



Office of Inspector General

United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Semiannual Report to the Congress

April 1, 2006 to September 30, 2006



Summary of OIG Accomplishments

Financial Results:

Questioned costs

Issued during the reporting period	\$ 795,000
Management decision during the reporting period	\$ 13,000

Recommendations for funds to be put to better use

Issued during the reporting period	\$15,602,000
Management decision during the reporting period	\$ -0-

Investigative recoveries \$ 443,670

Investigative Results:

Cases opened	15
Cases closed	12
Judicial actions	16
Administrative actions	11
Hotline and complaint activity	275

Reports Issued: **50**

Picture on the front cover: Embassy Santiago, Chile

Requests for additional copies of this
publication should be addressed to:

Office of Inspector General
U.S. Department of State
OIG/EX, Room 810
1700 North Moore Street
Arlington, VA 22209

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
CONGRESSIONAL ACTIVITIES AND OUTREACH	9

DEPARTMENT OF STATE

AUDITS	13
INSPECTIONS	29
INFORMATION TECHNOLOGY.....	45
INVESTIGATIONS.....	47
APPENDIX 1: DEPARTMENT OF STATE INVESTIGATIVE ACTIVITIES.....	53
APPENDIX 2: REPORTS ISSUED.....	55
APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES	59
Table 1: Questioned Costs	
Table 2: Funds To Be Put To Better Use	
APPENDIX 4: RESOLUTION OF REPORTS AND RECOMMENDATIONS	61

BROADCASTING BOARD OF GOVERNORS

AUDITS	69
INFORMATION TECHNOLOGY.....	73
INSPECTIONS	75
INVESTIGATIONS.....	77
APPENDIX 1: BROADCASTING BOARD OF GOVERNORS INVESTIGATIVE ACTIVITIES	79
APPENDIX 2: REPORTS ISSUED.....	81
APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES	83
Table 1: Questioned Costs	
Table 2: Funds To Be Put To Better Use	

LIST OF ABBREVIATIONS	85
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EXECUTIVE SUMMARY

The auditors, inspectors, investigators, and other professionals in the Office of Inspector General (OIG) promote effective management, accountability, and positive change in the Department of State (Department), the Broadcasting Board of Governors (BBG), and the foreign affairs community. They provide leadership to:

- promote integrity, efficiency, effectiveness and economy;
- prevent and detect waste, fraud, abuse and mismanagement;
- identify vulnerabilities and recommend constructive solutions;
- offer expert assistance to improve Department and BBG operations;
- communicate timely, useful information that facilitates decision-making and achieves measurable gains; and
- keep the Department, BBG and the Congress fully and currently informed.

This report summarizes work carried out by OIG during the period April 1 through September 30, 2006, which included the issuance of 50 reports of audits, inspections, and other reviews with recommendations to improve Department and BBG programs and operations. A full list of reports issued by OIG during this period can be found in Appendix 2.

Iraq Oversight

Supplemental funding of \$1.7 million has enabled OIG to provide oversight of Department activities in Iraq and Afghanistan in FY 2006. During this reporting period, OIG performed a survey of anticorruption programs in Iraq. The survey drew on OIG's previous inspection report, issued last period, of Embassy Baghdad's rule-of-law programs and, in particular, that report's key judgment that "Basic to the success of all U.S. hopes for democracy and good governance in Iraq is an effective anti-corruption regime." Conducted in collaboration with a team from the Special Inspector General for Iraq Reconstruction (SIGIR), which issued a parallel audit report, the OIG survey included an inventory of U.S. government funding for anticorruption programs in Iraq and an analysis of the work done by the Embassy's 13-member anticorruption working group. The survey found that the interagency

process for promoting public integrity in Iraq is working reasonably well, but given the general recognition that corruption in Iraq is widespread and with less than \$65 million in U.S. funding for this purpose, a greater U.S. effort with more interagency cooperation and greater international support were needed. The survey also found that the institutional framework for Iraqi anticorruption activities is in place, with a Board of Supreme Audit, a Commission on Public Integrity, and Inspectors General for each ministry, but it is fragile, and improved collaboration among the three institutions and the Iraqi courts is a priority.

A joint OIG survey with SIGIR identified funding received and expended by the Bureau of International Narcotics and Law Enforcement Affairs (INL) that was earmarked for Iraq-related activities and evaluated INL accounting procedures for those funds. Of nearly \$1.5 billion available to INL for activities in Iraq, the bureau had obligated about \$1.312 billion, or about 88 percent, as of December 31, 2005. INL was able to track Iraqi-related funds received and allotted to major programs and procurement actions, and financial information forwarded to the Department's Bureau of Resource Management was generally accurate. However, some funding recipients, primarily the Department of Justice and its independent agencies, did not adequately provide financial information on the status of the expenditure of funds received from INL through memoranda of agreement. In response to the report's recommendations, INL has initiated or proposed solutions that will strengthen financial accountability and internal controls, including enhanced liaison between INL and the Justice Department to foster better, more timely financial reporting by the Justice Department for activities in Iraq that are funded through INL.

Protection of People and Facilities

One of the most pressing challenges for the Department and BBG continues to be providing for the protection of people, information, and facilities. Over this period, OIG issued seven classified security annexes in conjunction with management reviews of embassies and constituent posts in Panama, El Salvador, Costa Rica, Latvia, Chile, Hungary, and Argentina. The details of the annexes are discussed in a classified annex to this report. OIG also issued a summary report of personal security awareness at 14 missions inspected during FY 2006 and noted some success in addressing compound security upgrades at existing facilities, although physical and technical security vulnerabilities still accounted for almost half of OIG recommendations issued during the period, including the need to upgrade access control points at mission compounds.

OIG's audit of domestic emergency preparedness at BBG's Washington Metropolitan facilities found that, although BBG had implemented an Occupant Emergency Program, the guidance was outdated and did not fully comply with federal regulations.

Financial Management

During this reporting period, OIG issued 15 audit reports addressing issues related to financial statements, contracts and grants, airline travel, purchase card programs, travel advances, and other financial management concerns. OIG's audit of the Department's reporting of aircraft and aircraft parts determined that the Department had underreported the cost and number of its aircraft and aircraft parts, and that the Department's FY 2004 financial statements had underreported the value of aircraft and aircraft parts by \$162 million. As a result, the Department has initiated a review of its aviation program's structure and responsibilities, with a view toward more centralized management.

An audit of the Department's identification and collection of value-added taxes (VAT) overseas found that the Department did not have an adequate process to identify and collect VAT reimbursements, and that problems in obtaining necessary documentation related to a construction contract could affect the Department's ability to collect an estimated \$5.9 million in VAT reimbursements. OIG recommended that the Department implement standard policies for submitting requests for reimbursement from host governments, aggressively pursue tax relief agreements before undertaking construction projects, and review ongoing construction projects to identify opportunities for collecting additional VAT reimbursements.

A review of International Cooperative Administrative Support Services (ICASS) programs at 38 overseas posts inspected between October 2004 and April 2006 found that the Department has done a good job of consolidating ICASS into a single administrative platform on new embassy construction projects, but additional steps are needed in combining ICASS services for those missions that are not scheduled for new construction. The first inspection conducted since the establishment of the Global Financial Services Center (GFS-C) found that the effort to consolidate Department financial functions and responsibilities in Charleston, South Carolina, has succeeded and that GFS-C provides excellent service and support to Department bureaus and overseas posts. However, management controls in most of the GFS-C operational areas need improvement, and coordination between GFS-C and the Bureau of Administration's Office of Acquisition must be strengthened to improve contract oversight.

Quality-of-Life Reviews

During this reporting period, OIG conducted inspections of a group of offices vital to quality-of-life issues for Department employees and their families serving around the world, and found all to be well-run offices making important contributions to quality of life, but made recommendations for some improvements. The Family Liaison Office, which helps family members address problems commonly encountered in living and working overseas, needed to set its priorities carefully to address the challenging tension between its traditional advocacy role and the organizational expectation that it show measurable successes on family employment issues. The Office of Overseas Schools effectively manages the educational programs of the Department and executes its \$9.2-million school grants program in accordance with regulations but needed to more clearly articulate its goals and objectives and create a strategic plan. The Office of Medical Services does a commendable job of safeguarding the physical and mental health of official Americans and their families at U.S. missions abroad and of Department's domestic workforce, but could realize savings by outsourcing specific, discrete functions such as laboratory services and implementing a fee-for-service program that would pass the cost of outpatient care to an employee's insurance company. The Office of Commissary and Recreation Staff delivers timely, high-quality services to approximately 130 commissary and recreation associations worldwide, but the \$3.3-million Central Commissary and Recreation Fund needed better oversight from its board of directors, including a review of expenditures since 2000. The Office of Casualty Assistance's centralization of support to Department employees has systematized assistance and improved the quality of service to the families of victims.

Information Security

The Department and BBG continue to make progress on strengthening information security programs and practices and recognize that more must be done to effectively administer and manage information security programs. The Federal Information Security Management Act (FISMA) requires OIG to review and evaluate development, documentation, and implementation of comprehensive plans to protect the confidentiality, integrity, and availability of mission-critical information and systems. OIG's evaluation identified a number of issues, including documentation related to missionwide security programs' planning and management, system and policy access controls, and inadequate separation of key information technology (IT) duties.

During its FY 2006 FISMA reviews and information security inspections, OIG identified several areas that must be addressed by the Department's Chief Information Officer, including formalizing the Department's Information Systems Security Officer (ISSO) initiative to include performance assessment and training of those performing ISSO duties; developing and implementing a system security program plan to administer information security Departmentwide; ensuring complete inventories of IT assets and contractor systems and verifying security levels assigned to IT applications and systems; identifying the total number of employees requiring IT security awareness training; addressing fragmentation in the Department's certification and accreditation process; and including IT security findings identified by outside sources in the Plan of Action and Milestones process.

Areas of improvement since OIG's FY 2005 FISMA review included internal and external reporting of computer security incidents, and significant progress in addressing privacy requirements.

Law Enforcement

A joint investigation with the U.S. Agency for International Development (USAID) OIG determined that an FSN cashier serving at an embassy in Africa embezzled more than \$200,000 from USAID and the Department. The cashier pleaded guilty to embezzlement and was sentenced to 30 months' imprisonment and restitution of \$214,000. As part of OIG's Passport Sentinel initiative, OIG investigated three separate instances of private citizens in California who fraudulently obtained valid U.S. passports for false identities established using the names and Social Security numbers of deceased infants.

Inspector General Activities

Inspector General Howard J. Krongard and Deputy Inspector General William E. Todd traveled to Iraq and Jordan during September to meet with all leaders of the Iraqi anticorruption mechanism, including all 29 Iraqi Inspectors General whom IG Krongard addressed, the heads of the Board of Supreme Audit (BSA) and the Commission on Public Integrity, and the Prime Minister's Chief of Staff. Recommendations made by IG Krongard, including the appointment of U.S. advisors to the Iraqi IGs and to the BSA, have been adopted by Embassy Baghdad.



IG Howard Krongard and Deputy IG Bill Todd on the helopad in Baghdad

The IG and his deputy also met with many senior Embassy Baghdad personnel and Department of Defense and USAID leaders, reviewed the construction of the new embassy compound in Baghdad and the facilities for construction workers, and visited provincial reconstruction teams in Baghdad and Babil Province and the Provincial Council Chairman, Deputy Governor, Chief of Police, and Chief Justice of Babil Province. They also met with SIGIR personnel to begin the transition process mandated by the recent Defense Authorization Act.

In Jordan, the IG and Deputy IG met with members of the Jordan International Police Training Center in both Amman and at the Center to discuss the future of the training center. At Embassy Amman, the Inspector General met with senior embassy personnel and, as is his practice at all posts he visits, with entry-level officers (ELOs), who praised their leadership but were looking for even more opportunities to do public outreach in the host country. As a result of the IG's followup, the ELOs are being offered more opportunities to perform public outreach activities as part of their assigned work.

In his role as Chair of the Board of External Auditors of the Organization of American States (OAS), the Inspector General presented the Board's 2005 Report to the OAS Permanent Council, detailed the activities of the Board, highlighted certain internal control and programmatic weaknesses that had been identified by the Board, and made recommendations to the Permanent Council on how these issues could be addressed. At the request of the Secretary General of the OAS, Mr. Krongard also attended the OAS General Assembly session in the Dominican Republic to provide advice and consultation regarding budgeting, financial, and managerial matters.

The Inspector General and OIG staff met with various international visitors, including the Comptroller General of Panama, the Inspector General of the Ministry of Foreign Affairs of Canada, the Commissioner of Iraq's Commission on Public Integrity, and leaders of the Ministry of Personnel of the People's Republic of China, to discuss oversight and transparency in government operations. The Inspector General and Assistant Inspectors General from each office briefed the United Nations Under-Secretary-General for Internal Oversight Services and her chief of staff on OIG structure, staffing, and working and reporting relationships.

The IG participated on various Department committees, spoke before various groups including a presentation to the annual Foreign Service nationals (FSN) worldwide conference, and hosted quarterly meetings of the Intelligence Community Inspectors General Forum and the Inspection and Evaluation Committee of the President's Council on Integrity and Efficiency.

CONGRESSIONAL ACTIVITIES AND OUTREACH

Congressional Mandates and Requests

In response to legislative mandates and requests from Congress, OIG conducted the following reviews during this semiannual period.

- As mandated by the Federal Information Security Management Act of 2002, OIG conducted independent assessments of the Department's and BBG's information security systems by reviewing the overall effectiveness of each agency's information security programs. (IT-I-06-03 and IT-I-06-04)
- In response to a request by the U.S. Senate, Committee on Foreign Relations, OIG reported on the *U.S. Speaker & Specialist Program Review, Bureau of International Information Programs*. (ISP-C-06-52)
- Following a request from a U.S. Senator for assistance with regard to alleged wrongdoing by a foreign company, and by U.S. officials in permitting fees to be paid to such company, representatives of OIG met with staff members of the relevant Senate committee and provided information.
- As mandated by the Chief Financial Officers (CFO) Act, as amended, OIG directed and monitored the following financial statement audits and other work conducted by an independent public accountant:
 - *Audit of the Foreign Service Retirement and Disability Fund's 2005, 2004, and 2003 Financial Statements* (AUD/FM-06-37)
 - *Audit of the International Boundary and Water Commission's 2005 and 2004 Financial Statements* (AUD/FM-06-33)
 - *Management Letter Related to the Audit of the International Boundary and Water Commission's 2005 and 2004 Principal Financial Statements* (AUD/FM-06-32)
 - *Application of Agreed-Upon Procedures for Retirement, Health Benefits, and Life Insurance Withholdings and Contributions* (AUD/FM-06-40)

The Inspector General and/or OIG staff also met on a number of occasions with congressional staff members of GAO to review and comments on a variety of projects and issues.

Legislation Monitored

Bills reviewed and monitored by OIG legislative staff during this period included the following:

- S. 2285: A bill to amend the Inspector General Act by setting a 7-year term limit for Inspectors General and to allow Inspectors General to submit their budget requests directly to Congress.
- S. 1803 and H.R. 2475: Fiscal Year 2006 Intelligence Authorization Act.
- H. R. 4436: A bill to provide certain authorities for the Department of State, and for other purposes.
- H. R. 4939: A bill to make emergency supplemental appropriations for the fiscal year ending September 30, 2006, and for other purposes.
- H. R. 4603: A bill to amend the Public Health Service Act with respect to pandemic influenza, and for other purposes.

Implementation of the Government Performance and Results Act and the President's Management Agenda

For each mission and bureau inspected, OIG reviews mission and bureau performance plans and rightsizing issues. For example, OIG found that given the demands of global repositioning, the consulate general in Hamilton, Bermuda, should be restructured and its staff reduced. A two-officer post would be sufficient to manage U.S. interests and provide a lessened but adequate level of consular services. In terms of performance measurement, neither the Office of Allowances, nor any other office in the Department, measures the effectiveness of Department of State Standardized Regulations incentive allowances and differentials. As a result, the effectiveness of the Department's \$80.9 million in expenditures to attract and retain personnel at overseas hardship and danger pay posts cannot be demonstrated. The Office of Inspector General recommended that the Department establish a working group to establish performance measures for Department of State Standardized Regulations incentive allowances and differentials.

Department Outreach Activities

As part of continuing efforts to promote accountability through better awareness of OIG's role, mission, and services, OIG made presentations to four ambassadorial seminars and two Foreign Service officer orientations, as well as financial management, general services officer, and other courses offered by the Foreign Service Institute. With the support of the Department, OIG investigators have undertaken a proactive initiative to strengthen financial accountability by providing fraud prevention and awareness training to Department personnel responsible for financial systems, contracts and grants, and procurement. The OIG fraud prevention and awareness program is presented to relevant bureau personnel and to all General Services Officer courses at the Foreign Service Institute. Senior staff also met with Ambassadors and Deputy Chiefs of Mission preparing to depart for new assignments to discuss areas of emphasis in their missions and provide suggestions to assist in the management of their missions.

DEPARTMENT OF STATE



United States Department of State
and the Broadcasting Board of Governors

Inspector General

October 31, 2006

MEMORANDUM

TO: The Secretary

FROM: OIG – Howard J. Krongard

SUBJECT: Semiannual Report to Congress, April 1 to September 30, 2006

I am pleased to transmit to you the Office of Inspector General's (OIG) Semiannual Report to the Congress for the period ending September 30. This report is required by the Inspector General Act of 1978, as amended, and covers the work of this office during the period indicated. The Act requires that you transmit the report to the appropriate committees of the Congress by November 30, together with any comments you may wish to make.

A major focus of my work, and that of my staff, during this reporting period has been oversight of Department activities in Iraq, particularly support for anticorruption initiatives, accountability for Iraq-related funding, and preparation with the Special Inspector General for Iraq Reconstruction for the transition process mandated by the recent Defense Authorization Act. This is work that would not have been possible without the \$1.7 million in supplemental funding provided by Congress.

Other OIG activities during the reporting period focused on key issues affecting the programs and operations of the Department and BBG, including protection of people and facilities, financial management, quality of life, and information security. These activities and our achievements are summarized in this report, along with the required statistical data.

AUDITS

Survey of the Status of Funding for Iraq Programs Allocated to the Department of State's Bureau of International Narcotics and Law Enforcement Affairs as of December 31, 2005 (AUD/IQO-06-30)

This report presented the results of the joint survey by OIG and SIGIR of funding for Iraqi-related activities by INL. The primary objectives were to identify funding received and expended by INL from October 1, 2002, through December 31, 2005, that was earmarked for Iraq and to evaluate INL accounting procedures for those funds.

According to the Department's Bureau of Resource Management (RM), as of December 31, 2005, the Department received over \$1.3 billion from two Iraq Relief and Reconstruction Fund (IRRF) emergency supplemental appropriations that provided program funding specifically supporting Iraqi-related activities. Of that amount, INL received about \$957.5 million, or 74 percent. In addition, the Department of Defense provided about \$532.2 million to assist programs managed by INL. As of December 31, 2005, INL had obligated about \$1,312.2 million, or about 88 percent of the funding received, and expended about \$1 billion.

INL was able to track funds received and allotted to major programs and procurement actions. Overall, INL accounted for Iraqi-related funds obligated and monitored expenses and liquidations. Although extracting information from INL's accounting system on funds for Iraq was cumbersome, the financial information forwarded to RM was generally accurate. The OIG team recommended that INL better document accounting adjustments and make electronic backups of its supplementary accounting records.

Some funding recipients, however, did not adequately provide financial information on the status of their expenditure of funds received from INL. According to an INL official, this situation has continued despite INL's efforts to correct it. The OIG team recommended that INL modify the memoranda of agreement so that recipients' financial reports would better inform INL of the actual financial status of a program.

INL has initiated or proposed solutions that will strengthen financial accountability and internal controls, particularly to foster better, more timely financial reporting by other funding recipients for activities in Iraq that are funded through INL.

CONTRACTS AND GRANTS

Application of Agreed-Upon Procedures on Kellogg, Brown & Root Services, Inc.'s, Revised Termination Settlement Proposal (AUD/CG-06-25)

In response to a request from the Department's Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), OIG contracted with an independent public accounting firm to perform certain agreed-upon procedures on Kellogg, Brown & Root Services, Inc.'s (KBR) March 17, 2005, revised termination settlement proposal under Contract No. S-FBOAD-99-D-0016, Task Order 57. The attestation sought to determine whether KBR's revised proposal conformed to the requirements of a standard proposal.

The independent accountant found that the KBR revised termination settlement proposal included claims for unsupported and inappropriate costs concerning services provided by its subcontractor, Morrison International Construction, Inc. (Morrison). Specifically, in its termination settlement proposal of February 24, 2005, Morrison included \$53,173 for selected management personnel costs. The amounts presented were estimates unsupported by any documentation. In addition, Morrison included \$527,753 in its proposal, which it identified as unabsorbed overhead on the direct cost of terminated work. The law is well settled that post-termination unabsorbed overhead is not recoverable in a termination claim.

Although the total questioned amount associated with the management personnel and unabsorbed overhead costs was \$580,926, after adjustments for overhead, G&A, and fee, the full amount of the questioned costs totaled \$795,034. The independent accountant recommended that A/LM/AQM disallow the full amount.

Application of Agreed-Upon Procedures on Choctaw Archiving Enterprise's Proposed Direct Labor and Indirect Labor Rates and Accounting System (AUD/CG-06-26)

In response to a request from A/LM/AQM, OIG contracted with an independent public accounting firm to perform agreed-upon procedures on direct labor hour and indirect expense rates proposed by Choctaw Archiving Enterprise (Choctaw) on November 23, 2005. The independent accountant also reviewed Choctaw's accounting system to determine whether it was adequate to account for federal funds under the proposed contract.

In general, the independent accountant found that Choctaw's proposed direct labor and indirect costs were excessive. Also, its review of Choctaw's proposal had been prepared on a fixed-rate per-hour basis, a type of contract that does not require an accounting system that differentiates between direct and indirect costs. (Billings are based on time as presented on signed and approved timesheets.) Accordingly, Choctaw's accounting system was considered to be minimally adequate for purposes of the contemplated contract. The independent accountant recommended that A/LM/AQM use the recomputed rates included in its report and that the Department contracting officer's representative periodically review Choctaw's invoiced labor charges based on supporting timesheets and other relevant documents. In summary, the independent accountant recommended costs that were \$1,985,783 less than the costs proposed by the contractor for the base and four option years.

Agreed-Upon Procedures on American Councils for International Education (AUD/CG-06-28)

In response to a request from the Department's Bureau of Educational and Cultural Affairs (ECA), OIG contracted with an independent accounting firm to perform agreed-upon procedures on the financial management and reporting systems and the financial condition of the American Councils for International Education (ACIE) to assist ECA in its review of ACIE.

The independent accountant found that ACIE's accounting system identified the source and application of funds for Federal awards and compared expenditures with

budgeted amounts for each award in accordance with Office of Management and Budget Circular A-110 requirements. The independent accountant also found that ACIE's accounting records supported its Financial Status Reports and reimbursement requests.

Regarding ACIE's financial condition, the independent accountant found that assets and revenues exceeded liabilities and expenses, respectively, in 2005 and 2004, and its ratio of current assets to current liabilities was significantly lower than ratios at other similar organizations. ACIE has, however, managed cash flow through the use of its lines of credit on its available balances of \$1.8 million.

Agreed-Upon Procedures on Direct Labor and Indirect Expense Rates Proposed by Skidmore, Owings & Merrill (AUD/CG-06-29)

In response to a request from the Department's Bureau of Overseas Buildings Operations (OBO), OIG contracted with an independent accounting firm to perform agreed-upon procedures on direct labor and indirect expense rates proposed by Skidmore, Owings & Merrill under a proposed contract to perform building design services for a new consulate complex in Guangzhou, China.

The independent accountant found that the documentation provided by Skidmore, Owings & Merrill in support of its cost proposal was insufficient to justify its proposed rates. The independent accountant computed new rates and recommended that OBO use its recommended rates for pricing to be performed under the contemplated contract.

Agreed-Upon Procedures on Direct Labor and Indirect Expense Rates Proposed by Integrated Communications Solutions, Inc. (AUD/CG-06-34)

In response to a request from A/LM/AQM, OIG contracted with an independent accounting firm to perform agreed-upon procedures on direct labor and indirect expense rates proposed by Integrated Communications Solutions, Inc. (ICS), under a proposed contract to provide telecommunications services to the Department's Diplomatic Telecommunications Service Project Office.

The independent accountant found that the documentation provided by ICS in support of its cost proposal was sufficient to justify its proposed rates. Raytheon Company Intelligence and Information Systems (Raytheon) did not respond to requests for documentation supporting its proposed rates. The independent accountant recommended that the rates proposed by ICS be used to price work under the contemplated contract. The independent accountant also recommended that A/LM/AQM require Raytheon to provide a copy of its current Forward Pricing Rate Agreement with the Department of Defense, in order to validate Raytheon's proposed rates.

FINANCIAL MANAGEMENT

Application of Agreed-Upon Procedures for Retirement, Health Benefits, and Life Insurance Withholdings and Contributions (AUD/FM-06-40)

Under OIG's direction, an independent external auditor performed the procedures enumerated in Office of Management and Budget Bulletin No. 06-03, Audit Requirements for Federal Financial Statements. These procedures were performed solely to assist the Office of Personnel Management (OPM) in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance withholdings and contributions as well as semiannual headcount information submitted by the Department. The contractor did not identify any material differences in the amount for withholdings and contributions in the Department's payroll file and the amount submitted to OPM. However, the contractor found that some employees' official personnel files did not contain the required forms.

Need to Improve Internal Controls Related to Travel Advances (AUD/FM-06-39)

OIG performed work to identify internal control deficiencies related to the travel advance process. OIG found that the Travel Manager (TM) application did not adequately restrict users' access and that the Department did not have an appropriate process in place to authorize TM access or maintain a list of employees with high levels of access. In addition, OIG identified concerns with controls over ensuring

that cash and traveler's checks were provided only to authorized individuals within the allowed timeframes. OIG also found that a monthly report of travel advances was not forwarded to bureaus for review. In addition, the bureau at which OIG performed its work did not have a process to properly oversee travel advances.

RM is reviewing outstanding travel advances in preparation for migrating data to the new financial management system. However, OIG recommended that RM expand this effort to implement the OIG recommendations.

Audit of the Department's Identification and Collection of Value-Added Taxes Overseas (AUD/FM-06-38)

As part of its responsibility to oversee Department management, OIG conducted an audit of value-added tax (VAT) issues at four posts overseas, specifically to determine whether the Department was properly identifying and collecting VAT reimbursements and accounting for VAT transactions. The OIG team found that the Department did not have an adequate process to identify and collect VAT reimbursements, nor did it have an adequate process to account for VAT. Posts were not effectively recording, tracking, and maintaining controls over VAT transaction data because of limitations with the overseas financial management system. Further, the Department had not effectively tracked and reported the amount of VAT that it had requested but had not yet received from host governments. Also, the Department could not determine the total amount of VAT reimbursements that were owed to it, and VAT receivables were not included on the Department's financial statements.

OIG recommended that the Department implement standard policies for submitting requests for reimbursement from host governments; aggressively pursue tax relief agreements before beginning construction projects; include revised contract clauses related to VAT in new construction contracts; and review ongoing construction projects to identify opportunities for collecting additional VAT reimbursements. OIG also recommended that the Department implement a solution so that its financial management system allows posts to record, track, and maintain control over VAT transactions; issue standard policies on recording VAT receivables; and accurately report VAT receivables on the Department's annual financial statements.

Audit of the Foreign Service Retirement and Disability Fund's 2005, 2004, and 2003 Financial Statements (AUD/FM-06-37)

Under OIG's direction, an independent contractor audited the Foreign Service Retirement and Disability Fund's (FSRDF) financial statements as of the end of FY 2005, FY 2004, and FY 2003, to report on whether the statements presented fairly FSRDF's financial position and results of financial operations in accordance with generally accepted accounting principles, whether FSRDF had an internal control structure that provided reasonable assurance of achieving internal control objectives, and whether FSRDF complied with applicable laws and regulations.

The independent external auditor issued an unqualified opinion on FSRDF financial statements as of September 30, 2005, and did not identify any reportable conditions related to internal control or material instances of noncompliance.

Audit of the International Boundary and Water Commission's 2005 and 2004 Financial Statements (AUD/FM-06-33)

Under OIG's direction, an independent external auditor audited the International Boundary and Water Commission (USIBWC), United States and Mexico, U.S. Section's (USIBWC) financial statements as of the end of FY 2005 and FY 2004, to report on whether the statements presented fairly USIBWC's financial position and results of financial operations in accordance with generally accepted accounting principles, whether USIBWC had an internal control structure that provided reasonable assurance of achieving internal control objectives, and whether USIBWC complied with applicable laws and regulations.

The independent external auditor issued an unqualified opinion on USIBWC's financial statements as of September 30, 2005, and did not identify any material weaknesses or material instances of noncompliance.

Management Letter Related to the Audit of the U.S. Department of State 2005 and 2004 Principal Financial Statements (AUD/FM-06-32)

Under generally accepted auditing standards, auditors performing financial statement audits are encouraged to report, in a separate management letter, internal control weaknesses that do not rise to the level necessary to be reported in the financial statement opinion. During the above audit, the independent external auditor identified internal control weaknesses relating to USIBWC's internal evaluations, property and equipment, personnel issues, information security, suspense accounts, deferred maintenance, accounts receivable, contract accruals, and financial reporting. The auditor recommended that USIBWC take appropriate action to address these weaknesses.

Assessment of Airline Travel (AUD/FM-06-23)

As part of an effort to maintain adequate internal controls over OIG operations and support Department efforts to improve controls over travel, OIG assessed its airline travel policies and practices to determine whether it had effective controls and to identify areas for potential cost savings. OIG identified areas where OIG's controls should be improved and began taking appropriate actions to correct the identified weaknesses.

OIG determined that performing a similar assessment would be beneficial for other bureaus and offices, and therefore, to assist them, it provided the Department with the assessment plan it used. The plan focused on premium-class travel requirements and controls over unused airline tickets and included steps to obtain information on the type and cost of airline travel, which would be useful for monitoring travel trends and making budgeting decisions. OIG emphasized that periodic assessments, using the assessment plan or a similar tool, should be an integral component of the Department's controls over and oversight of airline travel.

INTERNATIONAL PROGRAMS

Audit of the Department's Reporting of Aircraft and Aircraft Parts (AUD/IP-06-35)

At INL's request, OIG began an audit at INL's Office of Aviation at Patrick Air Force Base in Florida, where it learned that the Department might not have reported all aircraft and parts inventory on its annual financial statements. Because of the magnitude of the potentially unreported assets and to assist the Department, OIG narrowed its work to determine whether INL had appropriate controls to track and report its aircraft and aircraft parts. Additionally, at the request of the certified public accountants responsible for auditing the Department's financial statements, OIG conducted work in Colombia to determine the accuracy of the Department's reporting on aircraft and parts.

OIG found that the Department underreported the cost, value, and number of its aircraft and aircraft parts. In fact, the Department's FY 2004 financial statements underreported by \$162 million the cost of its aircraft and aircraft parts. Additionally, the Department did not include all aircraft in its March 2005 report to the General Services Administration. The Department could not accurately report the number of aircraft it owned because it had ineffective controls to track and report its air fleet. As a result, government managers, Congress, and the public did not have accurate and complete information regarding the Department's air fleet.

The Department agreed with OIG's recommendations to improve the accountability and reporting of aircraft and aircraft parts. As a result of OIG's work, INL has initiated a review of its aviation programs, structure, and responsibilities with a view toward more centralized management.

INSPECTIONS

During this reporting period, the Office of Inspections (ISP) published 11 reports of inspections of Department bureaus and offices and eight reports of overseas missions. These reports focused on executive direction, program implementation, resource management, quality of life issues, and management controls. In addition, ISP published a program survey, a program review, and two summary reports.

IRAQ PROGRAM REVIEW

Survey of Anticorruption Programs, Embassy Baghdad, Iraq (ISP-IQO-06-50)

OIG performed a survey of anticorruption programs in Iraq, that drew on OIG's previous inspection report, issued last period, of Embassy Baghdad's rule-of-law programs and, in particular, that report's key judgment that "Basic to the success of all U.S. hopes for democracy and good governance in Iraq is an effective anticorruption regime." Conducted in collaboration with a team from SIGIR, which issued a parallel audit report, the OIG survey included an inventory of U.S. government funding for anticorruption programs in Iraq and an analysis of the work done by the Embassy's 13-member anticorruption working group.

Engaging Iraqis to design an anticorruption regime for the future was seen as essential for success but far from fully achieved. U.S. government and nongovernment personnel working on anticorruption were committed to this important goal but recognized it as a long-term effort.

As of August 2006, U.S. government funding directed specifically and solely toward anticorruption programs had been modest, amounting to under \$65 million. Despite the fact that attacking corruption was among the top U.S. priorities in Iraq, this amount represented less than .003 percent of total IRRF funding. Non-U.S. donor funding had been even less robust.

The OIG team found that a recently energized embassy anticorruption working group chaired by the embassy's economic counselor had agreed upon a comprehensive strategy for U.S. anticorruption assistance to Iraq. The interagency process for promoting public integrity was working reasonably well. However, given the general

recognition that corruption in Iraq is widespread and the modest funding thus far, a greater U.S. effort with more interagency cooperation and greater international support were needed. The chairman's request for increased staffing to deal with the anticorruption effort was also warranted and should be granted.

The survey also found that the institutional framework for Iraqi anticorruption activities was in place, with a Board of Supreme Audit, a Commission on Public Integrity, and Inspectors General for each ministry, but it was fragile. Judicial prosecutions of corruption cases had been few. Improved collaboration among the three institutions and between them and the Iraqi courts was a priority. Training for the staff of these three principal institutions was ad hoc and uneven, and the establishment of a training facility serving the needs of these institutions a priority. Differences of view on ownership, however, had divided both Iraqi principals and American consultants. Iraqi and U.S. officials had to overcome their differences, whether actual or apparent, so that a training facility could soon be established.

DOMESTIC BUREAUS

Inspection of Global Financial Services – Charleston (ISP-I-06-33)

The consolidation of the Department's financial functions and responsibilities in Charleston, SC, had succeeded. The Department's associated personnel reductions in Washington, DC, and Paris, France, occurred in accordance with all regulatory requirements and addressed the concerns and needs of affected personnel. Overall, Global Financial Services-Charleston (GFS-C) provided excellent service and support to Department bureaus and overseas posts.

Management controls in most of the GFS-C operational areas needed improvement. To illustrate, the majority of individuals certifying payments domestically did not have certifying officer authority; nonetheless, they certified payments amounting to over \$6 billion in FY 2005. In addition, the fund balance in the Department's Central Financial Management System with Treasury reconciliation showed an accumulated \$256 million difference between the two.

The compensation plan for Department employees serving in Iraq was found to be virtually unworkable and complicated. The system's rules were difficult to understand, and various categories of civilian personnel were affected differently.

Coordination between GFS-C and A/LM/AQM must be strengthened. Contract documentation was not always available, and the designations of contracting officer's representatives (COR) did not exist or were unavailable.

Quality of Life Reviews

OIG conducted several inspections of Department offices that are responsible for quality of life issues for Department employees and their families around the world. These offices provide services that can affect morale at post and a mission's ability to attract and retain staff. The Family Liaison Office (FLO), Office of Medical Services, Office of Overseas Schools (OPR/OS), Commissary and Recreation Staff, Office of Allowances, and the Office of Casualty Assistance were all well run offices making important contributions to quality of life issues, but the inspections resulted in recommendations for improvement. (See the individual summaries for each inspection in this report.)

During the same period, OIG's overseas inspections reflected the effectiveness of the quality of life offices. The inspection reports for U.S. embassies in Budapest, Buenos Aires, Hamilton, Riga, San Jose, and Santiago characterized the community liaison office (CLO) program as excellent. The quality of the CLO program was, in part, due to the support and training coordinators received from FLO. Embassy Santiago did not fund CLO training for its coordinators, and the OIG team informally recommended that the post fund such training.

The CLO program is concerned with one of the most important issues to Foreign Service families: spousal employment. OIG's report on FLO made recommendations to improve the administration of spousal employment initiatives. For example, this need was reflected in OIG's inspection of Embassy Budapest, which was having difficulty funding the program that provides employment and skills-building assistance to spouses. In Europe, hiring spouses was often less expensive than hiring local employees.

Overseas health units received high marks at the posts inspected. The regional medical and psychiatric officers made regular visits to the posts. Inspection reports of U.S. embassies in Panama and Buenos Aires made recommendations to evaluate the health care needed at those posts.

The quality of overseas schools varied but was generally good. In Budapest, Buenos Aires, Riga, and Santiago, embassy employees rated the schools as excellent. In Hamilton, no schools had been deemed adequate by OPR/OS. The inspection team in Hamilton informally recommended that the regional educational officer visit the post to discuss this issue.

Inspection of the Family Liaison Office (ISP-I-06-29)

FLO makes an important contribution to the Department's goal of having a high-quality workforce by helping family members address problems commonly encountered in working and living overseas. The office was addressing a challenging tension between its traditional advocacy role and the organizational demand that it show measurable successes on family employment issues. The office needed to set its priorities carefully to avoid diluting its programs through lack of personnel or budget resources.

FLO served a significant number of walk-in clients on sensitive personal matters, but had inadequate space to perform all of its functions while respecting the confidentiality of its clients. The solution to this issue involved displacing a small office contiguous to FLO and expanding into that space. The Bureaus of Administration and Human Resources must cooperate in relocating the adjacent office as soon as possible.

For the past three years, FLO had requested funding for a pilot phase-equalization program to assist posts in hiring eligible family members for jobs that would normally go to foreign nationals. Department management should evaluate this initiative in light of its overall priorities and either fund a pilot project or remove this program from the agenda.

Inspection of the Bureau of Administration, Office of Overseas Schools (ISP-I-06-36)

The Bureau of Administration's Office of Overseas Schools (A/OS) was found to effectively manage the educational programs of the Department. The office had a staff of exceptionally qualified, caring, and dedicated education professionals who were committed to the well-being of students. The office executed its \$9.2 million school grants program in accordance with regulations but could do a better job by more clearly articulating its goals and objectives and creating a strategic plan.

The Department successfully absorbed a large increase in grant funds from appropriations to upgrade security at overseas schools (the Soft Targets Program). However, there were no consistent security standards applicable to schools, and the responsibilities of the various offices involved in the security program in Washington were not

clearly defined. The OIG team recommended that the Bureau of Administration establish and fund a position to supplement existing security and public outreach programs for overseas schools.

Inspection of the Office of Medical Services (ISP-I-06-34)

The Office of Medical Services (MED) commendably fulfilled its mission of safeguarding the physical and mental health of official Americans and their families at U.S. missions abroad and of the Department's domestic workforce. To systematize its operations and improve quality control, MED clarified who was entitled to its health services abroad, was arranging a formal agreement with the Peace Corps to provide for cooperation in locations where it and the Department were both present, and was in the final phases of drafting a Quality Systems Manual based on the International Standards Organization's (ISO) ISO 9001-2000 quality standards.

MED had taken seriously its role of protecting against the threat of avian influenza and worked cooperatively with the Department's Senior Coordinator for Avian Influenza and with other relevant federal agencies, notably the Department of Defense.

MED did not fully comply with certain administrative provisions of the Health Insurance Portability and Accountability Act of 1996 and the Privacy Act of 1974, which protect the security and confidentiality of health information. Written policies and procedures for the use and disclosure of protected health information were needed, and all files and notes on patients must be included in the patient's official medical records.

The President's Management Agenda requires federal agencies to explore ways to minimize costs while enhancing performance and service. MED could realize savings by outsourcing specific, discrete functions such as laboratory services, occupational health services, the examination clinic, and medical informatics. Another potentially significant cost savings would arise from implementing a fee-for-service program that would pass the cost of outpatient care to an employee's insurance company instead of the U.S. government.

Inspection of the Bureau of Administration, Office of Commissary and Recreation Staff (ISP-I-06-35)

The Office of Commissary and Recreation Staff delivers timely, high-quality services to approximately 130 commissary and recreation associations worldwide. This small office effectively performed its core functions, keeping associations financially viable and operating in compliance with Department regulations.

The Central Commissary and Recreation Fund, a \$3.3 million fund established to support commissary operations overseas, needed better oversight from its board of directors. The OIG team recommended that the Bureau of Administration convene the Central Commissary and Recreation Fund's board of directors and implement measures to manage the fund in accordance with the bylaws, including a review of expenditures since 2000. The team also recommended that the Bureau of Administration develop a strategy to address the impending resource shortfall in the Central Fund and include the strategy in its FY 2008 Bureau Performance Plan.

Inspection of the Office of Casualty Assistance (ISP-I-06-28)

The Office of Casualty Assistance (OCA) provided an excellent example of attention to contingency planning. Its director since 1999 designed a model for the office that could address mass casualty situations while providing clients with personal caseworker support. The small, select OCA staff oversaw several well-trained and committed crisis support teams, which served as a mechanism for enhancing the office's capacity in times of crisis. OCA's centralization of support to Department employees had systematized assistance and improved the quality of service to the families of victims.

Memorandum Report, International Cooperative Administrative Support Services (ISP-I-06-38)

Based on a review of the International Cooperative Administrative Support Services (ICASS) program at 38 posts between October 2004 and April 2006, the OIG team found that the Department had done a good job of consolidating ICASS services into a single administrative platform on all new embassy compound construction projects but had not been as successful in combining ICASS services for embassies that were not scheduled for a new embassy compound. OIG inspection reports in FY 2005 and FY 2006 consistently noted that agencies overseas continued to resist subscribing to the full range of administrative services offered by ICASS. The OIG team identified duplicative administrative services at 29 of the 38 inspected posts in FY 2005 and FY 2006.

OIG noted examples of consolidation producing cost savings and made recommendations to address identified issues. Cost savings had been achieved at the U.S. mission in France, Embassy Lilongwe, and at posts with new embassy compounds that will contain a single administrative platform. The OIG team recommended that the Department issue guidance that addresses problems associated with pooling assets of different agencies and issue a cable that identifies guidance and site assistance available to missions, which will facilitate quicker responses to surge agencies' requests for operational support.

Inspection of the Bureau of Population, Refugees and Migration (ISP-I-06-40)

The Bureau of Population, Refugees, and Migration (PRM) managed the Department's second largest program budget, with approximately \$997 million expended in FY 2005. PRM was found to have a well-deserved reputation for professionalism and competent and effective management. Changes in the bureau's operational environment, such as the decline in the number of refugees worldwide, had been more than offset by increased numbers of internally displaced persons and other persons of concern. Meanwhile, the conceptual frameworks for the international humanitarian system and U.S. foreign assistance programs were being substantially redefined, even as resources to support humanitarian activities were declining. These changes held significant implications for the bureau's mission and ways of doing business. The OIG team found that addressing these challenges and opportunities successfully will require vision, proactive leadership, an enhanced capacity for strategic planning, and more active public diplomacy and public affairs efforts.

The bureau received high marks for the effectiveness of its programs and the efficiency with which it managed its contributions, grants, and cooperative agreements. Nevertheless, the bureau had correctly identified a need to further strengthen its grants management, performance measurement, and monitoring and evaluation functions. To adjust to its changing roles and responsibilities, the bureau must make more efficient use of existing staff and consider some increases in administrative resources.

Inspection of the Office of Civil Rights (ISP-I-06-41)

The Office of Civil Rights (S/OCR) was ineffective in ensuring that Equal Employment Opportunity (EEO) and diversity concerns were properly integrated into the Office of the Secretary's Bureau Performance Plan and the Department's strategic and performance planning process. This failure marginalized the effectiveness of S/OCR's programs at all levels. The OIG team recommended that S/OCR establish a process to correct this.

One-third of all authorized S/OCR positions were vacant, which affected S/OCR morale and contributed to its backlog of EEO complaints. The office's new director had initiated a review of all position descriptions and the entire office structure, initiatives that needed to be completed promptly. Because it must recruit new staff and train them in the Equal Employment Opportunity Commission processes, S/OCR's new leadership had an unparalleled opportunity to evaluate the existing workflow and rebuild the office in line with current priorities.

S/OCR's outreach unit focused an inordinate amount of its limited resources on commemorative events, rather than devoting its attention to mandated programs for Hispanic and disabled persons, women, and to the identification and analysis of EEO barriers. The OIG team recommended a review and restructuring to make resources available for diversity and outreach activities that would yield greater measurable results.

Review of the Bureau of Diplomatic Security's Revocation Process for Security Clearances (ISP-I-06-43)

The Bureau of Diplomatic Security (DS) equitably administered the process for the revocation of security clearances, known as the adverse action process. DS investi-

gators' and adjudicators' actions appeared free of bias or prejudice and were based on specified investigative and adjudicative guidelines and on Department standards. However, DS did not have a process to follow up on those cases that contained a conditional reinstatement of the security clearance.

Employees could appeal the proposed revocation of their security clearance to a three-member appeals panel, but the appeals panel did not have a specified time frame in which to meet, which could further delay the process. The introduction of new information or the involvement of outside entities could also greatly affect the time for completing an adverse action case. In the cases examined, the appeals panel took from three to 13 months to render the Department's final decisions after DS had transmitted the employees' appeals.

Fraud Detection and Prevention

In its ongoing compliance with recommendations made in OIG's Management (Review of Visa and Passport Fraud Prevention Programs) (ISP-CA-05-52), the Bureau of Consular Affairs (CA) has significantly increased the resources and attention devoted to fraud detection and prevention. CA reorganized its Office of Fraud Prevention Programs into geographic units, strengthened the fraud prevention component of the Department's consular training program, and improved intelligence sharing, data mining, and investigative cooperation with the Department of Homeland Security and other offices involved in border security.

Inspection of Bureau of Administration, Office of Language Services (ISP-I-06-47)

The Office of Language Services (LS) in the Bureau of Administration effectively delivered timely, world-class interpreting and translating services to the President, cabinet-level officers, federal agencies, and the District of Columbia courts. The employees and contractors in the office ranked among the world's top interpreters and translators.

The most significant challenge facing LS was recruiting a pool of direct-hire employees and contractors who are among the world's best interpreters and translators. However, the Office of Personnel Management's applicant-rating procedures and stringent security clearance requirements have hindered the recruitment of direct-hire employees.

Inspection of the Bureau of Administration, Office of Allowances (ISP-I-06-51)

The Office of Allowances (ALS) is a well-functioning office that coordinates policies, regulations, standards, and procedures for overseas allowances and differential payments applicable to U.S. government civilian employees throughout the federal government. ALS played a constructive role in the development of benefits packages for employees serving in Iraq and Afghanistan and quickly implemented statutorily authorized changes to allowance levels at these posts.

Neither ALS, nor any other office in the Department, measured the effectiveness of Department of State Standardized Regulations incentive allowances and differentials. As a result, the effectiveness of the Department's \$80.9 million in expenditures to attract and retain personnel at overseas hardship and danger pay posts could not be demonstrated. The OIG team recommended that the Department establish a working group to establish performance measures for Department of State Standardized Regulations incentive allowances and differentials.

Internal controls to monitor embassies and consulates that are delinquent in submitting required allowances reports also needed improvement. Some posts had not submitted required danger pay, post hardship differential, and cost of living reports in many years. The OIG team recommended that the Bureau of Administration establish and implement written standard operating procedures to address delinquent allowance reports submitted by overseas posts.

Department Guidance on Staffing Surges

In its memorandum report on ICASS (ISP-I-06-38), OIG found that agencies believed that ICASS was not flexible or responsive enough to provide adequate administrative services to agencies with surging workloads. The OIG team recommended that the Office of Rightsizing the U.S. Government Overseas Presence provide guidance and information regarding the site assistance available to missions to facilitate quicker responses to surge agencies' requests for operational support. The Department issued the guidance in a cable sent to all diplomatic and consular posts on September 12, 2006.

U.S. Speaker and Specialist Program Review Bureau of International Information Programs (ISP-C-06-52)

In response to a Congressional request, OIG examined whether there was a “litmus test” for speaker selection in the U.S. Speaker and Specialist Program. The OIG team determined that no such test exists. In the past, there was undue attention to the speaker selection process, which led to the Bureau of International Information Programs (IIP) staff’s self-censorship in the vetting and selection of speakers. However, public diplomacy leadership in the Department emphasized a realistic balance in the selection of speakers. The Strategic Speakers Initiative was a new concept with great potential, and should continue as a more focused stand-alone program to allow articulation on strategic policy issues.

There was a continuing need for the development of a speakers’ evaluation matrix, which could provide the objective basis for program analysis and a management tool at all levels. Many individuals within IIP continued to view themselves as separate from the Department, which had an adverse impact on maximizing the U.S. Speaker and Specialist Program potential.

OVERSEAS MISSIONS

Personal Security Awareness Programs at Overseas Missions

In a memorandum to the Assistant Secretary for Diplomatic Security, OIG summarized the results of a review of personal security awareness programs at 14 missions inspected during FY 2006. All 14 missions had viable personal security awareness programs that met 12 FAM requirements, and some posts exceeded those requirements. All regional security officers (RSO) at the inspected posts had the support of the executive office in enforcing security awareness. However, mission personnel’s receptiveness to security awareness depended on the RSO’s effort, interest, and type of approach. Responsibility for personal security awareness required positive reinforcement of the RSO-managed program. In general, the Department’s personal security awareness program increased overall security at missions overseas.

Inspection of Embassy Panama City, Panama (ISP-I-06-30A)

OIG's inspection of Embassy Panama City found that the dispersion of mission personnel among 11 buildings negatively affected mission cohesion. Mission leadership was working actively to create a sense of community well before most elements of the mission relocate to a new embassy compound (NEC) in the summer of 2007.

The mission management team needed to ensure that the entire mission was conducting the necessary strategic planning for the move to a new chancery in 2007. This was an opportunity to consolidate administrative services among agencies and to conduct a rightsizing exercise.

Embassy Panama City's management operations had improved, but management needed to implement remedial action in the areas of ICASS, human resources, and some parts of the general services unit. The successful implementation of an ambitious mentoring program should staunch the attrition of talented entry-level officers in Panama over the last few years.

Inspection of Embassy San Salvador, El Salvador (ISP-I-06-31A)

Embassy San Salvador's Ambassador and deputy chief of mission (DCM) provided the mission security program with excellent support and cooperation, and the security office enjoyed a positive reputation among mission staff members. The local guard and personal security programs at this critical crime threat embassy were managed effectively, efficiently, and in line with Department policies.

Embassy San Salvador was making a concerted effort to eliminate duplicative administrative support systems and deserved credit for recognizing and proactively addressing this inefficiency.

Inspection of Embassy San José, Costa Rica (ISP-I-06-32A)

The relatively new Ambassador and DCM were honing mission objectives through an improved Mission Performance Plan (MPP). Promoting Costa Rica's adoption of the Central American Free Trade Agreement remained the main mission priority.

The growing number of resident and visiting Americans to Costa Rica had taxed the consular section's ability to adequately address American citizen services. With the expected increased staffing, and the completion of a current project to expand the cramped consular offices, the consular section should be well positioned to give quality service to all clients. The Ambassador and DCM provided the regional security office with solid support. Residential security and increased awareness training were helping to address the reality of rising crime rates in San José.

Impact of Department of Homeland Security Expansion Overseas on Chief of Mission Authorities (ISP-I-06-26)

The rapid expansion of international activities by constituent agencies of the Department of Homeland Security (DHS) occurred before the DHS central office had consolidated its own authorities and staffing. Individual DHS subunits had sought to place their direct-hire staff at diplomatic missions overseas without direct coordination by a central DHS international office. This expansion of DHS assets at U.S. embassies created oversight and coordination difficulties for U.S. Ambassadors.

The Departments of State and Homeland Security have signed a series of memoranda of understanding and at least one memorandum of agreement in an effort to streamline procedures for the assignment of DHS staff to Foreign Service posts overseas. In light of the ongoing coordination issues arising in the field, however, a standing coordination mechanism was needed.

There was also a need for the Department and DHS to issue further clarifications to chiefs of missions as to the respective roles of the DHS visa security officers, the consular fraud officers, and RSOs engaged in anti-fraud work in consular sections abroad.

Best Practice: Partnering for Security with the American Chamber of Commerce

Issue: The RSO at Embassy Riga established the first Overseas Security Advisory Council in Latvia and the Baltic states. The RSO negotiated for the American Chamber of Commerce to serve as a base of support and successfully invited other members of the American community into the council.

Response: The council had representatives from the international schools, the U.S. missionary community, and other nongovernmental organizations in Latvia.

Result: The embassy and the American community were better able to communicate and coordinate in enhancing the community's security.

Inspection of Embassy Riga, Latvia (ISP-I-06-39A)

Overall, Embassy Riga's component elements had performed exceptionally. The political/economic section was the driving element in managing the bilateral relationship under the Ambassador's direction. The consular section was well run and provided good customer service. The management section received high marks for its support to the mission. Meanwhile, the troubled public affairs section was being restructured to reflect better the embassy's public diplomacy priorities.

The embassy faced major challenges, including Latvia's October 2006 national elections and the need to support the November 2006 summit of the North Atlantic Treaty Organization, which was to be held in Riga. The embassy must soon identify a site for a new embassy compound and find a new residence for the Ambassador.

The intolerance of certain segments of Latvia's population towards minorities had led to incidents directed against mission staff and family members. The embassy was exemplary in handling this challenge.

Inspection of Embassy Santiago, Chile (ISP-I-06-45A)

Embassy Santiago had met or exceeded the Department's policy advocacy goals of greater Chilean leadership in support of democracy and free markets and continued Chilean participation in United Nations' peacekeeping activities in Haiti and elsewhere. Implementation of the U.S.-Chile Free Trade Agreement had generated an increase in bilateral trade of more than 80 percent.

Public diplomacy programming was strong and well rounded, but would have greater impact if it were linked more closely to the mission's strategic priorities. Law enforcement entities at post readily shared information on their respective programs but greater coordination was warranted to maximize the impact of these programs. The embassy facilitated high-value bilateral cooperation in science, technology, and the environment. All major management systems were in place and functioning. However, there was poor delivery of many administrative support services.

Inspection of Embassy Budapest, Hungary (ISP-I-06-46A)

Embassy Budapest worked successfully to maintain close bilateral relations while effectively pressing U.S. positions on a full range of issues. The post's various sections and agencies were well integrated into a coherent and well-led operation that had clear leadership.

Embassy operations were hampered because they were spread over four different buildings. The government of Hungary had offered to exchange the Marine House (a historic property) for two buildings adjacent to the chancery and said it would rehabilitate those buildings to meet U.S. requirements. The OIG team recommended that the Department expeditiously gather needed information and negotiate a package for exchanging the properties with the government of Hungary.

Inspection of Consulate General Hamilton, Bermuda (ISP-I-06-48)

Consulate General Hamilton had a successful public diplomacy program that was led by a consul general who had invigorated the bilateral governmental relationship

and strengthened the positive image of the United States in Bermuda. Given the demands of global repositioning, the consulate general should be restructured and its staff reduced. A two-officer post would be sufficient to manage U.S. interests and provide a lessened but adequate level of consular services. The Bureau of Western Hemisphere Affairs should take over responsibility for Consulate General Hamilton from the Bureau of European and Eurasian Affairs.

Inspection of Embassy Buenos Aires, Argentina (ISP-I-06-49A)

Embassy Buenos Aires' front office team had fostered excellent interagency cooperation and orchestrated impressive law enforcement and security cooperation with Argentine authorities. The public affairs and public diplomacy programs supported all of the post's Mission Performance Plan goals, but to improve the Argentine public's predominately negative opinion about the United States, the embassy's public affairs section needed more tools to allow it to concentrate on programming with the most impact. The consular section was still working hard to rebuild its capacity following Argentina's 2002 loss of the visa waiver program and the country's unexpectedly robust economic resurgence.

The growing crime and illicit drug trafficking in Argentina, combined with the regional political shifts that signal reduced cooperation by neighboring governments with U.S. counternarcotics programs, had increased the need for bilateral cooperation with Argentine law enforcement officials. INL should adjust its program accordingly.

The embassy organized the President's participation in the November 2005 Summit of the Americas. The post's overall performance in support of this summit was good, but some financial issues remained unresolved at the time of the inspection.

INFORMATION TECHNOLOGY

Protecting critical information and information systems continues to receive significant congressional and executive management attention. The Federal Information Security Management Act (FISMA) requires the OIG to review and evaluate development, documentation, and implementation of comprehensive plans to protect the confidentiality, integrity, and availability of mission critical information and systems. FISMA provides a framework for ensuring the “effectiveness of security controls over information resources and systems that support Federal operations and assets.”

As part of the annual FISMA requirement, OIG evaluated information management and information security operations at the Department, BBG, and the Department’s intelligence community constituency. A number of issues were identified, including documentation related to mission-wide security program planning and management, system and policy access controls, inadequate separation of key information technology (IT) duties, change control management for hardware and software deployment, and IT service continuity planning documentation. OIG teams also identified missing or inadequate systems documentation including standard operating procedures, security plans, and contingency plans. Further, they identified inconsistent IT training, inadequate resources, and lack of centralized operations for end-user support.

Earlier during this semiannual reporting period, the OIG Office of Information Technology worked with ISP as part of a larger multidisciplinary OIG team inspecting PRM, the Office of Medical Services, and BBG’s Office of Engineering and Technology (BBG/E), and Office of Program Review. Overseas posts it inspected included U.S. embassies in Buenos Aires, Santiago, Warsaw, Budapest, and Riga. In response to these inspections, the Department is correcting deficiencies noted regarding system security controls, IT training, standardization and regionalization of IT support services, certification and accreditation, patch management, and information systems security officer (ISSO) program.

Review of the Information Security Program at the Department of State (IT-I-06-03)

OIG’s 2006 FISMA review determined that the Department had made progress in its internal and external reporting of computer security incidents, and made significant progress in addressing privacy requirements. However, there were several areas

that still remain to be addressed by senior management, issues also reported in OIG's 2004 and 2005 FISMA reviews.

The Department had not taken adequate steps to verify that appropriate security levels are being assigned to IT applications and systems. System owners had been given the responsibility to determine security level determinations for their respective systems and applications. However, there was no assurance that appropriate classification of applications and systems was being done, and the Department needed to address issues pertaining to its ISSO program.

Further, the Department still needed to identify the total number of Department employees required to take IT security awareness training, and there were concerns with the different approaches being used to the certification and accreditation (C&A) process. In addition to bureaus performing their own certification and accreditation on their respective systems, program officials were sharing dual responsibility for applications and systems, resulting in potential duplication of effort. Finally, the Department needed to ensure that IT security findings identified by all other sources were addressed through the Plan of Action and Milestones (POA&M) process.

Summary of FY 2005 Information Systems Security Issues (IT-I-06-01)

Information systems security continues to receive significant congressional and executive management attention. Although the Department installs advanced information systems to support its business processes and requirements, information security efforts to stay abreast of those advances in technology must improve.

During FY 2005 inspections of 34 posts and bureaus, OIG gained valuable insight into the Department's ongoing information systems security effort. The inspections uncovered systems security issues that crossed regional and bureau boundaries, allowing OIG to suggest several areas for improvement Department-wide. This report highlighted new issues and those from previous inspections identified as not being resolved during the last round of OIG inspections, and detailed findings of systemic information security weaknesses in the ISSO program, patch management procedures, configuration management plans, and planning documentation.

The ISSO program continued to fall below the expectations of its role in the "defense-in-depth" strategy, and more needed to be done to ensure a consistent and effective ISSO program at every mission. Nearly half of the inspections conducted by OIG reported shortcomings in the ISSO program, including inattention to user

libraries, mailboxes for classified material being stored on the unclassified systems, inadequate separation of duties among IT staff, missing or inadequate essential systems security documentation and configuration settings that deviate from Department standards.

INVESTIGATIONS

PROCUREMENT FRAUD

OIG's Office of Investigations (INV), with the assistance of the Office of Audits, conducted an investigation of a Department vendor who double-billed the Department for the purchase of blank compact discs over a two-year period. The investigation determined that the vendor billed for approximately 130,000 compact discs that it never delivered to the Department. The charges were placed on the government purchase credit card of a Department employee who had retired without the card being deactivated.

On September 6, 2006, the owner of the company that supplied the compact discs to the Department pleaded guilty to embezzlement in U.S. District Court and was sentenced to eight months imprisonment, two months home detention, three years supervised release, \$100 special assessment and \$103,951.86 of restitution payments that begin three months after he completes his prison sentence.

PASSPORT FRAUD

As part of its ongoing Passport Sentinel initiative, OIG opened an investigation of a private citizen in California who fraudulently obtained a valid U.S. passport. A joint investigation with DS determined that the subject obtained the passport using a false identity established under the name and social security number of a deceased infant. The subject was arrested, and on April 10, 2006, pleaded guilty to one count of making false statements on a passport application, and sentencing of the subject is currently pending.

Also as part of the Passport Sentinel initiative, OIG conducted two other separate investigations of private citizens in California who also fraudulently obtained valid U.S. passports using false identities established under the names and social security numbers of deceased infants. Joint investigations on the cases were conducted with DS and the DHS Bureau of Immigration and Customs Enforcement. The subjects were arrested on April 18, 2006, and May 9, 2006, respectively, and their prosecution is pending.

FALSE CLAIMS

OIG conducted a joint investigation with DS involving a former embassy Foreign Service National (FSN) employee who traveled to the United States for training in 2002 on a Distinguished International Visitor (J-1) visa. The FSN never showed up for his training program, and instead requested political asylum by claiming that he was being persecuted in his home country.

The former FSN employee owed the Department for funds he received for his official travel to the United States. The subject reached an agreement with the civil division of the U.S. Attorney's Office for the District of Columbia to repay \$6,443 in funds provided by the Department for his travel.

OIG conducted an investigation of a Foreign Service officer who submitted an improper claim for Separate Maintenance Allowance (SMA) payments. The officer was ineligible for SMA because his spouse was also a Foreign Service officer. The investigation determined that the officer made the SMA claim after receiving erroneous advice from a management officer at his post. As a result of the investigation, on July 17, 2006, the Bureau of Resource Management has informed OIG that the officer had entered into an agreement to repay the \$7,478.25 in SMA payments he received.

FOLLOW-UP ACTIONS

EMBEZZLEMENT

OIG conducted a joint investigation with DS concerning multiple allegations of wrongdoing by three DS agents. The issues investigated included allegations that the DS agents converted an estimated \$20,000 in government property for their personal use and also misused government vehicles. The investigation determined that, while serving at a U.S. embassy overseas, the agents made unauthorized purchases of electronic equipment, clothing, weapons, and ammunition for their personal use. DS investigated additional professional misconduct allegations against the three agents.

The Bureau of Human Resources (HR) recommended that one of the agents be terminated, (action subsequently reduced to a 90-day suspension). On February 23, 2006, HR recommended that a second agent be terminated from employment. On March 23, 2006, HR proposed that the third agent be suspended for 45 days. (*OIG was not advised by HR of the final disposition of this case until after the end of the previous semi-annual reporting period*). (See OIG Semiannual Report, October 1, 2004, to March 31, 2005, pp 51-52)

A joint investigation with USAID's, Office of Inspector General, determined that an FSN cashier serving at an embassy in Africa embezzled more than \$200,000 from USAID and the Department. The investigation revealed that the cashier embezzled approximately \$120,000 from the USAID mission during a ten-year period ending in 2003. Subsequently, the subject was employed by the embassy and embezzled approximately another \$93,000 before the thefts were uncovered in early 2005. When interviewed by agents of both agencies, the subject confessed to both embezzlements and was subsequently indicted by a Federal Grand Jury in Charleston, South Carolina.

On December 29, 2005, the former cashier pleaded guilty to embezzlement. On May 23, 2006, the subject was sentenced to 30 months imprisonment and restitution to the government in the amount of \$214,000. (See OIG Semiannual Report, October 1, 2005, to March 31, 2006, p 47)

OIG investigated two Department timekeepers who conspired to fraudulently claim overtime by forging their supervisors' signatures on time and attendance certifications and by entering false information into the Department's computerized time and attendance system. Over several years, the two timekeepers submitted approximately \$100,000 in fraudulent overtime claims. On January 4, 2006, HR proposed that one of the timekeepers be terminated. The other timekeeper resigned shortly afterward.

After their cases were referred to the U.S. Attorney's Office, Eastern District of Virginia, one of the timekeepers pleaded guilty to the scheme. On May 12, 2006, she was sentenced in U.S. District Court to five months confinement, two years of supervised release, and restitution of \$96,000. Prosecution of the other timekeeper is still pending. (See OIG Semiannual Report, October 1, 2005, to March 31, 2006, p 47)

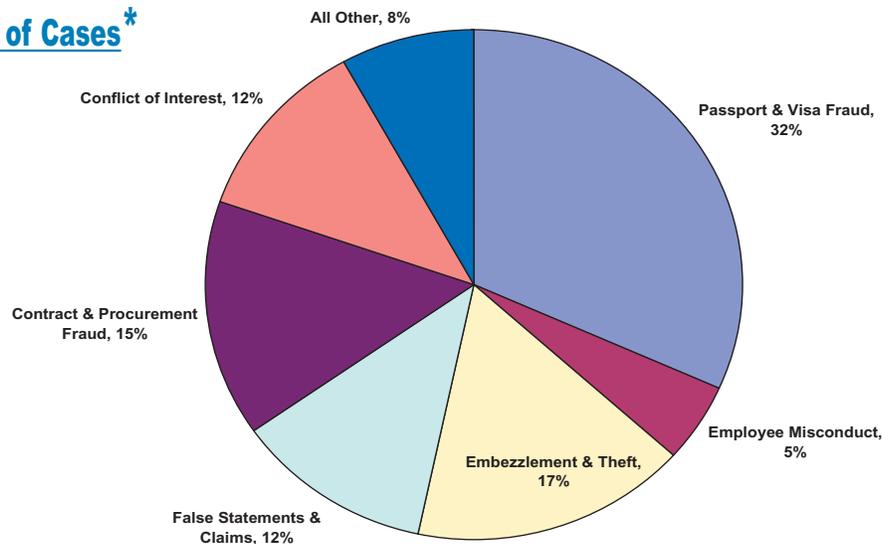
OIG opened an investigation into allegations that a Department employee was sleeping on the job during work hours. The investigation determined that the employee was working full time as a contract employee for the Department during the day

and full time as a regular Department employee at night. The investigation determined that the employee was absent without leave from his regular Department duties for a total of 502 hours from January 2002 until May 2003. OIG referred the matter to HR for adjudication. OIG also issued a Management Assistance Report to the Department's Office of Legal Adviser suggesting that the Department's ethical guidelines should be changed so that full-time Department employees cannot simultaneously be employed as Department contract employees.

On July 13, 2005, HR proposed that the employee be terminated from his Department of State employment. On April 12, 2006, HR issued its final disposition, reducing the proposed termination of the employee to a 60-day suspension and assessing the employee a total of \$13,292.40 in restitution for salary paid during his absences. (See OIG Semiannual Report, April 1, 2005, to September 30, 2005, p 58)

OIG opened an investigation into allegations that a DS agent submitted a false claim for SMA payments. The investigation determined that the agent received \$4,570 in SMA payments, despite having been legally separated from his spouse prior to his application for the SMA. On February 16, 2005, HR proposed a five-day suspension of the agent for improperly receiving SMA benefits. On June 16, 2006, the Bureau of Resource Management informed OIG that it had initiated collection action against the employee in the amount of \$4570. (See OIG Semiannual Report, October 1, 2004, to March 31, 2005, p 51)

Types of Cases*



* = May not equal 100% due to rounding.

Hotline



Held for action within OIG	31
Referral to other offices for action	151
No action necessary	93
Total Hotline contacts received	275

APPENDIX 1: DEPARTMENT OF STATE INVESTIGATIVE ACTIVITIES

Criminal Investigative Activities

Indictments/Information	3
Convictions	1
Sentencings	3
- Jail	35 Months
- Probation	60 Months
Referrals for Prosecution	6
Referrals for Prosecution Declined	3
Criminal Judgments/Restitutions	\$414,271.55

Civil Investigative Activities

Civil Referrals	0
Civil Declinations	0
Civil Recoveries	\$4,094.20

Administrative Investigative Activities

Administrative Referrals	5
Personnel Actions	
- Removals	1
- Suspensions	2
- Reprimands/Admonishments	0
- Reimbursements	3
Administrative Recoveries	\$ 25,305.06

Total Investigative Recoveries (Judicial and Administrative) \$443,670.81

Investigative Workload

Cases Pending (3/31/06)	56
New Cases Opened	14
Cases Closed	10
Cases Pending (9/30/06)	60
Preliminary Inquiries Pending (3/31/06)	2
Preliminary Inquiries Opened	9
Preliminary Inquiries Closed	5
Preliminary Inquiries Converted to Cases	1
Preliminary Inquiries Pending (9/30/06)	5

APPENDIX 2: REPORTS ISSUED

AUDITS

AUD/IQO-06-30	Survey of the Status of Funding for Iraq Programs Allocated to the Department of State's Bureau of International Narcotics and Law Enforcement Affairs as of December 31, 2005
AUD/CG-06-25	Application of Agreed-Upon Procedures on Kellogg, Brown & Root Services, Inc.'s, Revised Termination Settlement Proposal
AUD/CG-06-26	Application of Agreed-Upon Procedures on Choctaw Archiving Enterprise's Proposed Direct and Indirect Labor Rates and Accounting System
AUD/CG-06-28	Agreed-Upon Procedures American Councils for International Education
AUD/CG-06-29	Agreed-Upon Procedures on Direct Labor and Indirect Expense Rates Proposed by Skidmore, Owings & Merrill
AUD/CG-06-34	Agreed-Upon Procedures on Direct Labor and Indirect Expense Rates Proposed by Integrated Communications Solutions, Inc.
AUD/FM-06-23	Assessment of Airline Travel
AUD/FM-06-32	Management Letter Related to the Audit of the U.S. Department of State 2005 and 2004 Principal Financial Statements
AUD/FM-06-33	Audit of the International Boundary and Water Commission's 2005 and 2004 Financial Statements
AUD/FM-06-37	Audit of the Foreign Service Retirement and Disability Fund's 2005, 2004, and 2003 Financial Statements

AUD/FM-06-38	Audit of the Department's Identification and Collection of Value-Added Taxes Overseas
AUD/FM-06-39	Need to Improve Internal Controls Related to Travel Advances
AUD/FM-06-40	Application of Agreed-Upon Procedures for Retirement, Health Benefits, and Life Insurance Withholdings and Contributions
AUD/IP-06-35	Audit of the Department's Reporting of Aircraft and Aircraft Parts

INSPECTIONS

ISP/IQO-06-50	Survey of Anticorruption Programs, Embassy Baghdad, Iraq
ISP-I-06-26	Impact of Department of Homeland Security Expansion Overseas on Chief of Mission Authorities
ISP-I-06-28	Inspection of the Office of Casualty Assistance
ISP-I-06-29	Inspection of the Family Liaison Office
ISP-I-06-33	Inspection of Global Financial Services – Charleston
ISP-I-06-34	Inspection of the Office of Medical Services
ISP-I-06-35	Inspection of the Bureau of Administration, Office of Commissary and Recreation Staff
ISP-I-06-36	Inspection of the Bureau of Administration, Office of Overseas Schools
ISP-I-06-38	Memorandum Report, International Cooperative Administrative Support Services
ISP-I-06-40	Inspection of the Bureau of Population, Refugees and Migration

ISP-I-06-41	Inspection of the Office of Civil Rights
ISP-I-06-43	Review of the Bureau of Diplomatic Security's Revocation Process for Security Clearances
ISP-I-06-47	Inspection of the Bureau of Administration, Office of Language Services
ISP-I-06-51	Inspection of the Bureau of Administration, Office of Allowances
ISP-C-06-52	U.S. Speaker and Specialist Program Review Bureau of International Information Programs
ISP-I-06-30A	Inspection of Embassy Panama City, Panama
ISP-I-06-31A	Inspection of Embassy San Salvador, El Salvador
ISP-I-06-32A	Inspection of Embassy San Jose, Costa Rica
ISP-I-06-39A	Inspection of Embassy Riga, Latvia
ISP-I-06-45A	Inspection of Embassy Santiago, Chile
ISP-I-06-46A	Inspection of Embassy Budapest, Hungary
ISP-I-06-48	Inspection of Consulate General Hamilton, Bermuda
ISP-I-06-49A	Inspection of Embassy Buenos Aires, Argentina

INFORMATION TECHNOLOGY

IT-I-06-01	Summary of FY 2005 Information Systems Security Issues
IT-I-06-03	Annual FISMA Review of the Information Security Program at the Department of State

SECURITY ANNEXES

ISP-S-06-30A	Inspection of Embassy Panama City, Panama
ISP-S-06-31A	Inspection of Embassy San Salvador, El Salvador

ISP-S-06-32A	Inspection of Embassy San Jose, Costa Rica
ISP-S-06-39A	Inspection of Embassy Riga, Latvia
ISP-S-06-46A	Inspection of Embassy Budapest, Hungary
ISP-S-06-45A	Inspection of Embassy Santiago, Chile
ISP-S-06-49A	Inspection of Embassy Buenos Aires, Argentina

APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

Table 1

Inspector General Issued Audit Reports
With Questioned Costs
(Dollars in Thousands)

	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	24	\$26,497	\$12,975
B. Which were issued during the reporting period	1	795	532
Subtotals (A+B)	25	27,292	13,028
C. For which a management decision was made during the report period -	1		
based on formal administrative or judicial appeal			
(i) dollar value of cost disallowed		13	1
(ii) dollar value of costs not disallowed		0	0
D. For which no management decision has been made by the end of reporting period	24	27,279	13,027
Reports for which no management decision was made within 6 months of issuance	23	26,484	12,922

Table 2

Inspector General Issued Audit Reports with
Recommendations That Funds Be Put To Better Use

	Number	Dollar Value (In Thousands)
A. For which no management decision has been made by the commencement of the reporting period.	3	\$ 29,886
B. Which were issued during the reporting period.	3	15,602
Subtotals (A+B)	6	45,488
C. For which a management decision was made during the reporting period.	0	0
(i) dollar value of recommendations that were agreed to by management		
–based on proposed management action		
–based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management		
D. For which no management decision has been made by the end of the reporting period.	6	45,488
Reports for which no management decision was made within 6 months of issuance	3	29,886

APPENDIX 4: RESOLUTION OF REPORTS AND RECOMMENDATIONS

Significant recommendations pending final action

Office of Audits

AUD/CG-02-44	1	<i>Awards to the Iraqi National Congress</i>	10/31/2002
		OIG recommend that the A/ALM/AQM grants officer, in coordination with the Bureau of Near Eastern Affairs, should withhold, or at least restrict, future funding to the Iraqi National Congress Support Foundation until the Foundation has implemented adequate and transparent financial controls.	
AUD/CG-05-28	1	<i>Review of Lutheran Immigration and Refugee Service's Reception and Placement Program</i>	06/07/2005
		OIG recommended that the PRM grants officer require the Lutheran Immigration and Refugee Service and its subrecipients to (1) reimburse the Department for unallowable costs totaling \$48,000 and (2) provide any additional supporting documentation to the Department so that an appropriate determination can be made regarding unsupported costs totaling \$606,000.	
AUD/FM-05-06	1	<i>Assessment of the Certification and Accreditation, Change Management, and Patch Management Process</i>	12/01/2004
		The Bureau of Information Resource Management should revise the security test and evaluation of the certification and accreditation process to include a complete vulnerability scan of the systems being assessed.	

Office of Inspections

ISP-I-06-18

Review of Middle East Partnership Initiative Coordination and Implementation

03/2006

Recommendation 2: OIG recommended that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Administration and the Bureau of Human Resources, should provide appropriate training for grants officer representatives.

Recommendation 3: OIG recommended that the Bureau of Near Eastern Affairs, in coordination with the Bureau of Human Resources, should establish procedures to ensure that officers having Middle East Partnership Initiative responsibilities are briefed on these responsibilities before taking up their overseas assignments.

Significant problems, abuses, and deficiencies

In its review of Global Financial Services – Charleston (ISP-I-06-33), OIG identified several serious problems:

Certification of Payments

Most individuals certifying payments domestically at GFS-C did not have certifying officer authority, as required in 4 FAH-3 H-065.2; nonetheless, they have certified payments amounting to over \$6 billion in FY 2005. OIG recommended that the Department train and designate as certifying officers employees who are performing certifying officer duties domestically.

Baghdad Payroll

The compensation plan for Department employees in Iraq is virtually unworkable and complicated. In 2005, Baghdad payroll costs totaled over \$57 million for base pay and over \$13 million for premium pay. The overtime pay for some employees appeared excessive, records were not fully reliable, and management controls on processing time and attendance reports needed strengthening. Time and attendance reports were forwarded for payment without the approval and signature of an authorizing direct-hire official, contrary to 4 FAH-3 H-523.1. GFS-C nonetheless made payments based on the incomplete reports. Based on these shortcomings, OIG recommended that the Department perform a full-scale, multi-location audit of the payroll procedures for Department employees in Baghdad, and implement procedures to process payrolls only when the time and attendance reports are properly prepared and approved.

Fund Balance with Treasury Accounts

The Fund Balance with Treasury reconciliation for the period ending December 31, 2005, showed an accumulated absolute difference of over \$256 million between the Treasury and Department records. The prior years' differences of \$204.2 million had not been resolved. OIG recommended that the Department review the differences in the Fund Balance with Treasury Accounts, reconcile the differences from prior fiscal years, and report the changes to the Treasury.

BROADCASTING BOARD OF GOVERNORS



United States Department of State
and the Broadcasting Board of Governors

Inspector General

October 31, 2006

MEMORANDUM

TO: Mr. Kenneth Y. Tomlinson, Chairman
Broadcasting Board of Governors

FROM: OIG – Howard J. Krongard
Inspector General

SUBJECT: Semiannual Report to Congress, April 1 to September 30, 2006

I am pleased to transmit to you the Office of Inspector General's (OIG) Semiannual Report to the Congress for the period ending September 30. This report is required by the Inspector General Act of 1978, as amended, and covers the work of this office during the period indicated. The Act requires that you transmit the report to the appropriate committees of the Congress by November 30, together with any comments you may wish to make.

During the reporting period, OIG audited the BBG purchase card program and identified the development of the SmartTrax system by the Office of Cuba Broadcasting as a best practice that should be evaluated for potential use by other BBG's operations. OIG also audited the emergency preparedness at BBG's Washington Facilities and inspected the International Broadcasting Bureau's Office of Performance Review.

These and other activities are summarized in this report.

AUDITS

Review of the Broadcasting Board of Governors Purchase Card Program (AUD/IB-06-15)

OIG reviewed the Broadcasting Board of Governors' (BBG) purchase card program to evaluate BBG's compliance with established federal and BBG purchase card policies and procedures. The survey scope covered domestic purchase card operations at BBG in Washington, DC, and at Office of Cuba Broadcasting (OCB) in Miami.

OIG obtained purchase card data for BBG and OCB for FY 2004 through May 18, 2005. These included 15,158 transactions totaling \$10,390,467. For the 73 transactions reviewed, OIG did not find any improper purchases by the cardholders; however, there were instances of missing or inadequate documentation.

Government purchase cards are issued under the umbrella of the General Services Administration's (GSA) SmartPay Program. Under the program, agencies are to conduct annual reviews to "continually improve program operations while ensuring cardholders and approving officials comply with established procurement management practices, operating procedures, and purchase card controls." OIG found that BBG has not conducted the annual review of the purchase card program. In addition, BBG has not submitted the required quarterly reports on its purchase card program to the Office of Management and Budget.

The GSA SmartPay contract includes incentives that give BBG the opportunity to earn rebates directly from the card provider based on factors such as sales volume and payment performance. During the first three quarters of FY 2005, BBG received rebates totaling about \$31,300. BBG program managers use the rebates to fund the purchase card program's operating expenses and for such improvements as training for cardholders. The rebate amount is not reconciled for accuracy by BBG financial personnel.

The Procurement Executives Council encourages civilian agencies to expand their use of purchase cards to at least 75 percent of procurement transactions up to \$25,000. Federal Acquisition Regulation 13.301 (b) states that agency procedures

should not limit the use of purchase cards to micropurchases (up to \$2,500), but should encourage use of purchase cards in greater dollar amounts. During OIG's review, the BBG Office of Contracts agreed to survey cardholders to collect data on purchases being made outside the purchase card program to evaluate whether opportunities exist for expanding purchase card use.

OIG recommended that BBG formally notify program participants of the importance of maintaining supporting documentation, developing a plan and milestones for the annual program review, and reporting quarterly to the Office of Management and Budget on its purchase card program. OIG also recommended that BBG establish a procedure for verifying rebate amounts and develop procedures to expand the use of the card.

To comply with report recommendations, BBG has initiated or proposed solutions that will strengthen accountability and internal controls. Of particular note is BBG's survey to expand the use of the purchase cards with the potential for cost-savings.

Best Practice: The Development of SmartTrax–Purchase Card Transaction Tracker

Issue: BBG purchase cardholders primarily use a manual system to record and track card purchases. The manual system is less efficient and requires more time to complete the required steps in the purchase card process. The manual system also limits oversight by the cardholder's approving official. A BBG purchase card program participant in the OCB developed an automated means to more efficiently track purchase card transactions and receipts.

Response: The SmartTrax system better organizes the administration of the purchase card process, reconciles monthly statements of account, and prepares formal reports on card transactions.

Results: A demonstration of SmartTrax showed how the system could improve efficiency and cardholder monitoring, and on the basis of that success, the OCB director of administration implemented a more user-friendly version of the system for all OCB purchase card participants. BBG program officials wanted to evaluate the system for potential use by other BBG cardholders.

Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Broadcasting Board of Governors (AUD/SI-06-24)

After the September 11, 2001, terrorist attacks, the federal government refocused its domestic security needs and responsiveness requirements. Clear lines of command and control within an organization are essential to minimize occupant and responder casualties. Integral to preparedness are such components as effective communication networks and adequate emergency lighting, signage, and plans. Effective emergency planning can substantially reduce the loss of life, risk of personal injury, or property damage.

OIG audited BBG's emergency preparedness to determine whether BBG had implemented an Occupant Emergency Program in accordance with regulations and adequately developed and distributed occupant emergency plans.

OIG found that although BBG had implemented an Occupant Emergency Program, the guidance was outdated and did not fully comply with federal regulations. Furthermore, BBG's current occupant emergency plan did not comply with federal regulations. In addition, OIG found that BBG employees were not fully aware of emergency procedures. The audit also highlighted the need for improved communications between BBG and General Services Administration to ensure that critical emergency and safety mechanisms are installed and operational within the BBG facilities.

OIG recommended that BBG's International Broadcasting Bureau (IBB) update its agency guidance; adopt, implement, and comply with pertinent regulations; and have critical safety mechanisms installed within its Washington facilities.

INFORMATION TECHNOLOGY

Review of the Information Security Program at the Broadcasting Board of Governors (IT-I-06-04)

BBG has established an ambiguous reporting chain with respect to the CIO, effectively negating the capacity of the CIO to act as direct adviser to the head of agency on IT matters. The structure also hampers the perceived authority of the CIO, negatively impacting his ability to effectively implement information security requirements. BBG management has not sufficiently involved the CIO in its strategic planning process or defined CIO responsibilities and authorities within the process. BBG views the CIO position as limited to the oversight of administrative IT management within the IBBs Office of Engineering and Technical Services. By having given the CIO insufficient authority to implement requirements, BBG is deficient in complying with numerous statutory responsibilities regarding information security and the management of information resources.

In the 2004 and 2005 FISMA reports, OIG reported that BBG had not developed an agency-wide IT enterprise architecture. BBG has made progress regarding the enterprise architecture. However, there are other areas that have yet to be addressed, such as the development of a lifecycle management program for IT assets. Additionally, BBG has not implemented a process to be certain that its IT assets are maintained at an acceptable service level to prevent exploitation of vulnerabilities associated with lifecycle-management principles.

INSPECTIONS

Inspection of the International Broadcasting Bureau, Office of Performance Review (ISP-IB-06-37)

IBB's Office of Performance Review provides quality control by evaluating programs and recommending improvements for IBB, the Voice of America's language services, and the Office of Cuba Broadcasting. OIG found that the performance rating scores that the Office of Performance Review assigns have minimal effect on strategic decisions the BBG reaches through its annual Language Service Reviews and budget priorities. Additionally, performance rating scores also have minimal effect on IBB senior management in its decisionmaking and serve only as a quality control process. Problemsolving discussions and action items that result from the reviews more effectively improve broadcast services' quality.

OIG recommended that the Office of Performance Review raise IBB senior management's recognition of the need to comply with action items through quarterly prioritized lists of its most important outstanding recommendations. OIG also recommended that the IBB prioritize significant remaining action items and provide the information to the Broadcasting Board of Governors for consideration during Language Service Reviews.

INVESTIGATIONS

During this reporting period the Office of Investigations (INV) concluded a thirteen month investigation at the Broadcasting Board of Governors (BBG). The investigation was undertaken at the request of two U.S. Senators and one member of Congress who are members of the Senate and House committees with jurisdiction over the BBG. In August 2006, INV issued its Report of Investigation.

EMPLOYEE MISCONDUCT AND CONTRACTING IRREGULARITIES

OIG opened an investigation into allegations that a BBG employee engaged in extensive misuse of official telephones by placing personal overseas telephone calls on a BBG telephone. BBG reported to OIG that the cost of the personal telephone calls totaled nearly \$50,000. During the investigation, however, it was determined that the long distance carrier had charged BBG the commercial telephone rate for the calls rather than the government rate. As a result, the long distance carrier agreed to reimburse BBG \$48,846.35 for the calls. This recovery action led BBG to initiate a review of other long distance telephone call billings by the carrier. To date, a grand total of the overcharges by the carrier has not been determined, but has been estimated to be in excess of \$300,000.

The BBG employee was arrested by OIG agents on July 14, 2006, and charged in District of Columbia Superior Court with Second Degree Theft. On August 9, 2006, he was terminated from employment. Prosecution is currently pending.

APPENDIX 1: BROADCASTING BOARD OF GOVERNORS INVESTIGATIVE ACTIVITIES

Investigative Workload	Number
Cases pending 3/31/06	5
New cases opened	1
Cases closed	2
Cases pending 9/30/06	4
Preliminary inquires pending 3/31/06	1
Preliminary inquiries opened	1
Preliminary closed	1
Preliminary inquiries converted to cases	0
Preliminary inquiries pending 9/30/06	1
Total Judicial Actions	0
Prosecutive Referral	1
Prosecutive Declination	1
Criminal Indictment/Arrest	1
Criminal Conviction	0
Criminal Sentencing	0
Time Sentenced	0 Months
Time Probation	0 Months
Court Ordered Fine	\$0
Court Ordered Restitution	\$0
Total Investigative Recoveries	\$0

APPENDIX 2: REPORTS ISSUED

AUD/IB-06-15	Review of the Broadcasting Board of Governors' Purchase Card Program
AUD/SI-06-24	Audit of Emergency Preparedness at the Washington Metropolitan Facilities of the Broadcasting Board of Governors
IT-I-06-04	Review of the Information Security Program at the Broadcasting Board of Governors
ISP-IB-06-37	Inspection of the International Broadcasting Bureau's (IBB) Office of Performance Review

APPENDIX 3: SAVINGS & MORE EFFECTIVE USE OF RESOURCES

Table 1
Inspector General Issued Audit Reports
With Questioned Costs
(Dollars in Thousands)

	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period Subtotals (A+B)	0	0	0
C. For which a management decision was made during the report period - based on formal administrative or judicial appeal			
(i) dollar value of cost disallowed	0	0	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision has been made by the end of reporting period Reports for which no management decision was made within 6 months of issuance	0	0	0

Table 2
Inspector General Issued Audit Reports with
Recommendations That Funds Be Put To Better Use

	Numbers	Dollar Value (in thousands)
A. For which no management decision has been made by the commencement of the reporting period.	0	0
B. Which were issued during the reporting period. Subtotals (A+B)	0	0
C. For which a management decision was made during the reporting period.	0	0
(i) dollar value of recommendations that were agreed to by management		
- based on proposed management action		
- based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management		
D. For which no management decision has been made by the end of the reporting period. Reports for which no management decision was made within 6 months of issuance.	0	0

LIST OF ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisition Management
BBG	Broadcasting Board of Governors
DCM	Deputy Chief of Mission
Department	Department of State
DHS	Department of Homeland Security
DS	Bureau of Diplomatic Security
FISMA	Federal Information Security Management Act
GFS-C	Global Financial Services - Charleston
ICASS	International Cooperative Administrative Support Services
INL	Bureau of International Narcotics and Law Enforcement
OIG	Office of Inspector General
OBO	Bureau of Overseas Buildings Operations
RM	Bureau of Resource Management
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	U.S. Agency for International Development
VAT	Value-added taxes

INDEX OF REPORTING REQUIREMENTS
INSPECTOR GENERAL ACT OF 1978, AS AMENDED

<i>REQUIREMENT</i>	<i>SUBJECT</i>	<i>PAGE NUMBERS</i>
Section 4(a)(2)	Review of legislation and regulations	10
Section 5(a)(1)	Significant problems, abuses, and deficiencies	17-45, 69-71
Section 5(a)(2)	Significant recommendations for corrective action	13-46, 67-69
Section 5(a)(3)	Prior significant recommendations unimplemented	61-62
Section 5(a)(4)	Matters referred to prosecutive authorities	47-51, 77
Section 5(a)(5)	Information or assistance refused	none
Section 5(a)(6)	List of reports issued	55-58, 81
Section 5(a)(7)	Summaries of significant reports	17-45, 69-71
Section 5(a)(8)	Audit reports—questioned costs	59, 83
Section 5(a)(9)	Audit reports—funds to be put to better use	59, 83
Section 5(a)(10)	Prior audit reports unresolved	59-61, 83
Section 5(a)(11)	Significant revised management decisions	none
Section 5(a)(12)	Significant management decisions with which OIG disagreed	none

FRAUD, WASTE, ABUSE, OR MISMANAGEMENT

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