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Office of Inspector General
Northeast Region

Audit Report

Agricultural Research Service Accountability Over the Former Soviet Union Scientific Cooperation Program

Report No. 02001-2-Hy
August 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



August 1, 2006

REPLY TO

ATTN OF: 02001-02-Hy

TO: Edward B. Knipling
Administrator
Agricultural Research Service

THROUGH: Steven Helmrich
Director
Financial Management Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Accountability Over the Former Soviet Union Scientific Cooperation Program

This report presents the results of our audit of the Agricultural Research Service's Accountability over the Former Soviet Union Scientific Cooperation Program. Your June 28, 2006, response to the official draft report is included as exhibit A. Excerpts from your response and the Office of Inspector General's position are incorporated into the Findings and Recommendations section of the report. Based on your response, we have reached management decision on all of the report's recommendations. Please follow your agency's internal procedures in forwarding documentation for final action for the recommendations to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us during this review.

Executive Summary

Agricultural Research Service Accountability Over the Former Soviet Union Scientific Cooperation Program (Audit Report No. 02001-02-Hy)

Results in Brief

This report presents the results of the Office of Inspector General's (OIG) audit of the Agricultural Research Service's (ARS) accountability over the Former Soviet Union (FSU) Scientific Cooperation Program. Pursuant to section 509 of the Fiscal Year (FY) 2004 Appropriations Act (Public Law 108-199), OIG for the U.S. Department of Agriculture (USDA) shall perform periodic program and financial audits of funds transferred under the Memorandum of Agreement with the Department of State (DOS).

The FSU Scientific Cooperation Program was designed to reduce the risk of proliferation of weapons of mass destruction expertise, increase transparency at former Soviet biological weapons research sites, and support the transition of former Soviet weapons scientists in Russia, Kazakhstan, Uzbekistan, Tajikistan, and Ukraine to civilian activities by redirecting their biotechnology expertise into peaceful agricultural research. As of April 1, 2005, there were 46 funded research projects that received \$18.176 million.

ARS has the responsibility for providing programmatic and financial accountability over the FSU Scientific Cooperation Program. To promote transparency, ensure the redirection of former weapons scientists and engineers toward peaceful research, and validate that project goals are being met, ARS is required to conduct annual site visits to the FSU institutes. In addition, ARS is required¹ to obtain, review, and provide feedback on quarterly and annual technical reports submitted by the FSU collaborators.² ARS also maintains ongoing collaboration with the International Science and Technology Center (ISTC) in Moscow and the Science and Technology Center in Ukraine located in Kiev, which are responsible for providing management oversight of the research activities and project expenditures at the FSU institutes.

We determined that ARS did not provide adequate accountability over program funds and that improved oversight of the research projects in the FSU Scientific Cooperation Program is needed.

- ARS did not ensure that site visits were conducted annually for the 11 projects we selected for review. This occurred because ARS did not enforce procedures requiring ARS collaborators³ to conduct annual site visits. For example, ARS had not implemented adequate follow-up

¹ ARS FSU Scientific Cooperation Program Guidelines for ARS collaborators, issued FY 2002 and updated FY 2005.

² FSU participants working on the project, including the project manager, scientists, etc.

³ ARS scientists assigned to the FSU project.

actions for collaborators who did not timely conduct site visits to ensure that they were completed. Also, ARS accepted alternative types of visits to fulfill its annual site visit requirement without gaining assurance of the specific tasks that were completed.

- ARS did not ensure that ISTC performed on-site monitoring reviews annually for our 11 selected projects, as recommended. This occurred because ARS lacked procedures specifying the frequency of the on-site monitoring reviews.
- ARS program officials did not ensure that all required quarterly technical reports were submitted by the FSU collaborators. ARS did not have documentation to ascertain whether 30 of the 141 quarterly reports had been received. Also, there was no evidence showing that the ARS collaborators reviewed and provided feedback for 71 of the quarterly reports on file.
- ARS had not fully developed and implemented management controls for ensuring the accountability of funds transferred from DOS. The use of over 70 percent (\$72,231 of \$98,548) of the funds transferred to the ARS collaborators in FY 2004 could not be validated. ARS' area office personnel were not required to track the program's funds separately from that of other non-FSU research funds. Therefore, program funds could have been used for unallowable expenditures and remained undetected. Additionally, the science centers had personnel expenditures totaling \$39,438 (out of the \$6.235 million allotted to the 11 projects we reviewed) that were not listed in the projects' workplan. This occurred because ARS program officials did not obtain and review required financial documentation and ARS did not require the science centers to provide notifications of deviations in the workplan.

These management control weaknesses increased the risk of payments being made for personnel not identified in the project workplan; personnel misclassified as former weapons scientists; and personnel who have not actively worked on the project. There is also an increased risk that former weapons scientists being compensated under this program could engage in inappropriate activities and ARS would not timely detect that program goals were not being met.

We discussed these concerns with ARS program officials who agreed that controls for administering the FSU Scientific Cooperation Program should be strengthened.

Recommendations In Brief

ARS needs to develop and implement a plan to ensure that its collaborators conduct site visits to the FSU institutes on an annual basis and the science centers consistently conduct on-site monitoring of the FSU projects. Also, ARS needs to improve its tracking system to ensure that all quarterly technical reports have been submitted and that the ARS collaborators have reviewed the reports and provided timely and adequate feedback. ARS should also establish a process for tracking FSU project funds to ensure that program funds are used appropriately, and for obtaining and reviewing pertinent financial records to ensure that costs incurred are allowable under the terms of the project agreement.

Agency Response

ARS responded to the draft audit report on June 28, 2006, (see exhibit A) and agreed in principle with the findings and recommendations. ARS did propose an alternative to Recommendation 1 which required that it develop and implement procedures to ensure that ARS collaborators conduct site visits on an annual basis. We have incorporated excerpts from ARS' response to our recommendations in the Findings and Recommendations section of this report along with OIG's position.

OIG Position

OIG concurs with ARS' response. We have accepted management decision on all eight recommendations.

Abbreviations Used in This Report

ARS	Agricultural Research Service
BW	Biological Weapons
DCAA	Defense Contract Audit Agency
DOS	Department of State
FSU	Former Soviet Union
FY	Fiscal Year
ISTC	International Science and Technology Center
NPS	National Program Staff
OIG	Office of Inspector General
OIRP	Office of International Research Programs
MOA	Memoranda of Agreement
STCU	Science and Technology Center in Ukraine
USDA	U.S. Department of Agriculture
WMD	Weapons of Mass Destruction

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Background and Objectives

Background

In 1953, the Secretary of Agriculture established the Agricultural Research Service (ARS) for the purpose of conducting the wide variety of research in agriculture and related sciences that is authorized in the Department of Agriculture Organic Act of 1862. ARS is the principal in-house physical and biological science research agency in the U.S. Department of Agriculture (USDA). ARS conducts research to develop and transfer solutions to agricultural problems of high national priority and provide informational access and dissemination to:

- Ensure high-quality, safe food;
- Assess the agricultural nutritional needs of Americans;
- Sustain a competitive agricultural economy;
- Enhance the natural resource base and the environment; and
- Provide economic opportunities for rural citizens, communities, and society.

ARS operates about 1,200 research projects within 22 National Programs at over 100 locations across the country and overseas. ARS' workforce of 8,000 employees includes about 2,000 scientists representing a wide range of disciplines.

The ARS Office of International Research Programs (OIRP) enhances the productivity, effectiveness, and impact of national programs through mutually beneficial international research activities. International research is conducted to facilitate international cooperation and exchange and to promote the strategic interests of the U.S. Government.

In 1998, at the request of the Departments of State (DOS) and Defense, ARS initiated the Former Soviet Union (FSU) Scientific Cooperation Program to engage FSU scientists in peaceful agricultural research. The program was designed to reduce the risk of proliferation of weapons of mass destruction (WMD) expertise, increase transparency at former Soviet biological weapons (BW) research sites, and support the transition of former Soviet weapons scientists in Russia, Kazakhstan, and Uzbekistan to civilian activities by redirecting their biotechnology expertise to agricultural research.

The FSU Scientific Cooperation Program's overall objectives are to:

- reduce the threat of BW development and usage in the world;
- advance agricultural science by establishing new expertise in FSU countries;

- enhance the effectiveness and productivity of ARS research programs; and
- improve the economy of FSU countries through advances in agricultural technology.

As of April 2005, there were a total of 46 funded research projects employing approximately 900 FSU scientists, half of whom were former BW scientists. The FSU projects cover diverse program areas such as plant and livestock health, including avian influenza, exotic Newcastle disease, and foot-and-mouth disease. Food safety and crop variety improvement are other areas of strong interest.

Each project funded under the ARS program goes through a technical, policy, and national security review. ARS and FSU scientists first submit a pre-proposal to OIRP. ARS' National Program Staff (NPS) reviews the pre-proposal for technical merit and compliance to the ARS mission. Also, OIRP staff review the pre-proposal to confirm that the FSU institutes involved qualify for funding. Based on the NPS and OIRP reviews, a proposal may be approved for development. If approved for development, the FSU collaborators are invited to the ARS location to develop a full proposal.

Once the full proposal is developed, OIRP reviews the proposal including personnel lists and budget, for accuracy and for scientific clarity. After the proposal is finalized, OIRP submits it to DOS for a national security review. OIRP participates in a monthly DOS-led interagency meeting in which the review results are discussed. Any proposals receiving a high risk rating are not funded. Those proposals receiving a moderate or moderate to high assessment undergo a secondary review. The interagency group⁴ votes to decide whether to fund the proposal. Once proposals are officially registered at one of the science centers, they are submitted for a second policy review that includes additional DOS offices. Lastly, OIRP, along with input from the ARS collaborators, approves the final draft of the project agreement before signature, which includes the official starting work plan.

DOS

ARS' FSU Scientific Cooperation Program was funded through DOS. The program funds are transferred from DOS to ARS under the authority of the Foreign Assistance Act of 1961. Obligation and expenditure of these funds is subject to the terms and conditions outlined in the funds transfer agreement between DOS and USDA. From fiscal year (FY) 1998 through 2005, total funding reached \$37.99 million.

⁴ The interagency group is led by DOS and consists of individuals from various government agencies including ARS, Environmental Protection Agency, Department of Health and Human Services, Department of Defense, Department of Energy, and Department of Homeland Security.

FY	Fund Transfers from DOS
1998	\$550 thousand
1999	\$2 million
2000	\$6.98 million
2001	\$6 million
2002	\$5 million
2003	\$6 million
2004	\$5.46 million
2005	\$6 million
TOTAL	\$37.99 million

Of the \$37.99 million, \$18.18 million was transferred to the science centers for the 46 funded projects (as of April 1, 2005). The remaining \$19.81 million was allocated for approved projects that were still under development, salaries for International Science and Technology Center (ISTC) and OIRP personnel, travel expenses, Defense Contract Audit Agency (DCAA) audits, supplies, interpreters, copyright fees, and other program related costs.

ARS

ARS' OIRP is responsible for providing financial and programmatic accountability over the FSU Scientific Cooperation Program. OIRP responsibilities include allocating funds to the ARS collaborators, facilitating travel to FSU, and maintaining ongoing coordination with the science centers. On a quarterly basis, OIRP is responsible for reporting program activities to DOS regarding travel, research progress, publications, and patents.

ARS collaborators⁵ are responsible for performing annual site visits to the FSU institutes to evaluate the progress being made on the project and to promote transparency. Also, the collaborators are responsible for reviewing the quarterly and annual technical reports submitted by the FSU collaborators⁶ to ensure research tasks outlined in the project workplan have been completed. In addition, ARS collaborators are to maintain ongoing communications with the FSU collaborators to stay abreast of the project activities, offer guidance on research problems, and provide any needed training.

⁵ ARS scientists assigned to the FSU project.

⁶ FSU participants working on the project, including the project manager, scientists, etc.

Science Centers

ARS administers its program primarily through collaboration with two multilateral intergovernmental organizations—the ISTC in Moscow and the Science and Technology Center in Ukraine (STCU).⁷ ISTC supports activities in Russia, Kazakhstan, and Tajikistan and STCU supports activities in Uzbekistan and Ukraine. ARS established a separate Memorandum of Agreement (MOA) with each of the science centers. Each agreement outlines the implementation, terms and conditions, duration, and the funding, monitoring, and reporting requirements for the research projects. Also, individual project agreements have also been established between ARS, the science centers, and the FSU institutes. The agreements include workplans, which detail the specific responsibilities of each party that are to be carried out during the project.

ARS transfers funds to the science centers to support the project expenses. The science centers provide laboratory equipment, reagents,⁸ and other research supplies to the FSU institutes to implement the research activities. Also, on a quarterly basis, the science centers transfer grant funds directly to the FSU collaborators as payment for work performed. The science centers are required to provide quarterly financial reports to ARS itemizing project expenditures. Overall, the science centers are responsible for monitoring the research projects at the FSU institutes and providing financial oversight of project expenditures. Specifically, the science centers are responsible for reviewing the quarterly technical and financial reports submitted by the FSU collaborators and conducting on-site monitoring reviews and audits. In general, they oversee all aspects of the projects, from initiation to completion, and maintain ongoing communication with OIRP.

DCAA

In prior years, ARS relied on the oversight provided by the science centers, and the ARS collaborators' review of the FSU technical reports and site visits. However, beginning in FY 2004, ARS contracted with DCAA to audit its projects. At the start of our review, DCAA had completed audits for 7 of the 46 funded projects. The audits were performed primarily on those projects whose completion date had been extended and had received additional funding (four of the seven audits). The audits examined the effectiveness of the internal controls in place over the accounting, timekeeping, and equipment purchased for the projects. These audits, in conjunction with the science center's financial reviews, are ARS' primary means of independently assessing whether program funds are being used effectively to achieve the goals of the program and individual research

⁷ The science centers were established in 1992. They were created after the widespread concern among governments of several nations about the fate of newly unemployed scientists and engineers who once had been engaged in Soviet programs to develop WMD.

⁸ Substances used in a chemical reaction to detect, measure, examine, or produce other substances.

projects. Furthermore, they evaluate management's monitoring of project resources and compliance with applicable laws, regulations, and the project agreement.

Objectives

Our audit⁹ evaluated ARS' oversight of the FSU Scientific Cooperation Program. In particular, we assessed ARS': (1) accountability for transferred DOS funds, (2) management controls over research projects, and (3) coordination with FSU scientists.

To accomplish these objectives, we judgmentally selected a sample of 11 research projects that were funded between April 1, 2000, and April 1, 2005. Our work focused on ARS policies, procedures, and activities related to the FSU Scientific Cooperation Program from FY 2000 through FY 2005. (See the Scope and Methodology section of this report for further details.)

⁹ Pursuant to Section 509 of the FY 2004 Appropriations Act (Public Law 108-199), USDA OIG is required to perform periodic program and financial audits of funds transferred under the MOA with DOS.

Findings and Recommendations

Section 1. Oversight of Research Projects Needs to be Strengthened

ARS is responsible for overseeing the FSU Scientific Cooperation Program. ARS accomplishes this through annual site visits to the FSU institutes and quarterly reviews of the technical reports. ARS also requires the science centers to perform on-site monitoring reviews. Project monitoring is essential for providing oversight of the research projects. The ARS component of the program is primarily directed by the Program Manager, along with two support personnel. Their responsibilities include reviewing project proposals, maintaining ongoing coordination, providing guidance to the science centers and ARS/FSU collaborators, reporting program activities to DOS through weekly meetings and the submission of quarterly reports, preparing short and long-term program plans, and identifying opportunities for future collaboration. They also approve budget changes to the projects, facilitate the travel of the ARS/FSU collaborators, and are responsible for the management of all other program related activities.

We found that ARS' site visits were not conducted annually and ARS program officials did not ensure that quarterly technical reports were received and adequate feedback was provided by the ARS collaborators. In addition, we found that the science centers did not perform annual on-site monitoring reviews. Despite these lapses, ARS continued to provide funding to the ARS collaborators and science centers to support these projects.

In August 2005, we met with the ARS FSU Program Manager to discuss the adequacy of the oversight of the research projects. She agreed that ARS needed to continue to improve its oversight of the projects.

Finding 1

ARS Site Visits and Science Center On-site Monitoring Reviews Not Always Performed

ARS did not establish adequate management controls to ensure that site visits and on-site monitoring reviews were conducted annually. For several of our selected projects, we found that more than a year had passed between ARS site visits. Similarly, ISTC's on-site monitoring reviews for some selected projects occurred more than 1 year apart. This was because ARS did not enforce its policy requiring ARS collaborators to conduct annual site visits. Also, ARS lacked procedures specifying the required frequency of the science center's on-site monitoring reviews. Due to inadequate oversight, there is an increased risk that former weapons scientists could be misclassified, scientists could engage in inappropriate activities, and project goals are not being met in accordance with the project agreement.

ARS Collaborator Site Visits Not Always Performed

According to the ARS guidelines,¹⁰ the ARS collaborator is required to visit the FSU collaborators' institute at least once per year. To determine whether project reviews were being performed timely, we reviewed ARS' database and documentation, including trip reports, annual technical reports, and OIRP's summary spreadsheet. We determined that annual ARS site visits were not performed for 5 of our 11 selected projects. As shown in the following table, the ARS collaborator did not perform any site visits for four projects and only conducted two site visits for one project, since the projects began.

Project Number	Funding Date	ARS Collaborator Site Visits
P-119	February 2003	none
K-516	November 2000	none
K-525	November 2000	June 2002, September 2003
2089	July 2001	none
2538	September 2002	none

ARS officials stated that the collaborators were informed of the requirement to conduct annual site visits when they agreed to participate and they were provided periodic reminders of this requirement. According to ARS program officials, none of the ARS collaborators refused to travel to the FSU institutes. Nonetheless, they had not conducted annual site visits. We determined that ARS had not established proactive measures for ensuring that the collaborators conduct these visits annually. Without enforcing the requirement, there was no sense of urgency amongst the ARS collaborators to travel.

Also, ARS officials stated that for each of these projects, the original ARS collaborator had retired or left the agency, and thus a new collaborator was assigned. Although this may have had an impact on the timeliness of the site visits during the transitional year, there were other lengthy periods when site visits were not performed.

For each of these projects, ARS teams, consisting of scientists and OIRP officials, traveled to the FSU institutes. We learned that the team visits were primarily conducted to evaluate the facilities and identify new areas of collaboration. Although the team met with the principal FSU collaborators for some of its ongoing projects, the focus was more on administrative issues

¹⁰ ARS FSU Scientific Cooperation Program Guidelines for ARS collaborators, issued FY 2002 and updated FY 2005. (Although formal written guidelines were not issued until FY 2002, the annual site visit requirement had been communicated to the ARS collaborators beginning in FY 2000.)

(i.e., ensuring that the FSU scientists were getting paid timely and were receiving adequate support from the science centers) rather than assessing scientific progress. If team visits are used to fulfill the annual site visit requirement, ARS should ensure that the review is performed in consultation with the ARS collaborator assigned to the project. Also, other U.S. Government agencies (such as the Department of Defense) visited the institutes. Although these visits meet the objective of promoting transparency, ARS program officials admitted that they should not be considered as a substitute for annual site visits by the ARS collaborators, except for those instances when the project's collaborator was a member of the team and could assess the project.

Science Center On-site Monitoring Not Always Performed

In addition to the site visits to be performed by ARS collaborators, the science centers were required to provide oversight of the projects through their own on-site monitoring efforts. ARS failed to obtain a monitoring schedule for the reviews the science centers were to perform, and as a result ARS was unaware when they were not performed timely. ARS also did not obtain or review the science center's on-site monitoring reports and, therefore, had reduced assurance that the science centers provided adequate oversight of the projects and that the projects were meeting the goals outlined in the workplan.

According to both the ISTC and the STCU MOAs with ARS, the science centers are responsible for auditing and monitoring the research projects at their sites and informing ARS of the audit schedule.

- ISTC's Project Management Manual states that on-site monitoring should take place at least once during the project implementation. Annual visits are recommended after receipt of each annual report. Final monitoring visits are recommended after receipt of the draft final report.
- STCU's Standard Operating Procedures state that the first monitoring visit should be performed approximately 6 months after the beginning of a project. Intermediate monitoring visits are to be performed at approximately 1 year intervals following the initial monitoring. A final monitoring visit is to be performed approximately 1 month prior to the project's completion.

To assess the frequency with which the science centers conducted reviews of the projects, we obtained their on-site monitoring reports. We found that on-site monitoring was not performed annually by ISTC, as recommended, for 7 of the 11 selected projects as shown in the following table.

Project Number	Funding Date	Dates of On-site Monitoring Reviews
K-516	November 2000	November 2003
K-525	November 2000	September 2001 November 2003 July 2005
1720	April 2000	November 2003 November 2004
1771	March 2001	July 2002 November 2003
2089	July 2001	none
2332	April 2002	July 2004
2538	September 2002	February 2005

The ISTC Senior Project Manager stated that annual on-site monitoring is a recommendation and not a requirement. He explained that he accompanied the ARS teams during their visits to the FSU facilities and that, as a result, separate ISTC reviews were not needed every year. Instead, ISTC performed what it referred to as “occasional monitoring.” The ISTC Project Manager stated that he now has an assistant, which will enable him to conduct on-site monitoring more often.

We found that there were significant periods in which no on-site monitoring was performed by ISTC and site visits were not conducted by the ARS collaborators. For example, project K-516 only received one on-site monitoring review by ISTC and had received no ARS site visits since the project began in November 2000. In addition, DCAA determined that participants on this project had not maintained adequate time sheets or scientific journals. Therefore, it was unable to verify the participants’ work on the projects. Increased site visits and on-site monitoring may have prevented these problems from occurring.

In August 2005, we met with the ARS FSU Program Manager to discuss the inconsistency of on-site monitoring reviews conducted by the science center. She agreed that a requirement is needed to ensure that the science centers conduct regular on-site monitoring reviews. During the upcoming coordinators’ meeting, she stated that she plans to discuss the lack of on-site monitoring with the science center officials to identify how improvements can be made.

ARS needs to develop and implement a plan to ensure that the research projects are being monitored adequately.

Recommendation 1

Develop and implement procedures to ensure that ARS collaborators conduct site visits to the FSU institute on an annual basis. These procedures should require that ARS management is notified when site visits are not performed so that appropriate action may be taken.

Agency Response

ARS responded that it had established a policy, effective June 1, 2006, regarding annual site visits. The policy continues to require annual visits by the ARS collaborator to the to the FSU institutes. However, if an ARS collaborator is unable to fulfill this requirement during any given year, the following options are available:

1. Request that another ARS collaborator, who is traveling to the same institute, meet the project team and discuss the project.
2. If the FSU collaborator is coming to the ARS collaborator's lab, or he/she will jointly attend an international conference, the ARS collaborator should send an email requesting that these meetings be used in lieu of the site visit. The ARS collaborator may only request this option only once during the life of the project.
3. As a last resort, the ARS collaborator can request a waiver of the annual site visit requirement with a justification. The ARS collaborator may only request a waiver once during the life of the project.

If none of the above options are followed by the ARS collaborator, then the ARS-FSU unit will discuss with senior management possible courses of action. These cases will be assessed individually and a determination will be made based on the full circumstances of the project including research area, institute, and other mitigating factors.

OIG Position

OIG accepts ARS' management decision on this recommendation. It will ensure that either a site visit occurs annually or an acceptable alternative process is applied to provide assurance on the status of each project.

Recommendation 2

Implement a process for ensuring that periodic on-site monitoring is being performed by the science centers. When the science centers do not perform timely on-site monitoring reviews, provide notification to DOS.

Agency Response

ARS' response stated that its ARS-FSU unit will develop a plan to ensure that ISTC/STCU on-site monitoring occurs on a regular basis. The ARS-FSU unit will request the annual schedule of monitoring visits from each science center and review it to ensure projects are selected for monitoring on a regular basis. If the ARS-FSU unit does not receive a monitoring report within one month of the proposed monitoring visit, it will contact the science center for the report. If on-site monitoring does not occur as proposed, the ARS-FSU unit will provide notification to DOS and request that the DOS Science Center Coordinator follow-up with the science center to complete the monitoring visits. ARS' timeline for completion was July 2006.

OIG Position

We accept ARS' management decision on this recommendation.

Finding 2

ARS' Tracking of Technical Reports Needs to be Strengthened

ARS program officials did not ensure that all required quarterly technical reports were submitted by the FSU collaborators for our 11 selected projects. ARS lacked documentation to ascertain whether 30 of the 141 reports had been received. Also, there was no evidence to confirm that the ARS collaborators reviewed the quarterly technical reports and provided adequate feedback for 71 of the reports on file. This occurred because ARS had an inadequate system for tracking the receipt of quarterly technical reports and had not established a formal review and commenting process. As a result, there is an increased risk that grant payments could be made to the FSU scientists prior to ARS verifying that all deliverables¹¹ have been met in accordance with the project agreement.

According to each project agreement, quarterly progress reports are to be submitted within 1 month after the end of each reporting period and prior to the release of quarterly payments to the FSU collaborators. Quarterly reports should specify the project's progress, major equipment purchases, personnel commitments, and any actual or proposed deviations and modifications to the workplan. The reports should contain sufficient information to enable an assessment to be made of the progress and cooperation within the project.

ARS used an Excel spreadsheet to monitor the submission of the quarterly technical reports. However, we determined that the spreadsheet was not updated and checked for accuracy regularly and therefore, was unreliable. For example, we were unable to locate technical reports that the spreadsheet

¹¹ Deliverables are defined as any significant outputs related to the research project, including all research related tasks and quarterly and final reports.

indicated had been received and conversely, we were able to locate technical reports that the spreadsheet indicated had not been received. Also, the spreadsheet did not include the date on which the quarterly reports were due.

We determined that ARS program officials did not confirm the submission of 30 of the 141 quarterly technical reports for our 11 selected projects. Based on ARS' records, we could not determine whether the reports had been submitted from the FSU collaborators. ARS program officials stated that the reports may have been forwarded directly to the ARS collaborators without their knowledge. Program officials did not always follow-up with the ARS collaborators to ensure that the reports had been received.

The ARS guidelines state that the ARS collaborators should:

- ensure that they receive all of the quarterly technical reports;
- review the reports to see if the project is on track; and
- provide feedback to OIRP and the FSU collaborators. If the ARS collaborator has any concerns over the information presented in the reports (or lack thereof), the ARS collaborator is to notify OIRP so they can work with ISTC/STCU and FSU collaborators to make any necessary corrections.

Although ARS had established a method for tracking the receipt of technical reports, we determined that they had not implemented a system to ensure that feedback was provided by the ARS collaborators. We found that 71 of the quarterly reports were not supported by comments from the ARS collaborators to indicate whether adequate progress was being made on our 11 selected projects. ARS officials stated that some comments were provided verbally and were not documented. One ARS collaborator stated that if OIRP does not receive any feedback from him, it probably just assumes that he simply did not have any concerns.

For those quarterly reports on which the ARS collaborators provided comments, we found that they did not adequately document their assessment of the technical reports. For example, collaborators provided e-mailed comments which were vague, such as "its fine" or "this is acceptable." Considering that the review of the quarterly technical reports is one of ARS' primary controls for providing oversight, ARS should establish a formal process for providing feedback.

One ARS collaborator stated that he had not received or reviewed any of the quarterly technical reports since he was assigned to the project in October 2004. Also, as part of an on-site monitoring review conducted by ISTC in February 2005 for one project, ISTC discovered that communication

between the ARS and FSU collaborators had not occurred since the project began in September 2002. Thus, feedback on the quarterly technical reports was not being provided to the FSU collaborators. ISTC found that some research activities could not be fulfilled without the help of the ARS collaborator.

ARS officials stated that in the past, the science centers would occasionally call to ensure that ARS had received the technical reports prior to releasing funds to FSU collaborators. However, this notification process ceased because ARS officials found it caused delays in payments to the collaborators. Although they have the authority under the project agreement to suspend funding for a project if they do not receive quarterly reports, ARS officials stated that they have never done so.

In August 2005, we met with the ARS FSU Program Manager to discuss the inadequate oversight over the research projects. She stated that ARS had already begun taking actions to ensure that technical reports are timely received and review comments are provided by the ARS collaborators.

To verify that project goals are being met, ARS needs to strengthen its tracking system to ensure the timely receipt and review of the quarterly technical reports.

Recommendation 3

Improve the existing tracking system to ensure that all quarterly technical reports have been submitted and the ARS collaborators have reviewed the reports and provided adequate feedback.

Agency Response

ARS' response stated that its ARS-FSU unit has replaced its tracking spreadsheet for the quarterly technical reports with a database that includes the date each report is received, the date the ARS-FSU unit's comments are received for each report, and a field for the due date of the next report. ARS stated that if the report is more than 30 days overdue, its ARS-FSU unit will contact the science center about the report to determine whether it has been submitted. If the report has not been received at the science centers, the ARS-FSU unit will contact the FSU project manager and ARS collaborator about the status of the report. The response further states that this change was implemented in May 2006. The ARS-FSU unit also developed and implemented a new form for ARS collaborators to use for their feedback on the technical reports that is to be placed along with the technical reports in each project file (implemented June 1, 2006). The ARS-FSU unit stated that it has received copies of all 30 quarterly technical reports listed as not on file in the OIG report. In addition to requesting immediate feedback from the ARS collaborators on the quarterly technical reports, the ARS-FSU unit

stated that it developed a one-page template to more formally document input from ARS collaborators for the quarterly report to DOS, including a section on technical progress. The template was implemented in September 2005.

OIG Position

We accept ARS' management decision on this recommendation.

Section 2. Inadequate Accountability Over Program Funds

Finding 3

ARS Needs to Establish Management Controls to Ensure Oversight of Program Funds

ARS has not fully developed and implemented management controls for ensuring the accountability of program funds. We could not track the flow and the use of \$72,231 transferred to the ARS collaborators in FY 2004. This occurred because the Area Office personnel were not required to track the program's funds separately. Also, we found that expenditures totaling \$39,438 were made by the science centers for personnel not listed in the projects' workplans. This occurred because ARS relied on the science centers to provide oversight. ARS did not obtain financial documents or receive notifications of deviations from the workplans to verify whether expenditures were appropriate. As a result, ARS had reduced assurance that the program funds were being used appropriately. There was an increased risk that payments could be made to unapproved personnel not identified in the project's workplan, personnel who are misclassified as former weapons scientists, and personnel who have presented inadequate evidence of having worked on the project.

The Funds Transfer Agreement between USDA and DOS states that ARS is responsible for programmatic and financial accountability over program funds and must ensure that these funds are properly obligated and expended.

Funds Transferred to the ARS Collaborators

ARS collaborators receive a budget of up to \$40,000 for the life of the project to fund travel to the FSU institutes¹² and for other research related costs such as supplies and equipment. A portion of the funds are allocated each year at the request of the ARS collaborators, based on planned project activities.

To evaluate whether funds transferred to the ARS collaborators for our 11 selected projects were properly accounted for, we obtained and reviewed FY 2004 documentation such as travel vouchers, status of funds reports, and transaction detail listings. Based on our review, we were unable to validate \$72,231 of \$98,548 of the funds transferred to the ARS collaborators in FY 2004. Documentation was available to support funds used for FSU travel. Also in some instances, the documentation had been annotated to indicate funds used to purchase miscellaneous supplies and materials for the FSU projects. However overall, the documentation did not itemize and support the ARS collaborators' FSU related expenditures, and therefore we

¹² When ARS collaborator trips to the FSU institutes are cancelled or postponed, the funds that were to be used for travel are generally deobligated.

could not verify how the FSU funds transferred to the ARS collaborators had been expended.

We learned that beginning in FY 2004, FSU funds were included in the ARS collaborators' current research information system account along with their other in-house research funds. According to Area Office personnel, they were not given direction on how they should track the FSU project funds. As a result of ARS' commingling of the FSU funds, we were unable to verify that program funds were used for allowable expenditures. After recognizing the importance of providing separate accountability, one Area Office's location administrative officer created sub-accounts to track expenditures for the FSU projects under her purview.

Funds Transferred to the Science Centers¹³

Based on our review of the 11 selected projects, we identified 2 major areas where ARS' management controls were inadequate to ensure that the FSU funds were used appropriately. These areas included: (1) modifying participants listed in the workplan and (2) obtaining and reviewing financial documents.

- Modifying Participants Listed in the Workplan

ARS had not established notification procedures for staffing changes involving former weapons scientists. We learned that ARS and the science centers did not consider the addition or replacement of former weapons scientists events which warranted ARS notification. However, the main purpose of the FSU Scientific Cooperation Program is to engage former weapons scientists in peaceful agricultural research. Therefore, ARS needs to ensure that it receives notification of such staffing changes in order to effectively monitor the program's progress toward achieving its stated purpose.

According to the project agreement, the project should be carried out in accordance with the workplan. However, operational changes in the workplan, other than changes in the project manager, the participating institution, daily rates of leading persons of the project and the overall schedule, can be made by agreement between the science centers and the FSU institutes.

We identified 11 former weapons scientists who were not listed in the projects' workplans, and received payments totaling \$39,438. These participants were additions or replacements to the projects and, therefore,

¹³ ARS transfers an average of \$300,000 per project to the science centers over a 3-year period to support project expenses, including salaries and equipment.

were not included among the 158 former weapons scientists originally identified in the projects' workplans.

DCAA identified nine project participants who may be misclassified as weapons scientists in three of our selected projects (K-516, K-525, and 1771). For three of the participants, the ISTC Project Manager even stated that he had denied approval to the FSU institute's project manager to reclassify the participants (K-516). For this same project, we identified five participants who were initially classified as technical personnel and then were reclassified as former weapons scientists when the project was extended. Furthermore, for this project, we found that the science centers and ARS collaborators did not conduct site visits and on-site monitoring on a regular basis. Increased oversight, in part, may have precluded these problems from occurring.

DCAA identified participants who had not maintained adequate time sheets or scientific journals (K-516 and K-525). Therefore, DCAA was unable to verify the participants' work on the project. Also, the on-site monitoring review conducted by STCU for one project (P-119) revealed that the project manager did not maintain a lab book and the sub-manager's lab book had not been completed in over a year. Without adequate documentation to account for their time worked, there is reduced assurance that former weapons scientists were actually spending their time on project-related activities.

Because ARS is accountable for the funds transferred from DOS for the FSU Scientific Cooperation Program, ARS should be notified of changes in former weapons scientists to reduce the risk of funding manipulation and ensure that personnel employed are indeed qualified former weapons personnel.

- Obtaining and Reviewing Financial Documents

We determined that ARS did not obtain detailed financial reports from the science centers on a quarterly basis as required. According to Article 5 of the agreements between ARS and the science centers, the science centers are required to submit quarterly financial reports that itemize by project the salaries, equipment and supplies procured by the center, and equipment and supplies procured by the project recipient. Also, according to the project agreement: (1) quarterly cost statements should be appended to the relevant technical report and submitted by the FSU institute to ARS and the science center and (2) the project manager should provide ARS and the science center with a quarterly list of grant payments that are due to individual participants.

ARS relies on the science centers to provide accountability over the project funds. The ARS Program Manager stated that after the funds are transferred, the science centers are responsible for tracking and ensuring expenditures are allowable. She stated that she did not believe that it was necessary to obtain the detailed quarterly financial reports from the science centers and the cost statements from the FSU institutes because they have competent senior project managers at each center to monitor the submission and review of these financial records and to flag any unusual charges or obligations. However, for four of our selected projects, DCAA discovered that ISTC included over \$14,000 of value added taxes as project costs, which are considered unallowable in accordance with the project agreement. This matter affects all ISTC projects. DOS is working with the Russian Government to resolve this issue. Until then, the value added taxes will continue to be paid.

Also, ARS officials stated that they contracted with DCAA in FY 2004 to fulfill their financial accountability. However at the time of our audit, DCAA had only audited 7 of the 46 funded projects.¹⁴ Therefore, financial accountability had not been provided for the remaining 39 FSU projects. Furthermore, ARS did not adequately follow-up on the seven completed audits, in that, it did not verify that corrective and preventative actions had been implemented in response to the issues discussed in the DCAA audits. ARS should implement a plan to ensure that an independent review is conducted for each of the research projects in the FSU Scientific Cooperation Program and that all issues cited in the DCAA audits are resolved.

In August 2005, we met with the ARS FSU Program Manager to discuss the inadequate oversight over the research funds. She stated that ARS plans to continue contracting with DCAA to conduct audits to evaluate the internal controls for accounting, timekeeping, and equipment for all of its projects.

To ensure program funds are used appropriately, ARS needs to develop a plan for tracking FSU project expenditures, review financial records, and require notification of major changes to the workplan.

Recommendation 4

Implement a process for tracking the FSU funds transferred to the ARS collaborators to ensure that expenditures are allowable in accordance with the program requirements.

¹⁴ Four of the seven projects were selected for DCAA review, because they were extended beyond the originally anticipated completion date and had needed to request additional funding beyond that originally proposed.

Agency Response

ARS agreed with the recommendation, stating that its ARS-FSU unit will work with ARS' Budget and Finance Staff, Area and Location Management Units to determine a tracking system for funds transferred to ARS collaborators. ARS' expected timeline for completion is October 2006.

OIG Position

We accept ARS' management decision on this recommendation.

Recommendation 5

Obtain and review pertinent financial records from the science centers such as audits, quarterly financial reports, cost statements, and grant payment lists to verify that costs reported are allowable in accordance with the project agreement.

Agency Response

ARS accepted the recommendation, stating its ARS-FSU unit will request from both science centers (ISTC and STCU) all pertinent financial records such as audits and quarterly financial reports, cost statements, and grant payments lists for each funded project. The ARS-FSU unit stated that it sent notification to ISTC that all quarterly financial reports, cost statements, and grant payment lists should be forwarded to the ARS-FSU unit for review along with the quarterly technical report for each project on May 3, 2006. ARS-FSU stated that it will make the same request to STCU for periodic audit reports and quarterly financial reports, cost statements, and grant payments lists for each funded project by June 30, 2006.

OIG Position

We accept ARS' management decision on this recommendation.

Recommendation 6

Implement a process to ensure ARS is notified of significant modifications or deviations to the workplan including changes in personnel classified as former weapons scientists. This process should be sufficiently comprehensive to provide ARS with reasonable assurance that adequate supporting documentation was submitted (i.e., redirection letters) and that any changes were approved by the appropriate science center officials.

Agency Response.

ARS stated that in May 2006 its ARS-FSU unit formalized the notification process to/from the science centers regarding all significant modifications to the workplans, including redirection letters. ARS further stated that with input from the ARS collaborators, its ARS-FSU unit will send decisions regarding these requests to the science centers and documentation of the ARS-FSU unit's approval/disapproval of these requests will be filed in the project folder in the same section as the project agreement.

OIG Position

We accept ARS' management decision on this recommendation.

Recommendation 7

Implement an action plan to ensure that an independent review is conducted for all of the research projects in the FSU Scientific Cooperation Program.

Agency Response

ARS responded that its ARS-FSU unit will develop an action plan to schedule independent reviews by the DCAA of selected projects for the next 3 years. Furthermore, ARS stated that it will make a reasonable effort to schedule an independent review, both financial and technical, of each project during its lifetime or within 1 year of its completion date. ARS' expected timeline for completion is December 2006.

OIG Position

We accept ARS' management decision on this recommendation.

Recommendation 8

Establish policies and procedures to follow-up on issues reported by DCAA. Ensure that all recommendations are satisfactorily resolved and corrective actions fully implemented.

Agency Response

ARS responded by stating its ARS-FSU unit formalized the following policy and procedure regarding DCAA audits: Within 1 month of receipt of the DCAA audit report, its ARS-FSU unit will followup on any critical findings identified in the report by working with the DOS and the appropriate science center. The appropriate science center will formally respond to the issues in the audit report and take corrective action to address them. Its ARS-FSU unit will document the resolutions to these findings with the science centers to

ensure that corrective action is taken when needed. ARS stated that this policy was effective immediately.

OIG Position

We accept ARS' management decision on this recommendation.

Scope and Methodology

Our audit focused on documentation, operations, and regulations applicable to ARS' FSU Scientific Cooperation Program for FY 2000 to 2005. Field work was performed from April 2005 through September 2005.

To evaluate ARS' oversight of the program, we performed work at ARS' OIRP and selected ARS laboratories. We also interviewed officials within DOS and at the science centers, and reviewed and analyzed financial, performance, and technical documents relating to the program.

ARS Offices and Divisions

We interviewed ARS officials from OIRP to obtain an understanding of their oversight responsibilities, management controls over research activities and project expenditures, and their coordination with the science centers and DOS. We also interviewed ARS officials within the Budget Program and Management Staff, Financial Management Division, Extramural Agreements Division and National Program Staff to identify their role in the funds transfer process, the development of project agreements, and the development and approval of the research projects.

We reviewed project files, project agreements, trip reports, quarterly and annual technical reports, funds transfer records, status of funds reports, and other related ARS and science center documentation.

ARS Science Laboratories

We judgmentally selected 11 of the 46 projects funded between April 1, 2000, and April 1, 2005, for review. These projects were judgmentally selected based on the highest funding, project status, the FSU country involved, and the area of research. This was done to ensure the sample included projects that were at various stages of the process such as recently started, extended, or completed; to ensure that all three FSU countries¹⁵ were represented in the sample; and to ensure that the sample included projects in key program areas such as food safety and animal diseases. Of the 46 funded projects, 7 experienced a change of ARS collaborators.¹⁶ Our sample included five of these seven projects. Although we did not intentionally seek projects in which the ARS collaborator had changed, five were selected as a result of our judgmental sample criteria.

¹⁵ There are five participating countries, however, at the time of our audit, projects in Tajikistan and the Ukraine had not begun.

¹⁶ The original ARS collaborator assigned to the project either retired, was reassigned, or left the agency.

Of the \$37,990,000 ARS received from DOS, \$18,176,547 was transferred to the science centers to fund the 46 projects. Our 11 selected projects received \$6,235,456 of the \$18,176,547 transferred. The balance of the funding, approximately \$19.8 million, was allocated for approved projects that were still under development, salaries for ISTC and OIRP personnel, travel expenses, the DCAA audits, supplies, interpreters, copyright fees, and other program related costs. Ten of the selected projects are located in Russia and Kazakhstan and, therefore, are monitored by ISTC. Only one of the selected projects is located in Uzbekistan and monitored by STCU. The project sample included mostly ISTC projects because 35 of the 46 funded projects fell under the jurisdiction of ISTC. Also, the ISTC projects received \$14,833,078 of the total \$18,176,547 transferred to the two science centers.

We visited the Animal Parasitic Diseases and Insect Bio-control Laboratories in Beltsville, Maryland; the ARS Russell Research Center and the Southeast Poultry Research Laboratory in Athens, Georgia; and the Plum Island Animal Disease Center in Orient Point, New York. We interviewed scientists, research leaders, and accounting personnel applicable to the selected projects to obtain an understanding of their oversight responsibilities. Also, we reviewed e-mail correspondence, transaction logs, and travel documentation.

Science Centers

To evaluate the science centers' coordination, implementation, and oversight responsibilities, we interviewed and exchanged e-mail correspondence with the senior project managers and accounting personnel at ISTC/STCU. We reviewed on-site monitoring reviews, financial records, and personnel redirection letters.

DOS

We interviewed officials at DOS including the Acting Director of the U.S. Bio-Chem Redirect Program and Acting Senior Nonproliferation of WMD Expertise Program Coordinator to gain an understanding of DOS' coordination, implementation, and oversight responsibilities relative to the ARS FSU Scientific Cooperation Program.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Exhibit A – Agency Response

Exhibit A – Page 1 of 5



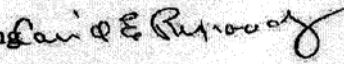
United States Department of Agriculture
Research, Education and Economics
Agricultural Research Service

June 28, 2006

SUBJECT: Agricultural Research Service (ARS) - Former Soviet Union Scientific Cooperation Program Audit, 02001-02-Hy

TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

ATTN: Howard Albers
Audit Program Manager
Office of Inspector General

FROM: Edward B. Knipling 
Administrator

Enclosed is an updated version of the Agency Response submitted on June 15, 2006. This version includes clarification and a more specified timeline in the "Agency Response" to "Recommendation 2."

If you have any questions, or need further information, please feel free to contact me.

Enclosure



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**Agricultural Research Service Responses to OIG Audit Recommendations
Audit Report No. 02001-02-Hy**

Overview

The Agricultural Research Service (ARS) appreciates the Inspector General's review of the ARS – Former Soviet Union (FSU) Scientific Cooperation Program and its findings and recommendations. In 1998, the Department of State requested that ARS participate in their nonproliferation efforts with the former Soviet Union due to the unique and extensive cadre of U.S. scientists within ARS, whom could be matched with FSU scientists to redirect former weapons expertise to peaceful, agricultural research. The over 2,000 scientists in ARS represent an excellent opportunity to bring former weapons scientists into the mainstream scientific community through international cooperation, joint publications and participation in international conferences.

As of April 2005, ARS had engaged over 900 FSU scientists, half of whom are former BW scientists, under 46 research projects involving ARS scientists from a wide variety of locations and research areas, and is therefore, greatly contributing to the State Department's Biochem Redirect Program goals. At the same time, ARS leverages these program funds by selecting projects for development that support the ARS research mission.

Many of the administrative tracking systems have been greatly improved since the first project was funded in April 2000. Since this was a new program to ARS, unlike any other, it was necessary to put all the mechanisms in place to track the proposals and projects once funded. ARS has continually updated its tracking systems and procedures as the program has grown exponentially from six funded projects in 2000 to 46 in 2005 with another forty plus under development. ARS hired two additional staff members to work on the program (October 2002 and February 2004) to support the growing workload. ARS has also funded an increase in staff at the International Science and Technology Center (ISTC) to oversee projects from one Senior Project Manager to two Senior Project Managers plus a shared project assistant.

As the OIG has pointed out, improved internal procedures will help ensure more efficient and effective administration of the ARS – FSU program. ARS has already begun to implement the OIG recommendations listed below as listed in each response.

Recommendation 1: Develop and implement procedures to ensure that ARS collaborators conduct site visits to the FSU institute on an annual basis. These procedures should require that ARS management is notified when site visits are not performed so that appropriate action may be taken.

Agency Response: Regarding ARS collaborators' annual site visits to the FSU, ARS – FSU has established the following policy starting June 1, 2006:

Annual site visits to the FSU institute continue to be a requirement of the program. If for some reason, the ARS collaborator is not able to fulfill this requirement during any given year, they have three options:

1. Request that another ARS collaborator, who is traveling to the same institute, meet the project team and discuss the project. This request should be approved by ARS – FSU in advance in order to count towards the annual visit requirement. It should be clear in the ARS collaborator's trip report that the second project was reviewed.
2. If the FSU collaborator is coming to the ARS collaborator's lab, or he/she will jointly attend an international conference, the ARS collaborator should send an email requesting that these meetings be used in lieu of the site visit. The ARS collaborator may only request this option once during the life of the project.
3. As a last resort, the ARS collaborator can request a waiver of the annual site visit requirement with justification. He/She should email the request to ARS – FSU, and after review, ARS – FSU may grant a waiver. The ARS collaborator may only request a waiver once during the life of the project.

If none of the above options are followed by the ARS collaborator, then ARS – FSU will discuss with senior management possible courses of action. These cases will be assessed individually and a determination will be made based on the full circumstances of the project including research area, institute, and other mitigating factors.

Recommendation 2: Implement a process for ensuring that periodic on-site monitoring is being performed by the science centers. When the science centers do not perform timely on-site monitoring reviews, provide notification to the DOS.

Agency Response: ARS-FSU will develop a plan to ensure that ISTC/STCU on-site monitoring occurs on a regular basis. ARS-FSU will request the annual schedule of monitoring visits from each science center and review it to ensure projects are selected for monitoring on a regular basis. If ARS-FSU doesn't receive a monitoring report within one month of the proposed monitoring visit, ARS-FSU will contact the science center for the report. If on-site monitoring does not occur as proposed, ARS-FSU will provide notification to the DOS and request that the DOS Science Center Coordinator follow up with the science center to complete the monitoring visits. On May 3, 2006, ARS-FSU received the ISTC schedule for all of the monitoring visits for 2006 (covering 33 projects) and has begun to receive and review the monitoring reports for those visits already completed this year. ARS-FSU will request the same information of the STCU by June 30, 2006. Timeline for Completion: July 2006.

Recommendation 3: Improve the existing tracking system to ensure that all quarterly technical reports have been submitted and the ARS collaborators have reviewed the reports and provided adequate feedback.

Agency Response: ARS-FSU has replaced its tracking spreadsheet for the quarterly technical reports with a database that includes the date each report is received, the date

ARS-FSU comments are received for each report, and a field for the due date of the next report. If the report is more than 30 days overdue, ARS-FSU will contact the science center about the report to find out if it's been submitted. If the report has not been received at the science centers, ARS-FSU will contact the FSU project manager and ARS collaborator about the status of the report. This change has already been implemented (May 2006). ARS-FSU also developed a new form for ARS collaborators to use for their feedback on the technical reports that will be placed along with the technical reports in each project file (implemented June 1, 2006). To date, ARS-FSU has received copies of all 30 quarterly technical reports listed as not on file in the OIG report.

In addition to requesting immediate feedback from the ARS collaborators on the quarterly technical reports, ARS-FSU developed a one page template to more formally document input from ARS collaborators for the quarterly report to Department of State, including a section on technical progress. This template was implemented in September 2005.

Recommendation 4: Implement a process for tracking the FSU funds transferred to the ARS collaborators to ensure that expenditures are allowable in accordance with the program requirements.

Agency Response: ARS-FSU will work with ARS Budget and Finance Staff, Area and Location Management Units to determine a tracking system for funds transferred to ARS collaborators. Timeline for Completion: October 2006.

Recommendation 5: Obtain and review pertinent financial records from the science centers such as audits, quarterly financial reports, cost statements, and grant payments lists to verify that costs reported are allowable in accordance with the project agreement.

Agency Response: ARS-FSU will request from both science centers (ISTC and STCU) all pertinent financial records such as audits and quarterly financial reports, cost statements, and grant payments lists for each funded project. On May 3, 2006, ARS-FSU sent notification to the ISTC that all quarterly financial reports, cost statements and grant payment lists should be forwarded to ARS-FSU for review along with the quarterly technical report for each project. ARS-FSU will make the same request to the STCU for periodic audit reports and quarterly financial reports, cost statements, and grant payments lists for each funded project by June 30, 2006.

Recommendation 6: Implement a process to ensure ARS is notified of significant modifications or deviations to the workplan including changes in personnel classified as former weapons scientists. This process should be sufficiently comprehensive to provide ARS with reasonable assurance that adequate supporting documentation was submitted (i.e., redirection letters) and that any changes were approved by the appropriate science center officials.

Agency Response: In May 2006, ARS-FSU formalized the notification process to/from the science centers regarding all significant modifications to the workplans, including

redirection letters. This process has been in place informally for the past two years. With input from the ARS collaborators, ARS-FSU will send decisions regarding these requests to the science centers. Documentation of ARS-FSU approval/disapproval of these requests is filed in the project folder in the same section as the project agreement.

Recommendation 7: Implement an action plan to ensure that an independent review is conducted for all of the research projects in the FSU Scientific Cooperation Program.

Agency Response: ARS-FSU will develop an action plan to schedule independent reviews by the Defense Contract Audit Agency (DCAA) of selected projects for the next three years. ARS-FSU will make a reasonable effort to schedule an independent review, both financial and technical, of each project during its lifetime or within one year of its completion date. Timeline: December 2006.

Recommendation 8: Establish policies and procedures to follow up on issues reported by DCAA. Ensure that all recommendations are satisfactorily resolved and corrective actions fully implemented.

Agency Response: ARS-FSU formalized the following policy and procedure regarding DCAA audits: Within one month of receipt of the DCAA audit report, ARS-FSU will follow up on any critical findings identified in the report by working with the Department of State and appropriate Science Center. The appropriate Science Center will formally respond to the issues in the audit report and take corrective action to address them. ARS-FSU will document the resolutions to these findings with the science centers to show that corrective action is taken when needed. Timeline: immediately.