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Report of Inspection

Bureau of Nonproliferation

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KEY JUDGMENTS

- 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, Nonproliferation (NP), Arms Control (AC), and Verification and Compliance (VC), is impeded by unclear lines of authority, uneven workload, and unproductive competition.
- NP and AC should be merged to address major organizational shortcomings. This merger will enable a smoother, improved policy process and better management. This is expected to result in the reallocation of resources for greater efficiency.
- The shift in emphasis away from traditional arms control, compounded by post-September 11, 2001, developments, has placed an even greater focus on the nonproliferation policy and programs. NP's efforts advancing U.S. nonproliferation interests have produced considerable success.
- NP has benefited greatly from strong executive leadership. Bureau cohesion and morale were high. The Assistant Secretary and principal deputy assistant secretary (PDAS) were uniformly praised for their mastery of nonproliferation issues, commitment to mission, and willingness to fight for NP policy positions and staff.
- The existing distribution of responsibilities among NP offices does not offer easy guidance as to what office should have a particular assignment. The NP front office's reliance on its regional affairs office as a secretariat speaks to the lack of clear divisions of responsibility among many NP offices.
- NP's ten offices include several where project and program management are the primary function. NP managers need to coordinate more effectively with budget officers and the Bureau of Resource Management (RM). The office in charge of the Nonproliferation and Disarmament Fund (NDF) is not properly structured to effectively manage so large a fund. Selection procedures for NDF projects need better organization and clarity.

- Executive Office support of bureau operations has been solid, but financial management regarding prior obligations needs to improve. There should also be greater NP front office attention to funding and program management activity.
- NP has made strong efforts to enhance recruitment of Foreign Service officers (FSOs), but achieving the best balance of Civil Service and Foreign Service representation remains a challenge.

The inspection took place in Washington, DC, between May 3, 2004, 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 weapons of mass destruction (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 Limitation Talks and also helped develop the Treaty on the Reduction and Limitation of Strategic Offensive Arms and the Treaty on Intermediate Range Nuclear Forces. Center stage in many of these efforts was dealing with the nuclear threat posed by the Soviet Union.

Following the end of the Cold War, with 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 break up 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 weapons of mass destruction. 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 more dependent on expansion of the North Atlantic Treaty Organization (NATO) and the European Union.

The end of the Cold War also created a new challenge as how to best 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, AC and NP, were created. Subsequently in 2000, due to congressional concerns regarding effective verification and compliance of arms agreements, part of AC became a separate Bureau of Verification and Compliance.

OIG began the inspection of all three bureaus on the fifth anniversary of this integration. The intent of this OIG 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 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 sharp observations that immediately follow reflect upon primarily the structure of the T family of bureaus and their resultant interactions, and not the individual bureaus themselves nor the engagement and performance of their staffs. The Office of Inspector General's (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 (IAEA) 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 NP'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 in-fighting. 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 NP, VC, 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, NP, that having remained center stage following the events of September 11, 2001, is challenged and overworked; another bureau, AC, that is largely in search of work; and the third, VC, that could perform better in a different organizational form. 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 changes in the WMD threat and to most deftly advance the various regimes developed to impede that threat. The current three-bureau struc-

ture 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.

Implementing Policy

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 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 tasking. 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 AC, NP, and VC, with conflicting interpretations of the meaning of treaties, the intent of Congress, or the status of negotiations. There is no agreed Foreign Affairs Manual 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 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, either 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, both Civil Service and Foreign Service. 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 Bureaus of Nonproliferation and Arms Control and Redesign 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 NP-AC-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 better address the contemporary security challenges facing the United States. A more realistic design 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 NP and AC 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. OIG believes 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.

While OIG is recommending merging of NP and AC functions, OIG is not detailing a precise blueprint for the fusion of offices or restructuring of a new front office or realignment of portfolios. Such specifics are best done by those working directly on NP-AC-VC issues. Given the significant structure, resource, and personnel issues involved, OIG believes a task force under the auspices of the Under Secretary for Management should use staff and expertise from the office of the Under Secretary for Arms Control and International Security, AC, NP, VC, PM, Policy Planning Staff, Bureau of Intelligence and Research, Bureau of Legislative Affairs, Office of Management Policy and the Bureau of Human Resources in redesigning these T elements.

Recommendation 1: The Department should establish a task force to craft the merger of the Bureau of Nonproliferation and Bureau of Arms Control, redesigning their current structure, eliminating unnecessary overlap of functions, and ensuring development of a clear authoritative voice on nonproliferation and arms control policies. (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.)

A new NP-AC bureau will present considerable challenges for span of control, but it is not without precedent. The Bureau of European Affairs and the Office of the Special Advisor for the Newly Independent States (NIS) were effectively merged in 2001 becoming the Bureau of European and Eurasian Affairs (EUR). Leading this new bureau will require exceptional leadership and management skills.

Altering the status of VC will require congressional action because the designation of an Assistant Secretary for Verification and Compliance was Congressionally mandated in 2000. Nevertheless, OIG believes that a different structure would allow VC to focus more effectively on its key mission and enhance its role. (Note: This issue is discussed further in the VC report.)

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 CY 2005. This timeline also accords well with planning the movement of over 150 AC and VC staff to permanent office space, now scheduled for Spring/Summer 2005.

Note: The following comments, observations and recommendations refer to NP as it is currently organized and managed.

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BUREAU OVERVIEW AND POLICY FOCUS

Since ACDA's integration, the shift in emphasis away from traditional arms control toward nonproliferation issues has continued. Developments in the post-Cold War, including September 11, 2001, placed greater emphasis on WMD nonproliferation issues. NP includes ten offices and an office serving the Fissile Material Negotiator. The bureau includes Civil Service and Foreign Service personnel, as well as military detailees and Presidential Management Fellows. NP's current structure involves both policy and program offices.

NP's overall mission is to contain the spread of weapons of mass destruction, related technology and materials, delivery systems, and advanced conventional weapons. The bureau's strategy in accomplishing this mission is defined in its Bureau Performance Plan (BPP). NP seeks to strengthen existing (or create new) international regimes to stem the spread of chemical, biological, nuclear, and radiological weapons, their delivery systems, and related technologies. NP advocates bolstering the NPT and the IAEA. NP offices seek to assure continuous updating of the export control lists of the five multilateral export control regimes and to tighten export controls. The bureau has made expansion of the President's Proliferation Security Initiative a key priority. NP advocates the use of sanctions and restrictions on arms transfers. Further, it seeks the redirection of people and facilities that were once part of WMD programs.

The broad goals and programs stated in the BPP require NP to invest considerable time and effort into coordination of working groups and procedures. Indeed much of NP's work is an effort to bring about a fully coordinated U.S. policy approach. There is generally close coordination with the Bureau of Intelligence and Research and the intelligence community and with other departments of government including the Departments of Defense and Energy. In general, OIG found that NP's policy development capabilities were quite good. NP needs more effective front office attention to management of programs and projects so as to ensure that these projects fully support the bureau's goals and objectives.

In the five years since ACDA's integration, the functions of NP have never been spelled out in the Foreign Affairs Manual. The bureau has drafted proposed language, but it has not been approved. Among the consequences of the absence of approved Foreign Affairs Manual language delineating the duties of the former ACDA bureaus (AC and VC do not have cleared language either) is the lack of an authoritative arbiter to resolve turf issues among these bureaus.

EXECUTIVE DIRECTION

An Assistant Secretary and two deputy assistant secretaries lead NP (the Assistant Secretary retired during the course of the inspection). In addition, the bureau is home to the special position of “Fissile Material Negotiator and Senior Cutoff Coordinator.” The NP front office includes a special assistant to the assistant secretary, three staff aides and three personal assistants or office management staff for the assistant secretary and deputy assistant secretaries. Total front office staffing is 11.

The recently departed Assistant Secretary will be a tough act to follow. He successfully shepherded the bureau through particularly difficult times and was given significant credit for building NP into a cohesive team with a focused mission. Staff expressed near universal admiration for him and his abilities, even though many admitted that they rarely had direct dealings with him. The Assistant Secretary emphasized the need to work closely with the regional bureaus in pursuing nonproliferation issues and finding effective solutions for policy problems, and this focus was successful. Interlocutors in regional bureaus praised the professionalism of NP’s leadership and its willingness to take hard stands to advance nonproliferation efforts. The Assistant Secretary clearly had the confidence of the Secretary and Deputy Secretary. This fact was underscored by his selection to serve as envoy for U.S. efforts to advance the Mideast roadmap.

In normal circumstances, the departure of so strong a leader would put at risk maintaining such a high standard of performance and morale. NP, however, has been fortunate to have a PDAS with exceptional skills and deep knowledge of the intricacies of nonproliferation issues. Because of the Assistant Secretary’s concurrent Mideast responsibilities, the PDAS was given extended opportunities to sharpen and showcase her talents and to prove, while serving repeatedly in an acting Assistant Secretary capacity, that she is fully capable of leading the bureau. The PDAS was given high marks for her willingness to fight for issues and to support NP staff.

The effectiveness of NP’s senior staff has been reduced by the structural problems that exist within and between NP, AC, and VC. The realignment of bureaus should enhance policy formulation and implementation and smooth some strained working relationships. The new lines of authority should also facilitate

better support for the missions in Geneva and Vienna. With the new responsibilities given to the U.S. Representative to the Conference on Disarmament, NP's senior leadership must enhance communication with her to ensure that Geneva efforts fully dovetail with Washington policymakers' nonproliferation strategy.

The PDAS and the other DAS split oversight of the individual offices in NP. Because the PDAS is now the acting Assistant Secretary, NP's director of regional affairs is filling in as the acting DAS for Nonproliferation Controls. The DAS for Nuclear Nonproliferation was praised for his approachability, loyalty, and political judgment. For the most part, the different office directors and deputy office directors reported that they had good access to their respective DAS's. Based on responses to OIG individual questionnaires, a number of people within the bureau felt that the front office was a bit too distant. At the same time, the general consensus was that the NP front office was stretched thin and the feeling of distance, therefore, was understandable. OIG found the PDAS and DAS were well aware of the array of personnel issues and staff problems that affected different NP offices. Prior to the inspection, it was clear that the front office had urged the development of written standard operating procedures for the offices as well as the development of training plans.

In many respects staff views of the front office are colored by varying opinions regarding the staff assistants. Some officers disdained the emphasis on correct formats; others credited staff assistants for ensuring proper navigation of sensitive action items. Many within NP feel trapped by the tyranny of too many e-mails and e-mail taskings and find it difficult to prioritize the relative importance of various tasks assigned from the staff assistants. Identifying appropriate action offices is not a problem easily resolved by staff assistants, however. To assure the best understanding of procedures and priorities, it would be useful for staff assistants to attend some office staff meetings to flesh out questions and procedural irritations affecting office level staff. This would be particularly useful given the time pressures placed on senior front office managers and their lack of time for more extensive management by "walking around."

Several offices are dissatisfied with NP's internal organization, pointing out that the existing distribution of responsibilities among offices, indeed, even the similar and somewhat vague names of the offices, does not offer easy guidance as to where an assignment should go. The name "Proliferation Threat Reduction," for example, does not really distinguish the Office of Proliferation Threat Reduction (NP/PTR) from the activities of the rest of the bureau. The front office's reliance on the Office of Regional Affairs (NP/RA) as a kind of secretariat speaks to the lack of clear divisions of responsibility among many NP offices. The proposed

reorganization of the T family bureaus called for in Recommendation 1 should resolve these organizational problems, including the overlap of responsibilities among NP offices and AC.

OIG found that the NP front office has made an effort to implement the usual tools to assure good communication within the bureau. There are regular front office meetings with office directors and senior staff. The DAS's also have regular sessions with leaders of the offices that they oversee. While these procedures have provided effective guidance and oversight on policy efforts, OIG was concerned that additional structures may be necessary to ensure solid oversight and financial controls for the wide array of NP-funded programs and projects. The front office relies on daily action reports to keep informed of issues being handled at the office level. Nevertheless, the front office did note to OIG its concern that some offices spend too much time struggling within the bureaucracy over various issues, rather than referring them to higher levels for resolution.

Efforts of the NP front office to enhance Foreign Service representation within the bureau are evident. It is not unusual for senior NP officials, whether Civil Service, Foreign Service or political appointee, to play an active role in recruiting a Foreign Service candidate. Several FSOs in the bureau stated that their NP assignment was one of their best experiences with the Department. NP has had some success in placing staff in Vienna assignments, but more can be done. Linking overseas assignments in Geneva and Vienna charged with nonproliferation responsibilities to bureau assignments (at present these assignments are under the control of AC and IO) could enable NP to establish a career path in this vital area with greater rewards to attract more top caliber candidates to the bureau. Such opportunities will be further expanded with the merger of NP and AC functions.

NP has a problem in defining and promoting logical career paths for its civil servants. This problem is reflected in other Department bureaus and is not unique to NP or other T family bureaus. It is amplified in NP, however, due to the highly specialized technical expertise of staff. They often possess skill sets that are not readily transferable to other areas of work and have insufficient managerial responsibilities to move up the typical Civil Service career ladder. As part of the process associated with Recommendation 1, the NP front office should work with the bureau's Executive Office (NP/EX) to identify strategies for developing clearer career paths for its Civil Service employees.

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BUREAU OFFICES

OFFICE OF REGIONAL AFFAIRS

NP/RA is often described as NP's "go-to" office. In effect, NP's front office often uses RA as the bureau secretariat, having RA coordinate bureau responses on major proliferation issues relating to Iran, China, Libya, Iraq, Pakistan, India, and North Korea. (NP's Office of Proliferation Threat Reduction, not NP/RA, handles issues relating to the former Soviet Union). An FSO currently heads NP/RA and the office is one of the few offices within the T family that actively focuses on recruiting Foreign Service personnel. In many respects, the nature of work within this office offers a more natural fit for FSOs. The Deputy Director and several other key personnel (including the head of the Middle East unit) are Civil Service personnel who are area experts with substantial experience in the nonproliferation field.

Because of the crosscutting nature of NP's work, RA is often placed in the position of bridging contentious policy differences among other T family bureaus or regional bureaus within the Department. The NP Assistant Secretary, in his discussions with OIG, pointed to the substantial effort his bureau has made to work with the regional bureaus in developing effective policy responses to proliferation challenges. The NP front office has relied heavily on RA to accomplish this goal. While RA officers appreciate the responsibility and front office attention, there are concerns among RA officers that this attention has created frictions with other NP offices.

RA has made a conscious effort to achieve an effective mix of both Foreign Service and Civil Service personnel. Morale within the office is high, and office leadership is generally praised for balancing the need to provide guidance without micromanaging. Nevertheless, many officers put in substantial overtime, and there are concerns that RA may be faced with burnout. Office leadership is aware of these potential burnout problems and is taking steps to ensure an atmosphere that provides sufficient flexibility for staff to respond to personal and family demands.

RA has adjusted its internal organization to respond to developing priorities of the bureau and the Department. For example, the NP/RA Middle East team adjusted to reflect declining operational needs relating to Iraq and increased its attention to Iran and Libya. The team was responsible for drafting the comprehensive U.S. strategy on Iran and IAEA. NP/RA has the lead on policy issues related to the nuclear and missile capabilities of India and Pakistan and is widely viewed as the repository of significant expertise on South Asia nonproliferation issues.

NP/RA has the lead in developing and coordinating the Proliferation Security Initiative, which was announced by the President in Poland in 2003, and nuclear interdiction efforts. An NP/RA officer chairs the Nuclear Interdiction Action Group. Based on discussions with RA as well as other offices/agencies that participate in the group, NP/RA's leadership of this group is viewed as positive and efficient.

OFFICE OF CHEMICAL, BIOLOGICAL AND MISSILE NONPROLIFERATION

NP's Office of Chemical, Biological and Missile Nonproliferation (NP/CBM) focuses on the elimination or reduction of threats associated with the proliferation of chemical and biological weapons as well as missiles having a WMD delivery capacity. NP/CBM leads seven interagency working groups aimed at coordinating U.S. interests in these areas and participates in a number of other working groups as well. The NP/CBM office enjoys a good reputation with the Department and among interagency interlocutors. In past years, NP/CBM was the lead office for NP. CBM's lead role within the bureau has now been overtaken somewhat by NP/RA. This change reflects the personal inclinations of the front office leadership and does not suggest a decline in CBM's capacity.

The office personnel include a mix of Civil Service, Foreign Service, military detailees, and Presidential Management Fellows. Overall, officers in CBM appear to enjoy the challenging work pursued in the office. Some cited their admiration for the expertise and strong reputation of the office director. In fact, in discussions with other Department offices, there is a definite deference to CBM and its resident experts on nonproliferation issues regarding missiles and use of diplomatic tools such as the Australia group. Most CBM officers credited the deputy director's organization and people skills for enabling CBM to work as an effective, cohesive team.

The downside of an otherwise very positive atmosphere within CBM is a common complaint regarding the limitations for advancement for younger Civil Service officers. Overall, the issues related to advancement for CBM's Civil Service officers reflect broader issues facing Civil Service personnel within the Department. It is an issue that does not offer ready solutions for CBM. The issue appears to revolve around a desire by many to achieve a higher grade but also stay in a well-respected, action-oriented office.

OFFICE OF PROLIFERATION THREAT REDUCTION

NP/PTR focuses its efforts on reducing the potential that former WMD scientists will sell their expertise to rogue nations or terrorists. The Cooperative Threat Reduction Act of 1993 (P.L. 103-160) (popularly known as the Nunn-Lugar Act) began this effort with the former Soviet Union. The implementation of Nunn-Lugar programs has now expanded, with a major new emphasis on Iraq and Libya.

NP/PTR currently helps underwrite science centers in Moscow (Russia) and Kiev (Ukraine). The aim of these science centers has evolved over time, looking first to provide employment for former WMD scientists but focusing now on assisting institutes which had been involved in WMD development to become self-sustaining and part of the broader international business and scientific communities. NP/PTR worked closely with the United Kingdom with the opening of Libya's WMD facilities to help assess the number of scientists involved in this effort. Similar assessments have taken place in Iraq. With the opening of the U.S. Embassy in Baghdad, NP/PTR will work to expand the establishment of the Iraqi International Center for Science and Industry. NP/PTR officers chair the Nonproliferation Interagency Roundtable that reviews projects mandated by the National Security Council. This work requires significant travel. The nuclear smuggling officer chairs the Nuclear Trafficking Response Group.

NP/PTR is a large office with over twenty positions. The office director is a senior FSO who had been in the position less than two months at the time of the inspection. He delegates well and is available to all staff. The deputy office director is a career civil servant with extensive experience in PTR programs and policies. The balance of the office is subdivided into four units. These units include officers working on G-8 matters; a bio-chem and bio-chem industries unit; a section devoted to nuclear issues; and a unit that handles relations with the science centers.

NP/PTR does well in promoting training for its staff. Communication within NP/PTR is quite good and overall office morale is high. Nonetheless, some civil servants are discouraged by the limited prospects for promotion. Some staff in NP/PTR believe that the significant quantity of work and limited resources available to the office has hindered the office's performance. If NP/PTR acquires additional staff, office space limitations will need to be addressed.

OIG evaluated the use of funds to support the science centers as well as other programs managed by NP/PTR. This is addressed in the Diplomatic Readiness/ Executive office sections of this report.

OFFICE OF EXPORT CONTROL COOPERATION

The thirteen personnel in NP's Office of Export Control Cooperation (ECC) manage U.S. interagency nonproliferation export and border control assistance under the Export Control and Related Border Security Assistance (EXBS) program. The transfer of responsibility for export control assistance from the Department of Defense and the establishment of a subaccount under the Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) account were two events that led to the creation of ECC in 1998. A third event was the transfer to NP of significant funding from the NIS account then under the control of EUR. ECC has placed a number of EXBS program officers at embassies abroad. The NP/ECC office also chairs the Interagency Working Group on Nonproliferation Export Control Assistance.

Fundamentally, ECC is a program office and program management skills are paramount requirements for its personnel. ECC works with budget analysts in NP/EX to ensure oversight of \$36 million in EXBS program funds. NP/ECC pointed out to OIG that some contracting agencies, heavily relied on in the past, have not performed to standards expected by ECC. The office is enforcing tougher standards and essentially has set up a performance-based competitive requirement for potential contracting agencies.

Overall, ECC's EXBS program pursues projects in five core areas: export laws and regulations; development of licensing techniques; enforcement of export control regulations; development of appropriate software; and interagency cooperation and coordination. Initially, much of ECC's work had been related to the former Soviet Union. Increased understanding of the proliferation threat has led ECC to now devote more attention to countries in Central Asia, Central Europe and South Asia, particularly those countries affected by major trading routes.

As ECC expands its coverage of countries and regions, its program officers are finding that their jobs demand increasing levels of program and area expertise. For now, ECC is challenged by the need to stabilize the number and quality of its officers. ECC is one office that has discovered that quality personnel are sometimes lured away by other offices with offers of assured promotions. This reality requires that the Director and Deputy Director remain fully engaged in the development of ECC personnel and are alert to the availability of talented professionals for the office.

As noted under the discussion of NP's NDF, OIG agrees with the Government Accountability Office that the NDF's TRACKER program would be a more logical fit for the NP/ECC office. Managing the program (assuming that it is agreed that the program has continuing value) will require additional resources for ECC. OIG (per Recommendation 5 below) calls for the Office of Nonproliferation and Disarmament Fund (NP/NDF) and NP/ECC to develop a plan of action for transferring this project to ECC. Part of that transfer may require an NDF determination to underwrite the program for a given period under ECC.

OFFICE OF EXPORT CONTROLS AND CONVENTIONAL ARMS NONPROLIFERATION POLICY

NP's Office of Export Controls and Conventional Arms Nonproliferation Policy (NP/ECNP) focuses primarily on conventional arms issues and, according to several within the office, these issues, unlike WMD, are not a bureau priority. The office has four informal units. A key element of the office relates to Wassenaar, an arrangement among 33 states aimed at establishing procedures for the transfers of conventional arms and dual use technology, and Man-Portable Air Defense Systems issues. ECNP units also deal with licensing for conventional arms and dual-use material; interdiction and sanctions, including visas mantis¹; and commercial remote sensing.

In contrast to the NP offices described above, morale in ECNP ranges from fair to poor. Although the ECNP office leadership lauds NP front office attention to ECNP issues, several ECNP personnel feel that they have been somewhat ignored by the NP leadership. The general consensus is that the Man-Portable Air

¹ The visas mantis program is an interagency security review for visa applicants involved with technological and scientific fields that are considered sensitive and critical to national security.

Defense Systems issue is the one issue likely to provoke attention from the Assistant Secretary or the Under Secretary. Added to this perception of senior-level disinterest, the office director appears to micromanage issues and not fully trust subordinates to handle their portfolios, with predictable negative consequences on office morale.

ECNP's 13 personnel handle issues that require expertise and attention to detail. ECNP receives good marks for its management of licensing and visas mantis issues. The office has lost a valued expert on remote sensing and is currently trying to train a less experienced officer to close this gap. ECNP is among the NP offices that recently drafted training plans aimed at personnel development.

ECNP's work often requires sound interbureau and interagency coordination. ECNP exercises close, positive coordination with NP/CBM on issues that involve the two offices. ECNP's work on the Wassenaar arrangement is indicative of the office's focus on European trade in sensitive or dual use technology. This focus on European issues often leads to bureaucratic tensions with EUR's Office of Policy and Regional Affairs. OIG was told that relations between ECNP and its EUR counterparts have improved recently and the more difficult coordination challenge has become the office's engagement with VC.

Overall, with an NP-AC merger, there will be a requirement for greater attention to ECNP's role and overall U.S. efforts to diminish proliferation of conventional arms and dual use technology in areas other than Europe.

OFFICE OF NONPROLIFERATION AND DISARMAMENT FUND

Congress established the NDF under Title V, section 504 of the 1992 Freedom Support Act (P.L. 102-511), with executive branch authority for managing this fund delegated to the Under Secretary of State for Arms Control and International Security. Current NDF funding is \$35 million. At the time of the inspection, the eleven-person NDF office included a mix of Civil Service, when actually employed, (WAE) retirees, and contract employees. Congress mandated the NDF to assist in the destruction of weapons of mass destruction and their means of delivery. NDF funding is also used to support processes aimed at improving nuclear safeguards, enabling reactor shutdowns, assuring better control of dangerous materials, and strengthening export control efforts.

Congressional intent in establishing the NDF was to ensure a mechanism enabling funding for urgent processes and programs that would strengthen nonproliferation responses. Over the past 10 years NDF has notified 125 projects to Congress — 96 of which have been completed. Projects have included the elimination of Bulgarian SS23 and SCUD missiles, supporting the dismantlement and transfer of WMD materials from Libya, improving physical safeguards of chemical and biological weapons materials, and improving means of detecting the transfer of dangerous materials or equipment. According to NDF personnel, the office avoids efforts to use funds for underwriting activities such as seminars or travel of foreign officials to seminars. The focus of NDF is on actual destruction of material or improving safeguards so as to limit proliferation threats.

Project Selection Process

NDF has succeeded in providing the Department with an invaluable tool to respond quickly and finance projects aimed at destroying or dismantling weapons or weapons materials. The fund does not belong exclusively to NP. The fund is a government-wide resource and can be made available for specific projects proposed by other departments of government as well as other elements of the Department. The NDF office has an executive review process whereby a committee that includes the Assistant Secretary and senior DAS-level representatives of the “T family” reviews presentations of projects proposed for NDF funding. The committee then provides the Under Secretary with its recommendations for approval or disapproval of project proposals, with the Under Secretary making the final determinations of what will be funded.

Conceptually, the process for selection of NDF projects is appropriate. Nonetheless, the actual implementation of the NDF review panel process has some flaws. Timing for review panel meetings often is unpredictable. This leads to a flow of proposals, often at the last minute, when a panel session is announced. OIG believes NDF must establish predictable quarterly review dates (or some other acceptable timeframe) to place interested offices or departments on notice as to timelines and formats for submission of project proposals. As it stands now, the current procedures invite confusion.

OIG observed that project proposals to be reviewed by a May 12, 2004, review panel were received, vetted, and distributed to committee members as late as three hours before the panel meeting. Inevitably, senior officials being asked to judge the quality of these proposals had only limited opportunity to read or review the proposals. The actual project presentations at the review panels do offer senior

committee members the opportunity to question elements of a proposal. Nonetheless, their ability to pose more penetrating questions would improve significantly if NDF established a submissions process that was less frenetic and allowed decisionmakers more time to review written proposals prior to the actual review sessions. Certainly, there are instances when speed and quick review is inevitable, and exceptional review procedures can be established for such cases. The issue for NDF is not to add time to the project proposal review process but to make procedures more transparent and efficient.

Recommendation 2: The Bureau of Nonproliferation should revise the Nonproliferation and Disarmament Fund procedures to indicate regular meetings for the review of project proposals. (Action: NP)

Recommendation 3: The Bureau of Nonproliferation should provide Nonproliferation and Disarmament Fund committee members with copies of all project proposals no less than two working days prior to a review panel meeting. (Action: NP)

Although NP/NDF has a string of positive accomplishments, the office is poorly structured. The management section of this report cites several areas for improvement in the tracking of funds and management of contracts. Communication within the office is not good. The office has no deputy, and this has contributed to an overall lack of clarity regarding assignments. In some instances, staff consult with one another as to who might be able to take on a particular assignment. This informal office networking only works when there are agreements among staff members. Either the office director has to take charge and communicate specific assignments clearly or NDF must have a deputy (using existing full-time equivalent funds) who can ensure adequate division of responsibilities among staff members.

The NDF office has funded and managed a continuing program referred to as "TRACKER" which is intended to assist other governments in identifying and tracking the sale and transfer of potentially dangerous technology and material. NP agrees with a Government Accountability Office conclusion that NP/ECC is better suited to manage TRACKER and that NP/ECC should be given responsibility for this program. Nevertheless, OIG found no game plan for ensuring that the TRACKER program would, in fact, move to NP/ECC.

Recommendation 4: The Bureau of Nonproliferation should transfer management of the TRACKER program from the Nonproliferation and Disarmament Fund to the Office of Export Control Cooperation within six months of the publication of this inspection report. (Action: NP)

OFFICE OF MULTILATERAL NUCLEAR AFFAIRS

The Office of Multilateral Nuclear Affairs (NP/MNA) is responsible for U.S. actions related to the IAEA in coordination with its counterparts in the Bureau of International Organization Affairs. Its officers have close working relations with IAEA officials and follow IAEA programs, activities, and operations.

NP/MNA's three primary responsibilities include development and coordination of U.S. initiatives relating to the NPT; coordination of U.S. policy toward the IAEA; and ensuring effective implementation of IAEA safeguards. The office formulates and justifies the annual request for the U.S. government's voluntary contribution to the IAEA and supports the work of the IAEA steering committee. NP/MNA provides technical expertise on the IAEA and manages U.S. policy regarding negotiation and implementation of nuclear weapon free zones. In conjunction with AC, it manages U.S. efforts to establish verification objectives and arrangements for a future Fissile Material Cutoff Treaty. Finally, it serves as the principal spokesman for the Department before Congress on IAEA, nuclear nonproliferation, and safeguards matters. The officers in MNA participate in meetings of the IAEA board of governors and the IAEA General Conference. They coordinate U.S. efforts to assist IAEA programs for combating nuclear terrorism in other countries. MNA's work with IAEA includes implementing and monitoring annual U.S. funding in the range of \$130 million in assessed and voluntary contributions.

MNA recently achieved a major milestone by initiating an extended international campaign that resulted in an agreement among IAEA member states (over 130) to increase IAEA's regular budget. MNA led Department U.S. preparations and participation in the March 2003 IAEA International Conference on Security of Radioactive Sources and the September 2003 IAEA International Conference on National Infrastructure for Radiation Safety.

MNA initiated, directed, and managed all aspects of U.S. preparations and involvement in the 2003 and 2004 meetings of the NPT Preparatory Committee. MNA also led a difficult interagency process to secure Senate consent on ratifica-

tion of the U.S. Additional Protocol in March 2004 (an essential step to further strengthen the international safeguards system). The office also devised, and is now implementing, a comprehensive strategy to promote broader adherence to the Additional Protocol and comprehensive safeguards agreements required by the Nuclear Nonproliferation Treaty.

In bilateral relations, MNA formulated the initial strategy for removal of nuclear materials from Libya in December 2003. The office secured agreement with Japan on complex innovative measures for applying IAEA safeguards at the Rokkasho reprocessing plant to ensure that plutonium produced is under effective international verification and conforms to the U.S.-Japan Bilateral Agreement for Cooperation.

An Acting Office Director currently heads NP/MNA's eleven-person office. The current mix of Foreign and Civil Service staff seems to work well given the need for technical expertise and continuity. Twice weekly office meetings, occasional informal social gatherings, and cordial relations among the officers contribute to good communication within the office. The office seems to function well as a team.

NP/MNA morale is high. Nonetheless, frustrations result from conflict with other offices in the T group of bureaus. MNA's conflicts with VC and other bureaus include disputes on the Fissile Materials Cutoff Treaty, North Korea, Libya, and the budget of the IAEA. Some disputes, particularly those with VC, appear to reflect differences on tactics. In several instances, conflict reflects not simply differences in policy, but competition for turf. Some NP/MNA staff expressed doubts that other bureaus, such as VC, have sufficient background on IAEA to define operational policy objectives.

OFFICE OF THE SENIOR COORDINATOR FOR NUCLEAR SAFETY

The Office of the Senior Coordinator for Nuclear Safety (NP/SC) is primarily focused on nuclear reactor safety issues abroad and the control of radioactive sources and other radioactive materials. The office works closely with the National Security Council, the Department of Energy, the U.S. Nuclear Regulatory Commission, and the U.S. Agency for International Development as well as several other offices in NP. The office deals with officials at the IAEA, counterparts in G-8 countries, and nuclear safety officials at the European Bank for Reconstruction and Development. NP/SC's international programs are funded by the Freedom Support

Act, NP/NDF, U.S. contributions to the IAEA, and the Chernobyl Shelter Fund and Nuclear Safety Fund at the European Bank for Reconstruction and Development.

NP/SC leads efforts to support Chernobyl containment efforts and related projects. These include cooperation in the eventual shutdown of eleven Chernobyl-type reactor units at sites contiguous with Russia and Lithuania. NP/SC has also led efforts to raise pledges for the Chernobyl Shelter Fund as well as U.S. government work aimed at reducing the environmental and security risks posed by unsafe reactors.

NP/SC helps lead efforts at ensuring establishment of credible nuclear energy regulatory agencies. NP/SC has led the successful effort to negotiate the Multilateral Nuclear Environmental Program in the Russian Federation Framework Agreement, a multilateral G-8 Global Partnership as well as Department efforts to transmit the Convention on Supplementary Compensation to the U.S. Senate for ratification.

While NP/SC's core issues involve the Chernobyl Shelter Fund and the promotion of reactor safety internationally, the office has shifted substantial resources to radiological security. NP/SC expects this trend to continue. NP/SC initiated the negotiation of the Code of Conduct on the Safety and Security of Radioactive Sources. NP/SC has worked on a strategy to address nuclear and radiological security, including international export and import regimes for radioactive sources. Recently, NP/SC has contributed to the development of a control program for radioactive material for Iraq. NP/SC chairs the G-8 Nuclear Safety and Security Group and is the lead contact for two treaties for responding to emergencies: The Emergency Notification and the Assistance Conventions.

NP/SC works frequently with NP/MNA and NP/PTR. OIG observed that relations with other offices in NP are effective. Communications and morale within this small office are excellent. Staff appear to be highly committed to their work. Frequent travel often interferes with regular staff meetings, but staff share information frequently, if informally. At the time of the inspection, two vacant positions were being filled (in addition, one officer was on TDY in Iraq). All NP/SC personnel are Civil Service. The office's short-term vacancies, combined with a heavy workload, often have diminished NP/SC's ability to anticipate problems.

OFFICE OF POLICY, PUBLIC AFFAIRS AND CONGRESSIONAL RELATIONS

NP's Office of Policy, Public Affairs and Congressional Relations (NP/PPC) manages much of NP's external relations. The office coordinates all NP strategic planning (including the BPP and the Office of Management and Budget's Program Assessment Rating Tool) in coordination with the entire bureau staff. Together with the Bureau of Public Affairs, NP/PPC manages NP's public diplomacy efforts. The office also, in cooperation with the Bureau of Legislative Affairs, coordinates responses to Congress. NP/PPC presents U.S. nonproliferation policy in multilateral fora including the G-8, NATO, and the European Union. NP/PPC has led efforts to determine roles for the relatively new NATO Weapons of Mass Destruction Center.

NP/PPC develops and implements public diplomacy strategies, including the bureau web site, aimed at explaining and promoting U.S. nonproliferation policies to overseas audiences. NP/PPC works with other bureaus to prepare, publish, and distribute materials overseas and bring future opinion leaders to the U.S. for visits.

The director of this office of nine is Civil Service, although the position was previously held by an FSO. The current director has encouraged PPC officers to participate in excursion tours, including temporary details to the regional bureaus and to the Middle East, including assignments of Civil Service and Presidential Management Fellows to Doha, Qatar, and Manama, Bahrain.

OFFICE OF NUCLEAR ENERGY

NP's Office of Nuclear Energy (NP/NE) manages the diplomatic aspects of international cooperation on the peaceful uses of nuclear energy, including negotiation and implementation of bilateral agreements for peaceful nuclear cooperation. NP/NE works with the Department of Energy to coordinate diplomatic aspects of its program to reduce the use of highly enriched uranium, encourage the conversion of research reactors to the use of low enriched uranium, and arranging the return of U.S.-origin highly enriched uranium to the United States. Among NP/NE's recent successes are the removal of material from Libya, Bulgaria, and Romania and the agreement of Libya and Vietnam to convert to low enriched uranium.

Through joint standing committees, NP/NE supervises nuclear cooperation with key U.S. trading partners. Current Joint Standing Committees exist with South Korea, Taiwan, Argentina, and Brazil. The Office Director for NE chairs the U.S. delegation to the Nuclear Suppliers Group and to the NPT Exporters Committee (Zangger Committee). NP/NE assesses whether a country may have taken actions that trigger certain U.S. sanctions under the Atomic Energy Act or under IAEA-sponsored safeguards. NP/NE chairs the Subgroup on Nuclear Export Coordination, a committee that determines Executive Branch positions on applications for the export of nuclear materials pending before the U.S. Nuclear Regulatory Commission. NP/NE leads efforts to amend and strengthen the Convention on Physical Protection of Nuclear Material as well as issues related to the transportation of nuclear materials and issues relating to nuclear waste and nuclear fuel cycle developments.

Responsibility for supervision of NP/NE staff members is divided between the office director and deputy office director. Technical expertise in the office is substantial and deep, making supervision a lighter task than usual. The director accords considerable latitude to individual officers to do their work, but communication within the office could be improved. A challenge for NP/NE is to grow staff for the future and to ensure maximum productivity of all current staff.

OFFICE OF THE FISSILE MATERIAL NEGOTIATOR

NP's Office of the Fissile Material Negotiator (NP/FM) and Senior Cutoff Coordinator focuses primarily on a critical U.S. -Russian and G-8 program that was incorporated in the President's initiative, launched at the 2002 G-8 Summit, to realize a Global Partnership Against the Spread of Weapons and Materials of Mass Destruction: namely, ensuring that surplus weapons plutonium is converted into forms unusable for weapons by terrorists or others ("plutonium disposition"). Until recently, the NP/FM negotiator also coordinated the development of Department positions and U.S. policy on a Fissile Material Cutoff Treaty (FMCT). A Senior Advisor and an executive secretary assist the negotiator in his plutonium disposition matters and until recently, the AC Assistant Secretary on FMCT.

Recent changes in AC indicate there no longer is an FMCT coordinating role for the NP/FM negotiator. That aspect of the negotiator's portfolio disappeared when AC designated a new position attached to its front office. There was no discussion between the NP and AC Assistant Secretaries regarding this shifting of responsibilities. FMCT responsibilities were simply removed and placed with a new individual

when AC made a determination that progress in this area had crossed the dotted line delineating bureau responsibilities and would now be predominantly involved in treaty negotiation. The unilateral change by AC underscored the current NP-AC structure's inability to handle crosscutting issues effectively. Problems such as this one should not arise once AC and NP functions are merged into one bureau.

RESOURCE MANAGEMENT

NP's ever increasing workload supports its BPP requests for personnel and funding to support bureau operations. Administrative support for NP operations is provided by NP's executive office that is responsible for supporting all four T bureaus. For purposes of clarity, this OIG report will confine most findings herein to those that have specific relevance to NP. The separate inspection reports on AC and VC address specific EX issues related to those bureaus.

As stated in the leading recommendation in this report, OIG believes the functions of NP and AC 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 the bureaus.

Currently, NP funding involves six appropriations as indicated below. In addition to these appropriations, the bureau receives additional funds from other agencies for programs totaling approximately \$20 million in FY 2003. NP also receives approximately \$6.5 million per year from EUR's NIS export controls projects.

NP (in thousands)	FY 2003 Actual	FY 2004 Budget	FY 2005 Request
Foreign Operations Appropriations			
* Science enters/Bioredirection	52,000	50,202	50,500
* IAEA Voluntary Contribution	52,900	52,687	53,000
* NDF	14,902	29,823	34,500
* NADR Export Controls	36,000	35,788	38,000
Diplomatic & Consular Programs			
*American Salaries	16,265	17,236	17,654
*Operations	8,042	7,546	7,516
*Public Diplomacy	8	8	8
TOTAL:	180,117	193,290	201,178

Staffing is adequate in most NP offices (NDF is an exception), but workload has been heavy for many individuals and restructuring should make demands placed on staff more equitable. Some staffing gaps have been filled using other staffing mechanisms including service contracts, fellows, and when actually employed staff. NP has 171 full-time equivalent positions. At the time of the inspection, this included seven consultants, four Presidential Management Fellows, and one special authority hire. Although OIG commends use of these other mechanisms to fill vacancies, appropriate use of special hiring authorities could cost the bureau less. Additionally, NDF's administrative support staff is inadequate and needs immediate attention.

NP facilities are adequate, but scattered about the Harry S Truman building. A few offices within EX have inadequate ductwork that sometimes causes uncomfortable temperatures. According to the EX general services office (GSO), NP offices have moved several times. Restructuring will again necessitate a fresh look at how and where best to consolidate operations. This will place a premium on effective planning for accommodating staff needs in the move of many current AC and VC staff to permanent office space in Spring/Summer 2005.

EXECUTIVE OFFICE

EX 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 serviced for any given purpose.

EX's emphasis on high customer service has borne fruit. All of the EX divisions and front office received very good scores on OIG management questionnaires completed by bureau staff. NP personnel praised the support and performance of EX. Morale within EX was very good with only a few individuals disheartened by a lack of upward mobility in their positions. As discussed in the HR section, this may indicate a need for better communication. Additionally, coordination between Bureau of Administration, Office of Acquisitions contracting officers, contracting officer representatives (CORs), budget personnel, and the Bureau of Resources Management (RM) needs to improve as does fund management and management controls in a few areas.

FINANCIAL MANAGEMENT

The FM division includes a supervisor, six analysts, and an office assistant. Two budget analysts focus on NP financial management operations for all NP funds and appropriations other than the NDF that is handled in the NDF office. The financial management division's supervisor provides the NP assistant secretary financial plans showing the status of funds regularly. The budgeting function for these funds resides in the "Budget and General Services" division.

NP financial management support rated well on the OIG-administered management operations questionnaire and in interviews with NP representatives. Staff said that the office made improvements in record keeping, and OIG observed that documents are kept in good order. Sampled invoices were always signed by CORs

before they were paid, and travel authorizations and vouchers sampled were being handled properly. Although support rated well, OIG is concerned, as noted below, that the reimbursement mechanism for information technology (IT) support provided by VC is too flexible. Unliquidated obligations should be 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 T bureau contributions to VC disclosed that yearly bureau contributions have ranged from \$.5 million to \$3.5 million. AC appears to contribute the bulk of the funding for IT support of all of the bureaus. The EX financial management section 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 5: The Bureau of Nonproliferation, in coordination with the Bureau of Arms Control, the Bureau of Verification and Compliance, and the Bureau of Resource Management, should reevaluate the reimbursement mechanism for information technology operations, establishing clear written guidelines and procedures. (Action: NP, in coordination with AC, VC, 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 reprogramming IT cost savings from VC to the serviced bureaus would be too cumbersome.)

Realignment of these bureaus, consistent with Recommendation 1, will likely affect funding and should provide additional impetus to resolve questions related to the source of funding. To ensure that future funding requests are based on specific activities of the future bureaus, rather than on prior-year requests, the bureaus should develop zero-based budgets applying, at a minimum, to the year the bureaus are 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 6: The Bureau of Nonproliferation should develop, in coordination with the restructuring of the three bureaus in the Office of the Under Secretary for Arms Control and International Security, a zero-based budget with fund estimates for all programs and activities. (Action: NP)

Prior-Year Unliquidated Obligations

OIG found that large unliquidated obligation balances for all appropriations are not regularly reviewed, discussed with CORs and program managers, and resolved. Unliquidated obligations are funds set aside on a contract or other purchase order, but not yet spent. OIG sampled some of NP's unliquidated obligations (ULO) balances and found that one FY 2000 Diplomatic and Consular Programs (D&CP) ULO for \$250,000 had been erroneously obligated using NP rather than AC funds. The balance remains uncorrected and unliquidated on NP's report. Several prior-year ULOs (totaling hundreds of thousands of dollars) exist on D&CP reports that may apply to military detailees that have not yet been billed by the Department of Defense. However, NP budget analysts have not queried the Department of Defense regarding these unliquidated obligations. Unfamiliarity with and failure to reconcile these prior-year balances preclude the bureau's use of these funds.

Budget offices have reviewed ULOs for some appropriations. For example, in September 2003, budget officers reviewed Science and Technology Center ULOs and noticed that a 1999 obligation for \$465,540 intended for the Science and Technology Center in the Ukraine was never paid. The budget officer resubmitted the payment. OIG commends EX for starting to review unliquidated obligations for some NP appropriations. However, budget officers should communicate with CORs and program managers about old ULOs before processing them to insure that the obligations are still valid. In the case of the Science and Technology Center in the Ukraine payment, neither the COR, nor the Ukraine program manager

were queried or notified that the payment had been resubmitted. In November 2003, the Ukraine program manager noticed the payment and queried at the Department and within NP about the origin and purpose of the payment. Lack of coordination between CORs, budget officers, and program managers is discussed further under contract and program management.

Recommendation 7: The Bureau of Nonproliferation should review prior-year unliquidated obligation balances quarterly for bona fide need and deobligate any unnecessary balances. In conducting this review, the Bureau of Nonproliferation should query contracting or grant officer representatives, program managers, or other agencies, if applicable, to determine whether unliquidated obligations are still valid. (Action: NP)

GENERAL SERVICES AND BUDGETING

General service and budgeting staff are housed in one division. The two budgeting staff develop D&CP financial plans and BPP submissions for NP, as well as AC, VC, and PM. The section supports NP effectively; however, budgeting expertise might be better utilized if it were more closely aligned with the EX/Financial Management division. OIG informally recommended that budget formulation and execution staff be collocated.

NIS export control budgeting needs to be reviewed. Funding for NIS export controls is not represented in NP's BPP. Beginning in 2003 all EXBS funding was handled through the Foreign Ops NADR account - now handled by NP. NP program plans reflect NP's request for NADR funding but not the export control assistance earmarked for the NIS. EUR handles funding for NIS projects. NP does not solicit NIS funds and has no planning mechanism for them. The result is that NP/ECC has no means to estimate what funding, if any, will be made available for NIS EXBS programs. EUR budgets these funds and addresses the projects in its BPP. NP/ECC has no urgency to receive these funds, but the current situation results in a case where the same program, being run through separate bureaus, could result in duplicative programs for export control. NP's lack of control over NIS export control budgeting makes it difficult for NP to manage the overall program. OIG believes the Department should come to terms with this issue.

Recommendation 8: The Bureau of Resource Management, in coordination with the Bureau of Nonproliferation and the Bureau of European and Eurasian Affairs, should evaluate the current funding arrangement of the Newly Independent States Export Control and Related Border Security Assistance programs and, if appropriate, direct that funding for these projects be transferred to the Bureau of Nonproliferation. This evaluation should be in writing and made available to both the Bureau of European and Eurasian Affairs and the Bureau of Nonproliferation. (Action: RM, in coordination with NP and EUR)

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 mastery of EX's customer service focus was evident in management questionnaires and in staff interviews. The division successfully conducts office moves and oversees renovations. The division's automated process for approving and tracking bureau supply and procurement requests is extremely effective, leaving no chance of losing staff requests. The office is an active participant in the Department's space planning project and is using the Integrated Logistics Management System to process purchase orders electronically. Credit card purchases and cellular phone usage statements are properly reviewed on a monthly basis. Although the section adequately supports the bureaus, deficiencies exist in property management (discussed in the management controls sections of this report). Additionally, OIG has concerns about contract management.

Contract and Program Management

Contract and program management within the T family bureaus is disjointed and needs attention. In NP, contract and program management in some offices appeared better than others. For example, NP/ECC contract administration appeared to work well. However, OIG identified some problems with other offices. As indicated in the financial management section, a \$465,540 wire transfer intended for the Science and Technology Center in the Ukraine in 1999 was not made until September 2003. Execution of the wire transfer was the result of a budget officer's review of unliquidated obligations report in 2003. The fact that neither the COR nor the Ukraine program manager noticed the absence of a \$465,540 payment is particularly troubling.

There is no central point within NP 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 within A/LM/AQM. The general services branch is largely removed from the contracting

process. CORs, grant officer representatives, and program managers are widely disbursed in NP. Although A/LM/AQM contracting officers sign contracts, they are too overstretched to proactively assist NP CORs with contract management. Improved coordination between CORs, contracting officers, program managers, and budget officers is needed and required in FAR Part 7.103. The financial management division of EX may best host coordination meetings since all contract and grant establishment and payment must go through that office.

Recommendation 9: The Bureau of Nonproliferation, 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: NP, in coordination with A/LM/AQM)

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

NONPROLIFERATION AND DISARMAMENT FUND ADMINISTRATION

NP/NDF contract and financial management are largely separate from EX. As with most other NP programs, NDF works directly with A/LM/AQM for contracting support. Unlike other NP programs, however, NDF funds are budgeted for and executed within the NDF office rather than in EX. NDF has access to the Department's Central Financial Management System (CFMS) and works directly with RM on obligations and payments. NDF also maintains a stand-alone database to track projects through their unique congressional approval process. NDF receives no-year funds every year and has received \$159 million since 1994. (No-year funds do not expire and can be used by the agency indefinitely). NDF currently has about \$62 million available.

Three civil service employees perform most administrative support for NDF. One employee serves as the COR on contracts, prepares all project proposal

packages, and updates a portion of the NDF database. Another Civil Service employee performs the majority of financial management work for NDF. Finally, an office management specialist has been used to perform financial tasks including travel authorizations and vouchers.

As discussed above, the office handling the unique NDF has successfully carried out its core objectives. To date, NDF administrative operations have been conducted swiftly to establish obligations and associated contracts for projects in sometimes very remote locations. Because NDF eschews EX support in managing contracts, OIG evaluated NDF's administrative issues separately from the overall assessment of EX.

Fundamentally, OIG found that NDF is not adequately staffed for effective project management support and proper administrative management. Additionally, NDF does not devote enough attention to management controls. In spending approximately \$30 million per year (a fund amount that is growing to \$50 million), there has been inefficient and, sometimes, improper fund and contract management.

Nonproliferation and Disarmament Fund Financial Management

Financial management practices and knowledge have improved markedly since the arrival of the budget officer in FY 2000. For example, late payments interest penalties that totaled \$18,000, \$7,000 and \$8,000 in FY 1998, 1999, and 2000 were reduced to \$50 in FY 2003. Additionally, the section recently reviewed all travel, including travel advances and unused tickets, and recovered \$130,000. However, NDF fund management and oversight has not been adequate. NDF has not reviewed ULOs with any regularity, charges to NDF funds with no obligation have not been reviewed, and Department accounting system balances and NDF database balances have not been reconciled. Additionally, NDF files are not complete. Inadequate staffing and lack of attention to management controls have caused inadequate oversight over NDF funds.

Nonproliferation and Disarmament Fund Unliquidated Obligations

ULO balances are not reviewed regularly. NDF typically reviews balances only when requested (such as in 1999, when the Department's financial statements were being audited) or when an NDF project manager leaves NDF. Department reports

indicate that NDF ULOs for all years total about \$14 million; \$5.5 million are attributed to obligations established before 2001. OIG sampled some of the ULOs and found that many of old ULOs are attached to projects that have long been completed. OIG believes that at least \$4 million are unnecessarily tied up in obligations. The ULOs that are no longer valid could be deobligated and used for NDF operations and new budget requests reduced by the recovered amount. Although the financial specialist requested prior-year reports from RM during the inspection to start reviewing prior-year unliquidated balances, NDF staffing discussed below, is still not adequate to provide needed oversight. It is important that ULO balances are reviewed within the next six months because the Department plans to implement a new accounting system. This implementation increases the vulnerability that transactions and balances may be lost. If CFMS balances and transactions are lost, NDF documents would not necessarily be available to recreate the lost information.

Nonproliferation and Disarmament Fund Liquidations with no Obligations

Liquidations charged to NDF allotments with no corresponding obligation have never been reviewed. The charges total about \$1 million since 2000 according to CFMS reports. Many of the charges originated at embassies using NDF fund cites presumably for NDF projects. Other charges originated at the Department's travel agency and at information systems contractors. Charges to bureau allotment levels occur at every domestic bureau as well as to embassies. The charges take time and attention to clean up. By not reviewing these charges, the bureaus run the risk of being improperly charged for nonbureau purchases or possibly subject to fraudulent charges. Leaving these charges unaccounted for also ties up funds in the corresponding ULOs (assuming obligations were established). Inadequate staffing and lack of attention to management controls caused lack of oversight. Implementation of the new domestic accounting system, scheduled to occur in FY 2005, should significantly reduce future allotment-level charges because post-level obligations will be visible on domestic accounting systems.

Nonproliferation and Disarmament Fund Database

NDF maintains a separate database from the Department's accounting system to track projects. The database was established because Department systems did not allow NDF to track spending by NDF project or to track NDF projects through

their unique congressional approval process. The database is used to summarize the total funding spent by project when reporting to the Department, the Office of Management and Budget, and Congress. The NDF database has not been reconciled with the Department's accounting system, and many balances are different. Because figures from this database are used for high level reporting and to manage contracts and projects, it should contain accurate information. NDF staff are not sure whether the NDF database or the Department's accounting system contain the most accurate figures on the status of NDF funds. As previously mentioned, the lack of adequate personnel and limited concern with management controls has prevented staff from keeping the database up to date.

Nonproliferation and Disarmament Fund Files

Although NDF has come a long way in establishing files that were virtually nonexistent prior to FY 2000; the files, especially those from prior years, are not complete. NP had difficulty finding documents that supported the obligations and payments reflected on Department accounting reports. Over the past few years, NDF has tried many different filing methods including filing all financial, program, and contracting documents by project and filing all documents by contract. Although maintaining duplicate copies of the same document goes against current e-gov initiatives, duplicate copies are necessary because the information is needed for different purposes. NDF obligations and contracts are used for multiple projects. This contributes to the filing difficulties. Financial documents need to be maintained to support all CFMS transactions. The COR needs to maintain the contract along with all supporting invoices and justifications for using special congressional authorities.

Recommendation 10: The Bureau of Nonproliferation should ensure that all Nonproliferation and Disarmament Fund project, contracting, and finance files are audited and closed out including the deobligation of corresponding obligations if appropriate. (Action: NP)

Nonproliferation and Disarmament Fund Staffing and Attention to Management Controls

Staffing is not adequate to ensure proper management of funds and contracts. NDF requested additional positions in its FY 2005 BPP, but did not receive the positions. At least one position is necessary to ensure that funds are properly

managed. OIG believes, however, that one position would be better placed, along with CFMS responsibilities, within NP/EX. The NDF budget officer currently spends much of her time ensuring that RM reports properly reflect NDF accounting entries, that NDF payments are timely, and that fund availability with Department of Treasury and RM records reconcile. None of these time consuming tasks are unique to NDF. Additionally, attention to prior-year projects and funds is needed to ensure the best use of funding. Locating a financial officer within NP/EX not only would relieve the office of much of the routine work, but it would also improve management controls. Currently, if the NDF budget officer is out sick, the primary COR uses the financial system. The COR has no training in CFMS, and this is not a good separation of duties. NP/EX has three budget officers trained in CFMS that could help pick up the work. Additionally, location of the budget officer in NP/EX would facilitate the transition to a new accounting system because three other budget analysts would be learning the new system along with the NDF budget analyst.

Additionally, OIG does not believe that adding additional financial staff within the NDF office would necessarily improve management controls because the focus of the office has, understandably, been on project execution, rather than administrative procedures and management controls. Management control weaknesses discussed in a 1999 OIG report remain, for example, despite staff additions and staff turnover. OIG's 1999 audit of the NDF found that

“NDF fund control records did not adequately account for funds allotted, obligated and expended. Consequently, the resultant reports did not provide Department of State management with reliable status of NDF funds.”

NDF responded to the report that developing a database would improve the office's accounting of funds. While some improvements have been made over the last few years, the 1999 report's findings remain and, as discussed under management controls, weaknesses in contract management exist.

Recommendation 11: The Bureau of Nonproliferation should transfer the Nonproliferation Development Fund Central Financial Management System responsibilities to the Executive Office. (Action: NP)

Recommendation 12: The Bureau of Nonproliferation should establish an additional budget analyst position within the Executive Office who is dedicated to Nonproliferation Development Fund financial management responsibilities. (Action: NP)

Nonproliferation and Disarmament Fund Contract Management

NP/ NDF has a significant contract portfolio. Since 2000, NP/NDF has spent \$85.5 million for services. The primary NDF contracting officer representative has not had time to properly oversee and manage NDF contracts as discussed in the management controls section. Additionally, NDF appears to have overused its unique congressional authority to avoid some Federal Acquisition Regulations (FAR) procedures on one contract and also appears to be bundling unlike services under the same contract.

Due to the demand to fulfill urgent and compelling needs, Congress granted NDF “notwithstanding” contracting authority in 1995. This authority allows NDF to circumvent many of the FAR including competition requirements. A/LM/AQM and T authorized NDF the occasional use of this authority. Neither NDF nor A/LM/AQM could provide OIG documentation justifying use of this “notwithstanding” authority on some contracts under which competition requirements were circumvented. For example, no justification was included in the contract files for a personal services contract or for extensions to a 1997 software development project (the same contract under which TRACKER is developed). Further missing from this software development contract and from all subsequent modifications of the contract, are thorough requirements analysis required in FAR Parts 7.106 and 7.107. Additionally, at least one \$100,000 task order issued under this software contract was not related to the TRACKER project, would not have required “notwithstanding” authority and should have been competed separately. NDF tasked the contractor to develop a financial database to track all NDF projects through their unique congressional approval process. OIG believes that NDF has occasionally used this multimillion-dollar contract for services or software that is not urgent or compelling and that should be competed. Further, although the Office of Diplomatic Security and the Bureau of Information Resource Management were informed of NDF’s TRACKER and financial database software development projects, they were not active participants in the development of the systems as required in the Clinger-Cohen Act.

Recommendation 13: The Bureau of Nonproliferation should proceed with its plan to request an audit of the TRACKER software development contract. (Action: NP)

Previously, a full-time position in AQM served NDF exclusively to give contract oversight; however, the position is now vacant. Considering the amount of money that is used for contracting services, a full-time contracting officer would benefit the office in reviewing that appropriate requirements are outlined and justifications are documented.

Recommendation 14: The Bureau of Administration, Office of Acquisitions, should reestablish the full-time contracting officer position to provide oversight and support for the Nonproliferation Disarmament Fund. (Action: 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 FSO also provides HR support to all FSOs assigned to the various bureaus. Overall the HR office performs satisfactorily. The office has also worked to update all position descriptions since the ACDA integration and is now nearing the end of this process. OIG believes NP needs to review the balance between Foreign Service and Civil Service positions and guard against use of service contracts.

Better Balance Needed Between Civil Service and Foreign Service Staff

OIG found an overall lack of balance in Civil Service and Foreign Service personnel employed in NP, AC, and VC - this is mirrored in the T front office that includes not a single FSO among its dozen staff. NP had the greatest proportion of FSOs of all three bureaus, with about 10 percent of overall bureau staff. The limited number of Foreign Service staff in these bureaus is an ACDA legacy that has further slowed its integration into the Department. NP covers a number of issues that require deep historical knowledge and this supports some of the continued emphasis on non-Foreign Service personnel. Nevertheless, some offices suffer

from the lack of overseas experience, Department understanding, and broad networks that FSOs would provide. This situation has diminished their effectiveness.

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. NP's senior management has made laudable efforts to recruit Foreign Service personnel, but greater consideration should be given to what kind of jobs make sense for Foreign Service and what positions are more optimally covered by Civil Service.

Like many programmatic bureaus, NP does not find it easy to recruit FSOs due to assumptions by these officers that service in NP might not be career enhancing. The bureau has tended to place FSOs as office directors and not in DAS or lower-level positions. Consideration should be given to using more FSOs at all appropriate levels. This would underscore the potential for career advancement in the bureau. Better use should also be made in FSO recruitment of the prospect of future tours of duty covering bureau issues at missions in Vienna, Geneva, or The Hague.

Recommendation 15: The Bureau of Nonproliferation, 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: NP, in coordination with DGHR)

Funding for Additional Staff

In order to augment staffing levels, NP 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 (A/LM/AQM), and through temporary appointments established within the bureaus. Although outsourcing is a key goal of the Presidential Management Agenda, contracting for these services may cost more than funding permanent positions. NP/EX's risk assessment questionnaire indicated a 10-25 percent degree of reliance on outside sources. In FY 2004, an estimated \$828,000 was spent for NP service contracts.

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MANAGEMENT CONTROLS

Management controls are generally effective in NP with the exception of NDF where inadequate administrative staff and lack of attention to management controls have created a problem. In their FY 2003 management control statement of assurance, NP identified one weakness related to funds provided to the Department of Homeland Security's Customs and Border Protection Office. As discussed already, coordination between budget officers, CORs, and A/LM/AQM contracting officers needs to improve and financial managers should review unliquidated obligations regularly. Property management deficiencies exist and controls over information management and security are needed.

NONPROLIFERATION AND DISARMAMENT FUND ADMINISTRATION

As discussed earlier, NDF needs to review all project, contract, and financial files and obligations and transfer CFMS responsibilities to NP/EX/RM. Additionally, COR reviews of contractor invoices and deliverables have not been adequate. The NDF COR has never ensured that hourly rates charged on one multimillion dollar Indefinite Delivery Indefinite Quantity software development contract (TRACKER) are correct or ensured that hours charged were actually spent on the NDF contract. FAR Part 46 requires that the COR ensure that the prices charged (or hourly rates charged) on invoices match that in the contract and that hours charged on the invoices are randomly checked to ensure that the time was actually spent on government work. The COR did not even have the contract's hourly rates on-hand. Additionally, periodic reviews (such as onsite inspections) of some services were not conducted to ensure that services were received, as required in the FAR. The contracting officer's representative also relies too heavily on NDF program managers to provide input regarding the status of pending task orders. OIG believes that establishing a deputy position within NDF and transferring financial management responsibilities to EX, recommended earlier in the report, should more appropriately align staff resources and improve management controls.

Additionally, there are too few NDF staff members who can legitimately act as official COR. OIG is concerned that NDF's current reliance on personal service contractors and when actually employed staff leads to artificial situations where a contractor is a primary contact point, but the official COR is a permanent employee who has only marginal contact with the contracting organization. This type of situation creates vulnerabilities and points to NP/NDF's possible over reliance on contractors and when actually employed personnel. OIG informally recommended that NDF decrease its reliance on contractors and when actually employed staff.

Recommendation 16: The Bureau of Nonproliferation should ensure that invoices and deliverables are reviewed regularly in accordance with Federal Acquisition Regulations Part 46. (Action: NP)

OIG also found that NDF CORs and program managers did not coordinate effectively with A/LM/AQM contracting officers. NDF requirements were sometimes submitted to A/LM/AQM at the last minute, unnecessarily making it difficult for A/LM/AQM to follow proper FAR procedures. As recommended in the contract management section, NP/NDF should hold quarterly meetings with A/LM/AQM contracting officers to discuss contract funding, status, and requirements.

INTERAGENCY AGREEMENTS

NP frequently provides other U.S. government agencies and Departments funds to execute NP projects. An interagency agreement (IAA), rather than a contract, specifies the amount of funding, purpose of the funding, and any other agreements between the agencies. Under an IAA, the other agency is required to track expenditures and report back to the NP/COR on how the funds are spent. NP/ECC has an estimated \$161.2 million on IAAs. Although NP/ECC considers IAAs to be valuable tools for gaining resources and in fostering partnerships with other agencies with similar initiatives; in their 2003 management controls statement of assurance, NP wrote that DHS/CBP was not tracking expenditures in explicit detail. NP and DHS/CBP are working together to develop a better process for tracking expenses. NP is also instituting tighter controls in the IAAs to ensure the proper tracking of funds and timely receipt of services.

OIG identified an additional vulnerability related to IAAs. While the NP/EX financial management branch is responsible for ensuring that an NP COR approves invoices under contracts for payment RM is responsible for this step for IAAs. Although RM stated that they contact NP CORs to ensure that work is completed before approving payments, OIG believes this step is not always completed and informally recommended stronger coordination between RM and NP CORs.

PROPERTY MANAGEMENT

EX maintains nonexpendable property records for the T-bureaus in the Department's nonexpendable property accounting (NEPA) system . OIG's cursory review of the NP, AC, and VC property records showed property totaling about \$419,000 that at first could not be located or accounted for, a portion of which represented NP 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.

EX has not appropriately separated property management responsibilities thereby creating management control weaknesses. In general services, property management responsibilities lie solely with a junior GSO staff member. OIG informally recommended that property management responsibilities including receipt, distribution, and recording be separated.

FINANCIAL MANAGEMENT

Liquidations charged to NP allotments with no corresponding obligation are not regularly reviewed and resolved. By not reviewing these charges, NP runs the risk of being improperly charged for nonbureau purchases or subject to potential fraudulent charges. Not reconciling these charges exacerbates the issue of unliquidated obligations.

Recommendation 17: The Bureau of Nonproliferation 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: NP)

INFORMATION MANAGEMENT AND INFORMATION SECURITY

The Bureau of Verification and Compliance's Office of Verification Operations (VC/VO) provides information management support for the T family. The support includes network management, hardware and software procurement, web site maintenance, help desk operations and IT contract administration. The IT staff within this office consists of an office director, a deputy director, a document research specialist, 11 IT specialists, and approximately 45 contractors. This staff provides support to over 175 employees in NP.

OIG observed effective information management practices in NP. All customers receive an annual information systems security briefing; security briefings are required before access is granted or logons issued to the classified and unclassified systems. OIG found no issues with information management, nor with information systems security during the review of the secure compartmented information facilities. OIG reviewed a sample of calls from each bureau (VC, NP, and AC) and, based on these samples, OIG observed no preferential treatment.

Information Security

Information systems security can be improved. OIG identified deficiencies in the performance of ISSO duties. Such deficiencies place the Department at risk for intrusion into Department networks.

OIG identified excessive personal use of government equipment as well as inappropriate software including games and music files on government workstations. During a random search of NP workstations OIG found games, songs, and many pictures of popular entertainers. 5 FAM 723, as reiterated in the Department Notice dated August 8, 2003 (2003-08-020) allows limited personal use of government equipment without additional cost to the U.S. government.

Recommendation 18: The Bureau of Nonproliferation should remove unapproved software and files from its workstations. (Action: NP)

The information systems security officer (ISSO) has management, contractual, financial, and information systems security responsibilities. Much of the responsibility for securing information technology and system assets has been placed with ISSOs. In most instances, these duties are assigned on a collateral basis and are not their primary duties. This procedure lessens the likelihood of successfully fulfilling the requisite ISSO duties.

The ISSO performs undocumented monthly and annual reviews of randomly selected user libraries, reviews of 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. The ISSO examines the audit logs for invalid access attempts and checks user mailboxes for inappropriate and sensitive material, but no formally documented log shows that the checks take place.

Recommendation 19: The Bureau of Nonproliferation should document the review of randomly selected libraries, audit logs, and user and operational practices; and implement appropriate security policies and procedures to maintain a viable computer security program. (Action: NP)

FORMAL RECOMMENDATIONS

Recommendation 1: The Department should establish a task force to craft the merger of the Bureau of Nonproliferation and Bureau of Arms Control, redesigning their current structure, eliminating unnecessary overlap of functions, and ensuring development of a clear authoritative voice on nonproliferation and arms control policies. (Action: S, in coordination with M and T)

Recommendation 2: The Bureau of Nonproliferation should revise the Nonproliferation and Disarmament Fund procedures to indicate regular meetings for the review of project proposals. (Action: NP)

Recommendation 3: The Bureau of Nonproliferation should provide Nonproliferation and Disarmament Fund committee members with copies of all project proposals no less than two working days prior to a review panel meeting. (Action: NP)

Recommendation 4: The Bureau of Nonproliferation should transfer management of the TRACKER program from the Nonproliferation and Disarmament Fund to the Office of Export Control Cooperation within six months of the publication of this inspection report. (Action: NP)

Recommendation 5: The Bureau of Nonproliferation, in coordination with the Bureau of Arms Control, the Bureau of Verification and Compliance, and the Bureau of Resource Management, should reevaluate the reimbursement mechanism for information technology operations, establishing clear written guidelines and procedures. (Action: NP, in coordination with AC, VC, and RM)

Recommendation 6: The Bureau of Nonproliferation should develop, in coordination with the restructuring of the three bureaus in the Office of the Under Secretary for Arms Control and International Security, a zero-based budget with fund estimates for all programs and activities. (Action: NP)

Recommendation 7: The Bureau of Nonproliferation should review prior-year unliquidated obligation balances quarterly for bona fide need and deobligate any unnecessary balances. In conducting this review, the Bureau of Nonproliferation should query contracting or grant officer representatives, program managers, or other agencies, if applicable, to determine whether unliquidated obligations are still valid. (Action: NP)

Recommendation 8: The Bureau of Resource Management, in coordination with the Bureau of Nonproliferation and the Bureau of European and Eurasian Affairs, should evaluate the current funding arrangement of the Newly Independent States Export Control and Related Border Security Assistance programs and, if appropriate, direct that funding for these projects be transferred to the Bureau of Nonproliferation. This evaluation should be in writing and made available to both the Bureau of European and Eurasian Affairs and the Bureau of Nonproliferation. (Action: RM, in coordination with NP and EUR)

Recommendation 9: The Bureau of Nonproliferation, 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: NP, in coordination with A/LM/AQM)

Recommendation 10: The Bureau of Nonproliferation should ensure that all Nonproliferation and Disarmament Fund project, contracting, and finance files are audited and closed out including the deobligation of corresponding obligations if appropriate. (Action: NP)

Recommendation 11: The Bureau of Nonproliferation should transfer the Nonproliferation Development Fund Central Financial Management System responsibilities to the Executive Office. (Action: NP)

Recommendation 12: The Bureau of Nonproliferation should establish an additional budget analyst position within the Executive Office who is dedicated to Nonproliferation Development Fund financial management responsibilities. (Action: NP)

Recommendation 13: The Bureau of Nonproliferation should proceed with its plan to request an audit of the TRACKER software development contract. (Action: NP)

Recommendation 14: The Bureau of Administration, Office of Acquisitions, should reestablish the full-time contracting officer position to provide oversight and support for the Nonproliferation Disarmament Fund. (Action: A/LM/AQM)

Recommendation 15: The Bureau of Nonproliferation, 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: NP, in coordination with DGHR)

Recommendation 16: The Bureau of Nonproliferation should ensure that invoices and deliverables are reviewed regularly in accordance with Federal Acquisition Regulations Part 46. (Action: NP)

Recommendation 17: The Bureau of Nonproliferation 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: NP)

Recommendation 18: The Bureau of Nonproliferation should remove unapproved software and files from its workstations. (Action: NP)

Recommendation 19: The Bureau of Nonproliferation should document the review of randomly selected libraries, audit logs, and user and operational practices; and implement appropriate security policies and procedures to maintain a viable computer security program. (Action: NP)

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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.

General Services and Contract Management

The NDF COR has not kept a running balance of funding on pending task orders. Although the COR developed a list before closing the contract out, the list should be maintained on an ongoing basis as required in 6 FAH-2 H-522.4 to ensure that invoices do not exceed funding.

Informal Recommendation 1: The Bureau of Nonproliferation contracting officer representatives should maintain a running balance of task order funding.

Proper justification was not found in contract files on the use of NDF's unique "notwithstanding" authority to avoid FAR competition requirements.

Informal Recommendation 2: The Bureau of Nonproliferation Fund should consider re-bidding the TRACKER contract and requiring a performance-based service contract.

The NDF does not have enough permanent staff to serve as CORs.

Informal Recommendation 3: The Bureau of Nonproliferation should decrease its reliance on personal service contractors and when actually employed staff.

No central tool exists for monitoring the number of contracts exercised by all four bureaus supported by NP's executive office. EX only tracks the contracts utilized by its office.

Informal Recommendation 4: The Bureau of Nonproliferation should update its contract listing to reflect all contracts within the bureaus as well as names of contracting officer representatives.

NP/EX has not completed standard operating procedures for receipt, management, accountability, and disposal of its property. Procedures should ensure that property management responsibilities are appropriately separated.

Informal Recommendation 5: The Bureau of Nonproliferation should write and distribute standard operating procedures on property management guidelines.

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

Informal Recommendation 6: The Bureau of Nonproliferation should develop an electronic spreadsheet to maintain records on credit card statements. This spreadsheet should be placed on the shared directory.

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

Informal Recommendation 7: Separation of duties should be designated for purchase cardholders in the general services office.

The general services staff member primarily responsible for the NEPA system has not received formal training.

Informal Recommendation 8: The Bureau of Nonproliferation should ensure that the general services office staff attend nonexpendable property accounting systems training at the Foreign Service Institute.

Financial Management

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 Nonproliferation should ensure that budget formulation and budget execution staff coordinate at least quarterly on spending rates and program changes.

The budget formulation and budget execution staffs reside in separate offices.

Informal Recommendation 10: The Bureau of Nonproliferation should ensure that budget and fund execution functions are collocated after the reorganization.

Budget analysts do not keep a list of unused airline tickets to be refunded by the travel agency. This lack of documentation makes it nearly impossible to ensure that refunds are received.

Informal Recommendation 11: The Bureau of Nonproliferation should ensure that unused airline tickets provided to the travel agency are tracked and that applicable refunds are received.

The NDF office provides embassies an obligation to charge to pay for invitational travel, however, the office does not maintain an obligating document to support the obligation.

Informal Recommendation 12: The Bureau of Nonproliferation should ensure that proper obligating documents support all obligations. The invitational-travel obligating document should specify what the obligation could be used for and the applicable personnel for travel under the obligation.

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 13: The Bureau of Nonproliferation should reconcile 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 and invoices have been approved by unauthorized personnel.

Informal Recommendation 14: The Bureau of Nonproliferation 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.

Human Resources

NP has not yet planned for the training and timely replacement of a number of employees who are planning to retire.

Informal Recommendation 15: The Bureau of Nonproliferation should develop a workforce plan to address future staffing needs, including projections of upcoming staff retirements and a recruitment strategy for staff replacements. In developing the plan, the Executive Office should proactively work with offices.

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

Informal Recommendation 16: The Bureau of Nonproliferation should ensure that classified hard drives are turned in before an employee's departure from the bureau.

NP does not have a training policy. Few employees have individual training plans.

Informal Recommendation 17: The Bureau of Nonproliferation should develop a bureau-wide training policy.

Information Management and Information Security

There is excessive personal use of government owned information technology systems. Users are allowed to use government-owned equipment for personal use if there is no additional cost to the U.S. government. Excessive storage of personal use materials creates additional costs as stated in 5 FAM 723.

Informal Recommendation 18: The Bureau of Nonproliferation should establish and enforce limits on the personal usage of government equipment.

Classified information must be protected from inadvertent view. Some offices have display monitor screens facing open windows where the blinds are not closed. This does not comply with 12 FAM 637.3-2.

Informal Recommendation 19: The Bureau of Nonproliferation should send out an administrative notice reminding staff to close blinds when workstations are processing classified information.

NP does not have a written standard operating procedure for the update of software security patches.

Informal Recommendation 20: The Bureau of Nonproliferation should develop and implement software security patch written procedures for the unclassified and classified information systems to ensure that all patches are applied.

PRINCIPAL OFFICIALS

Assistant Secretary	John Wolf	10/01
Principal Deputy Assistant Secretary	Susan Burk	06/02
Deputy Assistant Secretary	Andrew Semmel	03/03
Fissile Material Negotiator and Cutoff Coordinator	Michael Guhin	04/99
Office Directors:		
Office of Regional Affairs	Mark Fitzpatrick	04/02
Office of Proliferation Threat Reduction	Edward Vazquez	02/02
Office of Nuclear Energy Affairs	Richard Stratford	04/22
Office of Chemical, Biological and Missile Nonproliferation	Vann Van Diepen	04/99
Office of Export Controls and Conventional Arms Nonproliferation Policy	Christian Kessler	01/02
Office of Export Control Cooperation	Paul Van Son	08/03
Office of Policy, Public Affairs and Congressional Relations	Christopher Murray	07/02
Office of Nonproliferation and Disarmament Fund	Steven Saboe	04/99
Office of Multilateral Nuclear Affairs	Linda Gallini	04/99
Senior Coordinator for Nuclear Safety	Warren Stern	09/01

ABBREVIATIONS

ABM	Anti-Ballistic Missile (Treaty)
AC	Bureau of Arms Control
ACDA	Arms Control and Disarmament Agency
BWC	Biological Weapons Convention
CD	Conference on Disarmament
CFMS	Central Financial Management System
CTBT	Comprehensive Test Ban Treaty
DAS	Deputy Assistant Secretary
EXBS	Export Control and Related Border Security Assistance
FAR	Federal Acquisition Regulations
FMCT	Fissile Material Cut Off Treaty
IAA	Interagency agreement
IAEA	International Atomic Energy Agency
IRM	Bureau of Information Resource Management
JCIC	Joint Compliance and Inspection Commission
M	Under Secretary for Management
DGHR	Bureau of Human Resources
NADR	Nonproliferation, Antiterrorism, Demining and Related Activities (fund)
NATO	North Atlantic Treaty Organization
NEPA	Nonexpendable property accounting
NIS	Newly Independent States
NP	Bureau of Nonproliferation
NPT	Nuclear Nonproliferation Treaty
OIG	Office of Inspector General

OPCW	Organization for the Prohibition of Chemical Weapons
OSCE	Organization for Security and Cooperation in Europe (OSCE)
PDAS	Principal Deputy Assistant Secretary
PM	Bureau of Political-Military Affairs
SES	Senior Executive Service
T	Under Secretary for Arms Control and International Security
ULO	Unliquidated Obligations
VC	Bureau of Verification and Compliance
WMD	Weapons of Mass Destruction

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