**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Report of Inspection

Bureau of Verification and Compliance

Report Number ISP-I-05-51, December 2004

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- The integration of the Arms Control and Disarmament Agency (ACDA) into the Department of State (Department) produced a bureaucratic architecture that does not meet current needs. Performance of the three resultant bureaus; Arms Control (AC), Nonproliferation (NP), and Verification and Compliance (VC), is impeded by unclear lines of authority, uneven workload, and unproductive competition.

- VC should be restructured into a specialized entity (vice a bureau) to focus more effectively on its core mission and preserve its independent viewpoint. This change should help enable a smoother, improved policy process in the areas of arms control and nonproliferation and would optimize the use of VC human and financial resources.

- The Assistant Secretary has successfully pursued VC's mandate, resulting in far greater understanding and acceptance of the need to ensure verification and compliance concerns are part of any arms control or nonproliferation process. VC has developed the independence and autonomous voice that Congress sought. Staff morale is generally high.

- However, the Assistant Secretary's efforts to advance an ambitiously broad spectrum of activities have raised concerns about the need for greater focus and prioritization.

- Despite its significant accomplishments, notably helping lead efforts on the dismantling of Libya's weapons of mass destruction (WMD) program, VC's landmark task, submission of the annual compliance report to Congress, remains woefully behind schedule.

- VC leadership has introduced "matrix management," assigning staff to functional and geographic teams, separate from their formal office assignments. This has provided useful flexibility but has undermined the role of supervisors and lines of authority.

- VC efforts to build its own intelligence capability have raised questions about what is necessary and whether this could be better handled within the Bureau of Intelligence and Research (INR). It is also feeding a decentralization of the handling of sensitive compartmented information (SCI) material that must be carefully assessed.

- The Nuclear Risk Reduction Center (NRRC) and the VC office providing computer support for four bureaus should be placed in a different bureau. VC efforts to implement secure video teleconferencing seem to belong more properly to the Bureau of Information Resource Management (IRM), and efforts to develop knowledge management systems should also be fully coordinated with IRM.

- Shortcomings in staffing procedures must be addressed, especially possible abuse of a special hiring authority. Improvements are needed in overall financial controls.

The inspection took place in Washington DC, between May 3 and August 23, 2004. Carey Cavanaugh (team leader), Frances Culpepper (deputy team leader), Richard English, Carolee Heileman, Gwendolyn Llewellyn, Mary Grace McGeehan, Kristene McMinn, and Julia Rouse conducted the inspection.

CONTEXT

The dangers posed by WMD, particularly nuclear weapons, led to the establishment of ACDA in 1961. ACDA had a mandate to research, monitor, and implement arms control agreements, and achieved enormous success. Early accomplishments included a Limited Test Ban Treaty and the Nuclear Nonproliferation Treaty (NPT). Later, ACDA helped spearhead a series of major agreements resulting from the Strategic Arms Limitations Talks, and also helped develop the Treaty on the Reduction and Limitations of Strategic Offensive Arms (START) and the Treaty on Intermediate Range Nuclear Forces. Center stage in many of these efforts was the nuclear threat posed by the Soviet Union.

Following the end of the Cold War, the collapse of the Soviet Union, and the dissolution of the Warsaw Pact, new opportunities and new challenges emerged. America and her allies faced an increasingly dynamic security agenda and a growing array of threats. The breakup of the Soviet Union raised the specter of a trio of potential proliferations: weapons from its vast nuclear arsenal, scientists from its weapons labs, and conventional arms from depots scattered across regions now marked by conflict. New threats were also posed by a growing number of state and nonstate organizations that possessed or sought WMD. Efforts to maintain America's security appropriately shifted from a focus on curbing the arsenal of our leading adversary to enhancing, via bilateral and multilateral diplomacy, regimes to reduce the increasingly critical risk of proliferation of dangerous weapons and delivery systems around the world. New arms control agreements were declining as a diplomatic instrument; even in Europe, achievement of enhanced security was dependent more on expansion of the North Atlantic Treaty Organization and the European Union.

The end of the Cold War also created a new challenge to organize U.S. foreign affairs agencies to address this new geostrategic reality. There was a recognized need for a restructuring that would meet the demands of the times - our foreign affairs apparatus had to function better, faster, more flexibly, and more efficiently. The Foreign Affairs Reform and Restructuring Act of 1998 enabled consolidation and integration of arms control, nonproliferation, and international public

diplomacy functions into the Department. Thus in April 1999, ACDA was abolished and two new Department bureaus, Arms Control and Nonproliferation, were created. Subsequently in 2000, due to congressional concerns regarding effective verification of and compliance with arms agreements, part of the Bureau of Arms Control became a separate Bureau of Verification and Compliance.

The Office of Inspector General (OIG) began the inspection of all three bureaus on the fifth anniversary of this integration. The intent of OIG's review was not just to examine the performance of the individual bureaus but also to gauge the effectiveness of their interaction and, by extension, the effectiveness of the merger itself. The remaining Department component reporting to the Office of the Under Secretary for Arms Control and International Security (T) is the Bureau of Political-Military Affairs (PM). PM also was restructured as part of the ACDA merger and will be inspected in Fall 2004.

Whole is Less Than Sum of its Parts

It is essential to underscore that the observations that immediately follow reflect upon primarily the structure of the T family of bureaus and their resultant interactions - not the individual bureaus themselves, nor the engagement and performance of their staffs. OIG's basic assessment is that the T family bureaucratic architecture is wrong. The current structure creates unnecessary burdens for staff, impeding rather than promoting their considerable efforts. They deserve better.

The three bureaus addressed in this inspection are advancing their primary missions in spite of an inefficient bureaucratic structure. NP has made important gains in strengthening international regimes to deter the spread of weapons of mass destruction. NP's efforts to halt Russian plutonium production, dismantle the A.Q. Khan network, and strengthen the International Atomic Energy Agency have truly made the world safer. VC has advanced its mandate, promoting the independence and the integrity of the verification and compliance process. AC has provided continued support to U.S. arms control efforts and encouraged missile defense cooperation. In a few areas, the three bureaus have worked together in exemplary fashion. Ensuring that Libya followed through on its December 2003 disarmament commitments on WMD and missiles is a prime example. More typically, however, the performance of the bureaus individually has exceeded their performance as a group. This report will address the structural shortcomings of this, as labeled by many of its staff, "dysfunctional family" of bureaus before turning to analysis of VC's operations and performance.

OIG was duly impressed by the caliber, skill, and dedication of the people working in these bureaus. Many of them have made, and continue to make, enormous contributions to advancing the security of the United States. Indeed, in the course of the inspection, several individuals were identified by our interlocutors, and properly so, as "national treasures." These public servants have put the mission first, meeting difficult challenges and frequently making significant personal sacrifices. Their commitment to our nation is commendable.

More Effective Integration Needed

Although interviews of current personnel suggested that there had been fewer problems with the ACDA integration than had been anticipated, and that staff had adjusted well to being Department employees, there was considerable frustration over the resultant "architecture." Staff in the three bureaus complained about a work atmosphere that could be oppressive, too frequently marked by turf battles and infighting. The result left some employees overburdened while others had little work. The current structure does not advance as well as it could the security agenda of the Secretary and the President.

OIG found the current structures in need of reform and more effective integration. Many of the changes in the political and policy landscape that occurred with the fall of the Soviet Union and other events in the 1990's are not fully reflected in the structures that resulted with the dissolution of ACDA. The eventual creation of VC, NP, and AC reflects more mid-1990's assumptions than today's realities. Furthermore, several factors that helped drive the present structural configuration of bureaus and offices - accommodating particular personalities and staff desires, not unduly changing staff responsibilities, smoothing the transition to a new institution - are no longer relevant. While understandable at the time, these half steps yielded a grouping of bureaus with an unclear and overlapping distribution of authorities and responsibilities that impedes unnecessarily policy development and implementation.

Today, there is one bureau, VC, that could perform better in a different organizational form, another, AC, that is largely in search of work, and the third, NP, that, having remained center stage following the events of September 11, 2001, is challenged and overworked but must engage constantly in turf battles with VC and AC. While there have been some valuable modifications in structure and responsibilities following the ACDA integration and the subsequent creation of VC, the basic architecture of these bureaus appears insufficiently flexible to match the

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changes in the WMD threat and to advance most deftly the various regimes developed to impede that threat. The current three-bureau structure falls short on three counts. It ineffectively advances policy, is inefficient in managing resources, both staff and money, and debilitates the morale of talented staff.

Integration Aftermath: Impact on Policy Development

While there can be some value to the "creative tension" afforded by competing bureaus, the prevailing view expressed to OIG was that any merit gained here has been far offset by the problems generated by this structure. Many lamented the lack of "bright lines" delineating policy responsibilities between NP and AC, adding that this problem was compounded by VC's desire to have "a voice on every issue." The U.S. representative to the Conference on Disarmament reports to both the NP and the AC assistant secretaries, as did the Special Negotiator for Fissile Material, complicating guidance and taskings. Several Department bureaus noted the challenge of determining their appropriate interlocutor on key issues within this family of bureaus. "Who has the ball" is widely debated among VC, AC, and NP, with conflicting interpretations of the meaning of treaties, the intent of Congress or the status of negotiations. There is no agreed Foreign Affairs Manual (FAM) language delineating the responsibilities of the three bureaus. The bottom line, as one key T family member articulated it, is "Who's responsible for doing what has no clarity and no consistency."

In the policy formulation process this situation has fostered sloppiness and confusion and invites politicization of issues. Channels of communication are often broken or circumvented, competing memos are presented to Department leadership, other memos are withdrawn for rework. This architecture and rarified work environment has also led some T staff to become engaged improperly in bureau activities and to assume operational roles that are not typical for the staff of under secretaries in the Department.

The uncertainty within the Department regarding which office or bureau has the authority to speak on specific arms control and nonproliferation issues has spread to other departments of the U.S. government. OIG was told that the Department frequently enters the interagency process with conflicting views, thus reducing its influence. This confusion has even spilled over to foreign governments as they seek to determine which U.S. view is authoritative. Many cited the 2004 Nuclear Nonproliferation Treaty Preparatory Committee (NPT PrepCom) as a prime example of the confusion regarding which element had the lead within the Department. In their view, the U.S. delegation did not function smoothly, internally or externally. The Under Secretary for Arms Control and International Security,

three Assistant Secretaries, and the Ambassador to the Conference on Disarmament all spoke, with foreign delegations left to fathom as best they could which U.S. policy positions were paramount and who, after the departure of the Under Secretary, was in charge.

Managing People

The primary complaint raised by staff in the three bureaus was not resources, but structure. There is a general belief that the bureaus are well funded and that the total staff assigned to all three should be sufficient to advance U.S. interests. The three bureaus today employ upwards of 352 Civil Service and Foreign Service employees. The current structural division, however, leaves NP overworked, VC seeking substantially more staff, and some in AC embarrassed at their light workload. It also yields a top-heavy management structure (fully 35 people, plus four vacant positions, are attached to the three front offices), poor promotion prospects for more junior Civil Service employees, difficulties in attracting Foreign Service employees, and weak overall management. All of these factors, coupled with the policy infighting noted above, have impinged on staff morale.

Office of Inspector General View: Combine the Bureaus of Arms Control and Nonproliferation; Redesign the Bureau of Verification and Compliance

The structural shortcomings cited above are particularly troublesome in an area of prime importance to the security of the United States. The President has stressed that "the grave threat from nuclear, biological, and chemical weapons did not go away with the Cold War," but "evolved into many separate threats, some of them harder to see and harder to answer." This evolution of the threat calls for a more dynamic response. While the bureaus work hard to fulfill their primary missions, the continuation of the current AC-NP-VC structure impedes policy formulation and implementation, stifles comprehensive analysis, results in the inefficient use of personnel and resources, and does not best serve the interests of the Department or the U.S. government. A more agile, coherent structure is needed, designed to address better the contemporary security challenges facing the United States. A more realistic design also may lead to an improved management structure, enabling better use of Civil and Foreign Service personnel. It may also offer staff greater professional development opportunities.

OIG believes an optimal structure would result from the merging of AC and NP functions and redefining VC as a specialized entity (instead of a bureau), similar to the U.S. Global AIDS Coordinator or the Director of Policy Planning, with direct, independent reporting responsibility to the Secretary. This merger and redefinition should eliminate unnecessary duplication, ensure accountability, improve management, and focus staff more effectively on their primary missions.

A major structural realignment should proceed forthwith, but carefully. Any potential changes in the executive branch should not be seen as a reason to postpone consideration of far-reaching reforms, but as an opportunity. The restructuring requires no additional staff or financial resources - indeed, it will likely yield some savings. But any restructuring will demand strong support to overcome bureaucratic inertia and ensure proper leadership. In the case of VC, a new architecture should result in a leaner, more focused operation, better integrated into ensuring proper advancement of the U.S. government's nonproliferation and arms control agenda.

Because the designation of an Assistant Secretary for Verification and Compliance was mandated by law in 2000 (see 22 U.S.C. 2652c), altering the status of VC would require congressional action. Nevertheless, OIG believes that doing so would enhance this function at the Department, maximizing consideration of verification and compliance issues in the bureaucracy (at the Department and within the U.S. government), ensuring the independence of this operation and enabling staff dedicated to this task to focus more effectively on their key mission. The titles of "Assistant Secretary" or "bureau" are not required to underscore the importance of the issue being addressed as evidenced by current engagement on HIV/AIDS and the Millennium Challenge Account - both leading presidential priorities and multi-billion dollar efforts. Nevertheless, in accord with concerns expressed by Congress when it mandated the creation of VC, the leadership position charged with this task should continue to be subject to Senate confirmation.

> **Recommendation 1:** The Department leadership should explore restructuring the Bureau of Verification and Compliance from a bureau to a specialized entity so that it will focus more clearly upon its central mandate. (Action: S, in coordination with M and T)

(In reaction to the draft of this report, on August 11, 2004, the Secretary asked the Under Secretary for Management to establish a task force charged with evaluating the current organization of the T family bureaus, making recommendations for necessary changes and preparing an implementation strategy for any structural changes to be ultimately approved by him. The task force held its first meeting on August 25, 2004.)

Implementing the redesign of the T family should follow the inspection of the Bureau of Political-Military Affairs that will take place in Fall 2004. The PM inspection may identify additional concerns that should be addressed as part of this proposed restructuring. An appropriate target timeframe for implementation of bureau, office, and staff changes may be at the beginning of 2005. This timeline also accords well with planning the movement of over 150 VC and AC staff to permanent office space - now scheduled for Spring/Summer 2005.

Note: The following OIG comments, observations, and recommendations relate to VC as it was structured and operated at the time of the 2004 inspection.

BUREAU OVERVIEW

The legislation that established VC stated that the bureau would oversee matters relating to verification and compliance with international arms control, nonproliferation, and disarmament agreements or commitments. VC participates in executive branch interagency groups that assess or analyze compliance with existing or proposed arms control or nonproliferation arrangements. The Assistant Secretary, by law, is a representative to the intelligence community for purposes of having access to all relevant information related to compliance and verification issues. VC's mission is to ensure that verification is a central element of new agreements and commitments, to monitor compliance with existing agreements and commitments by individual countries, and to report assessments of noncompliance to policy makers. Noncompliance assessments based on open and classified sources play a key role in determining whether sanctions are an appropriate recourse.

At the time the inspection was conducted in May 2004, the VC staffing pattern included 82 full-time positions (including 20 vacancies - several of which were long-standing). In addition to permanent staff, the bureau is supported by approximately a dozen detailees brought on board under exchange programs with the national laboratories at Los Alamos and Sandia, via the Foster Fellows and Presidential Management Fellows programs, or from other agencies, including the military services. The bureau has requested 14 additional positions for 2005 and nine more for 2006. These increases, plus four positions purchased from human resources in FY 2004, would bring VC's total full-time positions to 109.

The Assistant Secretary notes in the lead statement to the Bureau Performance Plan (BPP) that VC only has 34 full-time positions (exclusive of support staff) to carry out the bureau's core policy functions. This excludes the Verification Operations office and the Nuclear Risk Reduction Center and focuses on the four policy offices: Nuclear Affairs; Conventional, Chemical and Biological Weapons Affairs; Strategic and Missile Affairs; and Technology and Assessments.

In 2004, the budget of VC totaled $15.1 million, more than half of which was allocated to salaries. By 2006, the budget is projected to increase to more than $21.4 million to cover major initiatives. For example, the bureau has embarked on

a project to install up to 99 video teleconferencing facilities linking embassies abroad with the Department. VC would also like to develop a knowledge management system based on the model being developed for the Missile Technology Control Regime. This effort would require an additional $2 million in FY 2005 and $2 million in FY 2006. VC is also seeking a $3 million appropriation in FY 2005 for the Verification Assets Fund and another $3 million in FY 2006.

Since its creation, the functions of VC have never been spelled out in the FAM. The bureau has drafted proposed language, but it has not been approved. Among the consequences of the absence of approved FAM language delineating the duties of the former ACDA bureaus (AC and NP do not have cleared FAM language either), is the lack of an authoritative arbiter to resolve turf issues among these bureaus.

EXECUTIVE DIRECTION

The VC front office includes the assistant secretary, the principal deputy assistant secretary in charge of compliance policy, and the deputy assistant secretary in charge of verification policy. Each deputy assistant secretary is responsible for supervising three bureau offices. In addition to normal support staff, a number of special advisors handle speech writing, public diplomacy, and logistics. The chief of staff deals with administrative matters, including preparation of the BPP. There is also one detailee responsible for special projects. Total front office staffing is 12.

The portfolios of the deputy assistant secretaries were divided between verification and compliance activities by the current Assistant Secretary, but there is considerable overlap in their supervisory responsibilities. The principal deputy assistant secretary does not play the usual role of a principal deputy assistant secretary on personnel and other administrative matters (these have been delegated to a chief of staff). Rather, he serves as an alter ego to the Assistant Secretary and advances issues in the area of compliance policy. He has been particularly involved in efforts to eliminate North Korea's nuclear capability. He was rated highly by bureau staff for his policy expertise and energy, but concerns were raised about whether he had sufficient independence from the Assistant Secretary. The deputy assistant secretary for Verification has assumed the lead in continuing verification efforts to confirm that Libya has fulfilled its commitment to eliminate its weapons of mass destruction program and missile technology control regime (MTCR)-class missile programs. She developed and implemented the personnel exchange between the U.S. and Russian NRRCs, an innovative approach to a traditional program. She also chairs the awards committee. She is well respected and was lauded by many for her efforts on Libya and attention to staff.

The current Assistant Secretary has taken VC's Congressional mandate seriously and pursued it vigorously. Thanks to her efforts, there is far greater understanding and acceptance today of the need to ensure that verification and compliance concerns are part of any arms control process or nonproliferation effort. Under her leadership, VC has asserted itself to integrate these considerations into negotiations, to bring greater rigor to compliance assessments, and to strengthen efforts to assure compliance by individual countries. VC has developed the independence and autonomous voice that Congress sought.

The Assistant Secretary has also pushed hard to develop VC's niche within the Department and to expand its operations. Its activism here, perhaps inevitably, has led to frictions with other bureaus within the Department who have questioned the scope of VC's mandate. Answering this question is no mean task. VC interprets its mandate broadly, believing it invites engagement on any "agreement or commitment" and that its intelligence tasking provides for a seat at the table in upwards of 30 interagency groups. There is no question that some of the growth of VC's influence is proper and to be commended. The substantial growth of its engagement in a number of areas, however, raises some concern, particularly as its key task, preparation of the annual compliance report for Congress, remains perennially delayed.

A frequent observation, raised inside and outside the bureau, is that the Assistant Secretary is pushing so hard in so many different directions - building an intelligence component, compliance diplomacy, sensitive compartmented information facilities (SCIFs), Libya, North Korea, knowledge management, video teleconferencing - that needed prioritization and focus have been lost in the shuffle. The sense is that not only has this agenda been too ambitious, it risks undermining the very rationale that led Congress to establish the bureau itself. Many believe that it would have been better for the bureau to promise less and complete what was promised.

"Annual" Compliance Report

While Congress has mandated an annual compliance report, this has not been delivered. The most recent report, combining the years 2000 and 2001, was submitted to Congress in June 2003. The submission for 2002 is now to be combined with 2003, but its submission is also delayed, and a lengthy clearance process is anticipated.

The Assistant Secretary has argued that the current delay is acceptable and that the bureau will, in the end, provide a better report. She deemed earlier efforts as inadequate, raising the bar on quality and classification. The classification of the compliance report will now rise from secret to SCI to be able to incorporate more relevant information. VC also intends to include some information from particularly sensitive compartments in annexes to the report. Many interlocutors believe that this new approach, while it should yield a better product, will likely make the interagency clearance process even more difficult, further impeding the timely submission of the report. Some staff suggested that an equally effective, and

easier, approach would have been to maintain the report at the secret level, but provide briefings to appropriate Hill representatives to address more sensitive compartmented information.

Although tardiness in submitting the compliance report is not unprecedented, VC must do better to meet deadlines for its reports. Providing such reports was one of the prime rationales behind the establishment of the bureau. While Congress has not balked at receiving biannual reports, this practice now appears to be more the rule than the exception. Other reports required by Congress (reports mandated in the advice and consent process on the Conventional Forces in Europe (CFE) Treaty and the Chemical Weapons Convention (CWC)) are also stalled in the clearance process. The Department should approach Congress regarding these requirements and determine whether adjustments can be made in their timing and/ or structure.

> **Recommendation 2:** The Bureau of Verification and Compliance, in coordination with the Bureau of Legislative Affairs, should raise with Congress the possibility of changing the compliance report from an annual to a biannual requirement and to having its submission satisfy the requirements for now separate reports required on compliance with the Conventional Forces in Europe Treaty and the Chemical Weapons Convention. (Action: VC, in coordination with H)

Matrix Management

Instead of using the bureau's office structure, the Assistant Secretary has pursued "matrix management," building unique teams within VC and - in the case of Libya - across bureaus and agencies, to address specific issues as they arise. Teams are assembled along both geographic and functional lines with staff assigned to responsibilities that may or may not be related to their assigned office. The creation of a team to oversee WMD disarmament in Libya offers the leading example of this, bringing expertise to bear from wherever it can be found. This team engages upwards of 50 people across a dozen agencies, with VC staff serving as senior WMD representative and mission leaders for chemical, biological, and missile systems. In fact, a majority of the bureau has been engaged in the Libya effort.

The Assistant Secretary noted that some staff had difficulty adjusting to this approach but stressed that it eliminated "stovepipes" and provided necessary flexibility and agility. In the beginning, no leaders were designated for the teams, so as not to upset managers (the Assistant Secretary was seen as the leader of each team), although team chiefs are now identified. While some individuals are pleased to be tapped for leadership positions on the teams, VC's traditional bureau structure has suffered. Concerns were raised with OIG that the system has been used to pick favorites and isolate some individuals whose opinions were unwelcome. It has also reinforced a perception that the Assistant Secretary regards only the core "34 policy staff" as the bureau.

This management style has yielded mixed results. It has indeed given the front office greater flexibility, but it has undermined lines of authority within the bureau and raised questions about how supervisors can effectively conduct their managerial responsibilities. It has led some staff to question what is the function of offices in this environment and highlighted concerns over determining priorities and ensuring that key functions, such as preparation of the compliance report, are shepherded to completion.

The team approach preferred by the Assistant Secretary seems more appropriate to a smaller, more agile body as envisioned in Recommendation 1, which would not be saddled with the current office structure, would be charged with only the core mission, and would help coordinate resources from other bureaus.

Morale

Morale in VC overall, with a few exceptions, is generally high. Its people are working hard to achieve goals of high importance to national security and they believe their contributions are recognized. VC staff are particularly proud of the work being done to help eliminate Libya's weapons programs. Staff also expressed appreciation for the bureau leadership's willingness to defend VC views in bureaucratic and interagency frays. Success has not come without personal sacrifice. The intense activity and frequent travel the Libya effort entailed has generated considerable stress. Many staff complain of the inability to schedule leave or training under current circumstances.

VC employees hold their colleagues in high esteem and enjoy working as members of a cohesive group. They consistently praise the high quality of administrative services provided by the executive office. Support staff stressed that the bureau promotes a family friendly environment, with particular credit given to the Assistant Secretary. Her engagement and energy have contributed to the bureau's

relatively high morale. Nevertheless, several staff members raised concerns regarding the Assistant Secretary's willingness to tolerate dissent.

Intelligence Role

The Assistant Secretary has made intelligence a top priority, viewing it as a critical component of the compliance analysis process. She pushed hard to obtain SCIFs for the bureau, to get direct electronic feeds of intelligence materials and has received approval to print SCI material. Indeed, the key aim of VC's significant future staffing requests is to build up an in-house intelligence staff. Current staff have been encouraged to make "intelligence" a major component of their daily work. Some individuals have embraced this task gladly; others have argued that there is not sufficient time to do both their regular job and these new duties. Several VC staff expressed concerns that they were not trained as intelligence analysts and felt uncomfortable having to function as such. Office directors and analysts now prepare DeSutter Daily Intelligence Briefings organized by topic, much like the division of office responsibilities: nuclear, chemical/biological, and strategic/missile.

VC management told OIG that the bureau had to take all these steps because INR had not provided the support VC required to perform its compliance and verification role. Similarly, the Director of Central Intelligence's quite large Office for Weapons Intelligence, Nonproliferation and Arms Control staff was deemed unable to provide sufficient support for this verification effort as well. It was argued that only by obtaining its own intelligence feeds and developing its own assessments and analysis could the bureau effectively advance its mandate. One result of this push by VC has been a near complete divorce from INR support. In any case, OIG was told that VC's "intelligence operation" today has already surpassed that possessed by ACDA when it was an independent agency.

OIG finds several aspects of VC's effort on intelligence capability troubling. OIG questions on policy, staffing, and cost grounds whether so strong a push is necessary and that such analysis should be done in VC instead of INR. These concerns are addressed below in the discussion on VC's Office of Technology and Assessments. Potentially more problematic, however, is the precedent being set regarding greater numbers of SCIFs in the Department and the printing of SCI material.

INR, in conjunction with the Bureau of Diplomatic Security, reinforced centralized procedures to handle sensitive compartmented material at the Department following security lapses in 1998-2000. Any steps that might lead to a reduction in

the security afforded by that centralization must be assessed very carefully. Calls for decentralization based primarily on convenience cannot be sufficient. The U.S. government's overall interests in assuring the greatest security of this material must be the dominant factor. The acquisition of SCIFs by VC, AC, and NP will likely build the desire of other bureaus to follow their example. Some case can be made for the electronic dissemination of sensitive information under carefully controlled procedures. The push by VC to be able to print SCI materials, however, seems to OIG to be a step too far.

> **Recommendation 3:** The Bureau of Intelligence and Research, in coordination with the Bureau of Diplomatic Security, should establish an overall policy governing the creation and operation of additional sensitive compartmented information facilities, with particular attention paid to the potential security risks posed by the decentralization of printing of sensitive compartmented information materials. (Action: INR, in coordination with DS)

Additional Front Office Priorities

The Assistant Secretary has developed plans to hold a "Compliance Diplomacy" conference that she would like to have become an annual event. The aim would be to strengthen international security by building broader alliances with like-minded countries, countries of concern, and others. There has been little progress on this issue. OIG noted that other bureaus appeared unaware of planning for this future event. The Assistant Secretary informed OIG that there were no funds available for this project and that it may not be possible this year, even though it was cited in BPP plans as a major goal. Smaller first steps in this direction may be more practical and, if successful, foster support for this greater effort.

Another project the bureau has focused on is the establishment of a verification assets fund to preserve endangered intelligence monitoring capabilities. VC seeks $6 million in the next two years for this program, but to date Congress has appropriated no funds. In addition, VC is engaged in a major effort in support of other bureaus to implement a video-teleconferencing system around the globe. In the VC presentation of its FY 2006 BPP, it was noted that 57 such facilities have been installed, and 42 more are in the pipeline. Another project already on the drawing board is creation of a verification and compliance knowledge management system. This would allow VC to archive information from various sources, classified or not,

related to sanctionable and other proliferation activities. Completion of the plan would require $2 million in FY 2005 and an additional $2 million in FY 2006.

Staffing Concerns

The bureau has been hindered by a high number of vacancies and recruitment, advancement, and hiring concerns. At this point, five years after being integrated into the Department, VC has no Foreign Service officers other than the watch officers in the NRRC. The high proportion of senior Civil Service officers, many of whom transferred over from ACDA, has limited opportunities for upward mobility and perpetuated an organizational culture distinct from that of the Department. When filling vacancies, VC has conveyed the perception that it prefers candidates from other U.S. government agencies or Capitol Hill, rather than recruiting from the Foreign Service or within the Department. Finally, VC has used the special authority granted by Congress to recruit scientists and other specialists for verification and compliance activities rather than hiring foreign affairs officers with generalized knowledge.

Office of Inspector General View: Verification and Compliance as a Specialized Entity in the Secretary's Office

Congress objected to original plans to cover compliance and verification concerns as part of AC, underscoring how vital these functions were in Senate consideration of arms control agreements. It stressed the importance of ensuring an "exclusive focus" and "independent voice" on these issues with any reorganization. The Senate Foreign Relations Committee made clear that the individual responsible for this task should be confirmed by the Senate and be "given a voice at the most senior level of the Administration" so that the function would not be viewed as a second-order priority. The solution was to vest responsibility for verification and compliance assessments in a Senate-confirmed Presidential appointee, at the assistant secretary level.

OIG agrees fully with the importance of effective verification and compliance. Indeed, these considerations should be advanced by everyone working in the areas of arms control and nonproliferation. Staff interviewed in the concurrent inspections of AC and NP acknowledged this responsibility. OIG also recognizes the significant value provided by maintaining an exclusive focus and independent voice on these issues. OIG's inspection, however, raised questions as to whether placing the responsibilities in an assistant secretary, responsible for managing a bureau, has proven the best way to yield the intended result. As noted above, the focus of the

Assistant Secretary and her staff has been diluted in efforts to engage in a wide spectrum of activities. While each could be argued to have some connection to verification and compliance, building a bureau, managing offices responsible for handling information technology operations (for other bureaus), and arms control agreement notification messages, other efforts appear to be unnecessary tasks. The annual compliance report, the primary vehicle for providing Congress with timely assessments of verification and compliance developments, has proven anything but timely.

Independence is an equally important concern. Placing verification and compliance responsibilities with an assistant secretary has given that person an important rank, but one that is the same as that of those responsible for arms control and nonproliferation or other regional issues in the Department. In practice, it has meant that VC can be a dissenting voice among many, deeply embroiled in infighting and turf-battles. OIG sees some merit in placing this function more above the fray; in vesting these responsibilities in a smaller, more focused entity that would speak directly for the Secretary on these issues. Today, there is scant difference in views on verification and compliance issues between VC and T, but that may not always be the case. Attaching this entity to the Office of the Secretary, for example - as is done with policy planning or efforts on HIV/AIDS - would underscore its importance within the Department, and outside, and in our view enhance its independence.

Finally, concerns were raised with OIG that as VC has become more directly responsible for operational activities, it risks undermining its own independence. VC was established, in part, because of concerns that those who negotiate arms agreements (and whose success is measured by those achievements) should not be the same individuals who assess their verification and compliance. Today, VC staff are on the ground in Libya working out arrangements with the Libyans regarding the elimination of their WMD and MTCR-class missile programs. Those same staff will next prepare the report not only on whether the Libyans have kept their word, but also on whether their own efforts provided for sufficient and effective verification and compliance. If AC performed both these tasks it would be deemed unacceptable, given the importance attached to separating the two functions. VC not being an operational bureau would preclude this dilemma.

BUREAU OFFICES AND CORE FUNCTIONS

OFFICE OF STRATEGIC AND MISSILE AFFAIRS

Mission

The Office of Strategic and Missile Affairs (VC/SM) is responsible for verification and compliance aspects of arms control, nonproliferation, and disarmament agreements and commitments involving nuclear warheads, strategic and intermediate range nuclear forces, and WMD delivery systems. VC/SM participates in verification and compliance aspects of negotiations and prepares verifiability assessments of arms control, nonproliferation, and disarmament agreements. This office assesses compliance by foreign countries with such agreements and engages in diplomatic consultations to address concerns. These assessments form a part of the annual Compliance Report to Congress. Other VC/SM activities include efforts to enhance confidence in the implementation of the Moscow Treaty and integrating the results of START treaty inspections, notifications, national monitoring activities, and cooperative programs.

All members of the VC/SM staff participate in interagency meetings, including several National Security Council-sponsored working groups. The director represents VC on the U.S. delegation to the Moscow Treaty's Bilateral Implementation Commission and in Working Group One on Offensive Nuclear Transparency in the U.S.- Russia Consultative Group for Strategic Security. He chairs the missile subgroup of the Libya Technical Assistance Group (LTAG). The deputy office director is the Libya Missile Team Chief responsible for the assessment of Libya's commitment to rid itself of MTCR-class missiles, cochairs the START Treaty Verification and Compliance Analysis Working Group, and participates in the START Treaty's Joint Compliance and Inspection Commission. He also participates in the Intermediate Range Nuclear Forces Treaty's Special Verification Commission. Participation in these meetings requires frequent travel to meetings at

the U.S. Mission in Geneva and other capitals. Another member of the office chairs the LTAG in the bureau wide effort to eliminate WMD and MTCR-class missiles in Libya and coordinates support with other U.S. government agencies in the U.S. war in Iraq while another individual is the Deputy Senior WMD Representative in Libya. Yet another leads the VC bureau's Cooperative Threat Reduction program coordination activities.

Management

VC/SM has been an integral part of the effort to eliminate Libya's WMD and MTCR-class missile delivery system, first at the interbureau and subsequently at the interagency level. LTAG, managed by VC/SM, developed plans and managed deployment of U.S. weaponry experts to Libya to eliminate these weapons and their infrastructure as well as to verify their elimination. The VC/SM Deputy Director leads the missile team that has deployed repeatedly to Libya, and other employees have spent considerable time in Libya. Many in VC believe their success in Libya has validated the credibility of the bureau's special mandate vis-à-vis the rest of the Department.

However, staff in VC/SM also perform a key role on the bureau's top unaccomplished priority, the preparation of the "annual" compliance report. One staff member here is "double-hatted" by the Assistant Secretary, as one of her senior advisors to coordinate the report. In this capacity, he reports to the deputy assistant secretary for Compliance Policy and to the Assistant Secretary directly; as a regular staffer he reports to the Office Director and Deputy Director, and the deputy assistant secretary for Verification.

OFFICE OF NUCLEAR AFFAIRS

Mission

The Office of Nuclear Affairs (VC/NA) has the bureau's lead on verification and compliance aspects of arms control, nonproliferation and disarmament agreements, and commitments involving nuclear and radiological weapons. The office assures that verification is a central element of arms control and nonproliferation agreements related to nuclear testing, nuclear materials, warhead dismantling, and related issues so that the United States can assess the degree to which other

countries are in compliance with the terms of their agreements. VC/NA engages in diplomatic consultations with countries to address U.S. concerns with noncompliance, evaluates potential transfers of nuclear and radiological devices, and participates in the sanctions review process. Its assessments are incorporated into the annual compliance report to Congress prepared by VC. VC/NA's mandate includes strengthening compliance with the NPT and improving the effectiveness of the International Atomic Energy Agency implementing mechanism. The office also has been involved in the shaping of U.S. government policy related to a Fissile Material Cut-off Treaty. VC/NA has concentrated much of its effort on North Korea, laying the conceptual foundations for the current verification position and playing an important role in helping prepare the concept paper for the Six-Party Talks. The office also evaluated verification issues related to a Fissile-Material Cut-off Treaty.

Management

The mission of VC/NA is in flux and many of the areas noted above have not been very active. Indeed, bureau management weighed for a time the elimination of the office. When administration policy on the Comprehensive Test Ban Treaty changed dramatically, the VC front office sought to broaden the office's focus beyond Comprehensive Test Ban Treaty related activities. However, VC encountered substantial resistance from other bureaus. The resulting tension has been exacerbated, several interlocutors noted, by VC's relatively strict interpretation of nuclear arms control agreements and evaluations of potentially harmful transfers of nuclear technology and equipment. This situation has contributed to difficult relations with other bureaus and stress for the staff.

VC/NA is sorely in need of continuity and stability in its management. The office has had three acting directors in the last year and suffers from persistent vacancies. After the last permanent director left the office in 2003, the front office appointed a series of acting directors with a limited tenure of 90 days while the process was initiated to post the office director position. One of these acting directors was offered a higher grade at another agency that the Department was unable to match. The deputy director was then asked to serve until the current acting office director, hired to be a senior scientific advisor, came on board. Two candidates were certified for the position, but the front office was not satisfied with the results and plans to readvertise the position to increase its range of choice. If VC/NA is to remain an office in the current bureau, this leadership problem should be addressed.

> **Recommendation 4:** The Bureau of Verification and Compliance should recruit a permanent replacement for the front office director to eliminate confusion over the direction of the Office of Nuclear Affairs. (Action: VC, in coordination with DGHR)

The time needed to obtain SCI clearances for Interagency Personnel Agreement and Foster Fellows has impeded the ability of these experts to perform their duties. One Foster Fellow had been recruited to provide expertise on export controls, a function that rests primarily with NP, but the individual's lack of a security clearance above the secret level diminished greatly his effectiveness for VC for several months.

OFFICE OF TECHNOLOGY AND ASSESSMENTS

Mission

The Office of Technology and Assessments (VC/TA) provides analytical support to VC on a broad range of issues associated with compliance and verification of arms control and nonproliferation agreements and commitments. VC/TA participates in interagency groups that assess, analyze, or review U.S. policies, programs, and resources that have a direct bearing on verification or compliance matters. It also is tasked with promoting the development of new verification technologies through government-wide research and development programs. VC/TA led the biological warfare team involved in implementing Libya's decision to abandon WMD programs and is establishing a system to monitor long-term compliance.

In its assessments role, VC/TA analyzes technological developments affecting verification and information regarding compliance that come from a variety of sources, including intelligence. The information gleaned from highly sensitive sources supports the Assistant Secretary in her role as liaison with the intelligence community and underpins negotiation of verification regimes for new and existing security agreements. Compliance assessments based on intelligence are included in the bureau's annual compliance report to Congress.

Management

This office has been plagued with vacancies (several long-standing) both for physical science officers with expertise in chemical/biological, nuclear and missile weaponry and for senior foreign affairs officers. At the time of the inspection, six out of twelve positions were vacant, with VC augmenting the office with a Presidential Management Fellow, a contract Measurement and Signature Intelligence liaison officer and an analyst on loan from INR. VC management attributes staffing gaps to the slowness in obtaining approval for position descriptions and the paucity of qualified candidates.

The vacancy problem in VC/TA has exacerbated other issues. OIG notes that VC management has made major changes in the portfolios of several members of the VC/TA staff. Some, who are unable to continue working on areas in which they have longstanding expertise, are upset and may leave the office to work elsewhere in their chosen field. If so, the number of vacancies, which is already substantial, will further increase. Despite the unfilled vacancies, VC senior leadership intends to increase the size of this office substantially in the future.

VC/TA is struggling to keep up with a growing number of working groups and conferences on verification technology. The office participates in over 30 U.S. government intelligence groups that monitor and assess weapons, proliferation, and disarmament activities. VC/TA also cochairs the interagency Nonproliferation and Arms Control Technology Working Group responsible for coordination of verification technology. VC/TA has the lead on a government-wide review of research and development related to counterproliferation. VC/TA staff developed a mechanism for site selection used by the Organization for Prohibition of Chemical Weapons.

Much VC/TA staff time is dedicated to evaluating raw intelligence data in order to support the Assistant Secretary in her role as liaison with the intelligence community and to help prepare assessments to be included in compliance reports. The bureau has made a substantial investment in equipment necessary to have access to this data. The bureau successfully pushed for its own SCIFs (it has two), for its own electronic feeds of intelligence, and has received approval for its own printing capability for SCI documents. VC/TA staff produce their own intelligence assessments for the Assistant Secretary and T that occasionally reach other Department senior leaders. This has caused some tension with INR, and other bureaus, with questions being raised regarding the quality and accuracy of their product.

VC/TA has replaced the support that was previously provided by INR. INR, which has staffing problems of its own, had provided only limited support. It is clear, however, that VC wanted to develop its own analytic capability and intends to construct its own significant analytic operation. Some VC staff voiced concerns that there is no clear endpoint to this growth and, as with other bureau activities noted above, there is insufficient prioritization.

OIG questions whether this function could not be performed more effectively - and at less cost in terms of SCIFs, equipment, and personnel - within INR. There is no doubt that INR did not have sufficient staff dedicated to this function. Nevertheless, shifting full-time equivalents (FTE) to create a core group of trained INR analysts focused on verification and compliance issues should ensure effective coverage. These analysts would provide strong support to the entity envisioned in Recommendation 1. That body should include a few key advisors to assist the Senate-confirmed leader in carrying out the intelligence liaison responsibilities.

Unfunded Key Verification Assets Fund

This year VC/TA will advise the Assistant Secretary on disposition of $800,000 to preserve endangered monitoring capabilities and seed development of verification technologies. Congress established the Key Verification Assets Fund (V Fund) for this purpose, but has not yet appropriated the funds requested. In the absence of a specific appropriation, Department resources have been used in a fashion analogous to the V Fund. For example, seed money was provided to establish the program office for the COBRA JUDY replacement program that will be used to collect ballistic missile launch data. VC is seeking $3 million in FY 2005 and another $3 million in FY 2006 for the V Fund.

OIG questions whether this is an effective use of limited Department re-sources. Given the enormous costs associated with military and intelligence hardware, contributions from the Department can be marginal at best. If Congress has been unprepared to appropriate any funds for this effort, a more logical ap-proach may be to use the Department's substantial "political capital" in arguing the merits of maintaining such capabilities, with any needed funding being provided by the government departments or agencies primarily responsible for the programs.

OFFICE OF CONVENTIONAL, CHEMICAL, AND BIOLOGICAL WEAPONS AFFAIRS

Mission

The Office of Conventional, Chemical and Biological Weapons Affairs (VC/CCB) is responsible for verification and compliance aspects of arms control, nonproliferation and disarmament agreements, and commitments involving chemical, biological, or conventional weapons. VC/CCB assesses the compliance of foreign countries with the chemical, biological and conventional weapons provisions of such agreements and engages in consultations to address concerns. Assessments are incorporated into the annual compliance report to Congress. VC/CCB also prepares the annual World Military Expenditures and Arms Transfers report to Congress, the report on the CWC, and the report on the CFE Treaty.

VC/CCB regularly participates in interagency meetings on the CWC, Biological, and Toxin Weapons Convention (BWC), CFE Treaty, and the Treaty on Open Skies. The office director cochairs the Verification and Compliance Analysis Working Group for the CWC with a representative from the intelligence community. A similar working group for the Treaty on Open Skies is also chaired by the office director. There are two nonproliferation sanctions committees that meet biweekly and select meetings on bioterrorism and disease surveillance.

Members of the CCB staff travel to meetings of the Organization for the Prohibition of Chemical Weapons (OPCW) in The Hague, to BWC meetings in Geneva, and to CFE and Open Skies meetings in Vienna. They also participate in Verification Coordinating Committee meetings with the U.S. North Atlantic Treaty Organization Mission in Brussels. In recent months they have traveled frequently to Tripoli with the team involved in elimination of Libya's WMD.

Management

Beginning in December 2003, VC/CCB has been intimately involved in the effort to eliminate weapons of mass destruction programs in Libya. Since the government of Libya unexpectedly announced its intention to cooperate in this effort, it has joined the CWC, destroyed all of its declared unfilled chemical munitions, secured its chemical agents pending destruction under international supervision, and submitted a declaration of its chemical agents to the OPCW. This process has been a period of intense activity and frequent travel for VC/CCB staff.

Staff are reaching the burnout stage, but disarming Libya has virtually concluded, and workload and travel should return to a more manageable level.

CCB is also a major contributor to the Compliance report. Four of the annexes, both in classified and unclassified formats, on the Open Skies, CWC, BWC, and CFE treaties are drafted by staff. Other VC/CCB work has included efforts to improve our understanding of the OPCW technical secretariat procedures to assess the effectiveness of the CWC verification regime.

OFFICE OF VERIFICATION OPERATIONS

Mission

The Office of Verification Operations (VC/VO) provides information management services for all four T bureaus; its role has been critical in supporting the development of treaty communications systems and data management systems. The information technology (IT) staff within this office consists of an office director, a deputy director, a document research specialist, 11 IT specialists, and approximately 45 contractors. An information systems security officer (ISSO) assigned to VC is responsible for information systems security on all systems within T, except for the SCI systems managed by INR.

IT support provided to the bureaus includes management of networks (such as OpenNet Plus and ClassNet), procurement of IT hardware and software, maintenance of web sites, operation of the help desk, and administration of IT contracts. The help desk (referred to as the AC-VC-NP-PM help desk) provides information systems support for approximately 700 customers and responds to nearly 1,000 calls monthly. The IT staff is currently managing two migration efforts: one from their own local area network (T-Net) to OpenNet Plus and one from Windows 2000 to Windows XP. These migration efforts are more than 50 percent complete.

VC/VO has also successfully advanced a number of special projects for the T bureaus. For example, VC/VO maintains the U.S. Arms Control Data Repository - a large and complex database storing records of all arms control negotiations and all data associated with arms control treaties. VC/VO installed a defense export licensing system that allows the Department's Directorate of Defense Trade Controls to regulate commercial defense exports electronically. VC/VO is developing

an automatic foreign language processor to translate treaty documents to English. VC/VO is also installing video teleconferencing systems at numerous embassies overseas; and is in the preliminary stages of developing a knowledge management system to manage proliferation information from unclassified and classified sources. VC/VO also occasionally works on projects for other Department bureaus and other U.S. government departments.

Secure Video Teleconferencing and Knowledge Management Systems

VC/VO personnel work on issues that may not be inherently tied to the goals of VC/VO. For example, VC/VO continues to implement videoconferencing systems overseas although the Bureau of Information Resource Management (IRM) was assigned the responsibility to establish a centrally managed Videoconferencing Network Operations Center in December 2002. VC/VO continues to install these systems because of their proven expertise and IRM's lack of ability and funding to perform this function. In addition, VC's FY 06 BPP is proposing the creation of a knowledge management system at an estimated cost of $2 million a year for FY 2005 and FY 2006. Because of the highly sensitive information that will be stored, VC/VO believes that a unique knowledge management system is required. However, IRM is also tasked with providing a systematic framework for building on the knowledge sharing tools, technology, and practices in the Department.

> **Recommendation 5:** The Bureau of Information Resource Management, in coordination with the Bureau of Verification and Compliance, should establish a plan to transfer the skills and expertise to the Bureau of Information Resource Management for implementing video conferencing systems. (Action: IRM, in coordination with VC)

Management

VC/VO received high marks for customer service and the extensive support that it provides to VC, NP, AC, and PM. While VC/VO is performing its mission effectively, many of its operations are not central to that of VC. Department offices should be placed in structures that most reflect and match their basic mission and provide sufficient, close management. OIG recommends that VC/VO be attached to the Executive Director's office which is also charged with providing overall support services to AC, NP, PM, and VC.

The help desk is responsible for both the classified and sensitive but unclassified networks, and utilizes an action request system for opening trouble calls and tracking them through resolution. The help desk staff feels they provide a very high level of customer support, and they are striving to continually improve their level of service. Currently, they survey every tenth caller on their satisfaction with the service provided. OIG reviewed a sample of documented calls from each bureau (VC, NP, and AC) and determined no evidence of preferential treatment. Nevertheless, it is unclear why the information technology support for the T family should reside in an operational component within a bureau instead of within the combined executive office.

> **Recommendation 6:** The Bureau of Verification and Compliance, in coordination with the Bureaus of Arms Control, Nonproliferation, and Political-Military Affairs, should transfer information technology support operations to the Office of the Executive Director. (Action: VC, in coordination with NP, AC, and PM)

Information Management

OIG observed effective information management practices in VC. All customers receive an annual ISSO briefing; security briefings are required before access is granted or logons issued to the classified and unclassified systems. Some standard operating procedures exist for the bureau's information systems. Systems administrators receive adequate training. VC/VO has established a local IT change control board. The help desk has also implemented an online user's guide for their customers that answers questions and explains computer operations. However, some improvements can be made.

VC/VO has 24 IT personnel that have system administration privileges. At the time of the inspection, some of these individuals did not have separate logon identifications for their routine work as required by Department guidelines. According to VC/VO officials, this deficiency has been corrected.

OIG identified excessive personal use of government equipment as well as inappropriate material stored on government equipment (as noted in 5 FAM 723). Such use is prohibited and results in additional costs to the U.S. government.

OIG informally recommended that VC/VO develop a policy for the personal use of government issued cellular telephones, and also standard operating procedures for patch management.

Information Security

Information systems security can be improved. OIG found deficiencies in the performance of ISSO duties and compliance with existing policies for protecting classified information. Such deficiencies may place the Department at risk because Department systems may not be fully protected and intrusion into Department networks may be allowed.

The ISSO performs monthly and annual reviews of randomly selected user libraries, user and system operational practices, as required by 12 FAM 622.1-8, 12 FAM 622.1-14, 12 FAM 632.1-8, 12 FAM 632.1-11, and 12 FAM 637.1-9; however, these activities are not documented and cannot be verified. The ISSO also examines the audit logs for invalid access attempts and checks user mailboxes for inappropriate and sensitive material, but no documentation exists to demonstrate that such checks take place. OIG found games, songs, freeware (a software generally downloaded from the Internet and a prohibited activity), and many pictures that could be deemed to be offensive during a random search of workstations. The ISSO reported that he would take action to meet the requirements.

In addition, the ISSO coordinates maintenance support for defective equipment, provides software support services, is the IT property custodian, serves as contracting officer representative (COR), is the unit security officer, and is responsible for purchases with a government credit card that has a limit of $25,000. Such a combination of management, operational, and security roles vested in one individual is an inherent control weakness. OIG believes that this myriad of duties prevents the ISSO from performing his information systems security duties adequately.

Recommendation 7: The Bureau of Verification and Compliance should ensure that the information systems security officer does not have conflicting job responsibilities and performs all required functions, including, at a minimum, removing unapproved software from bureau workstations, documenting the review of randomly selected libraries, audit logs, and user and operational practices, and implementing appropriate security policies and procedures to maintain a viable computer security program. The Bureau of Verification and Compliance should ensure that the alternate information systems security officer shares the workload. (Action: VC)

Unsafe computing practices places classified information at risk. Offices that process classified information have monitors facing windows without the blinds being closed. OIG noticed that classified media was not appropriately stored and that classified media was not returned upon employees' departures.

THE NUCLEAR RISK REDUCTION CENTER

Mission

The Nuclear Risk Reduction Center (NRRC) was established in 1987 to exchange arms control information with its counterpart in Moscow on a round-the-clock basis. Many of these notifications, designed to reduce tensions by building mutual goodwill, are required by arms control treaties and other security agreements. There are now more than 20 bilateral and multilateral agreements which require government-to-government notifications. Participants include Organization for Security and Cooperation in Europe member countries. Despite increasing volume and complexity, the NRRC has performed its responsibilities admirably for many years.

The NRRC is staffed 24 hours a day, 365 days of the year. Watch standers must be proficient in Russian, German, French, Italian, or Spanish in order to translate incoming notifications in a timely manner. Depending on language proficiency, officers may be trained on both the bilateral and multilateral side of watch operations. Officers are recruited from both the Foreign Service and the Civil Service. Staff officers provide surge capacity for the watch and are responsible for policy issues, maintenance, training, and special projects.

Management

The NRRC has been blessed with solid management. The office director, who has served in the NRRC since its inception, manages the office with the assistance of an active-duty, Air Force colonel and a GS-14 Civil Service officer. In May 2004, NRRC staff was under some stress due to reduced staffing levels and increased demands on their time. Two of the most experienced watch officers had recently resigned from their jobs to accept higher-level positions in the Departments of Energy and Defense. While these resignations were not unprecedented,

they occurred just as the NRRC was preparing for an innovative personnel exchange with its counterpart in Moscow. Two officers were sent to Moscow for a week, leaving the watch somewhat shorthanded at short notice. Two Russian officers subsequently came to Washington for a one-week orientation program. Staff officers as well as watch standers were called upon to assure the successful conclusion of this special project.

At present, the watch staff is divided evenly between Civil Service and Foreign Service officers. Foreign Service officers have been part of this operation since its inception. The number of Civil Service positions has grown over the years - appropriately - as Foreign Service positions have been increasingly hard to fill. The Civil Service staff, ranging in grade from GS-09 to GS-13, usually remain on the watch for three or four years providing valuable continuity and expertise. With little opportunity to progress beyond the GS-12 level, however, many watch personnel frequently leave at that point giving only two-weeks notice. Foreign Service officers, in contrast, normally serve a one-year tour, typically preceded by a year of Russian language training. While this can lead to relatively high rates of turnover and occasional staffing gaps, these officers bring a fresh perspective and first-hand, overseas experience to the watch. Most watch and staff officers thought the current 50/50 mix strikes an appropriate balance between the need for continuity and new blood and offers the NRRC a wide range of skills.

A Permanent Home for the Nuclear Risk Reduction Center

Initially, the NRRC was located in the Executive Secretariat but was later moved to PM, then to AC and finally to VC. This last move was not primarily because the NRRC fit the mission of the new bureau, but primarily to bolster the size of this fledgling operation. The lack of bureau continuity for the NRRC led it to develop as a self-contained unit. Accordingly, NRRC staff, aside from management, have few connections to the front office or other VC policy offices. In fact, many NRRC staff said they were unable to score the VC front office on personal questionnaires because of this lack of contact. Similarly, it was clear to OIG that the front office has little contact with regular NRRC staff. NRRC staff are not included in the "core policy" group so frequently cited by the Assistant Secretary.

While the NRRC has performed its mission with distinction, all Department offices should be placed in structures that cover their basic mission and provide sufficient, close management. OIG recommends that the NRRC be attached to the bureau that results from the merger of NP and AC due to its key role in the implementation of arms control agreements.

> **Recommendation 8:** The Bureau of Verification and Compliance should place the Nuclear Risk Reduction Center under the bureau that results from the merger of the Bureau of Nonproliferation and the Bureau of Arms Control. (Action: VC, in coordination with NP and AC)

The personnel exchange with Russia was a landmark, innovative program that has reaped policy and morale gains. The exchange demonstrated to the Russians U.S. willingness to be transparent in arms control matters. It continues the tradition of confidence building measures already exemplified by the NRRC. U.S. participants reported that they had benefited from the program and learned from it. As this was the first venture of its kind, there were some rough spots in implementation that can be worked out in future exchanges with more advance planning and improved communications. The NRRC has also taken advantage of new technology to maximize efficiency. VC/VO has been instrumental in advancing these efforts. New computer systems should be installed in 2005 on the government-to-government communication links that process message traffic from the former Soviet states of Russia, Ukraine, Belarus, and Kazakhstan.

DIPLOMATIC READINESS

VC has sufficient personnel and funding to support bureau operations. Administrative support for VC operations is provided by NP's Executive Office (EX) Office that supports all four T bureaus. Although the Department generally refers to this office as NP/EX, for purposes of clarity, this OIG report will refer to this office as EX and confine most findings herein to those that have specific relevance to VC. The separate inspection reports on NP and AC address specific EX issues related to those bureaus.

As stated in the leading recommendation in this report, OIG believes the functions of AC and NP should be merged and that VC should be realigned and redefined as a specialized entity. Such a restructuring will have significant implications for the current EX. Any restructuring will require realignment of EX subsections to limit overlapping responsibilities, enhance coverage and ensure proper grade structures for unit staff. Restructuring should also facilitate the development of a system that provides better financial management of programs and projects carried out by bureaus.

Under the current T bureau structures, VC funding involves one appropriation as indicated below. In addition to these funds, VC also receives funds from NP, AC, and PM to reimburse VC for IT support.

VC (in thousands)	FY 2003 Actual	FY 2004 Budget	FY 2005 Request
Diplomatic and Consular Programs:			
➢ American Salaries	7,433	8,289	8,488
➢ Operations	6,550	6,871	6,841
Total:	13,983	15,160	15,329

OIG believes staffing is adequate in most VC offices. Filling vacant positions and greater prioritization should address workload imbalances that exist in the bureau today. VC has 72 Civil Service and seven Foreign Service positions. Because the bureau is well funded, staffing gaps (reportedly caused by the lack of FTEs) have been filled using other staffing mechanisms including consultants, fellows, and special appointments. OIG suggests that VC could make better use of unassigned senior executive service (SES) employees currently on the rolls of the T bureaus to fill vacant FTE positions, with potential savings to the bureau.

VC facilities are adequate. According to the EX/general services office (GSO) division, VC offices have had to move numerous times which disrupts work and imposes costs. Additional realignment and movement is likely given Recommendation 1 of this report. Current and planned construction will need to be reevaluated in light of bureau restructuring.

EXECUTIVE OFFICE

The Executive Office was formed from the ACDA Office of Administration and PM's Executive Office at the time of the ACDA merger with the Department. It provides administrative support to the four T bureaus; to ensure that all bureaus served by this executive office receive equitable support, all four assistant secretaries sign the Executive Director's evaluation. The Executive Director also attends or sends a representative to all bureau front office meetings. Bureau-specialized teams reside in each EX division (Human Resources (HR), GSO, Financial Management (FM)). EX unofficially assumes the title of the bureau being serviced for any given purpose. EX emphasizes good customer service.

All of the EX divisions and front office received good scores on OIG management operations questionnaires completed by bureau staff. VC personnel praised the support and performance of EX. Some concerns related to HR procedures were raised, often related to a reluctance to accept the realities of government-wide personnel regulations. As discussed in the HR section, there may be a need for better communication and more proactive information flow. Additionally, coordination between the Bureau of Administration, Office of Logistics Management, Office of Acquisitions (A/LM/AQM) contracting officers, CORs, budget personnel, and the Bureau of Resource Management needs to improve as does fund management and management controls in a few areas.

FINANCIAL MANAGEMENT

The FM office includes a supervisor, six analysts, and an office assistant. Two of the budget analysts focus on VC and AC FM operations. The division's supervisor regularly provides the VC assistant secretary financial plans showing the status of funds. The budgeting function for these funds resides in the "Budget and General Services" division.

VC FM support rated well on the OIG administered management operations questionnaire and in interviews with VC representatives. Staff said that the office made improvements in record keeping, and OIG observed that documents are kept in good order. Invoices sampled were signed by CORs before being paid, and travel

authorizations and vouchers sampled were handled properly. Although support rated well, OIG is concerned, as noted below, that the mechanism used to reimburse VC for IT support is not equitable and that AC funds have been used to augment VC operations. OIG noted this issue in the AC inspection report. Finally, unliquidated obligations are not reviewed and resolved regularly.

Bureau of Verification and Compliance Reimbursement Mechanism

VC provides IT support to the serviced bureaus including help desk operations and computer hardware and software. When AC and VC were split in 2000, all of the T bureau assistant secretaries agreed that each of the T bureaus would reimburse VC $1 million per year as compensation for IT services and equipment. OIG found no Memorandum of Understanding or other written record of this arrangement. This reimbursement mechanism has been used instead of including funds directly in VC's budget. OIG's random sampling of AC payments indicate the following AC contributions to VC for computer support:

FY 2004	FY 2003	FY 2002	FY 2001
$1,000,000	3,350,000	2,000,000	3,000,000

EX/FM stated that flexibility in the $1 million contribution is necessary if a bureau is short on funding in a particular year or if a bureau has other more important priorities. Bureaus can negotiate with EX and VC on the contribution amounts. OIG believes this mechanism is too flexible and may lead to the improper use of one bureau's funds to support another bureau's operations.

Recommendation 9: The Bureau of Verification and Compliance, in coordination with the Bureau of Arms Control, the Bureau of Nonproliferation, and the Bureau of Resource Management, should reevaluate the reimbursement mechanism for information technology operations, establishing clear written guidelines and procedures. (Action: VC, in coordination with AC, NP, and RM)

EX/FM also believes that using a reimbursable arrangement is more appropriate than including all T bureau IT support costs in VC's budget because it more equitably distributes IT cost savings among the bureaus. If IT support costs

decrease, all of the bureaus, rather than solely VC, benefit. (EX stated that repro-gramming IT cost savings from VC to the service bureaus would be too cumber-some.)

Intermingling Bureaus' Funds

AC funds have been used to support VC operations. For example, $389,797 FY 2003 AC Diplomatic and Consular Program funds were used to support a VC continuing requirement to fund the Nonproliferation and Arms Control Technology Working Group Support contract. The CORs for this contract reside within VC; VC chairs the working group; and VC's 2006 BPP cites chairing this working group as an accomplishment. FY 2002 and earlier AC and VC funds had apparently sometimes been intermingled and used to support the other's operations. In part, this intermingling of funds originated with a failure to effectively separate AC from VC functions based on the split into two bureaus in 2000. Lack of organization in the FM office at the time may also have contributed. EX took action with RM to reprogram $389,797 from AC to VC when OIG brought it to their attention.

As discussed in 4 FAM 032 and 4 FAM 080, use of one bureau's allotment to augment other bureau's operations violates Department guidance. Although Department bureaus sometimes provide funding to other bureaus in times of need, RM must be notified in order to reprogram funds from one bureau to the other. Additionally, the donating bureau's budget should be reduced and receiving bureau's budget increased by the amount of routine transfers. AC and VC budgets do not appear to have been affected by the transfers of funds and possibly program responsibilities. OIG believes that informal funding arrangements between AC and VC make it difficult for other elements of the Department to make effective funding and program decisions. The recommended realignment of these bureaus may help address these problems. Meanwhile the EX element should work with the existing bureaus to identify and redress inappropriate comingling of funds among the T bureaus.

Recommendation 10: The Bureau of Verification and Compliance should identify all payments made last fiscal year by the Bureau of Arms Control to support Verification and Compliance operations and, in coordination with the Bureau of Resource Management, should ensure that funding for these opera-tions is included in the Bureau of Verification and Compliance, rather than Bureau of Arms Control, allotment and budget request. (Action: VC, in co-ordination with RM)

Additionally, $573,000 FY 2002 AC Diplomatic and Consular Program funds were obligated to renovate VC space. VC asserts that AC funds were appropriately used to renovate VC space because the funds were part of a million dollar fund "reserve" embedded in AC's budget to be used by any of the T bureaus. Prior to integration, ACDA maintained a reserve for "external arms control research" and awarded funds to divisions during the year based on project proposals. Now these divisions reside in separate bureaus. VC asserts that the million-dollar reserve is now embedded in AC's budget every year and distributed to the bureaus by an inter-bureau board (the Research and Evaluation Board) and the Under Secretary. Use of the funds to renovate space does not appear consistent with the T bureaus' intended use of the reserve. Further, maintenance of a cross-bureau fund reserve of upwards of a million dollars does not appear consistent with Department budgeting, appropriation, and performance planning procedures for separate bureaus.

Realignment of these bureaus, consistent with Recommendation 1, will affect funding and should provide additional impetus to resolve these questions. To ensure that future funding requests are based on specific activities of the future bureaus, rather than on prior-year requests or fund reserves, the resultant entity that is established with realignment should develop a zero-based budget applying, at a minimum, to the year the entity is reorganized. Zero-based budgeting assumes that no funds are appropriated. Each program or activity is accompanied by a funding estimate, the total of which makes up the bureau's funding request.

> **Recommendation 11:** The Bureau of Verification and Compliance should develop, in coordination with the restructuring of the three bureaus in the Office of the Under Secretary for Arms Control and International Security Affairs, a zero-based budget with fund estimates for all programs and activities. (Action: VC)

Prior-Year Unliquidated Obligations

OIG found that some large unliquidated VC obligation balances are not regularly reviewed and resolved. Unliquidated obligations are funds set aside on a contract or other purchase order but not yet spent. OIG sampled some of the unliquidated obligation balances and found that million-dollar unliquidated obligations from 2000 and 2001 exist for military detailees. However, VC budget analysts have not queried the Department of Defense regarding these obligations. VC budget officers have, however, communicated with the Department of Defense on

more recent military detailee billings and obligations. Unfamiliarity with, and failure to reconcile, these prior-year balances could preclude the bureau's use of those funds.

> **Recommendation 12:** The Bureau of Verification and Compliance should review prior-year unliquidated obligation balances quarterly for bona fide need and deobligate any unnecessary balances. In conducting this review, the Bureau of Verification and Compliance should query contracting or grant officer representatives, program managers, or other agencies, if applicable, to determine whether unliquidated obligations are still valid. (Action: VC)

GENERAL SERVICES AND BUDGETING

General services and budgeting staff are housed in one division. Budgeting staff develop diplomatic and consular program financial plans and BPP submissions for VC, as well as NP, AC, and PM. The section supports VC effectively; however, budgeting expertise might be better utilized if it were more closely aligned with the EX/FM division. OIG informally recommended that the budget and fund execution staff be collocated.

The general services staff consists of the deputy executive director, one senior general services officer, six mid-level general services officers, and two administrative assistants. The division's focus on customer service was reflected in positive comments elicited in OIG management questionnaires and staff interviews. The GSO division has conducted a number of office moves and renovations. The division's process for approving and tracking bureau supply and procurement requests is effective, limiting any chance of losing an officer's request. The office is an active participant with the Department's space planning project and electronic processing of purchase orders via the Integrated Logistics Management System. Credit card purchases and cellular phone usage statements are properly reviewed on a monthly basis. OIG found some deficiencies in property management that are discussed in the Management Controls sections of this report. Additionally, OIG had concerns regarding the disjointed management of program contracts (as opposed to GSO contracts).

Contract and Program Management

Contract and program management for programs and projects to support VC substantive objectives is disjointed and needs attention. VC CORs did not always follow proper contracting procedures. For example, when a contractor did not complete the required service on time, the COR did not notify the contracting officer, but instead took informal action not consistent with Federal Acquisition Regulations (FAR) requirements. Additionally, an AC-administered contract, originally established to meet VC requirements, was extended for two years, though no work was given to the contractor and no requirements review was conducted to ensure that the work was still needed, violating FAR Part 7.104. Likely contributing to the lack of oversight was the fact that the contract had originally been administered by VC and established to meet VC requirements totaling $170,000. There is no central point within VC or EX to coordinate contracts, grants, or transfers and ensure that they are being properly managed. Because no one within EX has contracting authority, all contracts are signed by contracting officers in A/LM/AQM. (The general services branch is largely removed from the contracting process.) CORs are widely dispersed in VC. Although A/LM/AQM contracting officers sign contracts they are too overstretched to proactively assist VC CORs with contract management. Improved coordination between CORs, contracting officers, program managers, and budget officers is needed and required in FAR Part 7.103. EX/FM may best host these coordination meetings since all contracts establishment and payments must go through that office.

> **Recommendation 13:** The Bureau of Verification and Compliance, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, should schedule quarterly meetings with program managers, contracting officer representatives, grant officer representatives, contracting officers, and budget officers to discuss the status of contracts, grants, and other obligations including wire transfers. (Action: VC, in coordination with A/LM/AQM)

> **Recommendation 14:** The Bureau of Verification and Compliance, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, should conduct a requirements review of all contracts that have not had activity over the last year. (Action: VC, in coordination with A/LM/AQM)

To further improve coordination, OIG informally recommended that EX become more involved in VC contracts and informally recommended that EX's contract listing be updated to accurately reflect all contracts and CORs within VC. Additionally, VC program officers should inform the general services branch of all procurement requests submitted to A/LM/AQM.

HUMAN RESOURCES

An experienced HR specialist leads the HR division. As with the FM and GSO divisions, HR personnel are assigned to bureau-specific teams. One Foreign Service officer also provides HR support to all Foreign Service officers assigned to the various bureaus. Overall, the HR office performs satisfactorily. The office has worked to update all position descriptions since the ACDA integration and is nearing the end of this process. However, OIG believes T bureaus - including VC - need to review the balance between Foreign Service and Civil Service positions, and guard against possible abuse of a special hiring authority, and use of service contracts.

Better Balance Between Civil Service and Foreign Service Staff Needed

OIG found a lack of balance in Civil Service and Foreign Service personnel employed in VC, AC, and NP - this is mirrored in the T front office that includes not a single Foreign Service officer among its dozen staff. Aside from the NRRC, VC currently employs no Foreign Service officers. This situation has diminished the bureau's effectiveness and impeded its integration into the Department.

Of primary concern to OIG was the absence of a strategic plan on how best to use personnel - whether Civil Service or Foreign Service - to meet the current needs of the Department. VC's senior management has made insufficient effort to recruit Foreign Service personnel. Indeed, some interlocutors suggested the bureau leadership preferred to seek staff from Capitol Hill, the Pentagon, or outside the Department, conveying a basic "distrust" of the Foreign Service. Including Foreign Service officers in the bureau's mix of policy positions should put such views to rest.

When support was required to assist in public diplomacy efforts, no effort was made to bring on board a Foreign Service officer, even though this is a basic Foreign Service specialty. Instead, an individual was brought on board using a special

hiring mechanism designed to employ staff with unique technical expertise not normally found at the Department. Greater consideration should be given to the contribution Foreign Service staff could offer and ways to entice them into service in VC.

> **Recommendation 15:** The Bureau of Verification and Compliance, in coordination with the Bureau of Human Resources, should develop and implement a recruitment strategy to achieve optimal balance of Civil Service and Foreign Service personnel. (Action: VC, in coordination with DGHR)

The Hiring Process

The most common bureau complaint regarding EX operations was the length of time it takes to fill positions and the lack of FTE. OIG found a lack of understanding, or acceptance, of the Civil Service hiring process by VC's senior management. The realities of federal hiring regulations has frustrated senior bureau staff and led to the use of more unique hiring authorities to address some staffing shortages. That practice, in turn has led to some complaints by bureau staff that rules are being broken and potential opportunities unfairly denied them.

HR must continually educate senior management about the realities of the Civil Service hiring process, its grade structure, as well as the need for defined qualifications for positions. The fact that EX/HR does not have authority to classify or hire GS-14 and above positions adds time to the hiring process, as the Bureau of Human Resources Office of Civil Service Personnel and the Office of Personnel Management would then also be involved in the process. Additionally, although some bureau employees complained that their offices did not have enough FTE, many vacancies were left unfilled. Currently, 12 VC positions are vacant.

Unique Hiring Authority

Public Law 87-297, as amended, (Section 401 of the Arms Control and Disarmament Act) (22 USC § 2581) gives the Secretary of State authority to appoint employees possessing "special technical expertise" without regard to the usual rules governing appointment in the competitive Civil Service. The Secretary delegated this authority to the Under Secretary for Arms Control and International Security.

OIG questioned the use of this authority, particularly when it appeared that it was being employed to hire generalists without technical expertise. It was used, for example as noted above, to fill a public affairs position in the office of the Assistant Secretary for Verification and Compliance as well as another foreign affairs officer position in VC and several in AC. VC may have used the authority to hire generalists at higher levels than normal for these position categories. There is a quantitative limit on hires under this authority. Its misuse could impede bringing on board needed specialists in a time of urgent need.

> **Recommendation 16:** The Bureau of Human Resources should conduct an oversight review of Bureau of Verification and Compliance use of the special hiring authority of Public Law 87-297 to ensure that employees hired possess the specialized expertise required by appointment authority. (Action: DGHR)

Funding for Additional Staff

In order to augment staffing levels, EX established a number of service contracts for office management specialists, program analysts, and in some cases, consultants. The contracts are coordinated through nonpersonal services contracts established by the Bureau of Administration's Office of Acquisitions. Although outsourcing is a key goal of the Presidential Management Agenda, contracting for these services may cost more than funding permanent positions.

Senior Executive Positions

Several career SES officers were removed from their SES positions in 2000 when the Assistant Secretaries they served were replaced. In some cases, the individuals have highly specialized skills that make it difficult to place them in other SES positions. The Bureau of Human Resources has been reluctant to force other Department bureaus - outside of the T family - to accept these officers in vacant SES positions. As a result, these officers are often placed in positions that are not commensurate with their grade or pay. The result wastes resources, denies upward mobility for lower-graded employees, and hinders overall morale. This issue will be considered during the reorganization resulting from Recommendation 1.

Training

The HR office is actively engaged in ensuring that GS-13, 14, and 15 employees in the four bureaus receive the management and leadership training required by the Secretary's Leadership and Management Training Initiative. Approximately 50 percent of employees in this target group have received the training, but scheduling has been a problem for the remainder. Some employees are often unaware that they have been wait-listed by the Foreign Service Institute. OIG informally recommended that the Foreign Service Institute notify the training officer by e-mail within two weeks of receipt regarding status of the training request.

MANAGEMENT CONTROLS

VC management controls are generally effective. VC FM controls have been improving. In the past, EX did not maintain reliable supporting documentation for VC.   Further, as indicated earlier, AC funds were sometimes used to support VC operations. OIG found that VC and EX budget analysts still must ensure that obligating documents support all approved payments. Additionally, property management deficiencies must be rectified.

PROPERTY MANAGEMENT

EX maintains nonexpendable property records for the T bureaus in the Department's nonexpendable property accounting (NEPA) system. VC/VO maintains separate property records pertaining exclusively to T bureau information technology equipment. OIG's cursory review of the AC, VC, and NP property records showed property totaling about $419,000 that at first could not be located or accounted for, a portion of which represented VC property. During the inspection, EX determined that many inventory items were included in NEPA twice. When ACDA was merged into the Department in 1999, old ACDA records were stored in NEPA for reference purposes and back up if problems occurred while assigning new T bureau inventory bar codes. Despite annually certifying that property records were correct, the duplicate items were never removed from NEPA causing the value of property inventory to be overstated every year by at least $419,000. EX began correcting property records during the inspection.

Neither EX nor VC have appropriately separated property management responsibilities, thereby creating management control weaknesses. In general services, property management responsibilities lie solely with a junior GSO staff member, and in VC one person accounts for all IT equipment. OIG informally recommended that property management responsibilities including receipt, distribution, and recording be separated.

FINANCIAL MANAGEMENT

Liquidations charged to VC allotments with no corresponding obligation are not regularly reviewed and resolved. The charges totaled $210,275 in FY 2003. By not reviewing these charges, VC runs the risk of being improperly charged for nonbureau purchases or being subject to potential fraudulent charges. Not reconciling these charges has exacerbated the issue of unliquidated obligations.

> **Recommendation 17:** The Bureau of Verification and Compliance should research all liquidations to fund allotment levels to determine the validity of the payments and reconcile the payments with corresponding acquisition documents quarterly. (Action: VC)

FORMAL RECOMMENDATIONS

Recommendation 1: The Department leadership should explore restructuring the Bureau of Verification and Compliance from a bureau to a specialized entity so that it will focus more clearly upon its central mandate. (Action: S, in coordination with M and T)

Recommendation 2: The Bureau of Verification and Compliance, in coordination with the Bureau of Legislative Affairs, should raise with Congress the possibility of changing the compliance report from an annual to a biannual requirement and to having its submission satisfy the requirements for now separate reports required on compliance with the Conventional Forces in Europe Treaty and the Chemical Weapons Convention. (Action: VC, in coordination with H)

Recommendation 3: The Bureau of Intelligence and Research, in coordination with the Bureau of Diplomatic Security, should establish an overall policy governing the creation and operation of additional sensitive compartmented information facilities, with particular attention paid to the potential security risks posed by the decentralization of printing of sensitive compartmented information materials. (Action: INR, in coordination with DS)

Recommendation 4: The Bureau of Verification and Compliance should recruit a permanent replacement for the front office director to eliminate confusion over the direction of the Office of Nuclear Affairs. (Action: VC, in coordination with DGHR)

Recommendation 5: The Bureau of Information Resource Management, in coordination with the Bureau of Verification and Compliance, should establish a plan to transfer the skills and expertise to the Bureau of Information Resource Management for implementing video conferencing systems. (Action: IRM, in coordination with VC)

Recommendation 6: The Bureau of Verification and Compliance, in coordination with the Bureaus of Arms Control, Nonproliferation, and Political-Military Affairs, should transfer information technology support operations to the Office of the Executive Director. (Action: VC, in coordination with NP, AC, and PM)

Recommendation 7: The Bureau of Verification and Compliance should ensure that the information systems security officer does not have conflicting job responsibilities and performs all required functions, including, at a minimum, removing unapproved software from bureau workstations, documenting the review of randomly selected libraries, audit logs, and user and operational practices, and implementing appropriate security policies and procedures to maintain a viable computer security program. The Bureau of Verification and Compliance should ensure that the alternate information systems security officer shares the workload. (Action: VC)

Recommendation 8: The Bureau of Verification and Compliance should place the Nuclear Risk Reduction Center under the bureau that results from the merger of the Bureau of Nonproliferation and the Bureau of Arms Control. (Action: VC, in coordination with NP and AC)

Recommendation 9: The Bureau of Verification and Compliance, in coordination with the Bureau of Arms Control, the Bureau of Nonproliferation, and the Bureau of Resource Management, should reevaluate the reimbursement mechanism for information technology operations, establishing clear written guidelines and procedures. (Action: VC, in coordination with AC, NP, and RM)

Recommendation 10: The Bureau of Verification and Compliance should identify all payments made last fiscal year by the Bureau of Arms Control to support Verification and Compliance operations and, in coordination with the Bureau of Resource Management, should ensure that funding for these operations is included in the Bureau of Verification and Compliance, rather than Bureau of Arms Control, allotment and budget request. (Action: VC, in coordination with RM)

Recommendation 11: The Bureau of Verification and Compliance should develop, in coordination with the restructuring of the three bureaus in the Office of the Under Secretary for Arms Control and International Security Affairs, a zero-based budget with fund estimates for all programs and activities. (Action: VC)

Recommendation 12: The Bureau of Verification and Compliance should review prior-year unliquidated obligation balances quarterly for bona fide need and deobligate any unnecessary balances. In conducting this review, the Bureau of Verification and Compliance should query contracting or grant officer representatives, program managers, or other agencies, if applicable, to determine whether unliquidated obligations are still valid. (Action: VC)

Recommendation 13: The Bureau of Verification and Compliance, in coordination with the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, should schedule quarterly meetings with program managers, contracting officer representatives, grant officer representatives, contracting officers, and budget officers to discuss the status of contracts, grants, and other obligations including wire transfers. (Action: VC, in coordination with A/LM/AQM)

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Recommendation 15: The Bureau of Verification and Compliance, in coordination with the Bureau of Human Resources, should develop and implement a recruitment strategy to achieve optimal balance of Civil Service and Foreign Service personnel. (Action: VC, in coordination with DGHR)

Recommendation 16: The Bureau of Human Resources should conduct an oversight review of Bureau of Verification and Compliance use of the special hiring authority of Public Law 87-297 to ensure that employees hired possess the specialized expertise required by appointment authority. (Action: DGHR)

Recommendation 17: The Bureau of Verification and Compliance should research all liquidations to fund allotment levels to determine the validity of the payments and reconcile the payments with corresponding acquisition documents quarterly. (Action: VC)

INFORMAL RECOMMENDATIONS

Informal recommendations cover operational matters not requiring action by organizations outside the inspected unit and/or the parent regional bureau. Informal recommendations will not be subject to the OIG compliance process. However, any subsequent OIG inspection or on-site compliance review will assess the mission's progress in implementing the informal recommendations.

Nuclear Risk Reduction Center

VC's NRRC does not have regularly scheduled staff meetings among managers, staff officers, and watch standers. Regular staff meetings would improve communication among all officers.

Informal Recommendation 1: The Bureau of Verification and Compliance's Nuclear Risk Reduction Center should schedule staff meetings regularly to improve communication among staff.

With the exception of a successful personnel exchange with Russia, VC's NRRC has not participated in personnel exchanges. Future exchanges should be incorporated when planning other programs and as a result, communication would improve.

Informal Recommendation 2: The Bureau of Verification and Compliance should incorporate more personnel exchanges when planning future programs.

General Services and Contract Management

No central tool exists for monitoring the number of contracts exercised by all four bureaus supported by EX. EX only tracks the contracts used by its office.

Informal Recommendation 3: The Bureau of Verification and Compliance's Executive Office should update its contract listing to reflect all contracts within the bureaus as well as names of contracting officer representatives.

VC/EX has not completed standard operating procedures for receipt, management, accountability, and disposal of its property, including IT equipment. Procedures would ensure that property management responsibilities are appropriately separated.

Informal Recommendation 4: The Bureau of Verification and Compliance should write and distribute written standard operating procedures on property management guidelines.

Reviews of credit card statements are manually processed and kept on a written log.

Informal Recommendation 5: The Bureau of Verification and Compliance's Executive Office should develop an electronic spreadsheet to maintain records on credit card statements and place the spreadsheet on the shared directory.

In some cases, the same general services officer handled purchasing, receiving, and reconciling responsibilities for credit card purchases.

Informal Recommendation 6: The Bureau of Verification and Compliance's Executive Office should designate separation of duties for purchase cardholders in the general services office.

Financial Management

The GSO section reviews and approves its own credit card purchases for payment. Allowing the same person authority to make purchases and approve purchases is a weakness in internal controls.

Informal Recommendation 7: The Bureau of Verification and Compliance's Executive Office should designate the resource management branch responsible for reconciling general services office and other cardholder purchase lists with bank invoices.

Budget officers did not have lists of valid contracting officers and CORs on-hand. Approving invoices approved by unauthorized personnel leaves the Department vulnerable to improper payments.

Informal Recommendation 8: The Bureau of Verification and Compliance should establish a list of all valid contracting officers and contracting officer representatives to ensure that invoices are not approved and obligations established by individuals lacking those authorities.

Budget formulation and budget execution employees do not coordinate to discuss spending rates and program changes (such as transferring a program from one bureau to another).

Informal Recommendation 9: The Bureau of Verification and Compliance's Executive Office should ensure that budget and fund execution functions are collocated.

Budget formulation and budget execution employees reside in separate offices.

Informal Recommendation 10: The Bureau of Verification and Compliance's Executive Office should ensure that budget and fund execution functions are collocated.

Human Resources

Staff was employed before receiving the security clearance required to perform their responsibilities.

Informal Recommendation 11: The Bureau of Verification and Compliance should ensure that personnel have the appropriate clearance to perform their assigned duties prior to actually being hired.

Training is not a key priority due to time constraints and workload. Few employees have individual training plans.

Informal Recommendation 12: The Bureau of Verification and Compliance should develop and implement a bureau-wide training policy.

Information Resource Management and Information Security

There is excessive personal use of government-owned IT systems. Personal use of the Department's classified equipment is strictly prohibited. Minimal personal use of the sensitive but unclassified system is allowed as long as there is no additional cost to the government.

Informal Recommendation 13: The Bureau of Verification and Compliance should send out an administrative notice to staff reminding users of 5 FAM 723 and 12 FAM 632.1-5 for both OpenNet Plus and ClassNet systems.

Classified information must be protected from inadvertent view. Some offices have display monitor screens facing windows with open blinds. This does not comply with 12 FAM 633.3-2.

Informal Recommendation 14: The Bureau of Verification and Compliance should send out an administrative notice reminding staff to close blinds when workstations are processing classified information.

One classified diskette was left among unclassified diskettes in the server room and not secured as required by 12 FAM 632-1-6. Classified media must be appropriately stored in a container approved for the storage of classified information.

Informal Recommendation 15: The Bureau of Verification and Compliance should store all classified diskettes in the appropriate container.

VC does not have a written standard operating procedure for updating software security patches.

Informal Recommendation 16: The Bureau of Verification and Compliance should develop and implement written software security patch procedures for the bureau's unclassified and classified information systems to ensure that all patches are applied.

The bureau's procedures for employee departures are not followed. Many users do not turn in their ClassNet hard drives.

Informal Recommendation 17: The Bureau of Verification and Compliance should ensure that the employee returns all information technology equipment prior to departure from the bureau.

VC/VO has not developed a policy for the personal use of government issued cellular telephones as required by 5 FAM 526.1.

Informal Recommendation 18: VC/VO should establish a bureau policy on personal use of government issued cellular telephones as required by 5 FAM 526.1.

PRINCIPAL OFFICIALS

Assistant Secretary	Paula DeSutter	08/02
Principal Deputy Assistant Secretary	Christopher A. Ford	04/03
Deputy Assistant Secretary	Karin L. Look	04/99
Office Directors:		
Office of Nuclear Risk Reduction	Harold Kowalski	04/99
Office of Technology and Assessments	Thomas Yehl	02/04
Office of Strategic and Missile Affairs	Jerry Taylor	08/00
Office of Conventional and		
CBW Compliance	Sylvester Ryan	07/00
Office of Nuclear Affairs	Stanley Fraley, Acting	02/04
Office of Verification Operations	Glen Johnson	04/99
Executive Office		
Executive Director	Cathleen Lawrence	04/99
Deputy Director, Personnel	Nancy Aderholdt	04/99
Deputy Director, Resource Management	Rosetta Meadows	05/03
Deputy Director, Budget & General Svcs.	Craig White	04/99

ABBREVIATIONS

AC	Bureau of Arms Control
ACDA	Arms Control and Disarmament Agency
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisition Management
BPP	Bureau Performance Plan
BWC	Biological, and Toxin Weapons Convention
CCB	Office of Conventional, Chemical and Biological Weapons Affairs
CFE	Conventional Forces in Europe
COR	Contracting officer representative
CWC	Chemical Weapons Convention
Department	Department of State
EX	Executive Office
FAM	Foreign Affairs Manual
FAR	Federal Acquisition Regulations
FM	Financial management
FTE	Full-time equivalent
GSO	General services office
HR	Human resources
INR	Bureau of Intelligence and Research
IRM	Bureau of Information Resource Management
ISSO	Information systems security officer

IT	Information technology
LTAG	Libya Technical Assistance Group
MTCR	Missile technology control regime
NA	Office of Nuclear Affairs
NEPA	Nonexpendable property accounting
NP	Bureau of Nonproliferation
NPT	Nuclear Nonproliferation Treaty
NRRC	Nuclear Risk Reduction Center
OIG	Office of Inspector General
OPCW	Organization for the Prohibition of Chemical Weapons
PM	Bureau of Political-Military Affairs
PrepCom	Preparatory Committee
RM	Bureau of Resource Management
S	Secretary of State
SM	Office of Strategic and Missile Affairs
SCI	Sensitive compartmented information
SCIF	Sensitive compartmented information facilities
SES	Senior executive service
START	Treaty on the Reduction and Limitations of Strategic Offensive Arms
T	Office of the Under Secretary for Arms Control and International Security
TA	Office of Technology and Assessments
VC	Bureau of Verification and Compliance
VO	Office of Verification Operations
WMD	Weapons of Mass Destruction