UNITED STATES DEPARTMENT OF STATE
AND THE BROADCASTING BOARD OF GOVERNORS

OFFICE OF INSPECTOR GENERAL

AUD-FM-13-17 | Office of Audits | December 2012

Audit of Nonproliferation and Disarmament Fund Controls Over Contracting and Project Management and Integrity of Financial Data

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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

This report is being transmitted pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared as part of the Office of Inspector General's (OIG) responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report addresses the Bureau of International Security and Nonproliferation, Nonproliferation and Disarmament Fund's controls over the contracting and project management processes and the integrity of the Fund's financial data. The report is based on interviews with employees and officials of the Fund, direct observation, a review of applicable documents, and tests of controls and financial data.

OIG contracted with the independent public accountant Kearney & Company, P.C., to perform this audit, which was requested by Fund management. The contract required that Kearney & Company perform its audit in accordance with guidance contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Kearney & Company's report is included.

Kearney & Company determined that the Fund's controls over the contracting process were sufficient to meet many objectives but needed improvement. Although the Fund successfully executed projects around the world to achieve nonproliferation goals, projects were not managed consistently, and available project management functionalities were not always used. Further, financial data was not always accurate, complete, or recorded timely.

OIG evaluated the nature, extent, and timing of Kearney & Company's work; monitored progress throughout the audit; reviewed Kearney & Company's supporting documentation; evaluated key judgments; and performed other procedures as appropriate. OIG concurs with Kearney & Company's findings, and the recommendations contained in the report were developed on the basis of the best knowledge available and were discussed in draft form with those individuals responsible for implementation. OIG's analysis of management's response to the recommendations has been incorporated into the report. OIG trusts that this report will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of the individuals who contributed to the preparation of this report.

Harold W. Geisel
Deputy Inspector General

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Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney) has performed an audit of Nonproliferation and Disarmament Fund controls over contracting and project management and integrity of financial data. This performance audit, performed under Contract No. SAQMMA09D0002, was designed to meet the objective identified in the report section titled "Objectives" and further defined in Appendix A, "Scope and Methodology," of the report.

Kearney conducted this performance audit from February 2012 through September 2012 in accordance with *Government Auditing Standards*, 2011 Revision, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of Kearney's performance audit and its related findings and recommendations.

Kearney appreciates the cooperation provided by personnel in Department offices during the audit.

Kearney & Company, P.C.
Alexandria, Virginia
September 5, 2012

Acronyms

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
CGFS	Bureau of the Comptroller and Global Financial Services
CLIN	Contract Line Item Number
CN	congressional notification
COR	contracting officer's representative
FIMS	Financial and Information Management System
GFMS	Global Financial Management System
ISN	Bureau of International Security and Nonproliferation
MOU	Memorandum of Understanding
NDF	Nonproliferation and Disarmament Fund
NIST	National Institute of Standards and Technology
OIG	Office of Inspector General
PM	project managers
PMBOK	Project Management Body of Knowledge
PSC	personal services contractor
ULO	unliquidated obligation

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Executive Summary

The Nonproliferation and Disarmament Fund (NDF), an office within the Bureau of International Security and Nonproliferation (ISN), was created to enable the U.S. Government to rapidly respond to nonproliferation opportunities. When an office within the Department of State (Department) or other U.S. Government agency identifies a nonproliferation opportunity that was not anticipated or budgeted, the office or agency submits a project proposal to NDF. NDF's projects span the world and include eliminating chemical weapons production equipment in the Balkans and facilitating the safe removal of nuclear infrastructure from Libya. To execute projects, NDF relies on third-party contractors and offices within the host countries, such as the Ministry of Defense.

NDF requested that Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), perform this audit to assess NDF's controls over contracting and project management. NDF also requested that Kearney determine whether the data recorded in NDF's internal financial and project management system, the Financial and Information Management System (FIMS), was valid and whether FIMS had sufficient reporting capabilities.

Kearney found that NDF's controls over the contracting process were sufficient to meet many objectives but needed improvement to ensure compliance with all Federal and Department requirements. Controls over contract initiation and modification, invoice approval, and contract closeout were well designed but were not consistently executed. The procurement request package for 13 of 28 contract initiations tested did not contain all necessary documents, four of 28 procurement requests tested were not approved by the NDF Director, and three of 17 contract modifications tested were not approved, as required. There was no documentation of the project manager's (PM) certification of the receipt of goods or services for 36 of 143 invoices tested and no evidence that third-party verifications were obtained, when it appeared necessary, for 69 invoices. Improvement in some of these areas occurred during the FY 2011–2012 period. Kearney also noted that NDF did not have sufficient controls over unliquidated obligations (ULO), a control to close out contracts in a timely manner, or a process to document the projects for which NDF's authority to waive Federal requirements is used. The lack of sufficient controls over contracting could result in, among other things, delays in contract initiation and modification, improper payments to contractors, and delays in project implementation and execution.

NDF had successfully executed projects around the world to achieve nonproliferation goals, and Kearney generally found that PMs effectively managed the status of their projects. However, Kearney found that PMs did not manage projects consistently and did not always use the project management functionality of FIMS. Kearney also noted that FIMS did not have adequate capabilities to help ensure that PMs sufficiently documented key project elements, such as the scope, timeliness, and cost of work, as well as changes to these elements. Further, Kearney noted that documentation maintenance standards were not consistently followed, and there was no control to ensure that projects are closed in a timely manner. Without consistent project management practices, NDF cannot ensure that it carries out its mission in the most effective and efficient manner.

Kearney found that FIMS contained accurate and complete information on the funds received from appropriations and donations and the amounts approved for each project. However, obligations and expenses in FIMS were not always accurate, complete, or entered in a timely manner. Specifically, of 12 obligations in the Department's Global Financial Management System (GFMS) that Kearney tested, three were not recorded accurately in FIMS. Kearney also tested 70 obligations for timeliness and identified 52 obligations that averaged 163 days between executing the obligation and recording it as final in FIMS. Although expenses were recorded in FIMS accurately, they were not always recorded timely, and some were not recorded at all. Specifically, Kearney tested 115 expense transactions in FIMS for timeliness and identified 45 transactions that averaged 87 days between the date the invoice was approved and the date the expense was recorded in FIMS. Of 45 expense transactions in GFMS tested for completeness, 15 transactions, with a net impact of $537,000, were not recorded in FIMS. Kearney also noted that donated funds received from other countries were not sufficiently identifiable in contractual documents, and FIMS lacked key reporting functionality, such as the ability to produce reports as of a specific point of time in the past or covering a specific period of time. Because of the data inaccuracies in FIMS and the limitations of its reporting capabilities, Kearney concluded that FIMS currently would be unable to produce auditable financial reports.

Management Comments

In the draft of this report, OIG made 18 recommendations. Five recommendations pertained to improving controls over contracting, specifically that NDF improve its controls over contract initiation, contract modification, invoice approval, obligation monitoring, contract closeout, and "notwithstanding authority" to ensure compliance with Federal and Department requirements. In addition, five recommendations pertained to developing formal controls over project management and the use of FIMS to ensure that key aspects of project management are executed consistently across all projects. To the extent possible, these controls should be built into FIMS. Further, eight recommendations pertained to developing a process to ensure that the data in FIMS is complete, accurate, and recorded timely, and improving FIMS reporting capabilities to meet end-user needs.

In its November 13, 2012, response (see Appendix D) to the draft report, ISN concurred with all 18 recommendations. Based on the response, OIG considers the recommendations resolved, pending further action. Management's responses and OIG's replies to those responses are included after each recommendation.

Background

The proliferation of weapons of mass destruction, and related materials, technologies, and expertise, is a preeminent challenge to U.S. national security. ISN leads the Department's efforts to prevent the spread of weapons of mass destruction, such as nuclear, chemical, and biological weapons and their delivery systems, through bilateral and multilateral diplomacy. ISN addresses proliferation threats by improving physical security and export controls, using interdiction and sanctions, and redirecting relevant technology and expertise. ISN has three major programs:

Nuclear Affairs, Non-Nuclear and Counter-Proliferation, and Nonproliferation Programs. The three programs and the specific offices within each program are shown in Table 1.

Table 1. Bureau of International Security and Nonproliferation Programs and Offices

ISN Program	ISN Program Offices
Nuclear Affairs	Office of Multilateral Nuclear and Security Affairs
	Office of Nuclear Energy, Safety and Security
	Office of Regional Affairs
Non-Nuclear and Counter-Proliferation	Office of Missile, Biological and Chemical Nonproliferation
	Office of Conventional Arms Threat Reduction
	Office of Counter-Proliferation Initiatives
	Biological Policy Staff
Nonproliferation Programs	Office of Cooperative Threat Reduction
	Office of Export Control Cooperation
	Nonproliferation and Disarmament Fund
	Office of Weapons of Mass Destruction Terrorism
	Office of Strategic Communications and Outreach

Source: Prepared by Kearney based on information obtained from the ISN Internet Web site, <http://www.state.gov/t/isn/index.htm>, accessed on July 2, 2012.

NDF, one of ISN's nonproliferation offices, was established to provide a means for the U.S. Government to respond rapidly to nonproliferation and disarmament opportunities, circumstances, or conditions that are unanticipated or unusually difficult but of high priority. NDF's role is to supplement U.S. diplomatic efforts to promote bilateral and multilateral nonproliferation and disarmament activities through the development, execution, and implementation of carefully selected projects. When an office within the Department or other U.S. Government agency, such as the U.S. Department of Energy, identifies a nonproliferation opportunity that was not anticipated or budgeted, the office or agency submits a project proposal to NDF. NDF funds and executes the approved projects in coordination with these other offices and agencies.

In fulfilling its responsibilities, NDF

- Negotiates with foreign governments, foreign contractors, U.S. Government agencies, and U.S. contractors on project development and implementation issues.
- Works to secure ongoing funding for NDF nonproliferation activities.
- Determines the resource requirements necessary to implement projects and provides supervision accordingly.
- Manages the congressional appropriation for NDF.
- Obligates, deobligates, or reprograms NDF funds and tracks NDF expenses and interagency money transfers.
- Tracks program recommendations, decisions, and congressional inquiries and notifications.

- Tracks program progress to measure achievements and reports results to ISN leadership and the Under Secretary of State for Arms Control and International Security.

NDF is a small organization comprised of Department personnel and contractors, including personal services contractors (PSC). NDF staff includes a Director, a Chief of Operations, a Comptroller, Finance Officers, PMs, policy officers, a contract advisor, and project support specialists. A select group of PMs, who negotiate, manage, and implement NDF's projects, are Department personnel, but the majority of PMs are PSCs. Most PMs are former senior officials from military and diplomatic missions with a significant amount of experience and knowledge in nonproliferation activities.

NDF Funding

NDF is funded each year by the Nonproliferation, Anti-terrorism, Demining and Related Programs appropriation. Since its creation in 1994, NDF has received $513 million in appropriated funds. NDF received $30 million in appropriated funds during FY 2012. NDF funds are available until they are expended to permit maximum flexibility in project implementation. Despite the indefinite availability of the appropriated funds, the funds must be aligned to a project before they can be spent. The Under Secretary for Arms Control and International Security must approve all projects. Furthermore, NDF must formally notify Congress of the projects it plans to implement through a congressional notification (CN). Once Congress has been notified of the proposed project, a 15-day timeline is initiated during which Congress has the opportunity to reject the proposal. If the 15-day limit elapses without rejection, the proposal is considered to be approved by Congress, and NDF PMs may begin to implement and execute the project. NDF cannot exceed the amount of funding included in the CN for each project.

NDF has also received donated funds from other countries. In 2011 and 2012, four donor countries provided $5.9 million in funds to support NDF's ongoing project in Libya. NDF has entered into Memorandums of Understanding (MOU) with the donor countries. The MOUs specify the authorized uses of the donated funds and the reporting and tracking requirements.

Contracting Process

NDF relies on contractors to implement the projects it undertakes. In some instances, the contracts are with a host-country government office, such as the Ministry of Defense, and in other instances, the contracts are with third-party vendors. The contracts that Kearney reviewed for this audit ranged in value from as low as $35,000 to as much as $17 million.

Generally, the contracting process entails contract initiation, contract modification, invoice approval, obligation monitoring, and contract closeout. The contract initiation, modification, and closeout processes are commenced by NDF and completed by the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM). NDF's contract advisor assists PMs with the contracting process by providing

information on contracting requirements and ensuring that documents are properly completed before submission to A/LM/AQM.

PMs serve as the contracting officer's representative (COR) for the contracts related to their projects. As CORs, the PMs initiate the contracting process by identifying the specific work to be performed and preparing a procurement request package, including the statement of work. In preparing the package, PMs must take into consideration the preferences and demands of the host country, which may affect the award and execution of the contract.

As work is performed under the contract, PMs must verify the receipt of goods or services for contractor-submitted invoices. PMs often travel to project sites, affording them the ability to personally verify the receipt of goods or services. For work performed or goods received while PMs are not on-site, the PMs obtain third-party verification from another U.S. Government representative, such as a U.S. Department of Energy technical monitor. After a PM has certified that the goods or services were received, the invoice is processed in the same manner as all other Department invoices at the Bureau of the Comptroller and Global Financial Services (CGFS) in Charleston.

Throughout the contract life cycle, PMs are responsible for ensuring that the ULOs[1] for their contracts are valid; that is, the balances on the obligations are still needed. When PMs identify a ULO that is no longer needed, the PM must notify the Finance Officer that the ULO may be deobligated. NDF also performs informal periodic reviews of its ULOs and participates in Department-wide quarterly ULO reviews coordinated by CGFS. At the time of this audit, NDF had 98 ULOs with an available balance of $69.8 million.

When work on the contract has been completed, NDF initiates the contract closeout process. In order to close out a contract, PMs should create a closeout package stating that all work has been completed and coordinate with NDF's Finance Officer to ensure that final invoices have been received, paid, and reconciled. A closeout checklist, consistent with the Department of State Acquisition Regulation, should be completed and submitted to A/LM/AQM so that the contract can be closed and any remaining funds deobligated.

NDF funding has been provided "notwithstanding any other provision of law."[2] This means that, with proper authorizations, NDF can override any portion of any law or regulation. For example, despite Federal Acquisition Regulation requirements that Government offices "Buy America," NDF is permitted to obtain goods or services from foreign contractors. NDF may also award contracts without complying with Federal Acquisition Regulation requirements relating to competition. "Notwithstanding authority" is an extraordinary authority granted to NDF by Congress for use in special circumstances. Therefore, this authority should be invoked only if necessary.

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[1] The U.S. Standard General Ledger defines a ULO as "the amount of goods and/or services ordered that have not been… received and for which amounts have not been prepaid or advanced."

[2] Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, 125 Stat. 786 (2011), and prior year appropriation legislation.

Project Management Process

Each NDF project has a specific objective, such as facilitating the safe removal of the nuclear infrastructure in Libya. NDF performs a number of tasks to accomplish each project's objective including obtaining the host county's permission to perform the work and procuring goods and services to support project execution. NDF may enter into one or multiple contracts or MOUs to accomplish each task within a project. Since its inception in 1994, NDF has completed 146 projects. At the time of this audit, there were 46 active projects, funded for approximately $323 million, and 43 projects in the closeout phase, funded for approximately $105 million. Of 46 active projects, 34 were country-specific projects and 12 were for administrative tasks, such as FIMS development and maintenance. Examples of notable NDF country-specific projects are provided in Table 2.

Table 2. Notable Nonproliferation and Disarmament Fund Projects by Activity

Nonproliferation Activity	Project
Nuclear	Removed more than 100 pounds of at-risk highly enriched uranium from the Vinca Institute in Belgrade, Serbia, to secure storage in Russia, regulated by the International Atomic Energy Agency
	Facilitated the safe removal of nuclear infrastructure from Libya to secure facilities in the United States
Biological	Destroyed high-capacity fermenters in Kazakhstan
Chemical	Eliminated chemical weapons production equipment and facilities and secured chemical agents in the Balkans
Conventional	Destroyed nearly 40,000 munitions (including fuses, detonators, sea mines, air bombs, and torpedo bodies) in the Republic of Albania
Ballistic Missile	Eliminated Soviet-era short-range, tactical ballistic surface-to-surface Missile Technology Control Regime Category I missiles in Bulgaria, Slovakia, Poland, Hungary, and Libya
	Eliminated SCUD missiles in Ukraine

Source: Prepared by Kearney based on information obtained from the NDF Internet Web site, <http://www.state.gov/t/isn/ndf/index.htm>, accessed on July 2, 2012.

The project management process includes planning, executing, monitoring, and closing out projects. Project planning occurs before the project is approved and is typically performed by the Department office or other U.S. Government agency proposing the project with NDF's input and advice. The Director and Chief of Operations assign projects to PMs based upon their expertise.

PMs monitor their projects by tracking the status of the work and funding primarily through status reports. PMs receive status reports via e-mails, cables, or telephone from the contractor or the embassy in the host country. These reports are received on a daily, monthly, or quarterly basis depending on the project and contract terms. PMs also perform site visits to ensure that project objectives are being met. If PMs encounter uncontrollable environmental

issues during project execution, such as civil unrest, PMs coordinate with the Director, Chief of Operations, and, if necessary, the Under Secretary for Arms Control and International Security to determine the potential next steps for the project.

After project objectives have been met, PMs initiate project closeout. All contracts related to the project must be closed to complete the project closeout process. If unspent funds remain for the project, the funds are available for use on future projects.

NDF's Financial and Information Management System

According to NDF management, the Department's official financial system of record, GFMS, did not provide the information necessary to track funds at the project level and manage projects effectively. Additionally, NDF staff could not access information in GFMS from remote locations. To address these needs, NDF developed and implemented FIMS, which is a customized, internal, cloud-based system, built on the Salesforce[3] platform and hosted on Salesforce servers. NDF operates FIMS on a dedicated Internet network connection.

FIMS' primary purpose is to ensure that amounts expended for a project do not exceed the amount in the CN. To track funds, NDF records in FIMS the funds received through appropriations and the amount approved by Congress, obligated, and spent for each project. FIMS is only used by NDF and does not interface with GFMS or other Department financial management systems. Therefore, NDF must manually record financial data in FIMS and perform periodic reconciliations to ensure that the information in FIMS is consistent with the information in GFMS for budget execution and financial reporting purposes. Recently, NDF enhanced FIMS' capabilities by adding project management features, improved reporting, and document storage.

Objectives

The objectives of this audit were to

- Assess the sufficiency of NDF controls over the contracting process.
- Assess the sufficiency of NDF controls over the project management process.
- Determine whether the integrity of the data in FIMS is sufficient to prepare auditable financial reports for external users.

[3] Salesforce.com, Inc., is a global enterprise software company. Salesforce has been certified by the General Services Administration, Federal Risk and Authorization Management Program.

Audit Results

Finding A. NDF Contracting Process Controls Are in Place but Need Improvement

NDF's controls over the contracting process were sufficient for some contract requirements but needed improvement to ensure compliance with all Federal and Department requirements. To test the controls over the contracting process, Kearney reviewed documentation for the contracts related to 15 judgmentally selected NDF projects. (Kearney's sampling methodology is detailed in Appendix A.)

Kearney found that NDF had established and implemented effectively designed controls over its contracting process, including contract initiation, contract modification, invoice approval, and contract closeout. However, some established controls for contract initiation, contract modification, and invoice approval were not operating effectively. Although Kearney identified deficiencies in these controls, Kearney noted that, in some cases, the number of deficiencies decreased in FYs 2011 and 2012 from prior years.

Although NDF had some controls in place, Kearney identified controls that should have been in place but were missing. Specifically, NDF did not have adequate controls to monitor its ULOs, close out its contracts timely, and document the projects for which NDF used notwithstanding authority.

The control issues identified occurred primarily because NDF staff did not always follow NDF's internal processes or procedures, and the control environment had not been fully developed. The lack of sufficient control over contracting could result in delays in contract initiation and modification, improper payments to contractors, invalid obligations, insufficient funding, inappropriate use of NDF's notwithstanding authority, and delays in project implementation and execution.

NDF Had Established Contracting Process Controls

NDF had established properly designed controls for contract initiation and modification, invoice approval, and contract closeout. In an effort to streamline the contracting process, A/LM/AQM and NDF have established an MOU to document the contract initiation, modification, and closeout processes. Based on this MOU, NDF developed a COR Handbook that documents the required process for executing a contract and issuing a contract modification. The NDF process also includes obtaining the NDF Director's approval for all contract actions.

NDF had also established controls to ensure that goods and services are received before an invoice is paid. PMs must certify the receipt of goods and services, and NDF's Comptroller must approve invoices and travel vouchers.

Additionally, NDF had established controls for contract closeouts. PMs must obtain a formal release letter from the vendor to ensure that no future payments are required; complete a

COR Completion Certificate certifying to A/LM/AQM that all work has been completed and the final payment has been made; and complete a COR Closeout Checklist certifying that all required closed-out items were accomplished in the appropriate order outlined in the MOU with A/LM/AQM.

Control Activities for Contract Initiation, Contract Modification, and Invoice Approval Were Not Operating Effectively

Although NDF had established some controls over the contracting process, Kearney found that the controls related to contract initiation and modification and invoice approval were not being executed effectively or as designed. (A list of the key controls tested and Kearney's conclusions on their operating effectiveness is provided in Appendix B.)

Contract Initiation and Modification

Kearney found that NDF did not always complete all required documents or obtain the necessary approvals prior to initiating a contract. NDF does not have contract authority. In order to execute a contract, NDF submits a procurement request to A/LM/AQM, and a contracting officer initiates and executes a contract on NDF's behalf. NDF's COR Handbook, as well as the Department's *Foreign Affairs Handbook*,[4] requires that each procurement request submitted to A/LM/AQM include, among other things, the following eight items, if applicable:

- Specifications/Performance Work Statement/Changes to Performance Work Statement for Modifications.
- Inherently Governmental Function Determination.
- Independent Government Cost Estimate.
- Funding/Requisition document.
- COR nomination.
- Technical Evaluation Criteria and Plan.
- Justification for Other Than Full and Open Competition.
- Recommended source list.

NDF's COR Handbook also requires that all procurement request packages be approved by the NDF Director.

Kearney tested a sample of 28 contracts for contract initiation and preaward controls. Specifically, Kearney reviewed the procurement request packages for the 28 contracts to determine whether the packages contained the documents listed above and the required approvals. Of 28 contracts tested, Kearney found that the procurement request package for 13 contracts was not properly prepared prior to the submission of the procurement request to A/LM/AQM. Specifically, each of these 13 contract initiations lacked one or more of the following documents:

[4] 14 FAH-2 H-332.2, "Attachments."

- Inherently Governmental Function Determination.
- COR nomination.
- Technical Evaluation Criteria and Plan.
- Justification for Other Than Full and Open Competition.
- Recommended source list.

In addition, Kearney identified four instances in which the procurement request was not approved by the NDF Director.

Kearney noted that the number of instances in which the required documentation was not prepared decreased recently (FYs 2011–2012), indicating that NDF had improved its performance in this area. Table 3 provides the results of the contract initiation tests by period.

Table 3. Contract Initiation Test Results

Fiscal Years	Total Tested		Procurement Request Package Lacked Supporting Documentation		Procurement Request Not Approved by NDF Director	
	Number of Contracts	Dollar Value (in millions)	Number of Contracts	Dollar Value (in millions)	Number of Contracts	Dollar Value (in millions)
2007–2010	16	$9.9	9	$8.8	2	$0.6
2011–2012	12	23.7	4	17.8	2	0.6
Total	**28**	**$33.6**	**13**	**$26.6**	**4**	**$1.2**

Source: Prepared by Kearney based on the results of its tests of contract initiation controls.

Additionally, Kearney tested the controls over contract modifications. According to the COR Handbook, the terms of the modification and documentation supporting the need for the modification are required for submission to A/LM/AQM. NDF's internal process requires that the Director approve contract modifications prior to submission to A/LM/AQM. Based on a sample of 17 contract modifications valued at $4.5 million, Kearney determined that documentation supporting the need for the modification was prepared for all modifications. However, Kearney identified two no-cost modifications that were not approved by the Director and one modification totaling $158,000 that was not approved by either the PM or the Director.

NDF controls over contract initiation and modification were not effective because the PMs did not consistently follow the requirements in the COR Handbook, and NDF did not have a process in place to ensure compliance. To help ensure compliance with contract initiation and modification requirements, NDF could develop internal checklists listing all required documents and approvals. The checklists would then be completed and included with each procurement request package and modification request before the requests are approved by the NDF Director.

If all required documents are not submitted with contract initiation and modification requests, A/LM/AQM must either prepare the missing documents without NDF's input or contact NDF to obtain the missing documents. An A/LM/AQM official stated that this situation

delays issuing contracts and modifications, which may prevent NDF from initiating projects in a timely manner. In addition, if requests are submitted without proper approvals, the requests may be incomplete, unnecessary, or inaccurate.

Recommendation 1. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a standardized procedure to help ensure compliance with contract initiation and modification documentation and approval requirements.

Management Response: NDF concurred with this recommendation, stating that it would work to "provide and organize an appropriate electronic storage location for samples of the various documents used in contract initiation and modification."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has implemented a standardized procedure for contract initiation and modification documentation and approval.

Invoice Review Process

Kearney found that NDF often did not effectively execute its invoice approval controls. Kearney tested a sample of expense transactions for invoice approvals, including the PM certification of the receipt of goods or services and the Comptroller certification of funds availability and invoice approval. To determine whether the PM was properly certifying the receipt of goods or services, Kearney obtained the PM's certification submitted to the Finance Officer prior to payment. As shown in Table 4, Kearney identified 36 instances, totaling $1.7 million, where the PM did not properly certify the receipt of goods or services.

Table 4. Certification of Goods or Services Test Results

Fiscal Years	Total Tested*		Lacked PM Certification of Goods or Services	
	Number of Invoices	Dollar Value (in millions)	Number of Invoices	Dollar Value (in millions)
2005–2010	114	$26.3	27	$1.6
2011–2012	29	6.7	9	0.1
Total	**143**	**$33.0**	**36**	**$1.7**

Source: Prepared by Kearney based on the results of its tests of invoice controls.
*The planned sample size for testing was 159 items, totaling $51.9 million. However, the actual sample size was less because the controls tested did not apply to every transaction in the planned sample.

PMs certify receipt of goods or services based on their personal verification of receipt or third-party verification. When PMs are on-site, third-party verification is not required. Based on a review of invoice supporting documentation, travel vouchers, and trip debrief reports, Kearney determined whether third-party verification was necessary. For the 93 invoices that required third-party verification, Kearney reviewed documentation for evidence that the PM received the

third-party verification prior to approving the invoice. Kearney identified 69 instances, totaling $26.6 million, in which the PMs did not have documentation showing that they obtained third-party verification prior to certifying the invoice for payment, as shown in Table 5.

Table 5. Third Party Verification Test Results

Fiscal Years	Total Tested*		Lacked Evidence of Third Party Verification	
	Number of Invoices	Dollar Value (in millions)	Number of Invoices	Dollar Value (in millions)
2005–2010	87	$25.4	65	$24.5
2011–2012	6	6.5	4	2.1
Total	**93**	**$31.9**	**69**	**$26.6**

Source: Prepared by Kearney based on the results of its tests of invoice controls.
*The planned sample size for testing was 159 items, totaling $51.9 million. However, the actual sample size was less because the controls tested did not apply to every transaction in the planned sample.

Kearney found 23 invoices, one of which was recent, that had exceptions for both categories of control activities tested. That is, the PM did not certify that the goods or services were received, and there was no documentation of third-party verification.

Kearney noted that NDF had improved its performance for the two control activities tested. Kearney's analysis of the results of its tests indicated that the deficiencies for the two internal control activities tested decreased from a 46 percent error rate for FYs 2005–2010 to a 37 percent error rate for FYs 2011–2012, the most recent period.

To determine whether NDF's Comptroller was checking funds availability and approving the invoice, Kearney obtained documentation to support the Comptroller's approval of 139 invoices, totaling approximately $52 million.[5] Kearney identified only four invoices, totaling $1,600, for which the Comptroller did not approve the invoice or did not provide documentation of the approval. None of these exceptions were from invoices approved during FYs 2011–2012.

The PM's certification of the receipt of goods and services demonstrates execution of relevant COR responsibilities. The *Foreign Affairs Handbook* states that "the COR should review [invoices] to determine the validity of costs claimed and relate total expenditures to the physical progress of the contract."[6] In addition, the *Foreign Affairs Manual* requires approval of invoices to ensure that "all processed payments are supported by valid obligations."[7]

[5] The planned sample size for testing was 159 transactions, totaling $51.9 million. However, the actual sample size was less because the control tested did not apply to every transaction in the planned sample. Specifically, the invoices selected included refunds, for which the comptroller's approval is not necessary. The 20 transactions for which the procedures were not applicable had a net impact to the amount tested of $141,000.

[6] 14 FAH-2 H-522.4, "Reviewing Vouchers."

[7] 4 FAM 223.1-5, "Payment of Obligations."

The control deficiencies identified occurred primarily because the third-party verification was often received through e-mail or in another informal manner and was not maintained as supporting documentation for the invoice. Additionally, PMs did not document whether they personally certified or received third-party verification, which made it difficult to determine whether third-party verification was necessary. If third-party verification was received, the format of this verification should be noted so that its existence can be validated. NDF should consider building the certification process into FIMS. Without proper certification by an individual who has direct knowledge of the goods or services, payments may be made for goods or services that NDF does not receive.

Recommendation 2. OIG recommends that the Nonproliferation and Disarmament Fund improve the invoice approval process to ensure that project managers receive and maintain the appropriate documentation to support their certification of the receipt of goods or services.

Management Response: NDF concurred with this recommendation, stating that it would review the process used "to certify and establish standards for document retention."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has improved its process for receiving and documenting the certification of the receipt of goods or services.

Additional Controls Are Necessary for an Effective Control Environment

Kearney identified activities for which controls should have been in place but were missing. Specifically, NDF did not have properly designed controls related to ULO monitoring and no controls to ensure the timeliness of contract closeouts or to document the projects for which NDF used notwithstanding authority.

Unliquidated Obligations

NDF did not have an effectively designed control to ensure that its ULOs were proactively monitored for validity. Department offices and bureaus should have a two-step ULO monitoring process—a regular internal review of all open obligations and participation in the Department-wide ULO review. According to the NDF Comptroller, NDF has an informal, undocumented process to review ULOs on a periodic basis. Specifically, the Finance Officer runs a status of funds report in GFMS and judgmentally identifies obligations that appear to be invalid. The Finance Officer coordinates with the corresponding PMs to ensure the validity of those obligations. This internal process is performed on an ad hoc basis. Also, on a quarterly basis, CGFS sends a report to NDF's Comptroller identifying ULOs that NDF should review for validity. NDF's Finance Officer investigates the ULOs identified by CGFS by following up with PMs to verify that the unliquidated balance is still needed. If ULOs are determined to be invalid, the Finance Officer deobligates the ULO in both GFMS and FIMS.

Kearney reviewed the 98 NDF ULOs in the Department's March 31, 2012, ULO database from GFMS's Data Warehouse and identified 46 ULOs, amounting to $2.7 million, that had no expenditures since July 2011. These 46 ULOs would have been subject to both NDF's internal review process and the CGFS's ULO review. Kearney reviewed activity on these ULOs subsequent to March 31, 2012, to determine whether NDF's internal process or the CGFS' ULO review identified and deobligated invalid ULOs. Kearney noted that 24 of 46 obligations had been deobligated. The remaining 22 obligations, amounting to $1.5 million, remained open through June 22, 2012. Kearney inquired with PMs about these obligations and was informed that all 22 were invalid. Kearney concluded that NDF's informal process was not properly designed.

Federal appropriation law requires that obligations be recorded "only when supported by documentary evidence."[8] In addition, the *Foreign Affairs Manual* states that "periodic reviews are to be performed not less frequently than monthly to ensure that unliquidated obligation balances and disbursements are valid."[9]

NDF had not developed and implemented a formal, periodic internal ULO review process. In addition, as part of the Department-wide ULO second quarter analysis, CGFS provided a list of ULOs to NDF for review, which NDF received on April 30, 2012. As of June 22, 2012, NDF had not yet completed its research and concluded on the validity of a number of the ULOs on the CGFS list.

Because NDF did not have effective controls over ULO monitoring, NDF's ULO balance was overstated by $1.5 million as of March 31, 2012. Further, NDF's funds are available for an indefinite period. If the unneeded obligations were deobligated, the funds would be available for new obligations immediately. By keeping the funds committed to invalid obligations, NDF limits the funding available to accomplish other project goals.

Recommendation 3. OIG recommends that the Nonproliferation and Disarmament Fund develop an internal process to review unliquidated obligations on a periodic basis and to validate the quarterly list of unliquidated obligations provided by the Bureau of the Comptroller and Global Financial Services in a timely manner.

Management Response: NDF concurred with this recommendation, stating that it would enhance FIMS in order to produce a report of ULOs "grouped by NDF project" that will be "automatically run each month" and be "sent to NDF Finance users and the appropriate NDF project managers." In addition, the NDF Comptroller will "provide a policy memo describing the internal NDF ULO review process."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has implemented a standardized process for periodically reviewing ULOs.

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[8] 31 U.S.C. § 1501, "Documentary Evidence Requirement for Government Obligations."

[9] 4 FAM 087.2, "Obligation Validity Criteria."

Contract Closeout

NDF did not have a control in place to ensure that contracts were closed out in a timely manner. As there were no controls in place, Kearney did not perform testing over the timeliness of closeouts. However, while performing other audit procedures, Kearney noted that contract closeouts often occurred years after the work was completed. For example, the final invoice for one contract was paid on July 20, 2009. However, the contract was not closed until August 29, 2011, approximately 2 years later.

The Department of State Acquisition Regulation states that "[t]he contract closeout process shall begin as soon as possible after the contract is physically completed." Physical completion occurs when "the contractor has delivered the required supplies and the Government has inspected and accepted them, or the contract has performed and the Government has accepted all services required by the contract, and the base period and any option periods exercised have expired."[10]

NDF had developed and implemented a contract closeout process and included specific steps required to close out a contract in its COR Handbook. However, these steps do not include a required timeframe in which the closeout must be initiated or completed, and NDF's process historically was to close contracts during the project closeout process. Project closeout can be more involved and time consuming than contract closeout because the data in FIMS for the entire project must be reconciled to GFMS, a project accomplishment report must be prepared, and there may be more than one contract on the project. NDF's funds are available for an indefinite period. Delaying the closeout of all contracts related to a project until the entire project is closed may leave unused funds on completed contracts. If the contracts were closed out in a timely manner, these unused contract funds could be returned to the project level to fund additional contracts or obligations to accomplish the project mission.

Recommendation 4. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a formal process to close out contracts in a timely manner.

Management Response: NDF concurred with this recommendation, stating that it would work to "provide and organize an appropriate electronic storage location for samples of the various contract closeout documents." In addition, NDF stated that it would "develop standard timeframes for NDF CORs to present contract closeout documentation packages."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has implemented a process to close out contracts timely.

[10] Department of State Acquisition Regulation, subpar. 604.804-70, "Contract closeout procedures."

Notwithstanding Authority

NDF did not document when notwithstanding authority was used. Kearney requested a list of projects where notwithstanding authority was used and the details on the specific laws and regulations that were waived for each project. NDF was unable to provide this documentation because it was not maintained by NDF or by any other Department office. During review of CNs for other audit procedures, Kearney observed that, although language was included in some CNs indicating that the notwithstanding authority would be used, the existence of this language did not necessarily indicate that the authority was used. Further, it is not required that this language be included in the CN if the notwithstanding authority is only used to override portions of the Federal Acquisition Regulation.

The Government Accountability Office's Standards for Internal Control in the Federal Government states that "significant events need to be clearly documented, and the documentation should be readily available for examination." According to NDF management, NDF can exercise notwithstanding authority by obtaining formal approvals. PMs must coordinate with the Office of the Legal Adviser and A/LM/AQM to ensure that the appropriate approvals are obtained.

NDF did not maintain a list of projects for which it used the notwithstanding authority because NDF is not directly involved in the process of identifying instances where the notwithstanding authority is needed. Instead, these determinations have been made by A/LM/AQM and the Office of the Legal Adviser.

Without documentation of each use of the notwithstanding authority, Kearney could not verify that the appropriate approvals for using the authority were obtained. In addition, NDF could not ensure or provide verification that the authority was properly invoked.

Recommendation 5. OIG recommends that the Nonproliferation and Disarmament Fund develop a process to formally document the projects for which the "notwithstanding authority" is used, including when it is invoked to override portions of the Federal Acquisition Regulation.

Management Response: NDF concurred with this recommendation but stated that it "already documents all requests" to use notwithstanding authority, which are "cleared" with the Office of the Legal Adviser.

OIG Reply: OIG considers the recommendation resolved. Although NDF had obtained clearance from the Office of the Legal Adviser to use the authority, this authority was sometimes granted for projects that did not actually take advantage of the waiver. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed a process to formally document the projects for which notwithstanding authority is used.

Finding B. Project Management Controls Need Improvement

Although Kearney found that NDF had an experienced and successful project management team, project management controls needed to be improved. Specifically, Kearney found that PMs did not manage projects consistently, and FIMS project management capabilities for documenting project issues and other project details were not used effectively. Kearney also noted that FIMS did not yet have full project management capabilities to assist PMs in documenting and monitoring key project elements, such as scope, schedule, cost, quality, and risk. Additionally, project management documentation was not readily accessible and often only maintained in e-mails that could be misfiled or deleted. Further, Kearney noted that NDF did not have a control to ensure that projects are closed in a timely manner.

Overall, Kearney found that these issues existed because there were no formal controls over the NDF project management process. Without an effective control environment, NDF management cannot ensure that it carries out its mission in the most effective and efficient way, and management has limited oversight capability. In addition, project management activities performed outside of FIMS may not be performed, and management may not have the documentation necessary to support project management decisions. Further, funds that could be used for other purposes may remain on completed NDF projects.

Project Management Team is Experienced and Knowledgeable

During its communications with PMs and review of documentation, Kearney observed that PMs are knowledgeable and experienced in planning, monitoring, and executing nonproliferation projects. According to NDF management, PMs are selected based on their familiarity with nonproliferation efforts and diplomatic negotiations, and management assigns projects to the PMs with the expertise required for the specific projects. The PMs' knowledge, experience, and negotiation skills form the foundation that enables NDF to successfully respond to urgent nonproliferation needs around the world. During this audit, PMs demonstrated an in-depth knowledge of the current status of their projects, and they were able to discuss key project elements, such as the scope of work, in detail. Further, Kearney saw evidence that when PMs encountered project issues, they promptly addressed the issues in order to continue to execute the project. For example, NDF encountered several challenges and issues throughout one project, and the PM and NDF management resolved these issues without jeopardizing the project mission.

Project Management Practices Were Inconsistent

Although NDF has successfully completed a number of critical nonproliferation projects, Kearney noted that project management practices were not consistent across NDF. In 2010, NDF developed an NDF Project Management Guide to provide PMs with the resources and tools needed to manage project planning, implementation, and closeout. The guide includes, among other things, a planning checklist, a status report template, a deliverables template, and a closeout checklist. Based upon its review of 15 selected projects, Kearney noted that projects were managed inconsistently, and project management activities for many of the projects were not performed in compliance with the guide. For example, the NDF Project Managers Planning

Worksheet included in the guide instructs the PM to identify the tasks, or activities, required to complete the project and the planned start and end date for each task. The specific activities required to complete the project were not identified for two of 15 projects, and the duration of the activities was not estimated for an additional two projects. Although the activities and their durations were documented for 11 of 15 projects, the level of detail at which this was performed varied widely. The NDF Project Managers Planning Worksheet also requests that the PM identify the issues and risks related to the project. However, risks were not documented during the project planning or execution process for any of the 15 projects.

The inconsistencies identified occurred because the guide was considered optional—PMs did not have to comply with the instructions in the guide. NDF's Director stated that it is important to allow PMs the maximum flexibility in overseeing their projects. The PMs are experienced project managers. In addition, each NDF project has a unique objective, is executed in a different country, and involves a certain degree of risk to the safety and lives of those carrying out the project. Given this environment, the Director promotes a culture in which PMs are enabled to develop their own project management approach to execute their projects.

Kearney agrees that the circumstances in which NDF works are unique and inherently difficult. However, the elements necessary for effective project management are relatively consistent across all projects. If projects are managed in an inconsistent manner that is not in compliance with the guide, some key elements of project management could be missed. Effective project management helps ensure that a project achieves its mission, is completed on time, and is completed at or below expected costs. By allowing PMs to execute projects ad hoc, NDF cannot ensure that it is carrying out its mission to further U.S. nonproliferation efforts in the most effective and efficient manner.

Recommendation 6. OIG recommends that the Nonproliferation and Disarmament Fund identify key project management controls and implement a policy to require compliance with these key controls.

Management Response: NDF concurred with this recommendation, stating that it would "identify key project management controls and recommend a compliance policy."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has implemented a policy requiring compliance with key project management controls.

Existing FIMS Project Management Capabilities Were Not Used Effectively

Kearney found that not all PMs were taking full advantage of the FIMS project management capabilities currently available. Recent enhancements to FIMS included adding three project management features—Project Issues, Next Actions, and the "NDF Award Detail" screen.

Project Issues and Next Actions

The project issues and next action features allow PMs to enter project information to assist with tracking and monitoring the resolution of any issues that arise during project execution. Kearney identified instances in which projects had encountered issues, but the PMs had not entered those issues into FIMS. For example, one project had been significantly delayed, but these delays were not detailed in FIMS as issues. For each issue, FIMS has a section where the PMs can enter the next actions of the project. For instance, if the project was not performing on schedule, the PM can enter a planned resolution to keep the project on track. Kearney found many instances where the next action functionality was not used.

NDF Award Detail

The "NDF Award Detail" screen allows the PMs to enter contract awards and specific contract line item numbers (CLIN).[11] This information assists the PM in tracking funding and deliverable status for each project by CLIN to help ensure that NDF remains within the project budget and receives project deliverables on schedule. When contracts are awarded, the Finance Officer creates an award document in FIMS and links this document to the obligation. For each award, PMs should enter the specific award details in the "NDF Award Detail" screen, including the CLIN and deliverable number, description, value, due date, and status. Kearney noted 26 contracts that were entered as obligations in FIMS but were not identified as awards. Further, Kearney noted that some awards were entered into FIMS, but the "NDF Award Detail" screen had not been populated. For example, an award was created for one project in FIMS, but no award deliverable or CLIN information was entered, which made it difficult for the PM to track the award.

The lack of or inconsistent use of FIMS project management features occurred because NDF had not established required fields in FIMS or policies or procedures regarding the PM's use of FIMS. The Project Issues and Next Actions fields were created so that NDF management could monitor the issues affecting each project. The "NDF Award Screen" was created to facilitate the PM's monitoring of the contract and review of invoices. These are key activities for the PM. Not using the fields for all projects limits NDF management's oversight capabilities.

Recommendation 7. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement policies regarding the use of the Financial and Information Management System (FIMS) for project management and, to the extent possible, add controls to FIMS that require the completion of key fields.

Management Response: NDF concurred with this recommendation, stating that "some key fields have been identified already" and that as an "enhancement to FIMS, more formal project management controls are possible" and NDF would "determine what controls might add value to the process."

[11] CLINs are established to separate specific deliverables and/or to segregate the contract in another manner, such as by labor category.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed and implemented a policy regarding the use of FIMS for project management and added key controls to FIMS.

FIMS Lacked Full Project Management Capabilities

Although NDF developed FIMS to assist with project management, FIMS does not yet have the capabilities to support PMs in managing their projects effectively. The Project Management Body of Knowledge[12] (PMBOK) recommends that organizations document key project elements, including project scope, schedule, cost, quality, and risk, and track the changes to these elements as the project is executed. Kearney noted that FIMS did not have the capability to document and track these elements.

Project Scope

FIMS does not enable PMs to sufficiently document the scope of work for each project or the changes to project scope. Within FIMS, project scope is documented at a high level; that is, the country in which the work is performed and the overall objective is included. However, there is no specific place to break down the overall scope into the various tasks or activities required to achieve the objective. Additionally, there is no specific place to document changes to the scope. For example, during the implementation of a project in Libya, the scope changed significantly. Although there were e-mails and memoranda documenting and approving the change in scope for this project, the details of the changes were not documented in FIMS.

PMBOK states: "Project Scope Management includes the process required to ensure that the project includes all the work required, and only the work required, to complete the project successfully." All changes to project scope should be documented, controlled, and monitored against the scope baseline. The project scope provides a common understanding to all project stakeholders of what is expected. Documenting and monitoring changes to the scope help ensure that all stakeholders understand the new project parameters. If scope is not properly managed, activities may be performed that do not support the overall project objective.

Project Schedule

FIMS does not have a feature or space to sufficiently document the project schedule or monitor the schedule to evaluate variances from the planned baseline. During its review of 15 selected projects, Kearney noted that the duration of the project as a whole was not documented for four of the projects reviewed, and the timeframe needed to complete individual project activities was not documented for any of the 15 projects.

[12] *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)*, 4th ed., Project Management Institute, 2008.

PMBOK states: "Project Time Management includes the processes required to manage timely completion of the project." Controlling the project schedule is the process of monitoring the status of the project to update project progress. Changes in project schedules may impact other project elements, such as project costs. In addition, if timelines are not properly managed, the project may be delayed, increasing the risk that the political environment that facilitated the project will change, and NDF may not be able to complete the project.

Project Costs

The funding for the project as a whole is documented in FIMS; however, FIMS does not enable PMs to sufficiently document project costs or monitor changes in costs. Within each project, various activities must be accomplished to achieve the project objective. Kearney found that total project funding was not allocated to the various project activities in FIMS. Although NDF records obligations, including contracts, in FIMS, the obligations do not align to the individual project activities.

PMBOK states: "Project Cost Management includes the processes involved in estimating, budgeting, and controlling costs so that the project can be completed within the approved budget." As with project scope and schedule, project costs may change. For example, if additional project activities are incorporated into the project, project costs may increase. Changes to project costs should be documented, controlled, and monitored against the project cost baseline. If project cost increases are not closely monitored, there may not be sufficient funds available to complete the project. If project costs decrease, there may be funds available that could be used for other purposes but are not because their availability is not known.

Project Quality

FIMS does not have the capability to assist PMs to substantiate that project activities are performed in compliance with established specifications. As discussed above, FIMS does not enable PMs to track progress against the project budget and schedule. In addition, FIMS does not have other features that would be useful for tracking project deliverables, such as a feature to remind PMs when project status reports are due from contractors. FIMS' current structure encourages PMs to assess the success of the project at the invoice level.

PMBOK states: "Project Quality Management includes the processes and activities of the performing organization that determine quality policies, objectives, and responsibilities so that the project will satisfy the needs for which it was undertaken." If project quality is not managed, project funds could be wasted on ineffective or insufficient goods and services.

Project Risk

Although FIMS includes a feature to document project issues that occur after the project has begun, it does not include a similar feature to document risk identification and the actions necessary to remediate those risks during project planning before significant, negative consequences occur. Kearney noted that PMs were aware of and documented project risks

through e-mails to appropriate project stakeholders, such as the host country, donor countries, and contractors. However, these risks were not documented in FIMS.

PMBOK states: "Project Risk Management includes the processes of conducting risk management planning, identification, analysis, response planning, and monitoring and control on a project." Risk is an uncertain event or condition that, if it occurs, has an effect on at least one project objective, such as scope, schedule, cost, or quality. If project risks are not identified and monitored, NDF may not be able to react quickly if the risks occur, and the success of the project may be jeopardized.

NDF recently added project management features to FIMS and plans to increase its features over time. A project's success is directly influenced by how effectively project requirements are captured and managed. Because FIMS does not yet facilitate the project management process and is lacking key features, PMs document many aspects of projects outside of the system. There is a chance that a key project element will not be performed. To meet NDF's objective of using FIMS to assist with project management activities, FIMS should include the capability to document and monitor the following project elements:

- activities required to accomplish the project objective,
- overall project timeline,
- activities timeline,
- activities cost,
- quality measures and milestones, and
- risk identification and remediation.

Recommendation 8. OIG recommends that the Nonproliferation and Disarmament Fund (NDF) identify the key project management activities for NDF projects and develop a plan to modify Financial and Information Management System (FIMS) capabilities to support these activities. If NDF determines that it would not be cost effective to upgrade FIMS, NDF should develop and implement a formal process to perform and document these key project management activities outside of FIMS.

Management Response: NDF concurred that it needed to "document key project, program, and portfolio management activities and to exercise due diligence in examining relevant workflows and documentation requirements and set cost effective and practical standards." However, NDF noted that detailed project management "is carried out by the implementing entity, which may be a foreign government, contractor and/or international organization."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has identified the key project management activities for which it is responsible and developed a plan to modify FIMS to support these activities or developed and implemented a process to perform and document these activities outside of FIMS.

Document Maintenance and Retention Need Improvement

NDF was not always able to readily locate and produce project management documentation, including documentation to support the obligations and expenses related to each project. Some documents were not in the Finance Office's project file, and it often took days for NDF to locate the correct document. In addition, PMs generally documented decision making, project coordination, and discussion of project issues or changes in e-mails. In some cases, e-mail communications were printed and maintained in the project file, but in other instances they were not, and locating a specific e-mail was sometimes difficult and time consuming. Further, some PMs documented, maintained, and printed every document they used, created, or processed and placed it in the project file. However, other PMs only maintained the "official" project documents, such as the contract, Statement of Work, MOU, and limited correspondence regarding the important decisions that impacted their projects.

The Office of Management and Budget's Circular A-123, "Management's Responsibility for Internal Controls," states that "management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods." Although the NDF Project Management Guide instructs PMs and the Finance Officer to maintain specific documents and dictates whether those documents should be saved on the internal network or in FIMS, Kearney observed that these guidelines were not followed.

Without adequate documentation requirements, NDF cannot ensure that it maintains the documentation to support project management decisions. In addition, although e-mails in NDF's internal e-mail accounts are maintained, e-mails in the Department's e-mail accounts are not maintained indefinitely, and important documentation could be lost. Further, projects are often moved between PMs for workload capacity and specialization reasons. If project files are not complete and documentation cannot be located, a PM taking over an existing project may not be aware of the full history of a project, including issues that should be addressed and resolved.

> **Recommendation 9.** OIG recommends that the Nonproliferation and Disarmament Fund develop and implement procedures to ensure that documentation maintenance and retention policies are followed consistently.
>
> **Management Response:** NDF concurred with this recommendation, stating that it would build upon some existing guidelines to "determine appropriate policies and procedures."
>
> **OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed and implemented procedures related to document maintenance and retention.

Project Closeout Controls Are Needed

NDF did not have a control to ensure that projects are closed in a timely manner. NDF recently implemented a project closeout process. This process requires a full reconciliation of

the financial data in FIMS to the data in GFMS and the preparation of a final report. The reconciliation is performed to help ensure that financial records in FIMS are correct prior to closing out the project. The final report summarizes the project's accomplishments and financial history.

At the time of this audit, there was a significant backlog of projects to be closed. The project closeout process has proven to be time consuming and can take an unreasonable length of time. Kearney noted that NDF had closed 103 projects since 2010. Additionally, NDF had completed the financial reconciliation for another 43 projects. However, there were still projects, both country-specific and administrative, inappropriately identified as "active" in FIMS. In fact, one project was still an active project in FIMS even though the work has been completed and no payments have been made since 2008.

As long as a project is "active" in FIMS, the funds remain assigned to that project. When projects are closed, the funds can be returned to NDF's allotment for use on other nonproliferation activities.

Because NDF currently is working to close out the backlog of completed projects, no formal recommendations are being made specifically related to NDF's effort. However, it is important for NDF to continue with its project closeout efforts. To improve the timeliness of project closeouts, NDF should identify ways to perform its closeout procedures more efficiently. Kearney agrees with the need to reconcile data in FIMS to the data in GFMS to ensure that the information in FIMS is accurate and complete. However, Kearney noted that an inordinate amount of time was spent during the reconciliation investigating small dollar differences. NDF management could establish a reasonable dollar threshold below which the difference will not be investigated.

Recommendation 10. OIG recommends that the Nonproliferation and Disarmament Fund develop a standard timeframe for closing out projects and implement a policy to ensure standard timeframes for project closeouts are met or the reasons for delays documented.

Management Response: NDF concurred with this recommendation, stating that it plans to "establish a policy to include a timeline to closeout NDF projects and return remaining funds to the NDF account." NDF also noted that the report included administrative funds used for internal operations in the list of active projects and suggested that OIG modify the report to remove these projects. NDF provided OIG with a separate list of the administrative projects, which OIG did not include in Appendix D.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed and implemented a standard timeframe for project closeouts. OIG understands that Kearney included administrative projects in its overall count of projects in the report. However, because NDF included administrative activities in the list of projects that it provided to Kearney for testing purposes, OIG believes it is appropriate to include these

activities in the number of projects being performed by NDF. Kearney has noted in the report that the number of projects discussed included administrative projects.

Finding C. Data Integrity and Reporting Capabilities Need Improvement To Produce Auditable Financial Reports

Kearney found that FIMS contained accurate and complete information on the funds received, including appropriations, donations, and the amounts approved for each project. However, the integrity of other data in FIMS was often not sufficient to prepare accurate financial reports for external users. Specifically, obligations and expenses were not always accurately, completely, or timely recorded in FIMS. The discrepancies occurred primarily because of the lack of clear policies and procedures for recording obligations and expenses in FIMS. The discrepancies were not detected and corrected because of the lack of a formal, periodic reconciliation process. Further, Kearney found that donated funds were not clearly segregated by donor country in contractual documents and that FIMS reporting capabilities were limited. Because of the inaccurate data in FIMS and the limitations of the current FIMS reports, Kearney concluded that FIMS was unable to produce financial reports that could be successfully audited.

Kearney also found that, although NDF had implemented some application security controls for FIMS, the controls were not adequate. Specifically, NDF did not have a comprehensive application security plan in place, application changes were not adequately reviewed, the system administrator had the ability to alter financial data, and NDF had not formally approved or implemented the draft contingency plan it developed for FIMS. Without adequate application level controls, unauthorized changes to FIMS could be migrated into production and incorporated into the FIMS configuration baseline. Further, unauthorized changes may alter the processing of financial data and compromise the integrity and reliability of that data. As a result, data may be lost, and extended down time may be necessary to recover the data.

Funds Received Were Accurately, Completely, and Timely Recorded in FIMS

Kearney found that NDF accurately recorded in FIMS the funds received from appropriations and donations and the amounts approved for each project. Appropriated funds are recorded in GFMS and provided to NDF through advices of allotment. NDF records appropriations in FIMS at the allotment level. Donated funds are recorded in GFMS by entering a specific fund symbol and in FIMS by entering the applicable country. NDF records the amount of funds approved by Congress for each project in FIMS by project number.

To test the accuracy and completeness of the appropriations recorded in FIMS, Kearney obtained the appropriation legislation for FYs 2009–2012 and identified the amount made available to NDF for each of those fiscal years. Kearney compared the amounts in FIMS to the amounts in the appropriation legislation and identified no differences.

To test the accuracy and completeness of the donations recorded in FIMS, Kearney obtained a copy of the MOU for each donor country and documentation of the deposits of funds received from each donor country in FY 2011. Kearney compared the donated amounts recorded in FIMS to the amounts listed in the MOUs, as well as to the amounts deposited, and identified no differences.

To test the accuracy of the project funding recorded in FIMS, Kearney obtained the CNs for the 15 selected projects. Kearney compared the project funds recorded in FIMS to the amounts in the CNs for the 15 projects and identified no differences. To test the completeness of the project funding recorded in FIMS, Kearney obtained a report containing all CNs since 2007 from the Bureau of Legislative Affairs Document Tracking Log System. Kearney identified all NDF-related CNs, mapped each NDF project to the corresponding CN, and compared the project funding in FIMS to the CN. Kearney identified no differences. Kearney also determined that NDF recorded project funding in a timely manner by comparing the date the funding was recorded in FIMS to the date of the CN for seven of 15 projects.[13] Funding for all seven projects was recorded within 15 days after the expiration of the deadline allowed for congressional rejection of the CN.

Obligations and Expenses Were Not Always Accurately, Completely, or Timely Recorded in FIMS

Although funding was accurately, completely, and timely recorded, Kearney found that obligations and expenses recorded in FIMS were not always accurately, completely, or timely recorded. Specifically, obligation amounts in FIMS were not always supported, estimated obligations recorded in FIMS were not updated with actual obligation information in a timely manner, and some obligations in GFMS were not recorded in FIMS. Although expenses recorded in FIMS were accurate, they were not recorded in a timely manner, and some expenses were not recorded in FIMS at all.

Obligations

Kearney found that obligations recorded in FIMS were not always accurate, complete, or timely. Obligations are definite commitments that create a legal liability of the Government for payment. An agency should record an obligation "only when supported by documentary evidence" of "a binding agreement between an agency and another person (including an agency)."[14] An obligation should also be recorded, even in the absence of a binding agreement, if it is likely that there will be future outlays, and there is a reasonable estimate of the amount. NDF records obligation estimates in FIMS based upon procurement requests. NDF identifies these obligations as estimates by using an indicator "flag" in FIMS. When NDF establishes

[13] This test was limited to seven of 15 selected projects because the remaining eight projects were funded prior to implementation of the current version of FIMS. For these projects, FIMS shows the system implementation date as the date funding was recorded and not when it was initially recorded in the previous version of FIMS.

[14] 31 U.S.C. § 1501, "Documentary Evidence Requirement for Government Obligations."

formal obligations, such as a contract or purchase order, the actual amount of the obligations should be entered and the estimate "flag" removed.

Kearney tested 140[15] obligations, totaling $138 million, recorded in FIMS to determine the accuracy and timeliness of the obligation amounts. As detailed in Table 6, Kearney identified 29 errors.

Table 6. Errors in Recording Obligations

Finding	Number of Obligations	Gross Impact to Obligation Balance in FIMS	Net Impact to Obligation Balance in FIMS
The obligation recorded in FIMS was not supported by documentation; therefore, the amount could not be verified.	17	$647,000	$647,000
The obligation amount recorded in FIMS did not agree to the amount in the obligating document.	7	236,000	234,000
The obligation amount initially recorded in FIMS did not agree to the amount in the obligating document. NDF eventually corrected the amount.[16]	5	8,720,000	0
Total	**29**	**$9,603,000**	**$881,000**

Source: Prepared by Kearney based on the results of its tests of obligations.

An additional nine obligations, each for less than $15,000, were recorded based on e-mail communications without a formal obligating document. Although Kearney accepted the e-mails as support for the amounts obligated, Kearney notes that NDF may want to develop a more formal process regarding these low dollar obligations to ensure they are appropriately recorded.

Kearney tested the timeliness with which 70[17] obligations were recorded in FIMS and the estimate "flag" was removed. Of 70 obligations, Kearney identified 52 obligations, totaling $68.9 million, in which the estimate "flag" was removed between 16 and 803 days after the

[15] The planned sample size for testing was 180 obligations, totaling $133.6 million. However, the actual sample size was less because the 180 items included deobligations, which were not substantively tested.

[16] Kearney noted that the estimated and actual amounts recorded for these obligations, which changed over the life of the obligation, did not agree with the documentation supporting the obligations, and no reasonable explanation for the discrepancies was provided. Although corrected by NDF prior to this audit, the discrepancies are indicative of a weakness in the controls over recording obligations.

[17] This test was limited to 70 of 140 FIMS obligations tested because the other obligations were recorded prior to implementation of the current version of FIMS. For these obligations, FIMS shows the system implementation date as the date the obligations were recorded and not when the obligations were initially recorded in the previous version of FIMS.

actual obligation was executed. The average time between executing the obligation and removing the "flag" for these 52 obligations was 163 days. Kearney also identified three obligations, totaling $5.5 million, in which the estimate "flag" was either never used or was removed before the actual obligation was executed.

Kearney also identified instances in which the obligation amount in FIMS did not match the obligation amount in GFMS. Kearney judgmentally selected 12 NDF ULOs in GFMS totaling $131 million, which accounted for more than 90 percent of NDF's ULO population at the time of this audit. For these 12 obligations, Kearney reconciled the amounts recorded in FIMS to the amounts recorded in GFMS. The amount in FIMS for three of 12 obligations did not agree with the amount obligated according to GFMS. The difference for the three obligations was $1.6 million.

Expenses

Kearney found that the expenses recorded in FIMS were accurate; however, some expenses were not recorded, and recorded expenses were not documented in a timely manner. An expense is an "outflow or other using up of resources," the benefits from which "apply to an entity's operations for the current accounting period, but do not extend to future periods."[18] From FIMS, Kearney selected a sample of 262 expense transactions, totaling $52 million, to test for accuracy. Kearney compared the amount of the expense in FIMS to the invoice amount and found that the 262 expenses were recorded accurately.

Kearney tested the timeliness with which 115[19] expense transactions were recorded in FIMS. Of 115 transactions, Kearney identified 45 transactions, totaling $16.7 million, in which the expense was recorded more than 15 days after the invoice was approved for payment. For these 45 transactions, the average time between the date the invoice was approved and the date the expense was recorded in FIMS was 87 days. In one instance, the expense was not recorded in FIMS until 371 days after the invoice was approved for payment. Kearney also identified eight instances, totaling $2.2 million, in which expenses were recorded in FIMS prior to the invoices being approved for payment. NDF's Finance Officer enters expenses into FIMS. The process of recording expenses in FIMS is manual, and it requires a significant amount of the Finance Officer's time. Kearney noted that NDF has three Finance Officer positions, but at the time of this audit, one of the positions was vacant and one Finance Officer had been detailed to another office since January 2009. The one current Finance Officer has other responsibilities, and the entry of invoices is not always considered the highest priority.

To test the completeness of the expense transactions recorded in FIMS, Kearney selected 45 expenses from GFMS and compared the amount reported in GFMS for each expense to the amount in FIMS. Of 45 sampled transactions, 15 expenses, with a net impact of $537,000, were

[18] Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

[19] This test was limited to 115 of 262 FIMS expenses tested because the other expenses were recorded prior to implementation of the current version of FIMS. For these expenses, FIMS shows the system implementation date as the date the expense was recorded and not when it was initially recorded in the previous version of FIMS.

not recorded in FIMS. The majority of these expenses were for PSC salary payments, which were made by another office in the Department. NDF is not aware of these payments when they are made.

The obligation and expense data in FIMS is used by NDF personnel on a daily basis. According to the Government Accountability Office's Standards for Internal Control in the Federal Government, "transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions…. In addition, control activities help to ensure that all transactions are completely and accurately recorded." The errors in obligations and expenses in FIMS occurred because NDF did not have sufficient policies or procedures regarding the recording of obligations, particularly miscellaneous obligations, or expenses.

Further, these errors were not identified and corrected in a timely manner because NDF's process of comparing data in FIMS to GFMS is manual, not formalized, and not performed on a timely basis. NDF's goal is to work with the Department to develop a process to export data from GFMS and import the data to FIMS. Until that is possible, NDF could improve its method for reconciling FIMS to GFMS by developing a report in FIMS that shows the status of all obligations and comparing the amount in FIMS to the Status of Funds report from GFMS's Data Warehouse. NDF could develop a tool or template in Excel to facilitate this comparison. For certain obligations, the Excel template would need to link the FIMS obligation numbers to the corresponding unique identifiers in GFMS.

When errors, such as incorrect obligations and expenses, occur in FIMS and are not corrected in a timely manner and when estimated obligations are not distinguished from actual obligations, FIMS provides incorrect information to PMs and other users of FIMS. For example, as of the beginning of FY 2012, GFMS showed that NDF had $72 million more in available funds for obligations than was reported in FIMS.

Recommendation 11. OIG recommends that the Nonproliferation and Disarmament Fund improve its policies and procedures for recording obligations and expenses in the Financial and Information Management System (FIMS) by developing, at a minimum:

a) Clarification on the documentation required to record an obligation, especially miscellaneous obligations.
b) Instructions on the proper use of the estimate "flag."
c) A standard for an acceptable time between the approval of an expense transaction and its entry into FIMS.

Management Response: NDF concurred with this recommendation, stating that it would include a "checklist for obligation supporting documentation" in the Project Manager Users Guide. NDF also planned to "build a tool to compare GFMS and FIMS, when and if GFMS downloads are available." Further, NDF planned to include a process for the "estimated flag" in its internal policies and enhance FIMS by developing "automated periodic reconciliation processes."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed and implemented improved policies and procedures for recording obligations and expenses in FIMS.

Recommendation 12. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement policies and procedures for reconciling financial data in the Financial and Information Management System to the financial data in the Global Financial Management System on a periodic basis, including requirements for documenting and reviewing the reconciliation.

Management Response: NDF concurred with this recommendation, stating that it agrees that it "should improve the reconciliation process before the final project closeout." However, NDF stated that because of staff limitations and lack of automated data from GFMS, the "reconciliation between GFMS and FIMS is a manual process subject to priorities of workload." NDF stated that it will explore the possibility of enhancing FIMS to allow for "automated periodic reconciliation processes."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed and implemented policies and procedures for reconciling the financial data in FIMS to GFMS.

Donated Funds Should Be More Clearly Identifiable in Contractual Documents

In FY 2012, NDF received more than $5.9 million in donations from other countries to execute an ongoing project in Libya. As a condition of receiving these funds, the United States agreed to keep separate records and accounts for the funds donated. Kearney found that the donated funds received were accounted for separately by donor in FIMS and GFMS. In addition, NDF records obligations and expenses against the donated funds by country in FIMS, enabling NDF to account for the funds received from each country.

Although the funds, when received, are recorded separately in FIMS and GFMS, Kearney found that three of four donor countries' funds were included in the same CLIN under one contract. Within each CLIN there is a separate requisition funded by a specific donation identifiable by the allotment code, and the contractor is aware of this breakout. However, the requisition is not easily identifiable in GFMS, and NDF must rely upon the contractor to allocate funds to the proper donor country. This occurred because the contract for the ongoing project using donated funds was negotiated by A/LM/AQM based upon the request of another office within the Department. If NDF had been responsible for initiating the procurement request, it could have ensured that a better tracking mechanism for donated funds was included in the contract.

Recommendation 13. OIG recommends that the Nonproliferation and Disarmament Fund (NDF) develop policies regarding the responsibility of NDF in the contracting process when donated funds are used.

Management Response: NDF concurred with this recommendation, stating that it "only receives donor funds on a project-specific basis, and each project will have unique contractual requirements." Therefore, NDF will develop appropriate modalities on a "case-by-case basis." In addition, NDF stated that it would add procedures to the "FIMS Quick Reference Guide." Further, NDF stated that donated fund "reports are being enhanced and developed in FIMS to include funds, obligations, expenditures, and available balances from the projects."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed policies related to identifying donated funds in the contracting process.

FIMS Reporting Capabilities are Limited

Kearney found that the existing reporting function within FIMS did not have the capability to produce useful and timely reports for donor countries. The majority of the standard FIMS reports are financial reports that provide a project's obligations, expenses, and ULOs. Appendix C provides a sample of the standard reports that FIMS produces and the information included in each report. Kearney concluded that the standard reports generated by FIMS were insufficient to fulfill donor requirements for reliable and complete financial reports. Specifically, FIMS does not currently have the ability to:

- Produce reports as of a historic point in time or for a particular period of time.
- Track changes to or the deletion of expense transactions or produce a report showing those changes.
- Show the amount of an obligation in the Obligation History Report when an obligation is created.
- Distinguish between estimated and actual obligation amounts in reports.
- Produce reports showing the project's progress or performance.

The MOUs with the donor countries all require regular financial reporting on the use of the funds. For example, the MOU between the United States and one donor country requires the Department to provide "monthly reports on the progress of the … funded projects and activities…. The reports are to contain an overview of the projects and activities and a financial accounting showing how the funds provided … have been allocated and used."

When FIMS was designed in 2008, NDF anticipated using the system primarily for internal monitoring of its budgetary resources. Operational and regulatory requirements have expanded since the system was designed, but FIMS had not been fully updated to meet the increased requirements, including the requirements for external reporting and independent audits. Kearney noted that NDF had the ability to meet donor country reporting requirements by manually compiling the information from the information contained in GFMS, FIMS, and bureau cuff records.

Recommendation 14. OIG recommends that the Nonproliferation and Disarmament Fund (NDF) identify end-users reporting needs and modify the Financial and Information Management System (FIMS) to meet the reporting needs identified. If NDF determines that it would not be cost-effective to modify FIMS to address certain end-user reporting needs, NDF should document the rationale for making this decision and develop a formal process for manually preparing the required reports.

Management Response: NDF concurred with this recommendation, stating that it agreed to "develop a plan to identify end-user reporting needs." However, NDF stated that it would be able to use the current FIMS functionality to address the recommendation and that "modifying FIMS to meet the reporting needs" may take more time.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has determined end-user reporting needs and has implemented processes to meet those needs.

Inaccurate Data and Limitations of FIMS Reports Make Successful Audits of Financial Reports From FIMS Unlikely

Because of the inaccurate data in FIMS and the limitations of the FIMS reports, Kearney concluded that FIMS is currently unable to produce financial reports that could be successfully audited. NDF's ultimate goal is to be able to produce auditable financial reports for donors or other interested parties using data in FIMS.

Because the Department does not adequately segregate donations by country in its contracting documents, there is limited visibility over the status of the funds and an increased risk that the contractor performing the project for which the funds were donated may not sufficiently report cost by donation. In addition, because some of the data in FIMS is inaccurate, NDF may not have an accurate picture of the financial position of the fund, and any decisions made using the FIMS data may be flawed.

In order to provide financial reports to donor countries, NDF must manually produce the reports using data from different sources, which increases the likelihood of errors. If NDF were unable to comply with the expectations of donor countries to provide accurate and timely financial reports, countries may be unwilling in the future to provide additional funds to carry out other nonproliferation projects.

FIMS Application Level Controls Need Improvement

Kearney found that NDF had implemented some controls to protect the data stored in FIMS. Specifically, NDF implemented a process to ensure that sensitive information is not entered in FIMS, established user access and segregation of duties controls, maintained an audit log to record changes made to FIMS, and developed a draft contingency plan. However, NDF had not implemented certain application level controls. Specifically, NDF did not have a comprehensive application security plan, the system administrator had the ability to alter

financial data, controls over changes made to the application were not sufficient, and the draft contingency plan was not formally approved or implemented.

NDF has mitigated the risks associated with putting Department financial and project information online by ensuring that no sensitive data is entered into FIMS. NDF does not include classified, sensitive but unclassified, proprietary, or personally identifiable information in FIMS. NDF had assigned an IT support specialist to review documents to verify that the documents are not sensitive or classified before the documents are scanned into FIMS. However, NDF did not have a comprehensive application security plan in place. According to the National Institute of Standards and Technology[20] (NIST), the purpose of the system security plan is to "provide an overview of the security requirements of the system and describe the controls in place or planned for meeting those requirements. The system security plan also delineates responsibilities and expected behavior of all individuals who access the system."

NDF had implemented user access and segregation of duties controls and had documented the user roles and profiles for staff with FIMS access. User roles and profiles determine the user's ability to read, create, edit, delete, view, and modify information in FIMS. Kearney reviewed all of the user roles and profiles, including those for the PMs and the Finance Officer, and determined that the access rights associated with most user roles and profiles were appropriate. However, Kearney found that the system administrator had the ability to alter financial data. According to NIST standards,[21] an organization should employ "the concept of least privilege, allowing only authorized accesses for users (and processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions."

NDF had established a Requirements Management Team to represent the interests of PMs and the Comptroller when changes to FIMS are being considered. The Requirements Management Team reviews FIMS change requests, makes recommendations for approval by the NDF Director, and communicates decisions to the affected groups and individuals. In addition, FIMS uses an audit log in which changes to the application are recorded. For example, changes to the access rights of a user profile and the creation of a field or addition of a new user were logged. The audit log was maintained for 6 months by Salesforce. Although the audit log recorded changes to the application, the changes were not reviewed by an individual without change authority to ensure that only the changes reviewed by the Requirements Management Team and approved by the NDF Director were made. NIST standards[22] require agencies to manage configuration changes to the information system using an organizational process (e.g., a chartered Configuration Control Board). Configuration change control involves "the systematic proposal, justification, implementation, test/evaluation, review, and disposition of changes to the system, including upgrades and modifications." NDF should consider requiring all application

[20] NIST Special Publication 800-18, rev. 1, "Guide for Developing Security Plans for Federal Information Systems."
[21] NIST Special Publication 800-53, rev. 3, "Recommended Security Controls for Federal Information Systems and Organizations."
[22] Ibid.

changes to be reviewed by an individual without change authority to ensure that the changes were executed in accordance with the NDF review and approval process.

NDF had developed a draft contingency plan, but the plan had never been formally approved or implemented. NIST standards[23] require organizations to develop, disseminate, and periodically review "a formal, documented, contingency planning policy that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance" and "formal, documented procedures to facilitate the implementation of the contingency planning policy and associated contingency planning controls."

Without adequate application level controls, unauthorized changes to FIMS could be migrated into production and incorporated into the FIMS configuration baseline, which may alter the processing of financial data and compromise the integrity and reliability of the data. In the event of a power outage because of an external environmental factor, such as a natural disaster, a system failure may occur. Without a formal, approved contingency plan, data may be lost, and recovery efforts may result in extended down time.

Recommendation 15. OIG recommends that the Nonproliferation and Disarmament Fund prepare a comprehensive system security plan for the Financial and Information Management System.

Management Response: NDF concurred with this recommendation, stating that it was "working on the accreditation and certification process." In addition, NDF stated that it is modifying the current contract for FIMS services "to add funding for the system security plan."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed a comprehensive system security plan.

Recommendation 16. OIG recommends that the Nonproliferation and Disarmament Fund review the permissions of all Financial and Information Management System users and verify that their access privileges are consistent with their assigned job functions and responsibilities.

Management Response: NDF concurred with this recommendation.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has reviewed and verified the access privileges of FIMS users.

[23] Ibid.

Recommendation 17. OIG recommends that the Nonproliferation and Disarmament Fund assess its current change control process for the Financial and Information Management System and determine whether additional reviews are required.

Management Response: NDF concurred with this recommendation.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has assessed its current change control process.

Recommendation 18: OIG recommends that the Nonproliferation and Disarmament Fund finalize and implement its contingency plan for the Financial and Information Management System.

Management Response: NDF concurred with this recommendation, stating that its current information technology contract "includes a provision for a contingency plan in FIMS." NDF stated that the "Disaster Recovery and Data Backup services," which are provided by SalesForce, have "been shown to satisfy NIST standards in regards to the prevention of loss of data."

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed a contingency plan for FIMS.

List of Recommendations

Recommendation 1. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a standardized procedure to help ensure compliance with contract initiation and modification documentation and approval requirements.

Recommendation 2. OIG recommends that the Nonproliferation and Disarmament Fund improve the invoice approval process to ensure that project managers receive and maintain the appropriate documentation to support their certification of the receipt of goods or services.

Recommendation 3. OIG recommends that the Nonproliferation and Disarmament Fund develop an internal process to review unliquidated obligations on a periodic basis and to validate the quarterly list of unliquidated obligations provided by the Bureau of the Comptroller and Global Financial Services in a timely manner.

Recommendation 4. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a formal process to close out contracts in a timely manner.

Recommendation 5. OIG recommends that the Nonproliferation and Disarmament Fund develop a process to formally document the projects for which the "notwithstanding authority" is used, including when it is invoked to override portions of the Federal Acquisition Regulation.

Recommendation 6. OIG recommends that the Nonproliferation and Disarmament Fund identify key project management controls and implement a policy to require compliance with these key controls.

Recommendation 7. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement policies regarding the use of the Financial and Information Management System (FIMS) for project management and, to the extent possible, add controls to FIMS that require the completion of key fields.

Recommendation 8. OIG recommends that the Nonproliferation and Disarmament Fund (NDF) identify the key project management activities for NDF projects and develop a plan to modify Financial and Information Management System (FIMS) capabilities to support these activities. If NDF determines that it would not be cost effective to upgrade FIMS, NDF should develop and implement a formal process to perform and document these key project management activities outside of FIMS.

Recommendation 9. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement procedures to ensure that documentation maintenance and retention policies are followed consistently.

Recommendation 10. OIG recommends that the Nonproliferation and Disarmament Fund develop a standard timeframe for closing out projects and implement a policy to ensure standard timeframes for project closeouts are met or the reasons for delays documented.

Recommendation 11. OIG recommends that the Nonproliferation and Disarmament Fund improve its policies and procedures for recording obligations and expenses in the Financial and Information Management System (FIMS) by developing, at a minimum:

a) Clarification on the documentation required to record an obligation, especially miscellaneous obligations.
b) Instructions on the proper use of the estimate "flag."
c) A standard for an acceptable time between the approval of an expense transaction and its entry into FIMS.

Recommendation 12. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement policies and procedures for reconciling financial data in the Financial and Information Management System to the financial data in the Global Financial Management System on a periodic basis, including requirements for documenting and reviewing the reconciliation.

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Recommendation 14. OIG recommends that the Nonproliferation and Disarmament Fund (NDF) identify end-users reporting needs and modify the Financial and Information Management System (FIMS) to meet the reporting needs identified. If NDF determines that it would not be cost-effective to modify FIMS to address certain end-user reporting needs, NDF should document the rationale for making this decision and develop a formal process for manually preparing the required reports.

Recommendation 15. OIG recommends that the Nonproliferation and Disarmament Fund prepare a comprehensive system security plan for the Financial and Information Management System.

Recommendation 16. OIG recommends that the Nonproliferation and Disarmament Fund review the permissions of all Financial and Information Management System users and verify that their access privileges are consistent with their assigned job functions and responsibilities.

Recommendation 17. OIG recommends that the Nonproliferation and Disarmament Fund assess its current change control process for the Financial and Information Management System and determine whether additional reviews are required.

Recommendation 18. OIG recommends that the Nonproliferation and Disarmament Fund finalize and implement its contingency plan for the Financial and Information Management System.

Appendix A

Scope and Methodology

In February 2012, the Nonproliferation and Disarmament Fund (NDF) requested a performance audit to assess the design and effectiveness of the contracting and project management control environments and to evaluate the integrity of the data in its Financial and Information Management System (FIMS) and its ability to produce auditable reports. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General, performed this audit.

Kearney conducted this performance audit from March–July 2012 in Washington, DC. Kearney planned and performed the audit in accordance with performance audit requirements in the Government Accountability Office's Government Auditing Standards: 2011 Revision. These standards required Kearney to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions. The sufficiency and appropriateness of evidence needed and tests of evidence related directly to the objectives and scope of the audit. Kearney believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

To obtain background information for this audit, Kearney researched and reviewed the Federal Acquisition Regulation, the Department of State Acquisition Regulation, and Federal appropriations law. Kearney reviewed industry standards relating to project management, such as those developed by the Project Management Institute in the Project Management Body of Knowledge. Kearney also reviewed standards for internal control, as it relates to information systems, as documented by the National Institute of Standards and Technology (NIST).

Kearney met with NDF personnel and contractors to obtain an understanding of NDF's processes related to contracting and project management and to obtain an understanding of the current use of FIMS. Kearney also met with personnel from Acumen, the vendor responsible for designing and maintaining FIMS, to obtain an understanding of the configuration of the system. Kearney reviewed the Memorandums of Understanding between the United States and the various countries that have donated funds to support the implementation of NDF's project in Libya. Meetings were held with individuals outside NDF to assist Kearney in identifying the risks related to NDF's project management and contracting processes.

Based upon its preliminary work, Kearney divided the contracting process review into five subprocesses: contract initiation, contract modification, invoice approval, contract closeout, and unliquidated obligation (ULO) monitoring. Kearney identified the risks within each of these subprocesses and the controls in place to address those risks. Findings were noted when identified risks were not mitigated by controls. To assess control design, Kearney reviewed documentation for all the contracts within one project. Additionally, Kearney reviewed all ULOs without activity since July 2011 and inquired as to their validity to assess the design of the ULO monitoring controls. For all controls found to be designed effectively, Kearney developed procedures to test the operation of these controls. (See the Detailed Sampling Methodology section in this appendix for additional information on sample selection.) Controls that were

found to be ineffectively designed, such as the ULO monitoring control, were not tested and findings were noted.

Kearney noted during its preliminary work that formal control processes regarding project management had not been mandated by the NDF. Kearney sought to determine whether NDF's informal project management process addressed all key aspects of project management as articulated by industry standards. Therefore, Kearney planned procedures to review documentation to determine whether these key aspects were met. Specifically, Kearney assessed the documentation of the scope, budget, and timeline of the project; the support for and documentation of changes to the scope, budget, and timeline of the project; the identification and tracking of project issues; the identification of project risks; and the monitoring of the project. Kearney obtained three listings of projects (active, closed, and closing) from FIMS as of April 24, 2012. The active projects were considered to be most relevant to the objectives of the audit. Based upon planning discussions, Kearney learned that certain high-profile projects were in the closed or closing status. Therefore, Kearney included these projects when selecting samples for control testing. (See the Detailed Sampling Methodology section in this appendix for additional information on sample selection.)

Based upon its preliminary work, Kearney determined the key data fields in FIMS to address the audit objectives. Specifically, Kearney concluded that overall funding (Appropriations and Donations), project funding (congressional notifications), obligations, and expenses were key data fields for the audit. Kearney performed procedures to determine the accuracy and completeness of the data recorded in FIMS. For appropriations, the amounts recorded since 2009 were traced and agreed to the appropriation legislation. For donations, the current balance was agreed to wire transfer documentation. The completeness of new project funding was tested by tracing all projects begun since 2007 to FIMS. For the other fields, Kearney validated the amounts by performing substantive tests. When possible, control samples were leveraged for these procedures; otherwise, new samples were selected from either FIMS or the Department's Global Financial Management System (GFMS). (See the Detailed Sampling Methodology section in this appendix for additional information on sample selection.) Kearney also reviewed the reporting capabilities in FIMS and compared them to internal and external end-user needs.

In order to draw conclusions regarding data integrity and reporting capabilities, it was necessary to determine whether the information technology control environment was sufficient. Kearney identified the applicable aspects of NIST and performed procedures to assess the controls.

Use of Computer-Processed Data

The audit team used computer-processed data from the Department during this audit. Kearney obtained listings of projects from FIMS. Kearney selected a sample of projects and tested the project funding amounts reported in FIMS. For each project Kearney obtained a listing of the obligations and related expenses. Kearney tested these fields during fieldwork. Issues identified are detailed in the Audit Results section, Finding C. Additionally, Kearney obtained FY 2011 expense information from GFMS and a listing of ULOs from the GFMS

reporting tool Data Warehouse. The Department has controls in place to ensure that the expenses recorded in GFMS are accurate and complete. Kearney is comfortable using GFMS to obtain a population of transactions for sampling. Kearney has performed procedures to verify that the listing of ULOs from the GFMS Data Warehouse as part of the FY 2012 Financial Statement audit and has concluded that the listing is sufficiently reliable for sample selection purposes.

Work Related to Internal Controls

Kearney performed steps to assess the adequacy of internal controls related to the areas audited. Specifically, Kearney gained an understanding of and tested the controls over contract management, project management, and the integrity of data in FIMS. Work performed on internal controls during the audit is detailed in the Audit Results section of the report.

Detailed Sampling Methodology

The sampling objectives were to determine

- whether the controls identified by Kearney as effectively designed for contract initiation, contract modification, vendor invoice approval, travel expense approval, and contract closeout were functioning as designed;
- whether NDF's informal project management process addressed key aspects of project management as articulated by industry standards;
- the accuracy of the project funding, obligation, and expense data recorded in FIMS; and
- the completeness of the obligation and expense data recorded in FIMS.

Identification of Universes

Several universes (or populations) were utilized to aid in determining samples for testing. However, the starting point from which most of the sampling and concomitant testing emanated from was the universe of NDF projects, which are categorized as active, closing, or closed in Table 1.

Table 1. Financial and Information Management System Project Universe

Status	Number of Projects	Dollar Value of Projects
Active	46	$322,716,955
Closing	43	104,669,996
Closed	103	107,636,759
Total	**192**	**$535,023,710**

Source: Prepared by Kearney based on FIMS data.

The FIMS universe of obligation and expense transactions was not readily available for control and accuracy testing. However, Kearney was able to obtain a listing of all obligation and expense transactions for the selected projects to facilitate sample selection and testing.

To obtain the universe of NDF's current ULOs for completeness testing, Kearney obtained the ULO Database as of March 31, 2012, from the GFMS Data Warehouse. The Database included all ULOs across the Department. Therefore, to obtain the NDF universe, Kearney identified all ULOs recorded for NDF.[1] Kearney summarized the ULOs by obligation number and established date. Summarized in this manner, there were 98 NDF ULOs as of March 31, 2012, totaling approximately $144 million, as shown in Table 2.

Table 2. Global Financial Management System Universe of Unliquidated Obligations

Count	Obligated	Spent	Available
98	$143,454,609	$73,695,867	$69,758,742

Source: Prepared by Kearney based on GFMS data.

To obtain the universe of expense transactions recorded in GFMS for completeness testing, Kearney obtained the GFMS Detail Extraction Report from the GFMS Data Warehouse as of June 5, 2012. The detail covered the period from October 1, 2011, to April 30, 2012. There were 623 expense transactions, totaling approximately $70 million in gross expenses, related to NDF, as shown in Table 3.

Table 3. Global Financial Management System Universe of Expense Transactions

Count	Gross Impact to Expenses[2]	Net Impact to Expenses
623	$70,361,665	$20,702,397

Source: Prepared by Kearney based on GFMS data.

Selection of Samples for Testing

Kearney predominately used a nonstatistical sampling method known as judgment sampling throughout this audit, and this included selecting the projects for review from the primary universe utilized in this audit. Because this method uses discretionary criteria to effect sample selection, the audit team was able to use information from its preliminary work to aid in making informed selections for testing.

[1] The treasury symbols 1911_X1075.0 and 1911X1071.0 are unique to the NDF. Therefore, these were used to isolate the population.

[2] The gross impact to expenses shows the absolute value of the transactions recorded. Therefore, increases and decreases are both treated the same when calculating this amount. When calculating the net impact, increases are offset by decreases recorded.

In selecting the projects for testing, Kearney focused on active projects with the largest dollar value. In addition, Kearney targeted recently closed projects and one project currently in the process of being closed out. As shown in Table 4, Kearney selected 15 projects for testing or about 8 percent of 192 total projects, which encompassed approximately 36 percent of the total dollar value of all NDF projects.

Table 4. Financial and Information Management System Projects Selected for Testing

Project Number	Status in FIMS	Total Funding
NDF-236	Closed	$234,205
NDF-240	Closed	950,000
NDF-253	Closed	554,000
NDF-256	Closed	1,000,000
NDF-263	Closing	25,000,000
NDF-270	Closed	179,330
NDF-272	Active	20,000,000
NDF-273	Active	10,000,000
NDF-274	Active	25,000,000
NDF-285	Active	12,625,000
NDF-288	Active	26,000,000
NDF-292	Active	17,000,000
NDF-294	Active	16,000,000
NDF-295	Active	34,300,000
NDF-915	Active	2,500,000
Total		**$191,342,535**

Source: Prepared by Kearney based on FIMS data.

After selecting a sample of projects, Kearney conducted various tests to accomplish the sampling objective. Areas of testing included the project management process; the accuracy of project funding; controls over contract initiation, modification, and closeout; the accuracy of obligation transactions; controls over vendor invoice and travel expense approval; and the accuracy of expense transactions. The testing of the project management process and the accuracy of project funding are at the project level; therefore, additional procedures were not necessary to identify the transactions for testing.

For each of the 15 selected projects, Kearney first identified the project status in FIMS (i.e., active, closing, and closed) and the associated number of contract initiations, modifications and closeouts. For all active projects, contract initiations, modifications, and closeouts were

reviewed if applicable. However, Kearney excluded the contract initiations and modifications related to closing and closed projects because NDF did not maintain the presolicitation files required for initiation and modification testing for these projects. Also, Kearney noted that contracts within closing and closed projects were executed prior to the formalization of the NDF contracting controls. Table 5 provides a summary of the transactions identified for tests of initiation, modification, and closeout controls. All transactions that were identified were tested.

Table 5. Financial and Information Management System Contract Transactions for the Sampled Projects

Project Number	Status in FIMS	Contract Initiations	Contract Modifications	Contract Closeouts
NDF-236	Closed	*	*	1
NDF-240	Closed	*	*	2
NDF-253	Closed	*	*	0
NDF-256	Closed	*	*	2
NDF-263	Closing	*	*	4
NDF-270	Closed	*	*	1
NDF-272	Active	6	5	0
NDF-273	Active	5	2	3
NDF-274	Active	1	3	1
NDF-285	Active	0	0	0
NDF-288	Active	0	0	0
NDF-292	Active	0	1	0
NDF-294	Active	0	0	0
NDF-295	Active	6	2	0
NDF-915	Active	6	4	0
Various†	N/A	4	N/A	N/A
Total		**28**	**17**	**14**

Source: Prepared by Kearney based on FIMS data and review of documentation supporting transactions.
*This symbol denotes that Kearney did not review contract initiations and modifications for closing and closed projects; NDF did not maintain the files required for this testing.
†In addition to the projects identified in Table 5, for each contract modification identified within the population, Kearney ensured that the initial contract was also tested. In certain instances the initial contract was recorded under a different project number. When this occurred, Kearney added the contract to the list of items for testing.

To test the accuracy of obligations in FIMS, Kearney obtained all the nontravel obligations recorded in FIMS[3] for each of the 15 selected projects, as shown in Table 6. For each obligation, Kearney obtained supporting documentation and determined whether the amount was accurately recorded in FIMS.

Table 6. Financial and Information Management System NonTravel Obligations for the Sampled Projects

Project Number	Number of Obligations	Amount
NDF-236	5	$215,523.31
NDF-240	11	899,242.82
NDF-253	2	514,000.00
NDF-256	7	899,300.00
NDF-263	11	19,366,315.59
NDF-270	3	$167,930.00
NDF-272	35	21,617,303.77
NDF-273	20	9,584,950.41
NDF-274	7	1,062,107.87
NDF-285	1	12,625,000.00
NDF-288	2	25,500,000.00
NDF-292	2	3,164,376.35
NDF-294	1	16,000,000.00
NDF-295	15	24,757,262.47
NDF-915	18	1,680,849.64
Total	**140**	**$138,054,162.23**

Source: Prepared by Kearney based on FIMS data.

To test controls related to vendor invoices and travel expenses and the accuracy of expense transactions in FIMS, Kearney divided the non-PSC expense transactions[4] for each project selected between vendor invoices and travel expenses, as shown in Table 7. For each tested vendor invoice transaction, Kearney obtained supporting documentation for the effectiveness of the expense approval controls. For each tested travel expense transaction, Kearney reviewed supporting documentation to verify the travel payment was properly

[3] Kearney excluded travel obligations from this accuracy testing; the accuracy of these obligations was covered through completeness procedures. Kearney also excluded deobligations because it was not considered necessary to test the accuracy of these transactions.

[4] Kearney excluded PSC expense transactions from testing because these payments are not processed by NDF; therefore, they are not subject to NDF's control environment. Moreover, NDF would not have the supporting documentation required to substantiate the accuracy of the payments.

approved. Both vendor invoice and travel transactions were tested to ensure the amount recorded in FIMS matched supporting documentation. Kearney tested all the non-PSC expense transactions for all 15 of the selected projects with the exception of projects NDF-272 and NDF-273. Because of the extensive volume of transactions for these two projects, Kearney randomly sampled instead. Specifically, Kearney sampled and tested 102 transactions, totaling $2,903,292, of 373 transactions, totaling $14,638,238, for NDF-272 and 18 transactions, totaling $4,667,255, of 75 transactions, totaling $4,426,370, for NDF-273.

Table 7. Financial and Information Management System Non-Personal Services Contractor Expense Transactions for the Sampled Projects

Project Number	Non-PSC Expense Transactions Tested					
	Vendor Invoices		Travel Expenses		Total Tested	
	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount
NDF-236	15	$215,023	5	$9,184	20	$224,207
NDF-240	15	886,807	5	7,381	20	894,188
NDF-253	2	220,818	0	0	2	220,818
NDF-256	10	805,039	9	24,270	19	829,309
NDF-263	14	19,366,316	0	0	14	19,366,316
NDF-270	7	167,440	0	0	7	167,440
NDF-272	50	2,814,605	52	88,687	102	2,903,292
NDF-273	5	4,652,531	13	14,724	18	4,667,255
NDF-274	6	591,349	0	0	6	591,349
NDF-285	1	12,625,000	0	0	1	12,625,000
NDF-288	1	500,000	0	0	1	500,000
NDF-292	1	3,000,000	0	0	1	3,000,000
NDF-294	0	0	0	0	0	0
NDF-295	5	5,744,122	19	25,795	24	5,769,917
NDF-915	27	341,255	103	9,184	27	341,255
Total	**159**	**$51,930,304**	**103**	**$170,041**	**262**	**$52,100,346**

Source: Prepared by Kearney based on FIMS data.

To test the completeness of obligations in FIMS, Kearney judgmentally selected 12 NDF ULOs from the ULO Database that was obtained from GFMS for testing, as shown in Table 8. Kearney targeted ULOs with the highest gross obligations; consequently, these 12 ULOs totaled approximately $131 million, thereby encompassing more than 90 percent of NDF's total obligated funds of approximately $143 million as of March 31, 2012.

Table 8. Global Financial Management System Sample of Unliquidated Obligations

Count	Obligated	Spent	Available
12	$130,675,482	$65,352,985	$65,322,497

Source: Prepared by Kearney based on GFMS data.

To test the completeness of the expense transactions recorded in FIMS, Kearney selected 45 expenses, as shown in Table 9, from GFMS and compared the amount reported in GFMS for each expense to the amount in FIMS.

Table 9. Global Financial Management System Sample of Expense Transactions

Count	Net Impact to Expenses	Gross Impact to Expenses
45	$31,560,359	$31,594,270

Source: Prepared by Kearney based on GFMS data.

Appendix B

Assessment of Contracting Controls

Contracting Process	Control Description	Operating Effectively?
Contract Initiation	Once the procurement request is completed by the project manager (PM), it is submitted to the Director of the Nonproliferation and Disarmament Fund (NDF) for review and approval.	No
Contract Modification	Prior to executing a contract modification, the PM approves or initiates the modification and provides it to the NDF Comptroller to submit through the Ariba module in the Integrated Logistics Management System.[5] Included in this request are the terms of the modification and appropriate supporting evidence of the need for contract modification. The change requisition is approved by the NDF Director or Deputy Director.	No
Invoice Approval	The PM must sign off on the PM Certification of Deliverables and/or Services and identify if the items listed on the invoice were fully, partially, or not received through review of adequate evidence in order to approve and invoice for payment.	No
	Available funding for each expense is verified by the NDF Comptroller and documented through issuance of a memorandum or cable to the Bureau of the Comptroller and Global Financial Services in Charleston or to the embassy approving payment.	No
	For Travel Orders, the NDF Comptroller approves the voucher as evidenced by sign-off on the Travel Voucher.	Yes
Contract Closeout	For contracts being closed with balances remaining on the obligations, the PM obtains a formal release letter from the vendor to ensure no future payments are required.	Yes
	The PM completes a contracting officer's representative (COR) Completion Certificate, certifying to the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), Contract Closeout Team that all work has been completed and final payment has been made.	Yes
	The PM completes a COR Closeout Checklist certifying all required closeout items have been accomplished and in the appropriate order outlined in the Memorandum of Understanding with A/LM/AQM.	Yes

Source: Prepared by Kearney based on its understanding of the NDF control environment and its tests of controls.

[5] The Integrated Logistics Management System is the Department's procurement system. Requests submitted by NDF are sent to A/LM/AQM using this system. The Integrated Logistics Management System interfaces with the Department's Global Financial Management System.

Appendix C

Notable Financial and Information Management System Reports

Report	Data Included
FY Available Balance Report with Obligation	This report lists the following information for each fiscal year: • Appropriation • Appropriation Adjustments • Total New Budget Authority • Administrative Costs • Previous Year Rollover Balance • New Available Balance • Notified Amount • Obligated Amount • Amount Returned to Nonproliferation and Disarmament Fund (NDF) • Balance Remaining
All Notified Projects Status Report	This report lists the following information for each project which has been notified: • Project Number • Office of Management and Budget Category • Project Description • Countries • Proposal Amount • Notified Amount • Date Notified • Fiscal Year Funding Used • Other [Non-NDF] Funding • Obligated Amount • Amount Spent • Amount Returned to External Account • Amount Returned to NDF Account • Date Returned to NDF Account • Financial Status • Work Status
Project Detail Report	This report can be run for each NDF Project. It contains the following summary information about a particular project: • NDF Funding • External Funding (Including Listing the Source) • Overall Project Funding • Amount Obligated • Allotment Level Expenses • Interest Paid • Actual Spent • Available Balance • Notified • Financial Status • Amount Returned to NDF Account It also includes the following information for each obligation recorded to the project: • Obligation Number • Obligation Type • Description • Amount Obligated • Actual Spent • Unliquidated Balance • Allotment Level Expense • Interest

Source: Created by Kearney based upon review of reports available on Crystal Reports, the reporting module of FIMS.

Appendix D

United States Department of State

Bureau of International Security, and Nonproliferation

Washington, D.C. 20520

UNCLASSIFIED

November 13, 2012

INFORMATION MEMORANDUM FOR HAROLD W. GEISEL (OIG)

FROM: ISN - Thomas M. Countryman TMC

SUBJECT: Draft Report on *Audit of Nonproliferation and Disarmament Fund Controls Over Contracting and Project Management and Integrity of Financial Data*

I am writing to thank the OIG audit supervisors, and the audit contractor, Kearney and Company for a thoughtful and well-researched examination of the Nonproliferation and Disarmament Fund's (NDF) financial, program, project, and contract management. I appreciate the audit team's professionalism, knowledge, and objectivity and have reviewed carefully the specific steps that have been identified to improve the NDF's management of a complex and hard to manage program. I concur with all 18 audit recommendations (specific comments attached). Over the next few months, I and my managers will work with the NDF to put together an action plan to determine resource needs and then move to comply with these recommendations. As part of these efforts, the OIG will audit the NDF annually starting in January 2014.

I appreciate the fact that the report acknowledged the NDF's progress. The audit highlighted many positive aspects of NDF's contract, project, and financial management. The audit's constructive recommendations will be addressed one-by-one and implemented in a manner that produces a long-lasting positive effect on the NDF operations.

For 18 years, the NDF has provided the Department of State with a unique capability to take advantage of diplomatic nonproliferation and disarmament opportunities such as eliminating the nuclear weapons programs in Libya, dismantling plutonium production facilities in North Korea, and destroying ballistic missiles in numerous countries, etc. Often these rapid, first-responder

efforts are far removed from the embassies we rely upon to support programs abroad; in some cases, the NDF operates in countries where the United States has no diplomatic relations. The work is often complex, highly technical and involves risk to our contractors. To keep this diplomatic tool effective and ensure compliance with modern accountability standards, the NDF is committed to using, adapting and developing modern business tools.

Attachment:
As stated.

2012 Audit of NDF

ISN Reply to OIG Recommendations

November 9, 2012

Preface

NDF requested this audit in 2011 after a three-year effort by contractor experts to design systems to improve the quality of NDF financial, contract, and project management and to assist us in complying with the 2009 NDF audit.

NDF appreciates the comprehensive audit conducted by Kearney and agrees, for the most part, with all 18 OIG recommendations. The NDF will use this audit to continue to make improvements and expand its ability to develop and standardize recommended procedures using NDF's internal Financial Information Management System (FIMS) or, if necessary, adopt more cost effective approaches that better meet our needs.

In September 2010, NDF formed a Requirements Management Team (RMT) to integrate internal recommendations from three areas: financial, contract, and project management. The RMT will suggest policies and procedures to the NDF Director that are consistent with Department of State standards and industry best practices to support all OIG audit recommendations. The NDF's goal is to implement as many improvements as possible in an orderly and cost-effective fashion.

Finding A. NDF Contracting Process Controls Are in Place but Need Improvement.

Recommendation 1: OIG recommends that the Nonproliferation and Disarmament Fund (NDF) develop and implement a standardized procedure to help ensure compliance with contract initiation and modification documentation and approval requirements.

ISN/NDF Response: Concur. NDF prepared a checklist to ensure that procurement request packages contain all the required documentation. We will be working with the Requirements Management Team (RMT) to provide and organize an appropriate electronic storage location for samples of the various documents used in contract initiation and modification.

Recommendation 2: OIG recommends that the Nonproliferation and Disarmament Fund improve the invoice approval process to ensure that project managers receive and maintain the appropriate documentation to support their certification of the receipt of goods or services.

ISN/NDF Response: Concur. NDF will review the process we now use to certify and establish standards for document retention.

Recommendation 3: OIG recommends that the Nonproliferation and Disarmament Fund develop an internal process to review unliquidated obligations on a periodic basis and to validate the quarterly list of unliquidated obligations provided by the Bureau of Comptroller and Global Financial Services (CGFS) in a timely manner.

ISN/NDF Response: Concur. As an enhancement to NDF's internal Financial Information Management System (FIMS), a CGFS report of all unliquidated obligations (ULOs) grouped by NDF project will be automatically run each month and sent to NDF Finance users and the appropriate NDF project managers. The NDF Comptroller will provide a policy memo describing the internal NDF ULO review process. The NDF will update the NDF Project Management Guide to include implementing instructions to the NDF staff in order to validate the quarterly list of ULOs.

Recommendation 4: OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a formal process to close out contracts in a timely manner.

ISN/NDF Response: Concur. Kearney observed that the current NDF Contract Management Handbook for Contracting Officers' Representatives (CORs) contains a description of the processes used to close large contracts, contracts issued using simplified acquisition procedures, and contracts for personal services. NDF CORs are using these processes when contracts for which they are responsible become complete. We are working with the RMT to provide and organize an appropriate electronic storage location for samples of the various contract closeout documents. NDF will work with the office of Acquisitions (AQM) to develop standard timeframes for NDF CORs to present contract closeout documentation packages to the AQM Contracting Officer (CO) to improve timeliness.

Recommendation 5: OIG recommends that the Nonproliferation and Disarmament Fund develop a process to formally document the projects for which the "notwithstanding authority" is used, including when it is invoked to override portions of the Federal Acquisition Regulation.

ISN/NDF Response: NDF already documents all requests to rely on "notwithstanding authority" to overcome restrictions under U.S. law in providing assistance for NDF projects in decision memoranda approved by the Under Secretary for International Security Affairs (U/S T), which are cleared with the Office of the Legal Advisor (L), and notifies Congress of any intent to rely on "notwithstanding authority" when funds for NDF projects are notified.

PROJECT MANAGEMENT

Finding B. Controls over Project Management Need Improvement

Recommendation 6: OIG recommends that the Nonproliferation and Disarmament Fund identify key project management controls and implement a policy to require compliance with these key controls.

ISN/NDF Response: Concur. NDF will identify key project management controls and recommend a compliance policy.

Recommendation 7: OIG recommends that the Nonproliferation and Disarmament Fund develop and implement policies regarding the use of the FIMS for project management and, to the extent possible, add controls to FIMS that require the completion of key fields.

ISN/NDF Response: Concur. Some key fields have been identified already. For example, adding an automated contract expiration date warning email generated by FIMS 90 days prior to contract expiration allows the program manager to take timely action to either begin closing out the contract or preparing a request to extend the contract. As an enhancement to FIMS, more formal project management controls are possible and NDF will determine what controls might add value to the process. The RMT will identify any additional key fields and controls needed and will make a recommendation to the NDF Director.

Recommendation 8: OIG recommends that the Nonproliferation and Disarmament Fund identify the key project management activities for NDF projects and develop a plan to modify FIMS capabilities to support these activities. If NDF determines that it would not be cost effective to upgrade FIMS, NDF

should develop and implement a formal process to perform and document these key project management activities outside of FIMS.

NDF Response: Partially Concur. NDF designs, negotiates, and oversees execution of diplomatic programs in the field of nonproliferation, but detailed project management (as defined by the Project Management Institute), is carried out by the implementing entity, which may be a foreign government, contractor and/or an international organization. These entities maintain schedules, work breakdown structure (WBS), and other project management tools as appropriate. For example, foreign governments receiving NDF assistance often do the destruction work at Weapons of Mass Destruction (WMD) designated areas or WMD delivery system sites; on nuclear related projects, Department of Energy (DOE) national laboratories often serve as the Project Management Organization (PMO); and on Chemical Weapons (CW) elimination projects, large contractors with sophisticated chemical and industrial engineering pedigrees manage the projects with the U.S. Department of Defense (DoD) most likely to serve as the PMO of record. That being said, the NDF concurs in the need to document key project, program, and portfolio management activities and to exercise due diligence in examining relevant workflows and documentation requirements and set cost effective and practical standards. The RMT has been tasked with identifying the relevant workflow and documentation requirements, making recommendations and determining potential costs.

Recommendation 9: OIG recommends that the Nonproliferation and Disarmament Fund develop and implement procedures to ensure that documentation maintenance and retention policies are followed consistently.

ISN/NDF Response: Concur. NDF will build upon the documents "NDF Document Management" guidelines and "Results From Project Managers Survey On Contract Management File Storage," within the RMT, to determine appropriate policies and procedures.

Recommendation 10: OIG recommends that the Nonproliferation and Disarmament Fund develop a standard timeframe for closing out projects and implement a policy to ensure standard timeframes for project close outs are met or the reasons for delays documented.

ISN/NDF Response: Concur with comment. NDF will establish a policy to include a timeline to closeout NDF projects and return remaining funds to the NDF account. The total number of active projects referenced in the OIG report includes administrative funds, which are funds that are set aside specifically for the operation of the NDF and are not project funds. Attached for reference is Chart A, Active Projects, which lists the NDF's 33 currently active projects. Below are three specific page references in the OIG report that need to be changed:

Page 6: *"At the time of this audit, there were 46 active projects, funded for approximately $323 million, and 43 projects in the closeout phase, funded for approximately $105 million. Of 46 active projects, 34 were country-specific projects and 12 were for administrative tasks, such as FIMS development and maintenance."* ISN/NDF Comment: Per Chart A (attached), there are 33 active projects. There are 42 projects in closeout phase, as shown in Chart C (attached), Closing Projects - Financial Review Complete.

Page 22: *"However, there were still projects, both country-specific and administrative, inappropriately identified as "active" in FIMS."* ISN/NDF Comment: This statement needs to exclude administrative funds.

On page 36: Table 1 states that there are 46 active projects. ISN/NDF Comment: Per Chart A, there are 33 active projects.

FINANCIAL MANAGEMENT

Finding C. Data Integrity and Reporting Capabilities Need Improvement to Produce Auditable Financial Reports.

Recommendation 11: OIG recommends that the Nonproliferation and Disarmament Fund improve its policies and procedures for recording obligations and expenses in the Financial and Information Management Systems (FIMS), by developing, at a minimum:

Clarification on the documentation required to record an obligation, especially miscellaneous obligations.
Instructions on the proper use of the estimate "flag."
A standard for an acceptable time between the approval of an expense transaction and its entry into FIMS.

ISN/NDF Response: Concur, with comment. Timeliness is a major issue. The requirement for documentation before obligations are established has always existed in NDF. IAAs, MOUs, MOAs, MODs, travel orders, and contract statements of work that include estimated spending for the work normally should not be a problem. The problem occurs with Miscellaneous Obligations (M9) documentation, email printing and filing. Depending on the age of the sample data, staffing levels, and urgency of reaction, keeping the program moving may have taken precedence over immediately printing and filing email backup for M9 obligation transactions. This creates the electronic versus paper trail documentation problem. However, more recent years' files should show significant improvement in M9 transactions documentation. A checklist for obligation supporting documentation, including M9, will be added to the Project Manager Users Guide.

Obligation numbers are generated by FIMS and are used to establish obligations into Ariba, E2Solutions and GFMS. The obligations generated by FIMS are processed as estimates since there is a possibility that the amount of the obligation entered in FIMS will change. FIMS will not allow the recording of an expense without removing the flag for estimates. In the requirement to remove the estimate flag before expenditures can be recorded to the obligations is an inherent reminder to verify that the obligation in FIMS agrees with the Department's Financial System before removing the estimated flag.

Regarding the standard for an acceptable time between an expense transaction and its entry into FIMS, expense transactions (invoices) are processed and approved in NDF are recorded immediately into FIMS. Generally, other known expense transactions should be entered into FIMS weekly. Delays occur due to staff shortage and workload priorities. Personal Service (PSC) contract payments are processed by the payroll interface. NDF finance does not have authorization to review them before they go to GFMS. We plan to build a tool to compare GFMS and FIMS, when and if GFMS downloads are available.

Policies and procedures for recording obligations and expenses in the FIMS exist now. However, the procedures for the removal of the "estimated flag" are not included in the FIMS Quick Reference Guide of 2008. The estimated flag process is being added in the Guide's update. As an enhancement to FIMS,

automated periodic reconciliation processes can be developed. NDF should explore adding "as of" functionalities. We plan to advertise to fill the vacant FTE.

Recommendation 12: OIG recommends that the Nonproliferation and Disarmament Fund develop and implement policies and procedures for reconciling financial data in the FIMS to the financial data in the GFMS on a periodic basis, including requirements for documenting and reviewing the reconciliation.

ISN/NDF Response: Concur. NDF agrees it should improve the reconciliation process before the final project closeout. The review and reconciliation usually occur on active projects when the program managers request a project Detail Report from the program managers' assigned finance officer. However, NDF has not been at full staff levels since 2009. During this audit there was only one full time finance officer in place out of the three full time positions in the NDF. That one full time finance officer provides financial services to eight program managers. Once the staff levels are in place, permanent staff members will be assigned to each program manager and the routine reconciliation process will resume. For now, reconciliation between GFMS and FIMS is a manual process subject to priorities of workload.

The reconciliation process and transaction integrity (obligation and expenditures) could be greatly enhanced with downloads from GFMS that would help facilitate the accuracy of information in FIMS to GFMS. As an enhancement to FIMS, automated periodic reconciliation processes will be explored by the NDF.

Addressing staff shortfalls to focus on reconciliation process of GFMS and FIMS

Use GFMS reports along with the FIMS obligation reports. NDF is in the process of developing a reconciliation process.

NDF plans to incorporate the OIG recommendation process received 10/18/2012 into the reconciliation process.

Recommendation 13: OIG recommends that the Nonproliferation and Disarmament Fund develop policies regarding the responsibility of NDF in the contracting process when donated funds are used. Additionally, NDF should modify FIMS so that donated funds are tracked separately, which would include the capability to link obligations to specific sources of funding instead of to the project as a whole.

ISN/NDF Response: Concur, with comments. NDF only receives donor funds on a project-specific basis, and each project will have unique contractual requirements. Therefore, NDF will coordinate with AQM, RM, L, and donor governments on a case-by-case basis to develop appropriate modalities.

Donated funds are tracked separately in both GFMS and FIMS. While GFMS does use one Fund Symbol (1075.D or "Point D Limitation") to identify all donated funds, it uses Allotment and Operating Allowance codes to identify the donor nation and the recipient nation, respectively. FIMS maintains this level of detail as well and includes the capability to link obligations directly to these funds. Procedures will be added to the FIMS Quick Reference Guide. Donated funds reports are being enhanced and developed in FIMS to include funds, obligations, expenditures, and available balances from the projects.

Recommendation 14: OIG recommends that the Nonproliferation and Disarmament Fund identify end-users reporting needs and modify FIMS to meet the reporting needs identified. If NDF determines that it would not be cost-effective to modify FIMS to address certain end-user reporting needs, NDF should

document the rationale for making this decision and develop a formal process for manually preparing the required reports.

ISN/NDF Response: Concur. NDF agrees to develop a plan to identify end-user reporting needs. NDF can run reports as of a point in time. NDF can run extra reports to track history. The reports for donor nations are available in FIMS in regard to identifying donated funds, to which NDF projects they have been applied, and for which obligations and expenditures have been used. Project manager(s) produce project progress and overview reports, and these reports are not expected to be produced directly from FIMS. These reports are to be scanned into FIMS and tagged to the appropriate project. Modifying FIMS to meet the reporting needs will take longer.

Recommendation 15: OIG recommends that the Nonproliferation and Disarmament Fund prepare a comprehensive system security plan for the FIMS.

ISN/NDF Response: Concur. NDF is current working on the accreditation and certification process as outlined in Federal Information Processing Standard (FIPS) 197. The current contract for FIMS services is in the process of being modified to add funding for the system security plan. NDF currently has an IT contract that includes a provision for a contingency plan in FIMS. The architectural layout for the reconstitution of data is underway.

Recommendation 16: OIG recommends that the Nonproliferation and Disarmament Fund review the permissions of all FIMS users and verify that their access privileges are consistent with their job functions and responsibilities.

ISN/NDF Response: Concur.

Recommendation 17: OIG recommends that the Nonproliferation and Disarmament Fund assess its current change control process for FIMS and determine if additional reviews or testing changes are required.

ISN/NDF Response: Concur.

Recommendation 18: OIG recommends that the Nonproliferation and Disarmament Fund finalize and implement its contingency plan for FIMS.

ISN/NDF Response: Concur. NDF will develop a current contingency plan. This is included in the current contract. The Disaster Recovery and Data Backup services provided by SalesForce as the application platform for FIMS has been shown to satisfy NIST standards in regards to the prevention of loss of data. The FIMS Contingency Plan builds on these services to document continuity operations procedures for recovery of NDF processes.

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