**UNITED STATES DEPARTMENT OF STATE
AND THE BROADCASTING BOARD OF GOVERNORS**

OFFICE OF INSPECTOR GENERAL

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

OIG Office of Inspector General
U.S. Department of State • Broadcasting Board of Governors

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 relevant agencies and institutions, direct observation, and a review of applicable documents. The purpose of the audit was to follow up on the Nonproliferation and Disarmament Fund's progress in addressing control deficiencies identified during a 2012 audit.

OIG contracted with the independent public accountant Kearney & Company, P.C., to perform this audit. 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 had made significant progress in improving its controls over contracting, project management, and the integrity of its financial data. However, the report identifies areas in which the Fund can further strengthen its controls.

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. 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.

Norman P. Brown
Assistant Inspector General
for Audits

KEARNEY & COMPANY

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

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

Kearney & Company, P.C. (Kearney), has performed a follow-up audit of Nonproliferation and Disarmament Fund controls over contracting and project management and integrity of financial data. This performance audit, performed under Contract No. SAQMMA14A0500, 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 through September 2014 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 Department of State personnel during the audit.

Kearney & Company

Kearney & Company, P.C.
Alexandria, Virginia
November 5, 2014

Acronyms

CLIN	contract line item number
COR	contracting officer's representative
FAR	Federal Acquisition Regulation
FIMS	Financial and Information Management System
GFMS	Global Financial Management System
ISN	Bureau of International Security and Nonproliferation
NDF	Nonproliferation and Disarmament Fund
NIST	National Institute of Standards and Technology
OIG	Office of Inspector General
PM	project manager
PMBOK	Project Management Body of Knowledge
ULO	unliquidated obligation

TABLE OF CONTENTS

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, 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.

In 2012, NDF requested that the Office of Inspector General (OIG) perform an audit of NDF's controls over contracting and project management and determine whether the data recorded in NDF's internal financial and project management system, the Financial and Information Management System (FIMS),[1] was valid and whether FIMS had sufficient reporting capabilities. An independent external auditor, Kearney & Company, P.C. (Kearney), acting on behalf of OIG, performed the audit. Kearney identified areas in which existing controls needed improvement and, in some cases, where controls had not been developed.[2] NDF requested this follow-up audit to assess NDF's progress in addressing the control deficiencies identified in 2012.

During this audit, Kearney found that NDF had made significant progress in addressing the control deficiencies identified in 2012. Specifically, NDF had strengthened controls over contract initiation and modification, and these controls were operating effectively. In addition, NDF developed a process to monitor its unliquidated obligations (ULO) that identified and facilitated the deobligation of invalid ULOs. NDF also implemented contract closeout controls and made progress in remediating the backlog of contracts requiring closure. Although NDF made significant progress, additional improvements can be made. NDF strengthened its controls over invoice approvals, but these controls were not consistently executed. Specifically, NDF did not properly certify the receipt of goods or services for 3 of 12 invoices tested. Without proper certification, payments may be made for goods or services not received. NDF also developed a policy for documenting the use of its authority to waive Federal requirements, but the policy did not align with actual practice and did not require that NDF document the use of the authority at a sufficient level of detail. As a result, NDF did not have sufficient documentation to support its use of the authority.

Although NDF had also improved its controls over project management, these controls needed additional improvement. Specifically, Kearney found that project managers (PM) did not consistently follow policies relating to managing project scope and project risk in FIMS

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[1] During this performance audit, NDF changed the name of its internal financial and project management system from FIMS to the Project and Information Management System. However, to promote consistency, Kearney maintained the use of the former term throughout this report.

[2] *Audit of Nonproliferation and Disarmament Fund Controls Over Contracting and Project Management and Integrity of Financial Data* (AUD-FM-13-17, Dec. 2012).

because of the lack of sufficient training in FIMS functionality. As a result, activities could be performed that do not support project objectives, and appropriate actions may not be taken to address project risks. In addition, NDF's control for maintaining project schedules in FIMS was not effectively designed. The process to enter the information was complex, and PMs did not enter the information necessary to monitor project schedules, changes in which can affect project cost and result in project delays. Similarly, despite the development of document management guidelines, PMs did not consistently maintain project-related documents in FIMS because NDF had multiple locations where the documents could be stored. As a result, NDF could not ensure that it maintained documentation to support management decisions. Further, although NDF had established a timeframe for closing projects after approval, Kearney determined that 5 of 13 projects in the closeout process were not closed timely because of the lack of timeframes for all project closeout tasks. Projects remaining open longer than necessary delay the return of unspent funds that can be used for other purposes.

Kearney found that NDF had improved significantly the integrity of the data in FIMS. Although Kearney identified obligations and expenses that were not recorded accurately, timely, or completely, there were fewer exceptions than were identified in 2012. The exceptions occurred because NDF did not develop or execute sufficient reconciliations of the information in FIMS with the information in the Department's official financial system of record, the Global Financial Management System (GFMS). Kearney also found that NDF had improved FIMS reporting capabilities to the point where FIMS reports were sufficient to fulfill requirements for reliable and complete financial reports. However, the reliability of the reports was limited by the accuracy, timeliness, and completeness of the data in FIMS. In addition, accounting for the expenditure of donated funds continued to be a challenge.

NDF had also taken action to improve FIMS application level controls. Specifically, NDF had prepared and finalized comprehensive system security and contingency plans that included all required information. NDF also strengthened its processes in an effort to ensure that only approved changes to FIMS were made. Further, NDF developed a user access matrix to ensure that all FIMS users had the appropriate level of access. However, Kearney identified a user profile that was not included in the matrix and determined that the system administrator profiles allowed system administrators to change key financial data, which was not consistent with NDF's matrix or segregation of duties principles and could result in unauthorized changes to financial data.

In the draft of this report, OIG made 11 recommendations to further improve NDF controls. In its November 3, 2014, response (see Appendix C) to the draft report, ISN concurred with the 11 recommendations. Based on the response, OIG considers the 11 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.

NDF, one of ISN's Nonproliferation Programs 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.

NDF is a small organization comprised of Department personnel and contractors, including personal services contractors. NDF staff includes a Director, a Chief of Operations, a Comptroller, finance officers, PMs, policy officers, a contract advisor, and project support specialists. Excluding the Director, there are seven PMs, who negotiate, manage, and implement NDF's projects. 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 $654 million in appropriated funds. NDF received $57 million in appropriated funds during FYs 2013 and 2014. 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. NDF cannot exceed the amount of funding included in the Congressional Notification for each project. If additional funds are necessary to achieve an objective, a new project is created.

NDF also receives donated funds from other countries. For example, five donor countries have provided approximately $6 million in funds to support an NDF project in Libya. NDF enters into Memorandums of Understanding with the donor countries that specify the authorized uses of the donated funds and the reporting and tracking requirements.

NDF funding is provided "notwithstanding any other provision of law."[3] This means that, with proper authorizations, NDF can override portions of laws or regulations. For example, despite Federal Acquisition Regulation (FAR) requirements that Government offices "Buy America," NDF is permitted to obtain goods or services from foreign contractors. NDF may also

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[3] Consolidated Appropriations Act, 2014, Pub. L. No. 113-76, and prior year appropriation legislation.

award contracts without complying with FAR requirements relating to competition. "Notwithstanding authority" is an extraordinary authority granted to NDF by Congress for use in special circumstances.[4]

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; in other instances, the contracts are with third-party vendors. Between June 2013 and April 2014, NDF executed 10 contracts, which ranged in value from $7,000 to $6.6 million.

Generally, the contracting process entails contract initiation, contract modification, obligation monitoring, invoice approval, and contract closeout. 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.

Throughout the contract life cycle, PMs are responsible for ensuring that the ULOs[5] for their contracts are valid; that is, the balances on the obligations are still needed. The Comptroller and finance officers are responsible for ensuring that the ULOs for administrative costs, such as the costs to provide cellular phone service to PMs, are valid.

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. In addition, when work on a contract is completed, PMs create a closeout package stating that all work is complete, and they coordinate with NDF's finance officers to ensure final invoices are received, paid, and reconciled.

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

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[4] Although there are no specific restrictions on NDF's use of notwithstanding authority, the authority is not absolute. For example, a Government Accountability Office legal decision (*Architect of the Capital-Payment of Fringe Benefits to Temporary Employees*, B-303961, Dec. 6, 2004) concluded that the Architect of the Capital could not use notwithstanding authority to waive the Antideficiency Act. NDF's practice is to follow all laws, regulations, and Department guidance and to limit the use of notwithstanding authority to circumstances in which overriding certain provisions in laws and regulations is necessary to meet project-specific needs.

[5] 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."

goods and services to support project execution. NDF may enter into one contract or multiple contracts or Memorandums of Understanding to accomplish each task within a project.

Since its inception in 1994, NDF has completed 159 projects. At the time of this audit, there were 36 active projects, funded for approximately $405 million, and 13 projects in the closeout phase, funded for approximately $38 million. Of 36 active projects, 31 were country-specific projects, and 5 were for administrative purposes, such as the development and maintenance of NDF's information management system. Examples of notable NDF country-specific projects are provided in Table 1.

Table 1. Notable Nonproliferation and Disarmament Funds Projects by Activity

Nonproliferation Activity	Project*
Nuclear	Remove 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.
	Facilitate the removal of nuclear infrastructure from Libya to secure facilities in the United States.
Biological	Destroy high-capacity fermenters in Kazakhstan.
Chemical	Eliminate chemical weapons production equipment and facilities and secured chemical agents in the Balkans.
Conventional	Destroy nearly 40,000 munitions (including fuses, detonators, sea mines, air bombs, and torpedo bodies) in the Republic of Albania.
Ballistic Missile	Eliminate Soviet-era short-range, tactical ballistic surface-to-surface Missile Technology Control Regime Category I missiles in Bulgaria, Slovakia, Poland, Hungary, and Libya.
	Eliminate Scud missiles in Ukraine.

*These projects are provided for information only. The purpose of this audit was not to, and Kearney did not, audit the effectiveness or efficiency of these projects.
Source: Prepared by Kearney based on information obtained from the NDF Internet Web site, <http://www.state.gov/t/isn/ndf/ >, accessed on June 23, 2014.

The project management process includes initiating, planning, executing, monitoring, and closing out projects. Project planning occurs before the project is congressionally notified 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 emails, 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 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 are 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, 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[6] 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 Congressional Notification. To track funds, NDF records in FIMS the funds received through appropriations and the amount in the Congressional Notification, amount obligated, and amount spent for each project. FIMS is used only 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 manual reconciliations to ensure that the information in FIMS is consistent with the information in GFMS for budget execution and financial reporting purposes. FIMS also has project management and document storage capabilities.

Prior OIG Reports

In 2012, OIG reported on the sufficiency of NDF controls over the contracting and project management processes and on whether the integrity of the data in NDF's internal financial and project management system was sufficient to prepare auditable financial reports for external users. During this 2012 audit, 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. Specifically, controls over contract initiation and modification, invoice approval, and contract closeout were well designed but were not consistently executed. In addition, Kearney noted that NDF did not have sufficient controls over unliquidated obligations, a control to close out contracts in a timely manner, or a process to document the projects for which NDF's notwithstanding authority was used. The lack of sufficient controls could result in, among other things, delays in contract initiation and modification, improper payments to contractors, and delays in project implementation and execution.

Kearney also found that NDF had executed projects to achieve nonproliferation goals around the world, and the PMs effectively managed the statuses of their projects. However, PMs

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

did not manage projects consistently and did not always use the project management functionality of FIMS.

Further, Kearney found that FIMS contained accurate and complete information on funds received from appropriations and donations as well as the amounts in the Congressional Notification for each project. However, obligations and expenses in the system were not always accurate, complete, or entered in a timely manner, and the system lacked key reporting functionality. Because of the data inaccuracies and reporting limitations, Kearney concluded that the system would be unable to produce auditable financial reports. Additionally, although NDF had some controls to protect the data in the system, NDF had not implemented certain application level controls. For example, NDF did not have a comprehensive application security plan and had not formally approved or implemented its draft contingency plan.

OIG recommended that NDF take actions to improve its controls over contracting and project management and improve the reliability of the data in its financial and project management system. A list of the recommendations and their current statuses are provided in Appendix B.

In July 2014, OIG reported the results of its inspection of ISN.[7] Specific to NDF, the report noted that an independent auditor had audited the controls surrounding funds handled by NDF; however, funds for programs in other offices had not been audited. The report also noted that NDF's system, FIMS, did not interface with GFMS. OIG recommended that the Department proceed with development of an interface between the two systems.

Objectives

The purpose of this audit was to follow up on NDF's progress in addressing the issues identified during the 2012 audit. The specific 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 financial data in FIMS was sufficient.

Results of Audit

Finding A. Controls Over the Contracting Process Had Been Strengthened, But Additional Improvements Could Be Made

NDF had strengthened its controls over the contracting process since the 2012 audit. Specifically, Kearney found that NDF improved its controls over contract initiation and contract modification, and these controls were operating effectively. Additionally, NDF developed an internal ULO monitoring process that effectively identified invalid ULOs and facilitated their deobligation.

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[7] *Inspection of the Bureau of International Security and Nonproliferation* (ISP-I-14-19, July 2014).

NDF also implemented requirements to close out contracts consistent with Federal and Department acquisition regulations. Although one of the three contracts that Kearney tested had not been closed timely, NDF had made significant progress in closing old contracts since the previous audit. Kearney concluded that NDF had sufficiently remediated the backlog of contracts requiring closure.

NDF had also strengthened its controls over invoice approval, but these controls were not consistently executed. Specifically, NDF personnel had not certified the receipt of goods and services for 3 of 12 invoices tested because personnel did not believe it was necessary for these 3 invoices. Without proper certification, payments may be made for goods or services that are not received.

NDF recently implemented a policy requiring that the use of notwithstanding authority be documented in FIMS. However, based upon a review of a recent project, Kearney found that the policy did not reflect NDF's practice of documenting outside of FIMS the approval to use the authority to override laws or regulations, primarily because FIMS did not contain the fields necessary for this information. In addition, NDF did not identify and document the specific provisions for which the authority was actually used. As a result, NDF did not have sufficient documentation to support its use of this authority to Congress and other stakeholders.

Contract Initiation and Modification Controls Were Improved and Were Operating Effectively

During the 2012 audit, Kearney found that NDF had established and implemented effectively designed controls over contract initiation and modification. However, these controls were not operating effectively. Specifically, NDF did not always complete all required documents or obtain the necessary approvals prior to initiating or modifying a contract. OIG recommended that NDF develop and implement a standardized procedure to help ensure compliance with documentation and approval requirements.[8] In response to this recommendation, NDF updated its policies to help ensure compliance with the requirements, and OIG closed the recommendation.

During this audit, Kearney found that NDF had improved its controls over contract initiation and modification and that the controls were operating effectively. Specifically, in June 2013, NDF updated and clarified its policies by adding the requirement that a Domestic Procurement Request should be completed for all new contracts. This form is used by CORs to develop a procurement request package that is tailored to the specific requirements of the acquisition. The updated policies also require that both the COR and the NDF Director sign the request to certify that all required documents, such as the statement of work and the independent government cost estimate, are included in procurement request packages. In addition, the policy requires that the reasons for modifying contracts be clearly documented and that both the COR and the NDF Director sign contract modification requests to document that the requests are appropriate.

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[8] AUD-FM-13-17, Recommendation 1.

To determine whether the new controls were implemented and operating effectively, Kearney tested[9] 3 contracts, amounting to $8.5 million, of the 10 contracts, amounting to $9.6 million, that were initiated between June 12, 2013, when the new controls were put into place, and March 31, 2014. Kearney found that the Domestic Procurement Requests for all three contracts were completed and signed by the COR and the NDF Director, as required by the new policy. Kearney also reviewed the procurement request packages for the three contracts and verified that all necessary documents were included in the packages.

In addition, Kearney tested 8 contract modifications, amounting to $2.8 million, of the 27 contract modifications, amounting to $10.5 million, processed from June 12, 2013, through March 31, 2014. The requests for all eight modifications were completed and signed by the COR and the NDF Director. In addition, the modification requests were supported by documentation evidencing the need for a contract modification and were dated prior to the execution of the contract modification.

Unliquidated Obligations Monitoring Controls Were Developed and Effectively Implemented

During the 2012 audit, Kearney found that NDF did not have an effectively designed control to ensure that its ULOs were monitored for validity. OIG recommended that NDF develop an internal process to review ULOs on a periodic basis.[10] In response to this recommendation, NDF developed and implemented a ULO review process, and OIG closed the recommendation.

During this audit, Kearney found that NDF had developed and effectively implemented new monitoring techniques to help ensure that invalid ULOs recorded to NDF funds were promptly identified and resolved. Specifically, NDF initiated a process in which, on a monthly basis, the PMs, Comptroller, and finance officers receive reports listing all ULOs. Each individual is expected to review the ULOs assigned to them and determine whether the ULOs are still valid. If a PM or finance officer identifies a ULO that is no longer valid and should be deobligated, the PM or finance officer prepares a memorandum requesting deobligation.

To determine whether the new process was implemented and operating effectively, Kearney reviewed all 66 NDF ULOs, amounting to $30 million, in the Department's March 31, 2014, ULO database. Of 66 ULOs, Kearney identified 13 ULOs, with balances amounting to $297,000, that had had no expenditures since September 2013. For these 13 ULOs, NDF personnel provided either reasonable explanations for the continued need for the ULO or documentation showing that NDF had previously identified the ULO as invalid and was working to deobligate it. Based upon the results of its analysis, Kearney concluded that the new process helps ensure that NDF ULOs are reviewed for validity and invalid ULOs are deobligated.

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[9] Information on Kearney's sampling methodology is provided in the section "Detailed Testing Methodology" in Appendix A.
[10] AUD-FM-13-17, Recommendation 3.

Contract Closeout Controls Were Implemented

During the 2012 audit, Kearney noted that NDF did not have a control to ensure that contracts were closed out timely. OIG recommended that NDF develop and implement a formal process to close out contracts in a timely manner.[11] In response to this recommendation, NDF implemented a policy requiring employees to close out contracts consistent with Federal and Department acquisition regulations. In conjunction with the policy, NDF reiterated the existence of tools to facilitate the contract closeout process, such as the COR Close-out Checklist. Based on these actions, OIG closed the recommendation. During this audit, Kearney found that NDF had made significant progress in closing out old contracts since the 2012 audit.

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 contractor has performed and the Government has accepted all services required by the contract, and the base period and any option periods exercised have expired." According to NDF's policy, FAR,[12] and the Department's acquisition regulation,[13] a fixed price contract should be closed within 6 months after the contract is physically completed.

Kearney randomly selected and tested 3 contracts, amounting to $1.3 million, of the 10 contracts, amounting to $5.1 million, that were closed between March 31, 2012, after the testing for the 2012 audit was completed, and March 31, 2014.[14] Of three contracts, two were closed within the required timeframe. However, one contract, a fixed price contract, was not closed within 6 months. The final payment on the contract was made in 2009, but the contract was not closed until 2012.

According to NDF officials, the contract was not closed timely because of the large backlog of projects and their related contracts that required closeout. NDF initiated an effort to close old contracts in 2010. At the completion of the 2012 audit, NDF still had a significant backlog of projects requiring closeout. Since the 2012 audit, NDF has made progress and closed many old contracts. According to NDF officials, NDF has closed approximately 60 contracts since May 2012.

When contracts are not closed out in a timely manner, unused contract funds cannot be used to fund additional contracts or other obligations to accomplish the project mission. However, based on the positive results of Kearney's review of ULOs and NDF's progress in closing out older contracts, Kearney concluded that NDF had sufficiently remediated the backlog of contracts requiring closure.

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[11] Ibid., Recommendation 4.
[12] FAR 4.804, "Closeout of contract files."
[13] Department of State Acquisition Regulation 604.804, "Closeout of contract files."
[14] Because NDF's timeliness policy simply reiterated existing FAR requirements that were in place during the 2012 audit, Kearney included all closed contracts in the universe from which it selected the sample for this test.

Invoice Approval Controls Were Improved But Were Not Consistently Executed

During the 2012 audit, Kearney found that NDF often did not effectively execute its invoice approval controls. For example, the PM did not properly certify the receipt of goods or services for 36 of 143 (25 percent) invoices tested. OIG recommended that NDF improve the invoice approval process to ensure that PMs receive and maintain the appropriate documentation to support their certification of the receipt of goods or services.[15] In response to this recommendation, NDF improved its invoice certification controls, and OIG closed the recommendation. However, during this audit, Kearney found that the new control had not been consistently executed.

In August 2013, the NDF Director issued a policy regarding invoice certification emphasizing the need to obtain documentation of third-party verification of the receipt of goods or services, as appropriate. To implement this policy, NDF modified its Certification of Deliverables form. The COR must explicitly state on the form whether "(A) the COR inspected and accepted the deliverables described in the voucher, or (B) a third party inspected and accepted the deliverables." When confirmation is obtained from a third party, the certification must include a copy of the third-party document supporting the statement.

Kearney tested 12 invoices, amounting to $9.5 million, of 88 invoices, amounting to $12.8 million, that were approved after the new control was put in place to verify that the COR completed and signed the Certification of Deliverables form and that support for third-party certification was attached when necessary. Kearney found that the certification form was not consistently used. Specifically, the form was not completed for 3 invoices with a total value of $663,000. In one instance, in addition to not completing the certification, NDF made payment without a complete invoice.

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."[16]

NDF personnel stated that they felt it was not necessary to use the Certification of Deliverables form for two of the three invoices because the COR was onsite and observed the services performed. However, Kearney noted that the purpose of the form is to document this onsite approval. NDF personnel also did not believe the form was necessary for the third invoice because NDF funds were used to pay the invoice based on a decision made by a Department Deputy Assistant Secretary. Although NDF may have been authorized to use its funds to pay the invoice, ensuring and documenting that the goods or services were received would still be necessary.

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. OIG is issuing a new recommendation to address needed further corrective action.

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[15] AUD-FM-13-17, Recommendation 2.
[16] 14 FAH-2 H-522.4, "Reviewing Vouchers."

Recommendation 1. OIG recommends that the Nonproliferation and Disarmament Fund provide contracting officer representatives a written notification of the requirement to complete the Certification of Deliverables form.

Management Response and OIG Reply: ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has provided its contracting officer representatives a written notification of the requirement to complete the Certification of Deliverables form.

Notwithstanding Authority Controls Were Improved But Remained Insufficient

During the 2012 audit, Kearney found that NDF had not documented when notwithstanding authority was used. OIG recommended that NDF develop a process to formally document the projects for which the authority is used, including when it is invoked to override portions of the FAR.[17] In response to this recommendation, NDF updated its policy regarding the use of notwithstanding authority. At the time of this audit, the recommendation was resolved, pending further NDF action.

In March 2014 NDF issued a policy memorandum stating that "all documented uses of NDF's 'notwithstanding' authority are now tracked using NDF's internal database" FIMS. The policy further stated that the "request, authorization, and actual use of NDF's 'notwithstanding' are recorded in FIMS." However, Kearney found that the updated policy was not in line with NDF's current practices. Additionally, the updated policy did not require that NDF document the use of this authority at a sufficient level of detail.

Kearney was unable to fully test whether the new policy was implemented and operating effectively because the policy was only recently issued. However, the updated policy memorandum stated that the new policy had been applied and "well documented in NDF Project 304." Kearney reviewed the documents in FIMS related to Project 304 and noted that the request to use notwithstanding authority for this project was indicated by the completion of a "Notwithstanding" checkbox. However, the actual request, authorization, and details on which laws or regulations the authority was used to override were not documented in FIMS, as stated in the policy.

Although not contained in FIMS, NDF maintained documentation outside of FIMS that stated the Under Secretary approved using the authority for Project 304 to override the requirements of the FAR. However, NDF did not have documentation identifying the specific provisions within the FAR for which NDF actually used the authority.

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."

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[17] AUD-FM-13-17, Recommendation 5.

NDF's policy requiring that documentation supporting the use of notwithstanding authority be maintained in FIMS did not align with the actual practice followed for Project 304. Documentation was maintained outside FIMS because FIMS did not have fields in which NDF staff could document the date of the approval or the specific laws and regulations to which notwithstanding authority was being applied. In addition, the new policy did not require that the specific provisions within the laws and regulations for which the authority is used be identified and documented.

Although identifying specific provisions of laws and regulations in advance is challenging, the provisions for which NDF uses the notwithstanding authority for each project could be documented subsequently. Without documentation of each use of notwithstanding authority, NDF does not have sufficient documentation to support its use of this authority to Congress and other stakeholders.

OIG is closing Recommendation 5 from the 2012 report and issuing a new recommendation to further improve NDF's controls over the use of notwithstanding authority.

> **Recommendation 2.** OIG recommends that the Nonproliferation and Disarmament Fund update its policy on the use of notwithstanding authority to require that the specific provisions within the laws and regulations for which the authority is used be identified and documented and, if practicable, add additional fields in its information management system to align documentation requirements with the current policy.

> **Management Response:** ISN concurred with this recommendation but stated that the Department's Office of the Legal Advisor "makes all determinations regarding the use of NDF's 'notwithstanding' authority" and holds the position that "a broad rather than specific use" of the authority "better serves" the Department when addressing activities "in countries of concern…and/or when activities are global or cover multiple countries." INS stated that it would welcome "further discussion" with OIG on this recommendation.

> **OIG Reply:** Based on ISN's concurrence, OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has updated its policy on the use of notwithstanding authority to require identifying and documenting the specific provisions of laws and regulations for which the authority is used or when NDF has implemented an alternate method to ensure that it maintains sufficient documentation to support its use of this authority to Congress and other stakeholders.

Finding B. Project Management Controls Needed Improvement

NDF had improved its project management controls since the 2012 audit. For example, NDF had identified key project management controls and implemented policies and procedures to manage key project activities in FIMS. However, PMs did not consistently follow the policies relating to managing project scope and project risk in FIMS because PMs had not been sufficiently trained on using FIMS functionality for project management. As a result, activities may be performed that do not support project objectives, and appropriate actions may not be

taken to address project risks. In addition, NDF's control for maintaining project schedules in FIMS was not effectively designed. Although project schedules can be monitored through FIMS, PMs did not always enter the required information in FIMS because of the complexity of the process in the system. As a result, changes in project schedules could affect other project elements, such as cost, and projects may be delayed.

NDF also developed document management guidelines. However, PMs did not consistently maintain project-related documents in FIMS, as required, because NDF had established multiple other locations where project information could be stored. Without clear document maintenance and retention requirements, NDF could not ensure that it maintained the documentation necessary to support management decisions.

Kearney also found that NDF implemented project closeout controls but that these controls were not properly designed. Although NDF had established a standard timeframe for closing projects after approval, NDF did not establish timeframes for accomplishing the other tasks that must be completed prior to requesting approval. As a result, projects may remain open longer than necessary, thereby delaying the return of unspent funds to the NDF account.

Kearney identified one instance in which NDF had initiated a project without the required Congressional Notification. NDF has taken action to close this project, and the lack of notification in this case appears to have been an isolated incident.

FIMS Project Management Capabilities Were Improved But Were Not Always Used Consistently or Designed Effectively

During the 2012 audit, Kearney found that PMs did not manage projects consistently, existing FIMS project management capabilities were not used effectively, and FIMS did not have full project management capabilities. OIG recommended that NDF identify key project management controls[18] and implement a policy to require compliance with these controls. OIG also recommended that NDF identify key project management activities and develop a plan to modify FIMS capabilities or that it develop formal processes outside of FIMS to support those activities.[19] In response to these recommendations, NDF identified and implemented key project management controls and developed policies on how to use FIMS for project management, and OIG closed the recommendations. OIG also recommended that NDF implement policies regarding the use of existing FIMS capabilities for project management and add controls to FIMS that require the completion of key fields.[20] In response, NDF developed policies for using FIMS for project management. At the time of this audit, the recommendation was resolved, pending further NDF action.

During this audit, Kearney found that NDF had identified four key project management control phases and implemented new or reinforced existing policies requiring compliance with

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[18] AUD-FM-13-17, Recommendation 6.
[19] Ibid., Recommendation 8.
[20] Ibid., Recommendation 7.

these phases. The four key project management control phases and the related controls are shown in Table 2.

Table 2. Key Project Management Phases and Controls

Project Management Phase	Control
Initiation	Initiation Checklist
Planning	Award Signature in FIMS
Execution/Monitoring	Project Implementation Status Report
Closure	Project Close-out Checklist

Source: Prepared by Kearney based on information obtained from NDF policy documentation.

NDF also developed a policy for managing key project activities within FIMS. This policy sets forth how to use FIMS to help manage project scope, project schedule, project costs, project quality, and project risks.

Although NDF had implemented new policies, Kearney found that the policies relating to documenting project scope and project risk in FIMS were not always followed and that the controls relating to maintaining project schedules in FIMS were not effectively designed.

Project Scope and Project Risk

NDF policy required that copies of the Decision Summary[21] and Congressional Notification, both of which contain project scope information, be stored in the "Proposal" pages in FIMS. Kearney reviewed the eight active projects that NDF had initiated in 2013 after this policy was put in place and confirmed that the Decision Summaries and Congressional Notifications for seven of eight projects contained the project scope. However, none of the seven Decision Summaries were stored in the "Proposal" pages in FIMS. Further, the Congressional Notification for only one of seven projects was stored in FIMS, and it was stored on the "Related Content" page rather than the "Proposal" page. In addition, one of eight projects did not have a Decision Summary or Congressional Notification.

The Project Management Body of Knowledge (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." The project scope provides a common understanding to all project stakeholders of what is expected. If project scope is not properly managed, activities may be performed that do not support the overall project objective.

NDF policy also requires that PMs manage project risk through the "Issues" and "Next Actions" features in FIMS. Information on complexities that arise within projects that could affect project scope, schedule, or budget should be entered as "Issues," and details on the next steps required in the project should be entered as "Next Actions." NDF's Chief of Operations monitors project risks using the Project Implementation Status report. This FIMS-generated report summarizes key project details including "Issues" and "Next Actions" for active projects.

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[21] A Decision Summary is a memorandum signed by the Assistant Secretary of Legislative Affairs and submitted to Congress as part of the formal Congressional Notification.

On a monthly basis, the Chief of Operations provides the Project Implementation Status report to the NDF Director and discusses any missed targets or other project issues with PMs.

During our review of eight active projects, Kearney noted instances in which obstacles were encountered, but the PMs did not enter the obstacles into FIMS as "Issues." For example, one project was significantly delayed because of political unrest in the country in which the project was being executed, but the delay was not detailed in FIMS as an issue. Additionally, Kearney obtained all available Project Implementation Status reports[22] for the scope period, May 2012 – March 2014, and assessed the frequency in which information in "Next Actions" for the projects was entered and updated. Of the 41 projects included in the reports, Kearney identified 6 projects in which no "Next Actions" were entered throughout the life of the projects[23] and 26 projects in which the "Next Actions" were not updated for at least 6 consecutive months. In addition, one project did not appear on the Project Implementation Status report until 14 months after it had been initiated. Further, the Project Implementation Status report did not show how long an "Issue" or a "Next Action" had existed.

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 the "Issues" and "Next Actions" features are not completed or updated timely in FIMS, the Project Implementation Status report cannot be used to monitor project risks effectively. If project risks are not identified and monitored, NDF may not be able to take appropriate actions when risks occur, and the success of the project may be jeopardized.

Kearney concluded that the project management capabilities in FIMS were not consistently used because PMs were not trained sufficiently on how and when to use FIMS to manage project scope and risks. For example, Kearney asked three of seven PMs about the functionality of FIMS, and these PMs were unable to provide information on how to create "Issues" in FIMS or where "Issues" could be viewed.

OIG is closing Recommendation 7 from the 2012 report and issuing new recommendations to further improve NDF's project management controls.

> **Recommendation 3.** OIG recommends that the Nonproliferation and Disarmament Fund (NDF) develop and implement a plan to train all NDF staff on how to use the functionality of its information management system to manage projects.

> **Management Response and OIG Reply:** ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when

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[22] The Project Implementation Status report can only be generated real-time, and NDF did not maintain the report for 9 months within the 23-month period under audit. Therefore, Kearney could not review all 23 reports. However, Kearney did not consider this a scope limitation because a sufficient number of reports were available to reach a conclusion.

[23] Kearney identified a seventh project in which no "Next Actions" were entered; however, this project is classified, and Kearney believes it is reasonable to not use the "Next Actions" field for this project.

OIG reviews and accepts documentation showing that NDF has implemented a plan to train all NDF staff on how to use the functionality of its system to manage projects.

Recommendation 4. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a control to demonstrate that project managers are monitoring and documenting project progress in a timely manner. For example, project managers could be required to document the reason for the lack of progress if "Next Actions" are not updated for 3 consecutive months.

Management Response and OIG Reply: ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has implemented a control to demonstrate that project managers are monitoring and documenting project progress in a timely manner.

Recommendation 5. OIG recommends that the Nonproliferation and Disarmament Fund add a date field in the "Next Actions" area of the information management system to assist the Chief of Operations in monitoring project progress.

Management Response and OIG Reply: ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has added a date field in the "Next Actions" area of the information management system.

Project Schedule

NDF policy states that project schedules are to be monitored in FIMS through the use of Award Deliverables.[24] NDF developed an Award Record Checklist and a Financial Data Entry Checklist, both of which identify the elements of information that must be completed in FIMS for all NDF awards. PMs are to complete the Award Record Checklist, attach it to the award, and give the documents to the PM Support Team to enter into FIMS. The Finance staff completes the Financial Data Entry Checklist, including contract line item numbers (CLIN),[25] and enters the information into FIMS on the NDF Award Detail screens.

Because Award Deliverables have due dates associated with them, NDF believes that FIMS provides sufficient documentation to allow PMs and NDF management to monitor project schedules. However, some project files in FIMS did not contain Award Deliverables. Specifically, Kearney reviewed the eight active projects that were initiated in FY 2013 to determine whether NDF awards were created for these projects. The award agreements for two of the eight projects were not finalized. For the six remaining projects, Kearney identified four projects in which NDF awards were not created in FIMS for all awards related to the projects, as shown in Table 3.

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[24] An Award Deliverable is a service or product relating to a specific NDF award.
[25] Contract line item numbers are established to separate specific deliverables or to separate the contract in another manner, such as by labor category.

Table 3. NDF Awards Created for Active Projects Initiated in FY 2013

Projects	Binding Documents	Awards in FIMS
286	Interagency Agreement	No
	4 Contracts	Yes
296	Reimbursement Agreement	No
297	DRAFT Memorandum of Understanding	N/A
298	Memorandum of Understanding	No
302	Interagency Agreement	Yes
303	Contract	Yes
304	3 Contracts	No
305	2 DRAFT Memorandums of Understanding	N/A

Source: Prepared by Kearney based on its review of NDF's project files.

Even for the three projects for which awards were created in FIMS, the NDF Award Detail screens were not consistently completed, as required. Kearney reviewed the NDF Award Detail screens in FIMS to determine whether key fields were populated for the six awards created within the three projects. Kearney found that some required information was not provided in FIMS for each of the six awards. For example, four of the award screens did not include award signatures, three award screens did not include award descriptions, and one award screen did not include an award expiration date. Further, due dates were not included for any of the NDF awards. Table 4 provides a list of the projects and the information in the key fields of the NDF Award Detail screens.

Table 4. Information in Key Fields of NDF Award Detail Screens for Sampled Projects

Project Number	Award Number	Award Screen					Deliverable Screen				
		Description	Award Signatures	Award Effective Date	Award Expiration Date	Status	Deliverable Lines	Description	Start Date	Due Date	Status
296	SAQMMA14C0058	✔	✔	✔	✔	✔	D-0301	✔	-	-	✔
							D-0302	✔	-	-	✔
							D-0303	✔	✔	-	✔
							D-0304	✔	✔	-	✔
							D-0305	✔	✔	-	✔
							D-0306	✔	✔	-	✔
	SAQMMA14M0076	✔	-	✔	✔	✔	-	-	-	-	-
	SAQMMA14M0099	✔	✔	✔	✔	✔	D-0281	✔	✔	-	✔
							D-0282	✔	✔	-	✔
	SAQMMA14M0114	-	-	✔	✔	✔	D-0283	✔	✔	-	✔
							D-0284	✔	✔	-	✔
302	SIAA14NDF02	-	-	✔	✔	✔	-	-	-	-	-
303	SAQMMA14M0800	-	-	✔	-	✔	No Deliverables Created in FIMS				

Source: Prepared by Kearney based on its review of NDF project files in FIMS.

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.

The current process to enter project schedule and deliverable information into FIMS is complex, requiring NDF staff to drill down through several levels and screens. For example, Kearney had to drill down through three screens before accessing the Award Deliverables screen.

Kearney concluded that project schedules can be monitored through FIMS. However, if NDF awards are not created and award deliverables are not consistently entered and maintained in FIMS, the existing control to monitor project schedule is not effective. 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 therefore not be able to complete the project. OIG is issuing a new recommendation to address needed further corrective action.

> **Recommendation 6.** OIG recommends that the Nonproliferation and Disarmament Fund assess the existing procedures for entering project schedule and deliverable information into the information management system and determine whether the procedures are the most efficient and effective manner to monitor project schedule.

> **Management Response and OIG Reply:** ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has assessed its procedures and determined whether the procedures are the most efficient and effective manner to monitor project schedule.

Document Maintenance and Retention Policies Were Developed But Needed Improvement

During the 2012 audit, Kearney found that NDF was not always able to readily locate and produce project management documentation. OIG recommended that NDF develop and implement procedures to ensure that documentation maintenance and retention policies are followed consistently.[26] In response to this recommendation, NDF developed document management guidelines. At the time of this audit, the recommendation was resolved, pending further NDF action.

During this audit, Kearney found that PMs did not consistently maintain project-related documents in FIMS in accordance with the new guidelines. NDF's document management guidelines require that certain project documents be maintained in FIMS. Specifically, the guidelines require that the following documents be maintained in FIMS for each project: the proposal; the contracts and contract modifications, the Interagency Agreement, or the Memorandum of Understanding; the Congressional Notification; and the Decision Summary.

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[26] AUD-FM-13-17, Recommendation 9.

Kearney tested the eight active projects that were initiated during FY 2013 and found that the project files in FIMS did not contain all required documents for any of the eight projects. Specifically, eight project files did not contain the proposal; three project files did not contain the contract, Interagency Agreement, or Memorandum of Understanding; seven project files did not contain the Congressional Notification; and eight project files did not contain the Decision Summary. The project documents contained in FIMS for each of the eight projects are shown in Table 5.

Table 5. Project Documents in FIMS for Active Projects Initiated In FY 2013

Document	Project							
	286	296	297	298	302	303	304	305
Proposals	No	No	No	No	No	No	No	No
Contract, Interagency Agreement, or Memorandum of Understanding	No	No*	N/A**	Yes	Yes	Yes	No	N/A**
Congressional Notification	Yes	No	No	No	No	No	No	No
Decision Summary	No	No	No	No	No	No	No	No

*The reimbursable agreement associated with this project was not in FIMS. However, the other contracts associated with the project were in FIMS.

**The agreements for these projects were draft agreements when this testing was performed. Kearney concluded that it was appropriate that the agreements would not be included in FIMS until the agreements were finalized.
Source: Prepared by Kearney based on its review of NDF project files in FIMS.

Office of Management and Budget 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."

NDF management stated that it strives to ensure that information is readily available to employees when they are working offsite. However, in doing so, Kearney found that the process has become complex and ineffective. NDF maintains several "central" locations where project information can be stored such as the following:

- FIMS
- E: and H: Drives on the Department's Sensitive But Unclassified Network
- E: and H: Drives on the Department's Classified Network
- Share Drives on NDF Network
- SharePoint
- Box.com
- Gmail
- Google Drive
- Hard-Copy Finance Files
- Classified Hard-Copy Files

The same documents can be stored in more than one location. For example, NDF proposals can be stored on the Classified network E drive, the Sensitive But Unclassified network E drive, or in FIMS.

Without clear document maintenance and retention requirements, NDF cannot ensure that it is maintaining the documentation necessary to support project management decisions or that the documentation that is maintained can be readily located and accessed. Further, it may be necessary for projects to be moved between PMs for workload capacity and specialization reasons. If project files are not complete and documentation is not centrally 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.

OIG is closing Recommendation 9 from the 2012 report and issuing a new recommendation to further improve NDF's controls over documentation maintenance and retention.

> **Recommendation 7.** OIG recommends that the Nonproliferation and Disarmament Fund revise its document maintenance and retention guidelines to provide clear instructions on how and where to store all required project-related documents.

> **Management Response and OIG Reply:** ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has revised its document maintenance and retention guidelines to provide clear instructions on how and where to store all required project-related documents.

Project Closeout Controls Were Implemented But Were Not Properly Designed

During the 2012 audit, Kearney found that NDF did not have a control to ensure that projects were closed in a timely manner. OIG recommended that NDF develop a standard timeframe for closing out projects and implement a policy to ensure the standard timeframes for project closeouts were met.[27] In response to this recommendation, NDF developed and implemented a policy that established standard timeframes for closing out projects, and OIG closed the recommendation.

NDF's policy on standard timeframes for closing out projects, issued in April 2013, states that an NDF Review Panel will meet every 6 months, if not more often, to formally review and recommend projects for closure. Once a decision has been made on the projects to close, the NDF Review Panel Chairman will send an Action Memo to the Under Secretary for Arms Control and International Security Affairs requesting approval for project closeout. Prior to the submission of the Action Memo, each project requires a financial review to, among other things, ensure all open obligations are closed; a Project Manager's Report summarizes the activities and outcome of the project; and the NDF Comptroller concurs with the closure. Once these steps have occurred and the Action Memo is approved, the project will be closed and funds remaining

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[27] AUD-FM-13-17, Recommendation 10.

on the project will be returned to the NDF account and made available for future projects within 30 days.

In November 2012, NDF implemented a Project Closeout Checklist that lists the tasks that must be completed in order for a project to be closed. For example, the contracts relating to the project must be closed; a Project Closeout Summary must be prepared; and the checklist must be signed by the PM, the Chief of Operations, and the finance officer.

To determine whether the key tasks on the Project Closeout Checklist were completed, Kearney randomly selected 5 of 13 projects that were in the process of being closed and reviewed the closeout package. Kearney found that most of the key checklist items tested were completed for the five contracts. Specifically, the contracts relating to the projects were closed, and a Project Closeout Summary was prepared for all five projects. However, the Project Closeout Summary was not signed by the NDF Director for one project, and the Project Closeout Checklist was not signed by the Chief of Operations and the finance officer for one project. Table 6 shows the Project Closeout Checklist items completed for each of the five projects reviewed.

Table 6. Project Closeout Checklist Items Completed

	Project				
Checklist Task	**181**	**226**	**239**	**269**	**273**
Completed Contract Closeouts	Yes	Yes	Yes	Yes	Yes
Closure of Obligations	Yes	Yes	Yes	Yes	Yes
Project Closeout Summary Prepared	Yes	Yes	Yes	Yes	Yes
NDF Director Approval of Project Closeout Summary	Yes	Yes	No	Yes	Yes
Checklist signed by PM	Yes	Yes	Yes	Yes	Yes
Checklist signed by Chief of Operations	Yes	Yes	No	Yes*	Yes
Checklist signed by finance officer	Yes	Yes	No	Yes	Yes

*The PM signed as the Chief of Operations.
Source: Prepared by Kearney based on the results of its test of project closeout documentation.

Although most Checklist items were completed, Kearney found that the projects were not being closed out in a timely manner. The Action Memos for the five projects were submitted in June 2014. However, all five projects were complete and ready to close anywhere between 3 and 16 months prior to June 2014.

Although NDF's policy states that "ongoing projects where progress is slow or non-existent" will be reviewed to determine whether any project can be recommended for closure, NDF did not establish standards for the timeliness of the closeout processes that occur prior to the submission of the Action Memo. Without such standards, projects may remain in the active or closing phases for several months or years longer than necessary, delaying the return of unspent funds to the NDF account. OIG is issuing a new recommendation to address needed further corrective action.

> **Recommendation 8.** OIG recommends that the Nonproliferation and Disarmament Fund develop standard timeframes for the project closeout processes that occur prior to

the submission of the Action Memo and implement a policy to document that these timeframes are met or delays are explained.

Management Response and OIG Reply: ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has developed standard timeframes for project closeout processes and implemented a policy to document that these timeframes are met or delays are explained.

One Project Was Initiated Without Congressional Notification

When establishing NDF, Congress required that no less than 15 days before obligating any funds, a report on the proposed obligation be submitted to the Speaker of the House of Representatives, the President pro tempore of the Senate, and the appropriate congressional committees.[28] Once NDF notifies Congress 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, NDF may begin to execute the project. NDF's Project Management Guide requires that a copy of the Congressional Notification be obtained prior to creating a project in FIMS.

Kearney tested the eight active projects initiated during 2013 to confirm that Congressional Notification was made prior to the project being initiated and recorded in FIMS. Kearney identified one project that was initiated without the proper notification to Congress.

For the one project, NDF received an email from the Bureau of Legislative Affairs stating that "the requisite 15-day notification to Congress has been provided and the funds are now available for apportionment, allotment, and obligation." Once this email was received, NDF began the project. However, despite multiple NDF requests to the Bureau of Legislative Affairs, a copy of the Congressional Notification was not provided to NDF. During this audit, NDF learned that the Bureau of Legislative Affairs had never submitted the Congressional Notification for this project to Congress. In June 2014, NDF management began the process to cancel the project and planned to provide the proper notification to Congress before reinstating the project.

When the required Congressional Notification is not made, NDF risks spending funds that are not authorized. Because NDF has taken action to cancel the project and because the lack of notification in this case appears to have been an isolated incident, OIG is not issuing a recommendation related to this finding.

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[28] Freedom Support Act, Pub. L. No. 102-511 § 508.

Finding C. FIMS Data Integrity and Reporting Capabilities Were Improved Significantly But Could Be Further Improved

NDF had significantly improved the integrity of the financial data in FIMS since the 2012 audit. Specifically, Kearney identified a small number of obligations that were not recorded accurately, timely, or completely, but there were fewer exceptions than what had been identified in 2012. NDF also made significant improvements in the timeliness in which it recorded expenses and the completeness of the expenses in FIMS, although Kearney identified some expenses that were not recorded timely and one expense that was not recorded. The obligation and expense exceptions occurred primarily because NDF did not develop or execute sufficient reconciliations of the financial information in FIMS to the financial information in GFMS. When complete financial information is not recorded or not recorded timely, NDF management and PMs may not have the information necessary to properly manage projects.

Kearney also found that NDF had improved FIMS reporting capabilities and prepared and maintained reports that provided a sufficient audit trail. Kearney concluded that the standard reports generated by FIMS were sufficient to fulfill requirements for reliable and complete financial reports. However, Kearney noted that the reliability of these reports was limited by the accuracy, timeliness, and completeness of the information in FIMS. In addition, Kearney noted that accounting for the expenditure of donated funds continued to be a challenge.

NDF had also taken action to improve FIMS application level controls. Specifically, NDF had prepared a comprehensive system security plan and finalized its contingency plan. Both of these plans contained all required information. In addition, NDF strengthened its processes for making changes to FIMS in an effort to ensure that only approved changes were made. Further, NDF created a user access matrix to ensure that all FIMS users had the appropriate level of access. Although Kearney concurred with NDF's conclusions on the matrix, Kearney identified one profile that was not included in the matrix. Kearney also determined that the system administrator profiles enabled system administrators to change key financial data, which was not consistent with NDF's matrix or segregation of duties principles. Without proper segregation of duties, changes that are not authorized and are not detected can be made to data.

Data Integrity Was Improved Significantly, but Additional Improvements Were Needed

NDF had strengthened its controls over recording obligations and expenses in FIMS. As a result, the majority of obligations and expenses tested were entered accurately, timely, and completely. However, Kearney identified some obligations that were not entered accurately, timely, or completely. Kearney also identified expenses that were not entered timely and one expense that was not entered in FIMS.

Obligations

During the 2012 audit, Kearney found that obligations recorded in FIMS were not always accurate, complete, or timely. OIG recommended that NDF improve its policies and procedures

for recording obligations.[29] In response to this recommendation, NDF implemented a policy and procedures that clarified the type of documentation required to record an obligation, and OIG closed the recommendation.

During this audit, Kearney found that NDF had significantly improved the accuracy of obligations recorded in FIMS. Timeliness and completeness were also improved. However, Kearney identified some obligations that were not recorded accurately, timely, or completely.

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)."[30] 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 estimated obligations in FIMS based upon procurement requests. NDF identifies these obligations as estimates by using an indicator "flag" in FIMS. When NDF establishes a formal obligation and records the obligation in GFMS, the actual amount of the obligation should be entered and the estimate "flag" removed.

To test the accuracy of the obligations in FIMS, Kearney selected a sample of 68 obligations, with a value of $71 million. Kearney found that all of the obligations that were marked as estimates were recorded based upon appropriate documentation. However, the obligated amount of two of the obligations that were marked as final was not updated to match the amount in the contract, the official obligating document. Although these two errors were identified, tests results indicate that NDF had made progress since the 2012 audit to ensure that obligation amounts in FIMS were accurate. Table 7 provides the results of obligation accuracy testing during this audit compared with the results of testing during the 2012 audit.

Table 7. Results of Obligation Accuracy Testing

	2012 Audit		Current Audit	
	Count	**Percent**	**Count**	**Percent**
Number of Obligations Tested	140	100	68	100
The obligation recorded in FIMS was not supported by documentation; therefore, the amount could not be verified.	17	12	0	0
The obligation amount recorded in FIMS did not agree with the amount in the obligating document.	7	5	2	3

Source: Prepared by Kearney based on the results of its 2012 and 2014 obligation accuracy tests.

NDF finance officers indicated that they had intentionally not updated the amounts of these two obligations in FIMS to match the amounts in the signed contracts because the original requisitions were for more than the final contracts. The finance officers thought that they needed to take additional action to return the excess funds in the obligations to NDF before reducing the

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[29] AUD-FM-13-17, Recommendation 11.
[30] 31 U.S.C. § 1501, "Documentary Evidence Requirement for Government Obligations."

obligation amounts in FIMS. Kearney ran a series of reports from information in the GFMS Data Warehouse to demonstrate to the finance officers that the excess funds would automatically be returned to NDF when the final contract was executed and the formal obligation was recorded. Based on this information, the NDF finance officers updated FIMS for these two obligations and indicated that now that they are aware of the automatic refund of excess funds, they will not delay updating the amount of obligations in FIMS to match the amount in the official obligating document.

To test the timeliness of the removal of the estimate flag, Kearney tested 47 obligations that were recorded in GFMS after June 26, 2013, the date the new policy and procedures were implemented. Of 47 obligations, Kearney identified 17, approximately 36 percent, in which the estimate flag was not unchecked within 10 business days of the entry of the obligation into GFMS. For these 17 obligations, the estimate flag was removed between 18 and 193 days after the obligation was recorded in GFMS. Although 17 exceptions were identified, Kearney noted that this represented a significant improvement over the 2012 audit results. Specifically, in 2012, the estimate flag for 52, approximately 74 percent, of 70 obligations was removed between 16 and 803 days after the obligation was executed. Kearney recognizes the improvements NDF has made and understands the effort required to enter obligations into two different systems. However, obligations should be entered into FIMS within 10 business days of entry into GFMS to ensure that the data in FIMS is reasonably accurate.

To assess the completeness of obligations in FIMS, Kearney compared ULOs in FIMS with ULOs in GFMS as of March 31, 2014. Kearney identified 12 differences. Specifically, the amounts of four ULOs in FIMS were more than the amounts in GFMS, seven ULOs in GFMS were not in FIMS, and one ULO in FIMS was not in GFMS. The results of the obligation completeness test are provided in Table 8.

Table 8. Results of Obligation Completeness Testing

Reason for Difference	Number of Obligations	Difference in Available Amount Between Two Systems
Amount of the ULO in FIMS was more than the amount of the ULO in GFMS	4	$2,967,762
ULO in GFMS was not in FIMS	7	35,738
ULO in FIMS was not in GFMS	1	10,325

Source: Prepared by Kearney based upon a comparison of ULO reports from FIMS and GFMS.

NDF deobligated the seven ULOs that were in GFMS but not in FIMS after Kearney brought these differences to its attention. The ULO that was in FIMS but not in GFMS occurred because the ULO in FIMS was an estimate that was not properly marked as an estimate.

Expenses

During the 2012 audit, Kearney found that expenses recorded in FIMS were accurate; however, some expenses were not recorded, and recorded expenses were not documented in a timely manner. OIG recommended that NDF develop a standard for an acceptable time between the approval of an expense transaction and its entry into FIMS[31] and implement policies and procedures for reconciling data in FIMS to the data in GFMS on a periodic basis.[32] NDF issued policies and procedures for recording expenditures in FIMS timely and for performing reconciliations periodically, and OIG closed these recommendations.

During this audit, Kearney found that NDF had made significant improvements in the timeliness in which it recorded and the completeness of expenses in FIMS. An expense is an "[o]utflow 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."[33] In June 2013, NDF issued a policy stating that "NDF Finance Officers shall record expenditures in FIMS within five (5) business days upon receipt of a COR-certified invoice."

To assess whether NDF recorded expenses timely, Kearney selected and tested 19 expense transactions, amounting to $27.3 million, which were recorded between June 26, 2012, and March 31, 2014. Kearney identified four expenses, amounting to $15.1 million, that were not recorded timely. NDF recorded these expenses in FIMS between 13 and 19 days after the receipt of the invoice. During the 2012 audit, the average time between the date the invoice was approved and the date the expense was recorded in FIMS for the transactions tested was 87 days.

To assess the completeness of expenses in FIMS, Kearney compared the expenses recorded in FIMS with the expenses recorded in GFMS between May 1, 2012, and March 31, 2014. Kearney identified 484 transactions in FIMS that did not match the transactions in GFMS and 375 transactions in GFMS that did not match the transactions in FIMS. Kearney randomly selected and tested 10 of the unmatched transactions from each system. Of the 20 expense transactions tested, Kearney was able to manually trace 19 to the transactions in the other system. Kearney identified only one exception—an expense for prompt payment interest[34] that was recorded in GFMS but was not recorded in FIMS.

Although NDF developed and implemented controls to ensure that the obligation and expense amounts recorded in FIMS were accurate and complete and were recorded timely, NDF did not sufficiently develop or execute a secondary control to reconcile the data in FIMS with the data in GFMS. NDF's policy for reconciling financial data in FIMS consists of five procedure steps that "must be performed at a minimum once a month." In describing the first step, NDF's policy states, "NDF developed a FIMS Obligation List – GFMS Reconciliation Report for comparison with the GFMS Data Warehouse report. The report is an enhancement to FIMS to

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[31] AUD-FM-13-17, Recommendation 11.
[32] Ibid., Recommendation 12.
[33] Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."
[34] The Prompt Payment Act (31 U.S.C. §§ 3901-3905) requires that Federal departments and agencies pay proper invoices within a certain time after receipt or pay interest on the late payment.

facilitate reconciling financial data in FIMS to GFMS." Kearney found that the comprehensive reconciliation described in this first procedure step was not being performed. The other four procedure steps were manual and were performed at the transaction or project level, which limited their effectiveness.

When accurate and complete financial information is not recorded in FIMS or is not recorded timely, NDF management and PMs may not have the information they need to properly manage NDF projects. OIG is issuing a new recommendation to address needed further corrective action.

> **Recommendation 9.** OIG recommends that the Nonproliferation and Disarmament Fund (NDF) develop and implement a) an automated process to reconcile financial data in its information management system to the financial data in the Global Financial Management System on a periodic basis and b) requirements for documenting and reviewing the reconciliation. If an automated process is not possible, NDF should develop a manual process that captures all transactions in both systems over a period of time.

> **Management Response and OIG Reply:** ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has implemented an automated or adequate manual reconciliation process and requirements for documenting and reviewing the reconciliations.

FIMS Reporting Capabilities Were Improved

During the 2012 audit, Kearney found that the existing reporting function within FIMS did not have the capability to produce useful and timely reports for donor countries. OIG recommended that NDF identify end-users' reporting needs and modify FIMS to meet those needs.[35] At the time of this audit, the recommendation was resolved, pending further NDF action.

During this audit, Kearney found that NDF had improved FIMS reporting capabilities to produce useful and timely reports for donor countries and other stakeholders. Specifically, FIMS has the ability to produce reports showing the following:

- Expense transactions recorded over a period of time.
- Changes in obligations over a period of time.
- When the estimate flag was unchecked on an obligation.
- ULO balances as of a point in time.
- "Issues" and "Next Actions" across all projects.

Although these reports can only be generated real time, NDF now maintains a sufficient audit trail of the activity that occurred between periods by running and saving key reports on a periodic basis. Based on its review of the available reports, Kearney concluded that the standard

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[35] AUD-FM-13-17, Recommendation 14.

reports generated by FIMS were sufficient to fulfill requirements for reliable and complete financial reports. However, Kearney noted that the reliability of these reports was limited by the accuracy, timeliness, and completeness of the information in FIMS, which is discussed in the "Obligations" and "Expenses" sections of this finding.

Based on NDF's actions, OIG is closing Recommendation 14 from the 2012 report.

Donated Funds Should Be More Clearly Identifiable in Contractual Documents

During the 2012 audit, Kearney found that NDF properly accounted for donated funds that it received and obligated these amounts separately by donor in FIMS and GFMS. However, some donor countries' funds were included in the same CLIN under one contract. Each CLIN included a separate requisition funded by a specific donation that was identifiable by the allotment code, and the contractor performing the work was aware of this breakout. However, the requisition was not easily identifiable in GFMS, and NDF had to rely upon the contractor to allocate the expenditure of funds to the proper donor country. This occurred primarily because NDF was not always responsible for initiating the procurement request and could not ensure that a better tracking mechanism for donated funds was included in the contract. OIG recommended that NDF develop policies regarding its responsibility in the contracting process when donated funds are used.[36] At the time of this audit, the recommendation was resolved, pending further NDF action.

In August 2013 NDF issued a policy documenting the procedures to be used when developing a contract that will be paid, at least in part, with donated funds. Kearney reviewed this policy and noted that the policy did not require that each donation be recorded to a separate CLIN. Additionally, since the 2012 audit, NDF received $212,000 in donated funds, and these funds were again recorded to the same CLIN as non-donated funds.

OIG is closing Recommendation 13 from the 2012 report and issuing a new recommendation to help ensure that NDF can readily account for the expenditure of donor funds.

> **Recommendation 10.** OIG recommends that the Nonproliferation and Disarmament Fund revise its policies regarding the contracting process when donated funds are used to require that the funds are recorded to a separate contract line item number.

> **Management Response and OIG Reply:** ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has revised its policies regarding the contracting process when donated funds are used to require that the funds are recorded to a separate contract line item number.

FIMS Application Level Controls Were Improved

During the 2012 audit, Kearney found that NDF had implemented some controls to protect the data stored in FIMS. However, NDF did not have a comprehensive application

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[36] Ibid., Recommendation 13.

security plan, the system administrator had the ability to alter financial data, controls over changes made to the application were not sufficient, and a draft contingency plan had not been formally approved or implemented. OIG made four recommendations relating to these issues.[37] NDF took action to address the recommendations, and OIG closed three of the recommendations. One recommendation, that NDF should prepare a comprehensive system security plan, was resolved, pending further NDF action.[38]

During this audit, Kearney found that NDF had prepared and finalized a comprehensive system security plan for FIMS in November 2013. According to the National Institute of Standards and Technology[39] (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." Kearney reviewed the system security plan and found that it provided an overview of FIMS security requirements, described the controls to meet those requirements, and delineated responsibilities and expected behaviors of individuals accessing FIMS. Based on NDF's actions, OIG is closing Recommendation 15 from the 2012 audit report.

NDF had also finalized its contingency plan. NIST standards 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." Kearney reviewed the contingency plan and found that it contained all required information.

Additionally, NDF updated the process by which it makes changes to FIMS. Kearney reviewed the process changes and concluded that they were sufficient, given the level of risk associated with the system. For example, all changes made to FIMS are now reviewed by the Requirement Management Team and the NDF Director to ensure that only approved changes are made.

Further, in April 2013 NDF created a user access matrix to ensure that all FIMS users had the appropriate level of access. Kearney reviewed the matrix and NDF's conclusions on the level of access each user needed and concurred with NDF's conclusions. According to NDF management, NDF updated users' access to comply with the user access matrix. However, during audit procedures, Kearney discovered that NDF had created a second administrative profile, the Custom System Administrator, in addition to the existing System Administrator profile. NDF had not updated the user access matrix to include this profile. In addition, both system administrator profiles had the ability to change key financial data, such as obligation amounts. Kearney also identified one individual who had an account as both the System Administrator and the Custom System Administrator.

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[37] Ibid., Recommendations 15, 16, 17, and 18.
[38] Ibid., Recommendation 15.
[39] NIST Special Publication 800-18, rev. 1, "Guide for Developing Security Plans for Federal Information Systems."

According to NIST standards,[40] 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." Allowing system administrators to change key financial data was not consistent with NDF's matrix or segregation of duties principles.

Without proper segregation of duties, changes may be made to the data in FIMS without proper authorization and without proper visibility. This reduces the reliability of the data in FIMS and could limit NDF's ability to identify unauthorized changes and determine how they occurred.

Recommendation 11. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a process to review annually the permissions of information management system users and verify that all users have only one profile and the privileges of that profile are consistent with their assigned job functions and responsibilities as documented in the April 2013 user access matrix.

Management Response and OIG Reply: ISN concurred with this recommendation, and OIG considers the recommendation resolved. The recommendation can be closed when OIG reviews and accepts documentation showing that NDF has implemented a process to review information management system user permissions annually to verify that all users have only one profile with privileges consistent with their job responsibilities.

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[40] NIST Special Publication 800-53, rev. 3, "Recommended Security Controls for Federal Information Systems and Organizations."

List of Recommendations

Recommendation 1. OIG recommends that the Nonproliferation and Disarmament Fund provide contracting officer representatives a written notification of the requirement to complete the Certification of Deliverables form.

Recommendation 2. OIG recommends that the Nonproliferation and Disarmament Fund update its policy on the use of notwithstanding authority to require that the specific provisions within the laws and regulations for which the authority is used be identified and documented and, if practicable, add additional fields in its information management system to align documentation requirements with the current policy.

Recommendation 3. OIG recommends that the Nonproliferation and Disarmament Fund (NDF) develop and implement a plan to train all NDF staff on how to use the functionality of its information management system to manage projects.

Recommendation 4. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a control to demonstrate that project managers are monitoring and documenting project progress in a timely manner. For example, project managers could be required to document the reason for the lack of progress if "Next Actions" are not updated for 3 consecutive months.

Recommendation 5. OIG recommends that the Nonproliferation and Disarmament Fund add a date field in the "Next Actions" area of the information management system to assist the Chief of Operations in monitoring project progress.

Recommendation 6. OIG recommends that the Nonproliferation and Disarmament Fund assess the existing procedures for entering project schedule and deliverable information into the information management system and determine whether the procedures are the most efficient and effective manner to monitor project schedule.

Recommendation 7. OIG recommends that the Nonproliferation and Disarmament Fund revise its document maintenance and retention guidelines to provide clear instructions on how and where to store all required project-related documents.

Recommendation 8. OIG recommends that the Nonproliferation and Disarmament Fund develop standard timeframes for the project closeout processes that occur prior to the submission of the Action Memo and implement a policy to document that these timeframes are met or delays are explained.

Recommendation 9. OIG recommends that the Nonproliferation and Disarmament Fund (NDF) develop and implement a) an automated process to reconcile financial data in its information management system to the financial data in the Global Financial Management System on a periodic basis and b) requirements for documenting and reviewing the reconciliation. If an automated process is not possible, NDF should develop a manual process that captures all transactions in both systems over a period of time.

Recommendation 10. OIG recommends that the Nonproliferation and Disarmament Fund revise its policies regarding the contracting process when donated funds are used to require that the funds are recorded to a separate contract line item number.

Recommendation 11. OIG recommends that the Nonproliferation and Disarmament Fund develop and implement a process to review annually the permissions of information management system users and verify that all users have only one profile and the privileges of that profile are consistent with their assigned job functions and responsibilities as documented in the April 2013 user access matrix.

Scope and Methodology

In March 2014, the Nonproliferation and Disarmament Fund (NDF) requested a follow-up 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).[1] An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit.

Kearney conducted this performance audit from March to July 2014 in Washington, D.C. 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 leveraged information obtained during a 2012 audit[2] of NDF and documentation provided by NDF to OIG in response to the recommendations included in the report on that audit. Kearney also met with NDF personnel and contractors to obtain additional details regarding NDF's processes related to contracting and project management and to obtain an understanding of the current use of FIMS. Kearney 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 country that donated funds in November 2012 to support the implementation of NDF's project in Libya.

Based upon its preliminary work, Kearney divided the contracting process review into five sub-processes: contract initiation, contract modification, unliquidated obligation (ULO) monitoring, invoice approval, and contract closeout. Kearney identified the risks within each of these sub-processes and the controls in place to address those risks. The controls tested were

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[1] During this performance audit, NDF changed the name of its internal financial and project management system from FIMS to the Project and Information Management System. However, to promote consistency, Kearney maintained the use of the former term throughout this report.

[2] *Audit of Nonproliferation and Disarmament Fund Controls Over Contracting and Project Management and Integrity of Financial Data* (AUD-FM-13-17, Dec.2012).

implemented or improved in response to recommendations made during the 2012 audit. To assess the operating effectiveness of controls related to contract initiations, contract modifications, and invoices, Kearney obtained reports listing all obligations and expense activity recorded in FIMS during the scope period, from which Kearney selected samples. (See the Detailed Testing Methodology section in this appendix for additional information on sample selection.) Kearney used reports from the Global Financial Management System (GFMS) to identify the contracts that NDF closed during the scope period.

Kearney noted during its preliminary work that NDF had recently implemented several policies related to project management. Kearney sought to determine whether NDF's new policies and controls sufficiently addressed all key aspects of project management. Therefore, Kearney planned procedures to review documentation to determine whether these key aspects were met. Kearney obtained three listings of projects (active, closed, and closing) from FIMS as of April 17, 2014. The active and closing projects were considered to be most relevant to the objectives of the audit.

Based upon its preliminary work, Kearney determined the key data fields in FIMS to address the audit objectives. Specifically, Kearney concluded that project funding, 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 2012 were traced and agreed to the appropriation legislation. For donations, the current balance in FIMS was agreed to GFMS and the binding agreement with the host country. 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 GFMS.

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 of State (Department) during this audit. Kearney obtained listings of projects, obligations, expenses, and ULOs from FIMS. Kearney used these populations to select samples for testing. Issues identified are detailed in the Audit Results section, Findings B and C. Additionally, Kearney obtained FY 2012–2014 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 performed procedures to evaluate the listing of ULOs obtained from the GFMS Data Warehouse as part of the audit of the Department's FY 2014 Financial Statements and concluded that the listing was 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 Testing Methodology

The testing objectives were to determine

- whether the controls identified by Kearney as effectively designed for contract initiation, contract modification, ULO monitoring, vendor invoice approval, and contract closeout were functioning as designed;
- whether new controls related to project management, including project closeout, placed in operation since the 2012 audit of NDF were sufficient;
- the accuracy of the obligation and expense data recorded in FIMS; and
- the completeness of the obligation and expense data recorded in FIMS.

Obligations, Contract Initiations, and Contract Modifications

To obtain the universe of NDF obligations for data accuracy testing, Kearney obtained a population of all obligations recorded in FIMS between April 1, 2012, and April 15, 2014. Kearney then removed obligations recorded outside the scope period, May 1, 2012, to March 31, 2014; removed all negative modifications; and selected a classic variable sample[3] of 68 obligations, with a value of $71 million, to test. The universe of obligations and the adjustments made are provided in Table 1.

Table 1. Universe of Obligations for Data Accuracy Testing

	Count	Dollar Amount
Obligations Recorded Between April 1, 2012, and April 15, 2014	403	$95,371,378
Less: Obligations Recorded Outside the Scope Period	25	30,418,670
Less: Negative Modifications	120	(9,231,954)
Adjusted Obligation Universe Used For Sampling	258	$74,184,662
Obligations Selected and Tested	68	$71,336,605

Source: Prepared by Kearney based on its review of reports of obligations in FIMS and obligation details.

To test the timeliness of obligations, Kearney selected 47 obligations from the classic variable sample of 68. These 47 obligations represented all obligations that were recorded in GFMS after June 26, 2013, the date NDF implemented its new policies and procedures for recording obligations.

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[3] Classic variable sampling is a method of statistical sampling in which each individual item in the population is treated as a sampling unit.

To test the completeness of obligations, Kearney compared the ULOs in FIMS with the ULOs in GFMS as of March 31, 2014.

To obtain the universe of NDF contract initiations and contract modifications, Kearney leveraged the population obtained for testing obligations and removed transactions that occurred prior to June 12, 2013, the date NDF implemented the new controls surrounding contract initiation and modification. Kearney researched the remaining obligations in FIMS to identify the obligations related to contract initiations and the obligations related to contract modifications. Based upon this analysis, Kearney concluded that there were 10 contracts initiated during the scope period and 27 contract modifications, as shown in Table 2.

Table 2. Universe of Contract Initiations and Modifications

	Count	Dollar Amount
Universe Used for Testing Obligations	258	$74,184,662
Less: Obligations Recorded Before June 12, 2013	115	42,195,383
Less: Non-Contractual Obligation Transactions	106	11,964,233
Universe of Contract Initiations	**10**	**$9,568,820**
Universe of Contract Modifications	**27**	**$10,456,225**

Source: Prepared by Kearney based on its review of reports of obligations in FIMS and obligation details.

Kearney determined that 3 of the 10 contract initiations and 8 of the 27 contract modifications were included in the 68 obligations selected for data accuracy testing. Therefore, Kearney selected these three contract initiations and eight contract modifications to test for internal control purposes. The number and dollar amount of contract initiations and contract modifications tested are provided in Table 3.

Table 3. Number and Dollar Amount of Contract Initiations and Modifications Tested

	Count	Dollar Amount
Contract Initiations Sample	3	$8,486,720
Contract Modification Sample	8	$2,822,194

Source: Prepared by Kearney based on sample information.

Unliquidated Obligations Monitoring

To test the effectiveness of ULO monitoring controls, Kearney reviewed all 66 NDF ULOs, amounting to $30 million, in GFMS as of March 31, 2014. Kearney identified 13 ULOs without activity since September 2013 and obtained and reviewed the supporting documentation for these 13 ULOs.

Contract Closeouts

To obtain the universe of contracts closed during the scope period, May 1, 2012, to March 31, 2014, Kearney obtained the ULO databases audited during the audits of the Department's financial statements: September 30, 2012; December 31, 2012; March 31, 2013; June 30, 2013; September 30, 2013; and March 31, 2014. Kearney isolated the ULOs related to NDF contracts in each database. Kearney then identified closed contracts as contracts that appeared in one ULO database but did not exist in the subsequent ULO database. Through this

process, Kearney determined there were 10 contracts, amounting to $5.1 million, closed during the scope period. Of the 10 contracts, Kearney randomly selected a sample of 3 contracts, amounting to $1.3 million, for testing.

Expenses and Invoices

To obtain the universe of NDF expenses for data accuracy testing, Kearney obtained all expense transactions recorded in FIMS during the scope period, May 1, 2012, to March 31, 2014. Kearney excluded transactions that netted to zero and credit transactions. From the adjusted expense universe, Kearney selected a monetary unit sample[4] of 58 expenses to test for accuracy. The universe of expense transactions and the adjustments made are provided in Table 4.

Table 4. FIMS Universe of Expense Transactions for Data Accuracy Testing

	Count	Dollar Amount
Expenses Recorded Between May 1, 2012, and March 31, 2014	2,396	$ 117,993,480
Less: Transactions that Net to Zero	347	0
Less: Credit Transactions	37	(4,161,091)
Adjusted Expense Universe Used For Sampling	2,012	$122,154,571
Expenses Selected and Tested	58	$106,117,117

Source: Prepared by Kearney based on its review of reports of expenses in FIMS and expense details.

To test the timeliness of expense transactions, Kearney selected 19 expense transactions from the monetary unit sample of 58. These 19 expense transactions represented all expenses that were recorded in GFMS after June 26, 2012, the date NDF implemented its new policies and procedures for recording expenses.

To obtain the universe of invoices for control testing, Kearney used the population obtained for testing expenses and removed transactions that occurred prior to the implementation of the new controls surrounding invoice approval, August 22, 2013. Kearney then researched the expenses to determine which were subject to the invoice approval control. Kearney removed the transactions that were not part of the control environment to arrive at the universe of invoices subject to testing, as shown in Table 5.

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[4] Monetary unit sampling is a method of statistical sampling in which each dollar in a transaction is treated as a separate sampling unit.

Table 5: FIMS Universe of Invoice Transactions

	Count	Dollar Amount
Adjusted Expense Universe Used For Sampling	2,012	$122,154,571
Less: Expenses Recorded Before August 22, 2013	1,511	91,391,731
Less: Payments made to personal services contractors	222	408,873
Less: Travel Payments	109	91,711
Less: Intra-Departmental Payments	63	2,116,072
Less: Grant Payments	7	811,100
Less: Intra-Governmental Payments	12	14,498,504
Adjusted Expense Universe Used For Sampling	**88**	**$12,836,580**

Source: Prepared by Kearney based on its review of reports of expenses in FIMS and expense details.

Kearney determined that of the 88 invoices, 12 invoices, with a total value of $9,465,941, were included in the 58 expenses selected from FIMS for data accuracy testing. Therefore, Kearney selected these 12 invoices to test for internal control purposes.

To obtain the universe of NDF expenses for completeness testing, Kearney obtained all expense transactions recorded in FIMS between May 1, 2012, and March 31, 2014. In addition to the FIMS transactions, Kearney obtained all NDF expense transactions from GFMS[5] recorded in FY 2012, FY 2013, and FY 2014 as of April 15, 2014.[6] Kearney performed a series of exclusions from the two populations to remove non-expense transactions. Kearney then matched the transactions in both systems using IDEA®.[7] Kearney excluded transactions in GFMS that were outside the scope period. From the remaining unmatched population, Kearney randomly selected 20 transactions–10 from FIMS and 10 from GFMS.

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[5] Kearney used Department of the Treasury symbols 1911_X1075.0, 1911_X1075.D, and 1911_X1071.0, which are unique to NDF, to isolate the population.

[6] Kearney obtained expense transactions from additional GFMS periods to account for potential timing differences.

[7] IDEA® is an Audimation Services, Inc., computer program used to analyze data and, based upon the parameters input by the user, select a sample to aid in evaluating the results of the sample.

Table 6. Expense Completeness Universe

	FIMS		GFMS	
	Count	**Dollar Amount**	**Count**	**Dollar Amount**
Expenses Recorded in FY 2012, FY 2013, and FY 2014			3,040	$18,341,706
Expenses Recorded Between May 1, 2012, and March 31, 2014	2,396	$ 117,993,480		
Less: Closing Entries			65	(91,911,032)
Less: Journal Vouchers			58	(41,028,668)
Less: Transactions that Net to Zero	347	0	476	0
Universe Used for Matching	**2,049**	**117,993,480**	**2,441**	**$151,281,406**
Less: Transactions Matched*	1,565	111,323,146	1,665	111,323,146
Less: Transactions Outside the Scope Period			401	33,902,283
Universe Used For Sampling	484	$6,670,334	375	$6,055,977

*The count of transactions in FIMS does not match the count of transactions in GFMS because, in some cases, a single transaction in FIMS may result in multiple transactions in GFMS.
Source: Prepared by Kearney based upon its analysis of data in reports from FIMS and GFMS Data Warehouse.

Project Management

For project management testing, Kearney obtained the universes of active projects, closing projects, and closed projects from FIMS as of April 17, 2014. The total number of projects and number of projects tested are shown in Table 7.

Table 7. FIMS Active, Closing, and Closed Projects

Status	Total Number of Projects	Total Amount Notified	Number of Projects Tested	Tested Amount Notified
Active	36	$405,170,731	8	$104,440,000
Closing	13	$37,566,000	5	$17,941,000
Closed	159	$215,125,524	0	$0

Source: Prepared by Kearney based on information obtained from FIMS.

Of 36 active projects, 8 were initiated in 2013. Because most of the process changes related to project management did not begin until 2013, Kearney believed the more recent projects would best reflect the implementation of new controls; therefore, Kearney selected all eight projects for sample testing. The project numbers and descriptions are provided in Table 8.

Table 8. Active Projects Sample Population

Project Number	Project Description
NDF-286	Argon 37 Collection and Measurement
NDF-296	Weapons of Mass Destruction Elimination and Safeguard (Syria)
NDF-297	Missile Destruction (Ukraine)
NDF-298	Organisation for the Prohibition of Chemical Weapons, Syria, and Chemical Weapons Related
NDF-302	Shutdown of Russian Plutonium Production Reactors
NDF-303	Nuclear Security South Asia
NDF-304	Interdiction - Conventional and Proliferation Security Initiative Weapons of Mass Destruction
NDF-305	International Atomic Energy Agency Middle East and North Africa

Source: Prepared by Kearney based on information obtained from FIMS.

All projects in the closed projects universe were closed before the implementation of NDF's new policy for closing out NDF projects, so none of these projects were selected for testing. Therefore, Kearney randomly selected 5 of the 13 projects from the closing projects universe for testing the project closeout process. The projects selected are listed in Table 9.

Table 9. Closing Projects Sample Population

Project Number	Project Description
NDF-181	Tracker 2003
NDF-226	Weapons of Mass Destruction Efforts in Libya
NDF-239	Republic of Poland to head three Proliferation Security Initiatives interdiction training exercises
NDF-269	Nuclear Materials
NDF-273	Scud Missile Destruction

Source: Prepared by Kearney based on information obtained from FIMS.

Current Statuses of Recommendations From Report AUD/FM-13-17

Kearney reviewed the actions implemented by management to mitigate the findings identified in the FY 2012 audit report. The current status of each of the recommendations is as follows:

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.

2014 Status: Closed. NDF updated its policies to help ensure compliance with contract initiation and modification documentation and approval requirements, and OIG closed the recommendation prior to this audit. Kearney confirmed the policies were in place and operating effectively. Therefore, no further action is required.

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.

2014 Status: Closed. NDF improved its invoice certification controls, and OIG closed the recommendation prior to this audit. Although NDF completed corrective action necessary to meet the intent of the recommendation, Kearney found that the new control had not been consistently executed. Therefore, OIG is issuing a new recommendation (Recommendation 1 in the 2014 report) to address needed further corrective action.

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.

2014 Status: Closed. NDF developed and implemented an unliquidated obligation review process, and OIG closed the recommendation prior to this audit. Kearney confirmed the process was effectively implemented. Therefore, no further action is required.

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

2014 Status: Closed. NDF implemented a policy requiring employees to close out contracts consistent with Federal and Department of State acquisition regulations and reiterated the existence of tools to facilitate the contract closeout process, and OIG closed the recommendation prior to this audit. Kearney confirmed that NDF had sufficiently remediated the backlog of contracts requiring closure. Therefore, no further action is required.

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.

2014 Status: Closed. NDF updated its policy regarding the use of notwithstanding authority. At the time of this audit, this recommendation was resolved, pending further NDF action. Kearney found that the updated policy was not in line with current practices and did not require that NDF document the use of this authority at a sufficient level of detail. Therefore, OIG is closing Recommendation 5 from the 2012 report and issuing a new recommendation (Recommendation 2 in the 2014 report) to further improve NDF's controls over the use of notwithstanding authority.

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.

2014 Status: Closed. NDF identified and implemented key project management controls, and OIG closed the recommendation prior to this audit. Kearney confirmed that NDF had identified and implemented the controls. Therefore, no further action is required.

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.

2014 Status: Closed. NDF developed policies for using FIMS for project management. At the time of this audit, this recommendation was resolved, pending further NDF action. Kearney found that some policies were not always followed and some controls were not effectively designed. Therefore, OIG is closing Recommendation 7 from the 2012 report and issuing new recommendations (Recommendations 3 and 4 in the 2014 report) to further improve NDF's project management controls.

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.

2014 Status: Closed. NDF identified key project management activities and implemented a formal process to perform and document these activities, and OIG closed the recommendation prior to this audit. Although NDF completed corrective action necessary to meet the intent of the recommendation, Kearney found that some policies were not always followed and some controls were not effectively designed. Therefore, OIG is issuing new recommendations (Recommendations 5 and 6 in the 2014 report) to further improve NDF's project management controls.

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.

2014 Status: Closed. NDF developed and implemented procedures to ensure that documentation maintenance and retention policies were followed consistently. At the time of this audit, this recommendation was resolved, pending further NDF action. Kearney found that NDF project managers did not consistently follow the new guidelines. Therefore, OIG is closing Recommendation 9 from the 2012 report and issuing a new recommendation (Recommendation 7 in the 2014 report) to further improve NDF's controls over documentation maintenance and retention.

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.

2014 Status: Closed. NDF developed and implemented a policy that established a standard timeframe for closing out projects, and OIG closed the recommendation prior to this audit. Although NDF completed corrective action necessary to meet the intent of the recommendation, Kearney found that some projects were not closed timely. Therefore, OIG is issuing a new recommendation (Recommendation 8 in the 2014 report) to address needed further corrective action.

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.

2014 Status: Closed. NDF implemented policies and procedures that clarified the type of documentation required to record an obligation and that required recording expenditures in FIMS timely, and OIG closed the recommendation prior to this audit. Although NDF completed corrective action necessary to meet the intent of the recommendation, Kearney identified some obligations and expenses that were not recorded accurately or timely or were not recorded. Therefore, OIG is issuing a new recommendation (Recommendation 9 in the 2014 report) to address needed further corrective action.

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.

2014 Status: Closed. NDF issued policies and procedures for performing reconciliations periodically, and OIG closed the recommendation prior to this audit. Although NDF completed corrective action necessary to meet the intent of the recommendation, Kearney found that NDF had not developed or executed sufficient reconciliations. Therefore, OIG is issuing a new recommendation (Recommendation 9 in the 2014 report) to address needed further corrective action.

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.

2014 Status: Closed. NDF developed policies regarding its responsibility in the contracting process when donated funds are used. At the time of this audit, this recommendation was resolved, pending further NDF action. Kearney found that accounting for the expenditure of donated funds continued to be a challenge. Therefore, OIG is closing Recommendation 13 from the 2012 report and issuing a new recommendation (Recommendation 10 in the 2014 report) to address needed further corrective action.

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.

2014 Status: Closed. NDF improved FIMS reporting capabilities to produce useful and timely reports for donor countries. At the time of this audit, this recommendation was resolved, pending further NDF action. Kearney found that the standard reports generated by FIMS were sufficient to fulfill requirements for reliable and complete financial reports. Based on NDF's actions, OIG is closing Recommendation 14 from the 2012 report.

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

2014 Status: Closed. NDF prepared a comprehensive system security plan. At the time of this audit, this recommendation was resolved, pending further NDF action. Kearney found that the system security plan contained all required elements. Based on NDF's actions, OIG is closing Recommendation 15 from the 2012 report.

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.

2014 Status: Closed. NDF created a user access matrix to ensure that all FIMS users had the appropriate level of access, and OIG closed the recommendation prior to this audit. Although

NDF completed corrective action necessary to meet the intent of the recommendation, Kearney identified system administrator profiles that had the ability to change key financial data, which is not consistent with segregation of duties principles. Therefore, OIG is issuing a new recommendation (Recommendation 11 in the 2014 report) to address needed further corrective action.

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.

2014 Status: Closed. NDF updated its process by which it made changes to FIMS, and OIG closed the recommendation prior to this audit. Kearney confirmed that the process changes were sufficient, given the level of risk associated with FIMS. Therefore, no further action is required.

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

2014 Status: Closed. NDF finalized and implemented its contingency plan, and OIG closed the recommendation prior to this audit. Kearney confirmed that the final, implemented contingency plan contained all required information. Therefore, no further action is required.

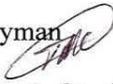# Bureau of International Security and Nonproliferation Response

United States Department of State

Bureau of International Security and Nonproliferation

Washington, D.C. 20520

November 3, 2014

MEMORANDUM

TO: OIG/AUD – Norman Brown

FROM: ISN - Thomas M. Countryman

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

Let me begin by thanking the Audit team for their hard work, professional conduct, and useful insights. I was particularly pleased to learn that the Nonproliferation and Disarmament Fund (NDF) have made improvements since the last audit in 2012.

We agree with all 11 recommendations of the 2014 audit with one caveat related to Recommendation #2, which calls on the NDF to "… modify its policy on the use of the notwithstanding authority to require that the specific provisions within law and regulation for which the authority is used be identified and documented…"

The Department's Office of the Legal Advisor (L) makes all determinations regarding the use of NDF's "notwithstanding" authority subject to approval by the Under Secretary for International Security Affairs (T) and notification to Congress. As documented in the Department's formal decisions and congressional notification documents, the position of the Office of the Legal Advisor, for the past 20 years, is that a broad rather than specific use of the "notwithstanding" authority for the NDF better serves the needs of the Department when addressing activities to be conducted in countries of concern, state sponsors of terrorism, and/or when activities are global or cover multiple countries. It is neither practical nor prudent to attempt to cite all of the various laws that may need to be withstood over a long time span when conducting activities relating to Syria, Libya, North Korea, or Iran because there are numerous restrictions on assistance to these countries, including but not limited to terrorist country restrictions, additional Foreign Assistance Act restrictions, trade restrictions, and nonproliferation sanctions.

Action has begun to implement the remaining recommendations and we would welcome further discussion on Recommendation #2

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