Issuance of Visas to the September 11, 2001, Terrorists	03/03
ISP-C-03-28	Compliance Follow-up Review of the Inspection of Embassy Abuja and Consulate General Lagos, Nigeria	07/03
ISP-I-03-29	Inspection of Embassy Antananarivo, Madagascar	08/03
ISP-I-03-30	Inspection of Embassy Apia, Samoa	08/03
ISP-I-03-31	Inspection of Embassy Canberra, Australia, and Constituent Posts	07/03
ISP-I-03-32	Inspection of Embassy Georgetown, Guyana	09/03
ISP-I-03-33	Inspection of the Bureau of International Organization Affairs	09/03
ISP-I-03-34	Inspection of the Office of the Legal Adviser	09/03
ISP-I-03-35	Inspection of Embassy Lisbon, Portugal	09/03
ISP-I-03-36	Inspection of Embassy Madrid and Consulate General Barcelona, Spain	09/03
ISP-I-03-37	Inspection of Embassy Paramaribo, Suriname	09/03
ISP-I-03-38	Inspection of Embassy Phnom Penh, Cambodia	08/03
ISP-I-03-39	Inspection of Embassy Port of Spain, Trinidad and Tobago	08/03
ISP-I-03-40	Inspection of Embassy Rangoon, Burma	08/03
ISP-I-03-41	Inspection of U.S. Mission to the United Nations	09/03
ISP-I-03-42	Inspection of Embassy Vientiane, Laos	08/03
ISP-I-03-43	Inspection of Embassy Wellington, New Zealand	08/03
ISP-C-03-44	Compliance Follow-up Review of Embassy Luanda, Angola	07/03
ISP-I-03-45	Inspection of Embassy Copenhagen, Denmark	09/03
ISP-CA-03-46	Inspection of the Directorate of Visa Services, Bureau of Consular Affairs	08/03
ISP-I-03-48	Inspection of the Bureau of Democracy, Human Rights and Labor	09/03
ISP-I-03-49	Inspection of Embassy Reykjavik, Iceland	09/03
ISP-I-03-50	Inspection of Embassy Mexico City, Mexico, and Constituent Posts	09/03
ISP-I-03-51	Cost of Living Allowance	09/03
ISP-CA-03-52	Diversity Visa Program Report	09/03
ISP-I-03-53	Post Assignment Travel Report	09/03

## Audits

AUD/PPA-03-24	Review of Allegations Regarding the Office of Humanitarian Demining Program's Contract for Integrated Mine Action Services	09/03
AUD/FM-03-30	Assessment of the Department of State's Connection Approval Process, Independent Validation & Verification Protocol, & System Certification & Accreditation Process	04/03

AUD/CG-03-33	Independent Accountant's Report on Application of Agreed-Upon Procedures to a Proposal Submitted by J.A. Jones Construction to U.S. Department of State in Response to U.S. Department of State Request for Solicitation No. S-LMAQM-00-C-6035	05/03
AUD/GC-03-34	Report of Audit of Costs Claimed by the International Research & Exchanges Board Under U.S. Department of State Grant Numbers IA-AECS-G7190351, IA-AEPS-G8190305 and IA-AEJL-G9190166 September 24, 1997, through September 30, 2000	05/03
AUD/PPA-03-35	Review of Legal Services Contract	05/03
AUD/FM-03-37	Information Technology Vulnerability Assessment Of the HYPERION Financial Management Application	07/03
AUD/FM-03-38	International Boundary & Water Commission, United States & Mexico, U.S. Section, Financial Statements, FY 2002	08/03
AUD/PPA-03-39	Review of Allegations Regarding Office of Foreign Missions Information System Procurements	08/03
AUD/CG-03-41	Follow-up Review of the Institute of International Education	09/03

#### **Information Technology**

IT-A-03-08	Knowledge Management at the Department of State: Learning From Successful Principles and Practices	07/03
IT-I-03-09	Information Security Inspection & Evaluation of Embassy Vienna, Austria	09/03
IT-I-03-10	Information Technology Inspection & Evaluation of Embassy Athens, Greece	09/03
IT-A-03-15	Review of the Information Security Program at the Department	09/03



# APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

**Table 1**  
**INSPECTOR GENERAL ISSUED AUDIT REPORTS**  
**WITH QUESTIONED COSTS<sup>1</sup>**

	<u>Number of Reports</u>	<u>(Dollars in Thousands)</u>	
		<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period	10	12,318	9,094
B. Which were issued during the reporting period	2	4,795	
Subtotals (A+B)	12	17,113	9,094
C. For which a management decision was made during the reporting period - based on formal administrative or judicial appeal			
(i) dollar value of disallowed costs	1	2,600	
(ii) dollar value of costs not disallowed			
D. For which no management decision has been made by the end of the reporting period	11	14,513	9,094
Reports for which no management decision was made within 6 months of issuance	10	12,318	9,094

<sup>1</sup> Questioned costs are 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 the audit, such costs are not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Table II

INSPECTOR GENERAL ISSUED AUDIT REPORTS  
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE<sup>1</sup>

	<u>Number of Reports</u>	<u>Dollar Value (in thousands)</u>
A. For which no management decision has been made by the commencement of the reporting period.	2	670
B. Which were issued during the reporting period	0	0
Subtotals (A+B)	2	670
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management —based on proposed management action —based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	2	670
Reports for which no management decision was made within 6 months of issuance.	2	670

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<sup>1</sup> A 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 & RECOMMENDATIONS

## PREVIOUSLY REPORTED SIGNIFICANT AUDIT RECOMMENDATIONS<sup>1</sup> PENDING FINAL ACTION<sup>2</sup>

**Report Number 93-A-34/ARR-95-08**  
**Grants Management Follow Up**

*First Reported: 03/31/95*

Recommendation No. 5

Require monthly reporting requirements on the project's status.

Recommendation No. 6

Ensure that data in the grants system is reconciled with data in other grant-related systems.

**APR-96-07**  
**Exchange Visitor Information System**

*First Reported: 03/31/96*

Recommendation No. 3

Determine the feasibility of electronically transmitting J Visa data from Sponsor organizations to the EVIS database at USIA

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<sup>1</sup> Includes audit recommendations reported as significant in Semiannual reports prior to March 31, 2003, on which the Department management has agreed to take corrective action but for which those actions are not yet complete.

<sup>2</sup> Final action is recorded when a proposed course of action in response to a recommendation has been accepted by OIG and completed by management to OIG's satisfaction.



# BROADCASTING BOARD OF GOVERNORS AUDITS

## Review of Strategic Management of Human Capital and Workforce Planning Initiatives at the Broadcasting Board of Governors (IBO-A-03-02)

The President's Management Agenda (PMA) requires all federal agencies to prepare comprehensive plans to remove management layers; attract a high-quality, diverse workforce; and link workforce needs directly to the achievement of strategic objectives. PMA guidance calls for the creation of a results-oriented, performance-based culture in which agencies recruit, train, and retain the right people with the right skills to ensure success. Under PMA, the OMB, Office of Personnel Management (OPM), and GAO have prepared consolidated guidance, Human Capital Standards of Success, to help agencies develop these plans.

PMA underscores the need for agencies to link their human capital planning efforts clearly and directly with their strategic and program plans developed under the Government Performance and Results Act of 1993 (PL 103-62). In response, the Broadcasting Board of Governors' International Broadcasting Bureau (IBB) prepared both workforce restructuring plans and an outline for a human capital plan, but these plans do not encompass all IBB staff nor meet the criteria set forth in the consolidated guidance. Moreover, the plans do not fully comply with OMB standards requiring agencies to link program goals with performance measures and results.

The agency uses its annual language service review to systematically evaluate performance, results, and service priorities as well as align organizational endeavors. However, the lack of a detailed human capital plan makes it difficult to measure how effectively the agency can validate its workforce planning and restructuring efforts.

OIG reviewed IBB's workforce restructuring and human capital plans to determine whether IBB was facing challenges in complying with the PMA goals and OMB standards. OIG found that IBB was facing major human capital challenges in striving to meet the PMA. For example, the agency told OIG that after a series of nine staffing reductions between 1994 and 2000, it was challenged to meet its mis-



sion while assuming the legal, security, procurement, training, personnel, and other administrative functions it inherited when it became an independent entity in 1999. According to the IBB Workforce Restructuring Plan for 2003-07 (September 24, 2001) and the BBG Workforce Analysis (July 3, 2001) to OMB by the chief of staff, the agency lacked expertise in administration, management, and budgeting, which adversely affected the support of its managers needed to make day-to-day administrative and programmatic decisions.

During this review, agency managers told OIG that many staff members needed training to adapt to changing broadcasting skill sets in order to respond more effectively to immediate and emerging broadcast demands.

IBB employees are closer to retirement, higher graded, better paid, and have fewer years of service when compared with other federal employees. According to IBB workforce plans, by 2007 up to 83 percent of current managers and supervisors and 67 percent of other current staff will be eligible for retirement. Additionally, given standard attrition rate projections, up to an additional 24 percent of staff not eligible for retirement may also depart over the next few years. By contrast, only 35 percent of the federal workforce will be eligible to retire during the same period.

IBB has made progress in diversifying its workforce through recruitment, training, and other initiatives. OIG found, however, that IBB did not provide specific plans for establishing a more diverse workforce.

From its own assessment, IBB faces significant human capital challenges, such as an aging workforce, succession planning, and adapting to changes in technology indicative of trends throughout the federal workforce. A human capital crisis, as described by GAO, may be imminent. As the administration places greater importance on linking strategic goals, performance management, budget allocation, and results under OMB's new Performance Assessment Review Tool process, IBB needs to make improvements in its workforce planning effort or risk a diminished ability to compete for resources in a tight fiscal environment.

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## Review of Radio Free Asia Activities, (IBO-A-03-05)

Radio Free Asia (RFA) appeared to be achieving its broadcasting mission. Government restrictions on foreign media in the countries to which it broadcasts have severely limited scientifically based research on audience size. Nonetheless, various

indicators pointed to RFA's effectiveness, including audience research studies, internal program reviews, and other external effectiveness measures. Despite the sizable challenges associated with broadcasting to countries with restricted political, social, and media conditions, and owing largely to dedicated staff, RFA seemed to be producing a quality product.



Listeners' Forum call-in show from Phnom Penh

RFA could improve its administrative policies and procedures, particularly in the areas of budgeting, procurement, and human resources. Specifically, procedures for establishing and managing its budget did not include input from all managers and were not clear to all. In addition, concerns regarding the budget process appeared to be affecting the morale of some employees.

Regarding procurement, RFA did not always follow required procurement standards. Under terms set forth in its grant agreement, RFA was to make every reasonable effort to meet the requirements outlined in selected OMB circulars. In some cases, its policies and procedures were not fully consistent with these circulars; for example, with regard to competition.

RFA has matured as an organization since it began broadcasting in 1996. With organizational growth and development has come a need for increased attention to human resources, including more standardized hiring practices and improved staff management. Current practices are a mix of competitive and noncompetitive processes, raising questions of fairness in hiring.

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## Management Review of Selected Benefits for Radio Free Europe/Radio Liberty Employees (IBO-A-03-07)

Radio Free Europe/Radio Liberty (RFE/RL), a grantee under the BBG, broadcasts in more than 30 different languages to an audience estimated at 35 million listeners in Southeastern Europe, Russia, the Caucasus, Central Asia, and the Middle

East. Language service priorities can change rapidly. The need to hire staff with specific broadcasting and language skills, and yet remain within an imposed ceiling on the number of regular employees, requires RFE/RL to have flexibility in its employment practices. In the past four years, for example, RFE/RL has initiated broadcast services in seven new languages, including broadcasts to Iraq, Iran, Kosovo, Macedonia, Latvia, Afghanistan, and the Northern Caucasus.

Assigning employee benefits, so as not to exceed funding levels granted by Congress through BBG, and meeting local and U.S. government labor laws is a major challenge for RFE/RL. The primary objective of this OIG management review was to evaluate the assignment of benefits for health, life, and retirement. A second objective was to analyze the process for selecting benefit providers.

From its Prague and Washington, D.C., offices, RFE/RL broadcasts using a multinational staff of 602 employees. To start up a language service or implement new programming, RFE/RL must rapidly hire personnel on a temporary basis with only partial benefits. Temporary employees, usually on a fixed contract for one year, may later be converted to open-ended contracts that include health, life, and retirement benefits. Some temporary employees have worked as long as five years, signing, serially, one-year contract extensions that include health care as a benefit. U.S. citizens or citizens of a country other than the Czech Republic are hired under several types of contracts, which include different benefits. Both regular and temporary Czech employees receive benefits according to laws in the Czech Republic that require that all employees have a contract, regardless of their nationality.

The Washington office of RFE/RL manages all major benefit programs through the Employee Benefit Advisory Committee (EBAC), which includes investment consultants and representatives from local law firms. EBAC reviews current benefits and decides whether the provider should be changed or the contracts amended, subject to agreement by the RFE/RL Board of Directors.

OIG reviewed employee records and human resource policies for health, life, and retirement programs and determined that RFE/RL had a consistent, equitable process in place for the assignment of employee benefits. Recommendations included in this review were made to update enrollments in benefit payments and to verify with experts that employment contracts used by RFE/RL were in accordance with applicable Czech Republic and U.S. labor laws. An independent review of labor laws would ensure that the present assignment of personnel benefits, based on an employment contract, is correct. RFE/RL, with its multinational staff, has been diligent in assigning benefits according to local labor law. That same diligence needs to be applied as operations evolve across RFE/RL's broadcasting region.

The process RFE/RL uses to select benefit providers considers cost, customer service, and whether the provider has the ability to service a multinational client. In FY 2002, providers were selected for health insurance and life and disability insurance. RFE/RL's selection of benefit providers was a detailed process using qualified RFE/RL employees and outside consultants. In FY 2003, a new solicitation is being made for the investment manager for the Retirement Savings Plan (RSP). During the review, OIG advised RFE/RL that the enrollment of eligible employees for the RSP should be automatic. RFE/RL then took decisive action and implemented automatic enrollment on May 1, 2003.



# BROADCASTING BOARD OF GOVERNORS

## INFORMATION TECHNOLOGY

### Review of the Information Security Program at the Broadcasting Board of Governors (IT-A-03-14)

In response to the Federal Information Security Management Act of 2002 (FISMA), OIG performed an independent review and evaluation of the information security program of BBG. Replacing the Government Information Security Reform Act, FISMA provides a comprehensive framework for establishing and ensuring the effectiveness of controls over IT resources that support federal operations and assets and a mechanism for improved oversight of federal agency information security programs. Also, OMB implementation guidance for FISMA requires OIGs to assess development, implementation, and management of the agency-wide plan of action and milestones process and to focus on performance measures. The specific objectives of OIG's review were to assess BBG's progress in developing its computer security program and implementing the requirements of the law.

To fulfill the review objectives, OIG met with BBG officials from IBB, Voice of America (VOA), Office of Cuba Broadcasting, and four overseas transmitting stations in Germany. OIG did not conduct a detailed review of BBG's grantee organizations, RFE/RL and RFA, but did hold meetings and gathered relevant documentation to assess each organization's strategic approach to handling IT information security. Both grantees are private, nonprofit organizations that own and operate their own IT systems.

OIG's evaluation of BBG's information security program concluded that BBG has made limited progress in the past year and much more needs to be done to comply with FISMA. BBG has developed a comprehensive system security plan for the IBB Office of Computing Services; performed program-level self-assessments; and documented the results of the self-assessments in quarterly reporting to OMB of the agency's plan of action and milestones process. The first three FY 2003 quarterly reports to OMB identified 220 information security weaknesses, of which 136 had been corrected. In addition, BBG hired a contractor to assist BBG's Office of Computing Services to meet FISMA requirements. However, despite this progress, several key areas of information security still require management attention. BBG concurred with the five recommendations included in OIG's FISMA evaluation report and will be taking actions to ensure their implementation.



# BROADCASTING BOARD OF GOVERNORS

## APPENDIX 1: INVESTIGATIVE ACTIVITIES

### Workload

Cases pending 3/31/03	1
New cases opened	2
Cases closed	0
Cases pending 9/30/03	3
Preliminary inquiries pending 3/31/03	0
Preliminary inquiries opened	1
Preliminary inquiries closed	0
Preliminary inquiries converted to cases	0
Preliminary inquiries pending 9/30/03	1
<b>Total Judicial Actions</b>	<b>0</b>
<b>Prosecutive Referral</b>	<b>0</b>
<b>Prosecutive Declination</b>	<b>0</b>
<b>Total Administrative Actions</b>	<b>1</b>
Referrals	1

The statistics and narrative case descriptions of investigative activities appearing in this semiannual report are the result of reports received from prosecutive and administrative authorities. The final actions may be changed at a later date by individual use of administrative and judicial appeals processes.





# BROADCASTING BOARD OF GOVERNORS

## APPENDIX 2: REPORTS ISSUED

### Audits

IBO-A-03-02	Review of Strategic Management of Human Capital and Workforce Planning Initiatives at the Broadcasting Board of Governors	09/03
IBO-A-03-05	Review of Radio Free Asia Activities	08/03
IBO-A-03-07	Management Review of Selected Benefits for Radio Free Europe/Radio Liberty Employees	09/03

### Information Technology

IT-A-03-14	Review of the Information Security Program at the Broadcasting Board of Governors	09/03
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# BROADCASTING BOARD OF GOVERNORS

## APPENDIX 3: SAVINGS & MORE EFFECTIVE USE OF RESOURCES

**Table 1**

### INSPECTOR GENERAL ISSUED AUDIT REPORTS WITH QUESTIONED COSTS

	<u>Number of Reports</u>	(Dollars in Thousands)	
		<u>Questioned Costs</u>	<u>Unsupported Costs</u>
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
Subtotals (A+B)	0	0	0
C. For which a management decision was made during the reporting period			
- based on formal administrative or judicial appeal			
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	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

Table II

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

	<u>Number of Reports</u>	<u>Dollar Value (in thousands)</u>
A. For which no management decision has been made by the commencement of the reporting period.	1 <sup>1</sup>	426
B. Which were issued during the reporting period	1	231
Subtotals (A+B)	2	657
C. For which a management decision was made during the reporting period	2	657
(i) dollar value of recommendations that were agreed to by management —based on proposed management action —based on proposed legislative action	2	657
(ii) dollar value of recommendations that were not agreed to by management	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

<sup>1</sup> Report was issued during the last OIG semiannual reporting period in March 2003; however, this figure was not reported.

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## Significant Problems, Abuses and Deficiencies

*The Review of Strategic Management of Human Capital and Workforce Planning Initiatives* at BBG brought attention to the very serious management challenges facing the agency. To its credit, BBG has been able to meet its mission notwithstanding these challenges and has taken some welcomed first steps to address problems in its human capital initiative that are typical of those on which the PMA focuses. However, much remains to be done to ensure the health of the agency.

*The Review of Radio Free Asia Activities* pointed out that RFA needed to improve its administrative policies and procedures, particularly in the areas of budgeting, procurement, and human resources. Morale of employees was adversely affected, which likely had a bearing on the vote by RFA employees to unionize, making it the first BBG grantee to have a union represent them. Regarding procurement, RFA did not always follow required procurement standards. Hiring practices also were a mix of competitive and noncompetitive processes, raising questions about fairness in hiring. A general lack of transparency provided a fertile breeding ground for accusations, some of which had no merit, but which were not helpful in terms of the overall atmosphere.

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## Significant Management Success in Implementing OIG Recommendations

BBG deserves acknowledgment for the quick and decisive action it took in addressing OIG recommendations in *Review of Radio Free Asia Activities*. These corrective actions included making personnel changes, ensuring transparency and avoiding the appearance of favoritism in hiring practices, and closing the Tokyo news bureau. OIG believes RFA has been strengthened by the recommendations and the agency's actions. Moreover, BBG has indicated that the Board of Governors intends to increase its oversight of grantees.



## LIST OF ABBREVIATIONS

A	Bureau of Administration
ACDA	Arms Control and Disarmament Agency
BBG	Broadcasting Board of Governors
CA/VO	Bureau of Consular Affairs, Directorate of Visa Services
CDC	Centers for Disease Control
CSEAT	Computer Security Expert Assist Team
DCM	Deputy chief of mission
DEA	Drug Enforcement Administration
DRL	Bureau of Democracy, Human Rights and Labor
DV	Diversity Visa Program
EBAC	Employee Benefit Advisory Committee
EOD	Explosives ordnance detection
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Management Act
FTA	Free Trade Agreement
FSN	Foreign Service national
FSO	Foreign Service officer
GAO	General Accounting Office
IBB	International Broadcasting Bureau
ICASS	International Cooperative Administrative Support Services
IMAS	Integrated Mine Action Support contract
INL	Bureau of International Narcotics and Law Enforcement Affairs
IIE	Institute of International Education
IO	Bureau of International Organization Affairs



IT	Information technology
KM	Knowledge management
L	Office of the Legal Adviser
M	Office of the Under Secretary for Management
MPP	Mission Performance Plan
NGO	Nongovernmental organizations
NIV	Nonimmigrant visa
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
OFM	Office of Foreign Missions
OMB	Office of Management and Budget
PART	Performance Assessment Review Tool
PMA	President's Management Agenda
RFA	Radio Free Asia
RFE/RL	Radio Free Europe/Radio Liberty
RM/SPP	Bureau of Resource Management, Office of Strategic Policy and Planning
RSP	Retirement Savings Plan
USAID	U.S. Agency for International Development
USIBWC	International Boundary and Water Commission, U.S. Section
USUN	U.S. Mission to the United Nations
VOA	Voice of America

**INDEX OF REPORTING REQUIREMENTS  
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Section 5(a)(12)	Significant management decisions with which OIG disagreed	None

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