



Office of Inspector General

United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Semiannual Report to the Congress

October 1, 2004 to March 31, 2005



Summary of OIG Accomplishments

Financial Results:

Questioned costs

Issued during the reporting period	\$ 5,099,000
Management decision during the reporting period	\$ 7,144,000

Recommendations for funds to be put to better use

Issued during the reporting period	\$ 21,753,000
Management decision during the reporting period	\$ 0

Investigative recoveries

\$153,289

Investigative Results:

Cases opened	33
Cases closed	22
Judicial actions	28
Administrative actions	29
Hotline and complaint activity	211

Reports Issued: 61

Pictured on the front cover: Embassy Chisinau, Moldova

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

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG) reviewed and monitored programs, activities, and operations of the Department of State (Department) and Broadcasting Board of Governors (BBG) during this semiannual period. Aligned with OIG's strategic goals, which support and assist the Department and BBG, selected reviews for this reporting period are highlighted below.

Adequately Protect the People, Information, and Facilities in the United States and Abroad

OIG made recommendations to eliminate unnecessary duplication, ensure accountability, and improve management in the Bureaus of Arms Control, Nonproliferation, and Verification and Compliance. In response to these recommendations, the Secretary of State established a task force to merge the Bureaus of Arms Control and Nonproliferation and to redefine the Bureau of Verification and Compliance as a specialized entity rather than a bureau. (See *ISP-I-05-03*, *ISP-I-05-49*, and *ISP-I-05-51*.)

OIG examined the Department's Anti-terrorism Assistance Program (ATA), and found that the program has successfully met training needs since September 11, 2001. It has trained and assisted more than 36,000 foreign security and law enforcement personnel from 130 countries since its inception. OIG recommended ways to strengthen the program, such as: reassessing program responsibilities in light of the program's substantial growth; evaluating the staffing of the program to ensure enough direct-hires for the long-term stability of the program; and accounting completely for all weapons acquired for use in the program's four overseas, in-country training programs. (See *SIO-A-05-11*.)

OIG's review of the Bureau of Diplomatic Security (DS), Directorate of Security Infrastructure noted that the widespread use of contractors was necessary and in keeping with the President's Management Agenda goal of outsourcing. OIG made recommendations to improve contract management and to address vulnerabilities currently affecting the Directorate's information collection and retention practices. (See *ISP-I-05-45*.)

Effectively, Efficiently, and Economically Advance the Foreign Policy Interests of the United States

OIG surveyed the Department's funding for Iraqi-related activities to identify and quantify funding earmarked for Iraq and methods or financial instruments used to convey funds to others, such as contractors or grantees. From this work, OIG compiled an inventory of Department obligations amounting to about \$1 billion. OIG consolidated the information into a database, which will facilitate future audit efforts. (See *AUD/CG-05-18*.)

OIG examined the Department's support of Embassy Baghdad in facilities not located in Iraq. OIG determined that better coordination is needed between Embassy Baghdad and the logistical and travel support units located in Amman, Jordan; Kuwait City, Kuwait; and Washington, DC. OIG recommended an improved regional support model, standard operating procedures, and memoranda of understanding to clarify roles and responsibilities. (See *ISP-IQO-05-53*.)

OIG's inspection determined that Embassy Amman's support for Embassy Baghdad significantly affects Embassy Amman's mission. OIG is concerned about Embassy Amman's overcrowding issues and noted several safety deficiencies meriting immediate corrective action. OIG praised the embassy's consular section for its high-quality services for both Iraq and Jordan. OIG recommended eliminating unnecessary duplication of support services handled by the Department and the U.S. Agency for International Development (USAID). (See *ISP-I-05-02A*.)

A key priority for Embassy Cairo is reaching out to the Egyptian public, given that a recent study found that only six percent of Egyptians think favorably of the United States. OIG recommended that Embassy Cairo expand the audience receiving the U.S. message by increasing the number of embassy officers involved in public diplomacy, developing American Centers, and increasing access to Radio Sawa. (See *ISP-I-05-04A*.)

In a summary report, OIG determined that the integration of public diplomacy functions into the Department is incomplete. OIG recommended that the Department ask that Congress review the Smith-Mundt Act's continued relevance. OIG advised the Department to seek greater representation at the National Security Council to ensure better and continuing coordination of interagency public diplomacy activities. (See *ISP-I-05-54*.)

OIG's inspection of operations at the U.S. International Boundary and Water Commission (USIBWC) identified internal management problems that undermined morale and led to an alarming departure of key personnel, which threatened the Commission's ability to conduct its essential responsibilities for flood control and water management in the American Southwest. OIG recommended that the Commission's personnel structure and policies be aligned more closely with those of the Department. (See *ISP-I-05-26*.)

OIG assessed BBG's program management and performance and management controls at the Delano Transmitting Station. Some of the challenges included technical staff attrition, dated equipment, and state regulatory restrictions and rules. OIG determined that the station needs to take deliberate steps to ensure it has skilled employees at the ready. (See *IBO-I-05-05*.)

OIG reviewed the interagency agreement between BBG and USAID to use Radio Sawa to fill the void in communications in post-conflict Iraq. The objectives were to determine whether:

- USAID funds transferred to BBG were used effectively to enhance the dissemination of humanitarian and other information in Iraq; and
- BBG successfully launched the three program components of the interagency agreement:
 - establishing a stringer network;
 - airing programs that address humanitarian and reconstruction efforts; and
 - conducting audience research.

According to USAID officials, BBG did not use the transferred funds to enhance the dissemination of reports of humanitarian and related information to Iraq. As a result USAID provided only partial funding to BBG.

Implement the Necessary Financial and Support Systems and Controls To Meet Legal and Operational Requirements

In compliance with the Chief Financial Officers Act, as amended, OIG oversaw the audit of the Department's 2004 and 2003 principal financial statements that

was performed by an independent external auditor. Although the independent external auditor issued an unqualified opinion, the report brings to the Department's attention concerns about the security of:

- the unclassified network;
- adequacy of internal controls over the management of undelivered orders;
- the collection and reporting of managerial cost accounting information; and
- the adequacy of the Department's financial and accounting system. (See *AUD/FM-05-09*, *AUD/FM-05-07*, *AUD/FM-05-06*.)

OIG conducted several audits examining compliance with federal contracting and grants procedures and requirements. Among them, OIG reviewed a termination for convenience proposal for a contract in Havana, Cuba. OIG examined whether the proposal was prepared in compliance with contracting standards and assessed whether claimed costs were incurred, reasonable, allowable, and allocable. OIG determined that the proposed termination costs were mathematically correct. However, OIG questioned the entire amount claimed, just over \$4 million, because the contractor did not submit the proposal in accordance with regulations. (See *AUD/CG-05-22*.)

In response to interest expressed by several Department bureaus, OIG reviewed selected grants to MiraMed Institute for 2003 and 2004. MiraMed received the awards through agreements with the International Organization for Migration, which the Department funds. OIG examined whether MiraMed could adequately account for federal funds and complied with applicable federal laws and regulations related to the terms and conditions of the agreements. OIG determined that MiraMed operated with a deficient accounting system, lacked a cost allocation policy, and had inadequate internal controls over financial transactions. OIG questioned about 43 percent of costs claimed and recommended that the Department withhold or restrict funding to MiraMed until it acquires adequate accounting systems and controls suitable for handling federal funds. (See *AUD/CG-05-23*.)

OIG conducted several audits of the Department's procurement activities. Of key interest was a review of excessive fuel charges in support of the Jordan International Police Training Center. OIG determined that a subcontractor overbilled the Department about \$600,000, for which the primary contractor fully reimbursed the Department. OIG's review of the delivery and receipt of diesel fuel showed that the contractor did not follow internal control procedures. Fuel tanks were inadequately secured to prevent theft, and when thefts were reported, no action was

taken to secure the tanks. OIG recommended that the Department require the contractor to secure all fuel tanks to prevent theft of diesel fuel. (See *AUD/PPA-05-17*.)

OIG compiled and summarized information system security issues identified in FY 2004 to perform an overall assessment of the Department's global information technology (IT) modernization. OIG identified several opportunities for improving information security and information management, including strengthening management and technical control procedures. (See *IT-I-05-01*.)

The Chief Financial Officers Act, as amended, applies to BBG. OIG oversaw the audit of BBG's 2004 Balance Sheet by the independent external auditor. The accompanying Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing were not audited. Although BBG received an unqualified opinion, the report and the separate management letter brought several matters of concern to BBG management's attention. (See *AUD/FM-05-12* and *AUD/FM-05-14*.)

Ensure Accountability and Prevent or Eliminate Waste, Fraud, Abuse, and Mismanagement

In a joint investigation with the Departments of Labor, Internal Revenue Service, Federal Bureau of Investigation, and Homeland Security (DHS), OIG determined that an employment and immigration services company may have falsified employment-based visa applications on behalf of its employer clients. Seven individuals have been indicted on charges of conspiracy to commit immigration fraud, conspiracy to encourage an alien to unlawfully enter the United States, money laundering, and misprision of a felony.

OIG also investigated a Department employee for selling U.S. government-purchased cellular telephones and airtime to private individuals. The employee resigned from the Department upon disclosure of his activities in lieu of being terminated. The employee later pleaded guilty to theft, was sentenced to six months' home confinement, three years' probation, a \$100 fine and restitution amounting to nearly \$22,000. As a result, OIG issued a management assistance report recommending changes to improve controls over the cellular telephone program.

CONGRESSIONAL ACTIVITIES AND OUTREACH

Testimony

On March 15, 2005, the Senate Foreign Relations Committee held a confirmation hearing and considered the President's nomination of Howard J. Krongard as the next Inspector General of the Department and BBG. The Senate confirmed Mr. Krongard on April 27, 2005, just before the issuance of this report.

Congressional Mandates and Requests

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

- As mandated under Section 832 of the Intelligence Authorization Act (Pub. L. No.107-306), OIG conducted the 2004 evaluation of the Department's policies and procedures for protecting classified information at the Department's headquarters. See *Protection of Classified Information at State Department Headquarters* (Report Number SIO-A-05-13).
- In compliance with the Chief Financial Officers Act, as amended (Pub. L. No.101-576), OIG selected an independent external auditor to audit the Department's principal financial statements. As required by OMB Bulletin 01-02, the audit included an assessment of whether those statements fairly presented the Department's financial position in compliance with generally accepted accounting principles and assessed the adequacy of internal controls, including controls over relevant automated systems. The independent external auditor issued an unqualified opinion on the Department's 2004 and 2003 Principal Financial Statements. See *Audit of the U.S. Department of State 2004 and 2003 Principal Financial Statements* (Report Number AUD/FM-05-09).
- In addition, the auditor's IT expert reported that the security features of the application it reviewed functioned correctly and were well managed. See *Vulnerability Assessment of the Foreign Affairs Retirement and Disability System* (Report Number AUD/FM-05-07).

- The Chairman of the House International Relations Committee and the Ranking Member of the Senate Foreign Relations Committee asked OIG to examine the Department's failure to report several international agreements to Congress. OIG recommended improving accountability and the management controls for the treaty and agreement actions. See *Review of Treaty Management Responsibilities in the Office of Treaty Affairs* (Report Number ISP-C-05-01).
- The Chairman of the House Judiciary Committee, asked OIG to conduct a review of the Department's visa adjudication process. See *Nonimmigrant Visa Adjudication Process* (Report Number ISP-CA-05-56). In addition, the Chairman requested OIG to conduct a review of the standards for refusing nonimmigrant visa applications to determine how consular officers were applying section 214(b) of the Immigration and Nationality Act. (See *Nonimmigrant Visa: Adjudications: Standards for Refusing Applicants* (ISP-CA-05-58)

The Acting Inspector General and OIG staff met with congressional staff to brief them and obtain comments on a variety of Department and BBG operations and programs as well as OIG's recent reorganization. The Committees included the Senate Foreign Relations, Select Committee on Intelligence, and Homeland Security and Governmental Affairs; and the House Appropriations Subcommittee on Commerce, Justice, State and the Judiciary; and Committees on International Relations, Government Reform, and the Judiciary.

Outreach/Media Assistance

OIG participated in two Foreign Service officer orientations and other courses offered by the Foreign Service Institute to inform all new employees on the role, mission, and services provided by OIG. In addition, the Acting Inspector General or Deputy briefed each newly appointed ambassador, before departure, on issues related to their assigned embassies. As part of OIG's anticorruption outreach, foreign delegations met with OIG to learn about government oversight.

Members of the media inquired about several OIG reviews, including the Department's Global Terrorism Report, Radio Sawa, the U.S. International Boundary and Water Commission, OIG's recruitment efforts, Iraqi Police Training, Iraqi Cashiering, the Iraqi National Congress Support Foundation, the Department's development assistance programs, the Bureau of Arms Control and International Security, and Embassy Kuwait.

Legislation Monitored

Some of the bills OIG's legislative staff monitored include the following:

- S. 600 - Foreign Affairs Authorization Act, Fiscal Years 2006 and 2007
- H.R. 1268 - Fiscal 2005 Emergency Supplemental for Iraq/Tsunami Relief
- H.R. 4548 - To authorize appropriations for fiscal year 2005 for intelligence and intelligence-related activities of the United States Government, the Community Management Account, and the Central Intelligence Agency Retirement and Disability System, and for other purposes (became Pub. L. No.108-798)
- S. 2845 - A bill to reform the intelligence community and the intelligence and intelligence-related activities of the United States Government, and for other purposes (became Pub. L. No.108-796)
- H.R. 4818 - The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2005, also known as the Consolidated Appropriations Act, 2005 (became Pub. L. No.108-447)
- S. 2537 and H.R. 4567 - The Department of Homeland Security Appropriations Act, 2005 (became Pub. L. No.108-334)

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

As part of its inspections and audits, OIG selectively evaluates the Department's progress in implementing the Government Performance and Results Act (Results Act) and the President's Management Agenda, with particular attention to improving financial management, budget and performance integration, and rightsizing of the U.S. overseas presence. For each mission or bureau inspected, OIG reviews mission and bureau performance plans and determines whether staff resources meet the Department's and OMB's rightsizing guidance. During this reporting period, for example, OIG identified rightsizing issues at embassies Amman, Bucharest, Cairo, Chisinau, and Paris and the Bureau of Political-Military Affairs.

OIG reviews selected performance measures, as appropriate, in connection with audits and other reviews. The Department uses OIG's reports to identify resource and performance issues for future performance budget requests and for senior reviews with the Deputy Secretary and as evidentiary support for program evaluations conducted under OMB's Program Assessment Review Tool (PART).

The Department is on track in establishing an effective planning process; it is developing meaningful performance measures, linking resources to goals, and evaluating program effectiveness. With the USAID, the Department has established a joint strategic plan to ensure better alignment of foreign assistance and foreign policy goals.

Improvements in the Department's automated planning software have tied the PART evaluations into the Bureau Performance Plans. Regional and functional bureaus have strengthened their planning coordination and used their plans more effectively as management tools.

These improvements have allowed the Department to meet OMB's criteria for achieving a "green" score on the President's Management Agenda initiative on integrating budget and performance. As a result, OIG was able to remove strategic planning and budget integration from its list of major management challenges facing the Department. (See Performance and Accountability Report).



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

April 29, 2005

MEMORANDUM

TO: The Secretary

FROM: OIG – Cameron R. Hume, Acting

SUBJECT: Semiannual Report to Congress, October 1, 2004 to March 31, 2005

I am pleased to transmit to you the Office of Inspector General's Semiannual Report to the Congress for the period ending March 31, 2005. During this reporting period, OIG reviewed and monitored programs, activities, and operations of the Department, considering them in light of, among other factors, OIG's strategic goals which support and assist the Department.

OIG recently reorganized to realize greater efficiency and effectiveness in conducting its work. A peer review by the Department of Interior's OIG that identified concerns with OIG's audit structure was central to the decision to reorganize. OIG is now more closely aligned with its core functions of audits, inspections, and investigations. OIG remains committed to delivering high-quality reviews of Department programs and operations.

A major component of OIG's work entails oversight of Department operations in and related to Iraq. During this period, OIG surveyed the Department's funding for Iraqi-related activities and compiled an inventory of Department actions obligating \$1 billion. OIG examined the Department's efficiency and effectiveness in support of Embassy Baghdad and its constituent posts using facilities not located in Iraq.

Relevant to the Department's goal of advancing U.S. foreign policy interests, OIG inspections covered issues of border security, rightsizing, and regionalization. OIG reviewed several Department consular programs contributing to the nation's border security. One review examined the management of consular fraud prevention programs

in the Bureau of Consular Affairs and Diplomatic Security in light of the process changes since September 11, 2001. OIG also reviewed the vulnerabilities of the Watch List used in analyzing U.S. passport applications. In addition, in response to a congressional request, OIG reviewed the Department's procedures for issuing visas and determining whether they could be issued to unqualified applicants owing to the exertion of inappropriate pressures.

During this period, OIG conducted six security management reviews and two special security reviews. In a review of the Department's Anti-terrorism Assistance Program, OIG found that the program has been successful in meeting training needs since September 11, 2001.

OIG continues to assist the Department in preparing its principal financial statements and assessing the Department's support systems and controls that help meet federal requirements. Several audits examined the Department's contracting and grants procedures. Other audits recommended improvements to information technology security and management.

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 May 31, together with any comments you may wish to make.

SECURITY

During this period, OIG conducted six security management inspections and reviews and two special reviews: the protection of classified information at Department headquarters and the first phase of the Department's Anti-terrorism Assistance Program. The other six security reports are summarized in a separate, classified annex to this report. (See Appendix 2 of this report for complete list of the reports issued during this semiannual period.)

Special Reviews

Protection of Classified Information at State Department Headquarters (SIO-A-05-13)

OIG conducted this congressionally-mandated annual review and also reviewed the Department's compliance with Director of Central Intelligence Directives regarding the storage and handling of sensitive compartmented information (SCI) and removing access of employees who no longer require it. During this review, OIG found that the Department met the requirements of the directive on personnel security. Because of the good working relationships among the many offices involved, the Department's SCI clearances are efficiently processed.

OIG found that the Department properly investigated a candidate's background and provided security awareness briefings and debriefings. However, OIG also found the Department should:

- strengthen its filing system for background investigations to ensure that the files contain updated and complete information;
- consolidate employee travel-reporting requirements into one DS office; and

- monitor the status of a directive that is now being drafted and amend Department policies or procedures as needed.

The Department's policies and procedures effectively enable SCI personnel to meet requirements concerning travel to hazardous countries. SCI personnel must report official and unofficial foreign travel and obtain security briefings.

Program Management Review (Phase I) of the Anti-terrorism Assistance Program (SIO-A-05-11)

Table: ATA Program Funding (dollars in thousands)			
	FY 2002	FY 2003	FY 2005
ATA Program	\$37,000	\$63,200	\$128,300
ATA- Emergency Response Fund	44,500		
ATA-Emergency Supplemental	63,000	25,000	
Total	\$144,500	\$88,200	\$128,300

Source: Data from DS/ATA

The Department's ATA program aims to improve the antiterrorism skills of friendly nations, strengthen bilateral ties, and increase respect for human rights. Since its inception, the program has trained and assisted more than 36,000 foreign security and law enforcement personnel from 130 countries.

OIG found the program successful in meeting the needs for anti-terrorism training, but concluded that more improvements could be made. Specifically, the Department should:

- reassess responsibilities of the Office of the Coordinator for Counterterrorism and DS/ATA in view of the program's growth;
- evaluate DS/ATA to ensure enough direct-hires to provide long-term stability for the program; and
- have DS/ATA account for all weapons acquired for use at its four overseas training programs.

AUDITS

Contracts and Grants Division

Quality Control Review of KPMG LLP (AUD/CG-05-27)

OIG performed a quality control review of KPMG LLP's OMB Circular A-133 audit of the American Institute in Taiwan (AIT) for FY 2003. The objectives were to:

- ensure that the audit report that AIT submitted to the Federal Audit Clearinghouse was conducted in accordance with applicable standards and met the single audit requirements;
- identify any follow-up audit work needed; and
- identify issues that may require management attention.

The AIT A-133 audit report and associated KPMG LLP working papers met the applicable auditing guidance and regulatory requirements.

Agreed-Upon Procedures Review of Indirect Rates and Equipment Delivery Charge Proposed by [a Department Contractor] and Review of Accounting System (AUD/IQO-05-24)

At the request of the Department, OIG performed this review. OIG did not take exception to the proposed indirect rates or equipment delivery charge, but had reservations as to whether the equipment delivery charge was properly treated as an indirect expense. OIG had similar reservations about treating the project management office as an indirect expense because the proposed staffing might not be consistent with the level of effort needed, which was not known then.

At the time of the review, the contractor did not have a contract cost accounting system in place. OIG recommended that if the proposal was successful, the contractor should be required to provide detailed procedures to ensure appropriate control over direct labor and other direct costs.

Review of Selected Awards to MiraMed Institute (AUD/CG-05-23)

At the request of Department officials in the Bureaus of European and Eurasian Affairs, International Narcotics and Law Enforcement Affairs (INL) and the Office of the Under Secretary for Global Affairs, Office to Monitor and Combat Trafficking in Persons, OIG reviewed selected awards to the MiraMed Institute for 2003 and 2004. MiraMed received the awards through agreements with the International Organization for Migration, which the Department funds.

OIG found that timesheets were not used and financial reporting was not timely. As a result, OIG identified questioned costs, totaling about \$282,825 out of the \$663,786 claimed. Of this amount, OIG classified \$19,339 as unallowable and \$263,486 as unsupported. Among OIG's recommendations were that the Department:

- withhold or at least restrict future funding until MiraMed has implemented adequate systems and controls to account for federal funds; and
- make a determination regarding the questioned costs and, if necessary, require reimbursement for any costs disallowed.

Review of [a Department Contractor's] Termination for Convenience Proposal for Contract S-FBOAD-99-D0016, Task Order 57, Havana, Cuba (AUD/CG-05-22)

At the request of the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), OIG reviewed this proposal to:

- determine whether the contractor's termination for convenience proposal was prepared in accordance with applicable federal regulations; and
- assess whether claimed costs were incurred, reasonable, allowable, and allocable.

OIG questioned the entire amount claimed, \$4,402,930, because the contractor did not certify the cost or pricing data or submit the termination proposal on a total cost basis.

Survey of Department of State's Funding for Iraq (AUD/CG-05-18)

OIG conducted a survey to:

- identify and quantify funding received by the Department that was earmarked for Iraq;
- ascertain methods or instruments used to convey such funds to others (e.g., contractors, grantees); and
- compile an inventory of actions obligating funds.

According to the Bureau of Resource Management, Office of Foreign Assistance and Budget, as of the end of June 2004, the Department's portion of Iraq Relief and Reconstruction Funds (IRRF) was about \$1.2 billion. Of this amount, seven bureaus within the Department had obligated about \$768 million as of June 2004. The Department also received non-IRRF funds under other authorities or programs that could be used to support Iraqi-related activities.

Survey results showed that 17 of 31 bureaus obligated about \$1 billion for Iraqi-related activities. Procurement instruments, such as contracts and purchase orders, accounted for about 65 percent of the transactions (or about \$674 million). OIG consolidated the survey data provided by the responding bureaus and offices into a database, which will facilitate future audit efforts.

Agreed-Upon Procedures Review of Daily Direct Labor, Aerial Support Equipment, and Indirect Expense Rates Proposed by [a Department Contractor] (AUD/CG-05-13)

At the request of A/LM/AQM, OIG conducted an agreed-upon procedures review to determine whether the timekeeping and accounting systems of a contractor were adequate for tracking and accumulating costs under government contracts and to support billings. OIG determined that the contractor's timekeeping and accounting systems were inadequate.

Application of Agreed-Upon Procedures on Costs Claimed by [a Department Contractor] Under U.S. Department of State Delivery Order #SLMAQM03F5106 (AUD/CG-05-08)

At the request of the Bureau of Educational and Cultural Affairs, OIG conducted agreed-upon procedures of costs claimed by a contractor to determine whether costs incurred and claimed were reasonable and allowable and complied with applicable agreements and regulations. Because of noncompliance with applicable agreements and regulations, OIG questioned \$143,318 of the cost claimed by the contractor.

Review of Direct Labor and Indirect Expense Rates Proposed by [a Department Contractor] and Its Subcontractors (AUD/CG-05-04)

At the request of A/LM/AQM, OIG conducted agreed-upon procedures of rates proposed by a contractor to determine whether they were reasonable and allowable. OIG questioned several of the rates proposed by the contractor.

Financial Management Division

Management Letter Related to the Audit of the U.S. Department of State's 2004 and 2003 Principal Financial Statements (AUD/FM-05-21)

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 audit of the Department's 2004 and 2003 principal financial statements, an independent external auditor identified internal control weaknesses relating to:

- the Prompt Payment Act;
- payroll documentation;
- Federal Employees' Compensation Act deposits;
- deferred maintenance;
- accounts receivable and payable;
- fund balance with Treasury;
- property and operating leases;
- controls over credit card purchases;
- Management's Discussion and Analysis; and
- Foreign Service Retirement and Disability Fund payments and actuarial liability.

The external auditor recommended that the Department take appropriate action to address these weaknesses.

Independent Auditor's Report on Special-Purpose Financial Statements (AUD/FM-05-11)

All agencies must provide the Department of the Treasury with fiscal data that are used to prepare the *Financial Report of the United States*. Agencies must reclassify the amounts in their audited Department-level financial statements to a generic financial statement format and submit the reclassified statements as part of a year-end closing package. The Inspector General of each agency must give an opinion on the consistency of the closing package data with the audited Department-level financial statements.

An independent external auditor, at OIG's direction, audited the Department's reclassified balance sheet as of September 30, 2004, and the related reclassified statements of net cost and changes in net position for the year then ended. The external auditor issued an unqualified opinion on the reclassified statements.

Agreed-Upon Procedures Report on Federal Intragovernmental Activity and Balances (AUD/FM-05-10)

Treasury annually prepares and submits to the President and the Congress an audited financial statement covering all executive agencies. Each agency is required to provide certain financial and operational information with Treasury, including that on intragovernmental activity and balances.

Under OIG's direction, Leonard G. Birnbaum, Inc. (LGB), an independent certified public accounting firm, performed required procedures solely to assist Treasury in the preparation of the consolidated financial statements of the U.S. government as of and for the year ended September 30, 2004. The auditor:

- reviewed the Department's trading partner data for intragovernmental activity and balances;
- traced the data to the Department's general ledger and supporting schedules; and
- traced any differences between the Department and its trading partners to explanations from the Department's supporting documentation.

The auditor did not note any discrepancies.

Audit of the U.S. Department of State 2004 and 2003 Principal Financial Statements (AUD/FM-05-09)

The Chief Financial Officers Act, as amended, requires an audit of the Department's principal financial statement. The objectives of the audit are to report on whether:

- the financial statements fairly present the Department's financial position and results of financial operations in accordance with generally accepted accounting principles;
- the Department had an internal control structure that provided reasonable assurance of achieving internal control objectives; and
- the Department complied with applicable laws and regulations.

Although an independent external auditor issued an unqualified opinion on the Department's 2004 and 2003 principal financial statements, the report brings to management's attention certain concerns, among them the inadequacy of the Department's financial and accounting system, which is both an internal control weakness and an issue of noncompliance with several laws and regulations.

Vulnerability Assessment of the Foreign Affairs Retirement and Disability System (AUD/FM-05-07)

To assist LGB in auditing the Department's principal financial statements, EWA Information and Infrastructure Technologies, Inc. (IIT) performed a vulnerability assessment of the internal controls of the Foreign Affairs Retirement and Disability System (FARADS) financial management system. This work also helped LGB determine whether the Department complied with OMB Circular No. A-130, which requires all federal agencies to establish automated information system security programs and describes the minimum requirements for those programs.

FARADS is a mainframe-based application. IIT found that the security posture of the network domain that hosts the Department's mainframe systems was very good.

Overall, IIT found that the application-specific security features associated with FARADS appeared to function correctly and were well managed.

Assessment of the Certification and Accreditation, Change Management, and Patch Management Processes (AUD/FM-05-06)

To assist LGB, IIT assessed the Department's above-named processes. IIT found that the Department's certification and accreditation process complied with government requirements. When fully implemented, it should improve the Department's IT security posture.

IIT assigned credit for the Department's rapid progress to the establishment of the Bureau of Information Resource Management, Office of Information Assurance (IRM/OIA) and the centralization of system security responsibilities under its auspices. IRM/OIA moved the efforts forward rapidly without compromising essential standards. Although the effort had not fully matured at the time of this assessment, the available evidence supports IIT's conclusion that these processes should proceed successfully.

Property, Procurement and Administrative Support Division

Review of the Bureau of African Affairs Unauthorized Commitments (AUD/PPA-05-17)

The Bureau of Administration, Office of the Procurement Executive asked OIG to review the Bureau of African Affairs, Executive Office's (AF/EX) compliance with federal and Department regulations on the ratification of unauthorized commitments. A contract employee in the Information Resource Management Division (AF/EX/IRM) had improperly purchased IT equipment for African posts, which resulted in unauthorized commitments that may date from FYs 1989 to 2002.

The unauthorized commitments occurred, according to AF/EX officials, because the systems manager position in AF/EX/IRM was often vacant, and the contractor assumed procurement duties, leaving AF/EX vulnerable to violating procurement regulations. Since April 2002, AF/EX had not identified the extent of unauthorized commitments for improper IT equipment purchases. During 2000-02 alone, a bureau contractor made unauthorized commitments for 46 AF posts, totaling about \$3.5 million.

OIG concluded that although AF/EX has taken steps to improve its internal controls over procurements, it has not complied with regulations to ratify unauthorized commitments. OIG recommended that AF/EX identify all unauthorized commitments from FYs 1989 to 2002 and seek ratification in accordance with regulations.

Review of Agreed-Upon Procedures for the Verification of Excessive Fuel Charges in Support of the Jordan International Police Training Center (AUD/IQO-05-16)

This report reviews and verifies a diesel fuel reimbursement from DynCorp International LLC (DynCorp) to the Department for contract support to the Jordan International Police Training Center (JIPTC). A subcontractor overbilled the Department for about 2.7 million liters of diesel fuel, valued at \$600,824. In addition, INL asked OIG to evaluate the contractor's internal controls over the delivery and receipt of diesel fuel.

OIG's review found that on the basis of available data, the amount of DynCorp's reimbursement to INL was reasonable. OIG found, however, that fuel tanks were not adequately secured to prevent theft. Even though maintenance personnel reported missing or damaged locks, DynCorp personnel at JIPTC took no action to provide better security as required. At the end of the review, the facilities manager told OIG that, at a minimum, he would requisition locks from inventory and have them placed on the tanks.

OIG recommended that INL, in cooperation with the contracting officer, require DynCorp to strengthen written policies and procedures concerning internal controls over the delivery and receipt of diesel fuel and direct DynCorp to take steps to secure all fuel tanks at the JIPTC.

Review of Procurement and Property Operations at Embassy Bamako (AUD/PPA-05-03)

At the request of post management, OIG reviewed the integrity of the management of procurement and property activities at Embassy Bamako. OIG found many weaknesses. Among them were that:

- about one-third of the post's procurement files lacked required documentation;
- the post used a blanket purchase agreement to inappropriately obtain casual labor;
- recordkeeping was inadequate for monitoring the local guard contractor;
- contractor services were inappropriately obtained with petty cash payments;
- personal property irregularities included inventory shortages, a recent theft, and questionable annual reconciliation practices.

These weaknesses were indicative of a control environment vulnerable to waste, fraud, abuse, and mismanagement. OIG recommended that the post comply with federal and Department procurement and property regulations, including inventory reconciliations, and contract provisions.

Review of Lighting Standards for Compound Physical Security Upgrades Projects (AUD/PPA-05-02)

This review evaluated the adequacy of the standards for perimeter compound security lighting and looked at how the Bureau of Overseas Buildings Operations (OBO) and DS could clarify and more effectively communicate perimeter lighting standards to post personnel. Owing to funding limitations, OBO was only able to upgrade the lighting at a limited number of posts.

OIG found that the Department had procedures for addressing perimeter security lighting issues, but the guidance was written for lighting specialists, architects, and engineers. OIG recommended that OBO create a condensed version of guidelines

and have DS transmit them to the regional security officers (RSO), who should work with their regional security engineering officer to have a lighting survey performed. With the results of these surveys, DS and OBO will be in a better position to evaluate the lighting at posts and find the funds to meet perimeter lighting standards.

OIG's Coordination With SSA

In 1996 and 2000, the Social Security Administration (SSA) entered into agreements with the Department of State and the Immigration and Naturalization Service,¹ respectively, to assist SSA in assigning social security numbers (SSN) to certain classes of immigrants.² SSA's goal in implementing an "enumeration-at-entry" process was to reduce the possible acceptance of counterfeit immigration documents by SSA personnel and eliminate duplicate contacts immigrants must make with federal agencies.

In October 2002, the Department and DHS began collecting data needed for SSN assignment as part of the immigration process. As of September 30, 2004, SSA had issued more than 101,000 social security cards to participants in the enumeration-at-entry process.

The review identified weaknesses in existing controls and operations and made recommendations for SSA to improve the efficiency and effectiveness of the process. For example, the review projected that SSA could not process about one-quarter of applications during FY 2004 because of data incompatibility issues among SSA, the Department, and DHS.³ Further, enumeration at entry records did not always include the immigrants' complete name or prior SSN. In some cases, SSA assigned multiple SSNs to an immigrant. Although the report concluded that the enumeration at entry process shows significant promise, SSA must resolve these weaknesses before it expands enumeration at entry to other classes of noncitizens or visa categories.

CA agreed that SSA/OIG's report identified important opportunities for improving data-sharing arrangements and said it would work closely with SSA and DHS to further refine the process that has been in place since October 2002. The Department agreed that strengthening the program before introducing additional data sharing for other visa categories was important.

¹ On March 1, 2003, the U.S. Citizenship and Immigration Services, a DHS bureau, became responsible for providing immigration related services and benefits.

² The term "immigrant" here refers to those individuals DHS admitted as permanent residents.

³ The electronic data the Department and DHS transmit to SSA do not always meet SSA's data requirements.

Review of the Department of State's Overseas Purchase Card Program (AUD/PPA-05-01)

OIG's review found that the Department could improve purchase card program effectiveness and internal controls. Only 60 percent of the annual reviews (11 of 18 overseas posts that OIG examined) were completed. The majority of officials OIG interviewed were not fully aware of their annual review responsibilities, and key purchase card participants, including approving officials and financial management officers, had not received required training.

- The Department used the purchase card for only 30 percent of its overseas small purchases (55,079 of 183,112) in FY 2003. If the Department had used the card on all overseas small purchases, it could have earned an estimated \$910,000 in additional volume rebates from its purchase card provider.
- The Department's untimely purchase card payments negatively affected the amount of rebates received in FY 2003. Had all invoices been paid within 30 days, the Department could have earned an estimated \$20,000 in additional productivity rebates from its purchase card provider.

OIG concluded that the Department should strengthen procedures on conducting annual reviews, improve daily administrative oversight, enhance training, and take steps to maximize rebates by expanding the policy on using the cards for higher dollar procurements and issuing guidance on the importance of timely payment performance.

Program Reviews Division

Controls Over the Department of State's Language Incentive Pay Allowance Payments (AUD/PR-05-20)

OIG conducted an audit of the Department's internal controls over its language incentive payment allowance for 2003. To foster the development and use of

foreign language skills deemed crucial to its mission, the Department provides monetary allowances to Foreign Service officers (FSO) for proficiency in 45 hard and five extremely hard languages. In the event that an FSO mistakenly receives an overpayment in the allowance, Department officials can waive the collection of the overpayment.

OIG found that the Department had adequate internal controls for language incentive payment, but needs to address one issue. In October 2003, the Department reassigned the individuals responsible for adjudicating and waiving overpayments but did not update the FAH to reflect the changes. OIG recommended that the Department revise the FAH.

BEST PRACTICE: Improving Financial Review of Contractor Invoices

Review of Allegations Concerning DynCorp International's Worldwide Personal Protective Services Contract in Afghanistan (AUD/PPA-04-45)

Issue: The review identified poor financial oversight of the contractor by the Department, which allowed duplicate or erroneous billings of about \$950,000 to be charged to the contract.

Response: OIG recommended that DS, as the cognizant program office, improve financial oversight of the contract by hiring financial specialists to review contractor invoices.

Result: DS complied with the recommendation, and between October 2004 and March 2005, financial specialists identified overcharges and ineligible costs from contractor invoices and recovered approximately \$271,000.

INSPECTIONS

CONSULAR AFFAIRS

Report of Management Review of Visa and Passport Fraud Prevention Programs (ISP-CA-05-52)

In response to increased emphasis on border control in support of a new U.S. national security mandate, OIG reviewed CA's and DS's management of consular fraud prevention programs. OIG gave credit to both bureaus for starting an integrated fraud prevention program in 1996, long before the events of September 11, 2001, and expanding that program as border security took on new importance. OIG found that where dedicated investigative positions are in place overseas and fraud prevention manager positions are in place domestically, with fully trained staff, they have shown clear, positive results in detecting and deterring visa and passport fraud. CA has created an excellent fraud prevention web site and e-room for exchanging intelligence and ideas concerning fraud prevention. OIG believes that CA and DS need to take additional steps to improve and expand antifraud efforts around the world.

Not all levels of the Department realize that effective visa and passport fraud prevention is an essential component of U.S. border security. OIG's review revealed that a lack of resources, inadequate communications, and insufficient training impedes fraud prevention efforts. The lack of a fraud-related career specialty in both the Civil and Foreign Service and professional recognition adversely affects staffing fraud prevention positions.

Review of Watch List Vulnerabilities (ISP-CA-05-55)

Based on an analysis of denied applications for U.S. passports at Embassies Kuwait, Abu Dhabi, Sanaa, and Riyadh, OIG determined that significant data were not entered into the Consular Lookout and Support System (CLASS) between at least 1994 and 2003. Although the Department now appears to be properly entering the names of those denied U.S. passports overseas, vulnerabilities still exist. OIG recommended that the Department develop and implement a plan to identify all persons denied U.S. passports overseas since 1995 whose names do not appear in CLASS and enter them and determine whether any persons have received passports in error and take action to revoke them.

Nonimmigrant Visa Adjudication Process (ISP-CA-05-56)

In response to a request from Congress, OIG reviewed policies and procedures for issuing visas to determine whether unqualified applicants are receiving visas owing to the exertion of inappropriate pressures. In particular, OIG focused on the visa referral system, which is designed to facilitate adjudications of visa applications while advancing U.S. interests. The referral system must be carefully managed and monitored to prevent abuse. OIG found that recent changes to the referral system have made it more codified, transparent, and accountable, with ambassadors and deputy chiefs of mission clearly responsible for their mission's referral system and its integrity. OIG believes, however, that consular officers need training and support in dealing with referrals from those more senior in rank and that CA should designate a person in the Department to whom adjudicating officers may address their concerns.

NIV Adjudications: Standards for Refusing Applicants (ISP-CA-05-58)

OIG responded to a congressional request to review the standards for refusing nonimmigrant visa (NIV) applicants to determine how consular officers were applying section 214(b) of the Immigration and Nationality Act. Further, OIG

examined the merits of several elements of the visa-adjudication process to determine whether they effectively protect the security of the United States.

OIG believes that the main consular challenges facing the Department are to ensure that interviewing officers have a clear understanding of and compliance with the law and that these officers have the necessary tools to conduct an effective visa interview. With those challenges in mind, OIG recommended that:

- CA consolidate its guidance on applying section 214(b) as a basis for refusal;
- CA issue more guidance on denying visas under Section 214(b) when an applicant does not meet the statutory requirements in section 101(a)(15); and
- the Foreign Service Institute's Consular Training Unit develop materials to make recently issued guidance on the application of section 214(b) a key part of its training.

DOMESTIC BUREAUS

Review of Treaty Management Responsibilities in the Office of Treaty Affairs (ISP-C-05-01)

In response to a congressional request, OIG reviewed the treaty management responsibilities of the Office of the Legal Adviser (L) and the specific circumstances behind L's failure to report a number of international agreements to Congress as required by law.

OIG concluded that insufficient staffing and space contributed to the breakdown in L's ability to carry out the mandate to report certain international agreements to Congress. L's culture emphasized legal work and understated the importance of program duties, such as maintaining archives, publishing completed treaties, and reporting international agreements to Congress.

OIG recommended that L

- create and fill an administrative position with responsibility for managing the Department's treaty archives and make an attorney a de facto deputy, responsible for management and operations; and

- improve management controls and replace paper records with an electronic database of treaty and agreement actions.

Inspection of the Bureau of Political-Military Affairs (ISP-I-05-03)

OIG found the Bureau of Political-Military Affairs (PM) has received wide, deserved praise in the interagency community for its work as the Department's primary coordinator with the Department of Defense and for administering U.S. defense trade. In recent years, the bureau has directed billions of dollars annually in security assistance to allies, promptly provided arms export licenses for material needed by U.S. coalition partners, launched an initiative to acquire and destroy man-portable air defense systems, undertaken with Defense a global defense posture review, and instituted a new strategic mine action plan.

PM has been in the forefront of the global war on terrorism, but this mission has placed a heavy workload on the bureau and strained the staff. OIG recommended that PM seek additional staff and that the Department's task force on the reorganization of the Arms Control and International Security (T) bureaus consider moving or combining some PM bureau functions.

A Success Story: The Political-Military Action Team

The Political-Military Action Team (PMAT) grew out of the PM cell in the task force the Department established on September 11, 2001. When the Department dissolved the task force in October 2001, PMAT continued to work around the clock, seven days a week, to support Operation Enduring Freedom. Since then, the PMAT's work has become an essential link to Defense and its commands, especially after normal working hours, on urgent, operational matters. It also prepares overnight reports on developments in Iraq, Afghanistan, and other crisis spots for the Deputy Secretary and other senior officials. OIG found that PMAT is a valuable source of information on pressing military matters and a useful locus of coordination with Defense. OIG recommended that PM establish a committee to examine the further institutionalization of the PMAT.

U.S. Section of the International Boundary and Water Commission (ISP-I-05-26)

This report addressed a wide variety of administrative, security, and safety concerns at the USIBWC. Management actions at the USIBWC have undermined the morale of the agency, led to departure of key personnel, and raised fundamental questions about a lack of U.S. government oversight. Internal management problems have engulfed USIBWC, threatening its essential responsibilities for flood control and water management in the American Southwest.

The Department bears clear foreign policy oversight of USIBWC. The management situation prompted OIG to recommend that the USIBWC's personnel structure and policies be aligned more closely with those of the Department.

Inspection of the Bureau of Diplomatic Security, Directorate of Security Infrastructure (ISP-I-05-45)

OIG's inspection of DS's Directorate of Security Infrastructure found that combining three divisions under one directorate has improved overall effectiveness. The directorate is customer-focused and delivers excellent service. OIG noted that the widespread use of contractors was necessary and in keeping with the President's Management Agenda goal of outsourcing. However, OIG noted that the practice requires cost-conscious acquisition planning and close contract management.

DS had reduced the average processing time of a security clearance, made progress in addressing investigative deficiencies, and improved the Department's management of classified information. However, OIG made recommendations to correct a vulnerability in investigative files, establish procedures to verify that all background files are complete and meet federal standards, and ensure that each Department bureau comply with the Top Secret control program.

Inspections of the Bureau of Arms Control (ISP-I-05-49); Bureau of Nonproliferation (ISP-I-05-50); and Bureau of Verification and Compliance (ISP-I-05-51)

OIG inspected three of the bureaus reporting to the Under Secretary for Arms Control and International Security to determine the performance of the individual bureaus and to gauge the effectiveness of their interaction and, by extension, the effectiveness of the merger of the Arms Control and Disarmament Agency (ACDA) into the Department. OIG found that the integration produced a bureaucratic architecture that did not meet current needs. Unclear lines of authority, uneven workload, and unproductive competition impeded performance of the three resultant bureaus: Arms Control, Nonproliferation, and Verification and Compliance.

Summary Report on Public Diplomacy at the Department of State (ISP-I-05-54)

OIG assessed the conduct of public diplomacy since the consolidation of that function into the Department in 1999 and determined that the consolidation has been more effective at embassies than within Department headquarters. The Office of the Under Secretary for Public Diplomacy and Public Affairs is structurally underpowered to coordinate both strategic and tactical public diplomacy within the Department. Furthermore, OIG believes the structure of the Bureau of International Information Programs diminishes the effectiveness of tactical public diplomacy, which provides direct, foreign policy support. The Bureau of Educational and Cultural Affairs is the more viable organization for conducting international programs to promote mutual understanding.

OIG recommended that the Department: ask Congress to review the Smith-Mundt Act's continued relevance; revise the Foreign Affairs Manual to designate authority to the Under Secretary for Public Diplomacy and Public Affairs for coordinating policy; and seek greater representation at the National Security Council to ensure better and continuing coordination of interagency public diplomacy activities.

OVERSEAS MISSIONS

Embassy Amman, Hashemite Kingdom of Jordan (ISP-I-05-02A)

Support for Embassy Baghdad operations has taxed the mission heavily in the past year, including congressional delegation visits primarily associated with Iraq issues, off-site administrative support for Embassy Baghdad and training Embassy Baghdad personnel, and establishment of the Iraq Support Unit in Amman. Embassy Amman is experiencing rapid growth.



Embassy Amman

OIG recommended that the embassy:

- complete needed chancery measurement, space allocation, and realignment activities before making decisions on staffing increases;
- develop and implement a safety, health, and environmental management program to protect embassy employees and their families; and
- evaluate whether to combine duplicative motor pool, warehouse, and other operations of the Department and USAID.

Embassy Cairo, Egypt, and the American Presence Post in Alexandria, Egypt (ISP-I-05-04A)

Embassy Cairo excels at policy advocacy, reporting, and support for a steady stream of high-level visitors. A key priority is reaching out to the Egyptian public, given that a recent study found that only six percent of Egyptians view the United States favorably. To address this, embassy officers other than the ambassador need to engage in public diplomacy activities, and there must be increased public access to Radio Sawa.

The recent redesignation of the former American Cultural Center in Alexandria as an American presence post will allow the mission to increase its reporting on developments in the Nile Delta. To ensure a smooth transition, the embassy will need to reprogram several positions and to spell out clearly the embassy's and the American presence post's responsibilities.

Embassy Paris, France, and Constituent Posts (ISP-I-05-06A)

OIG found that Embassy Paris had charted an effective course in strengthening the trans-Atlantic, bilateral relationship with the U.S. across a vast spectrum of priority activities despite the tensions between the two countries over Iraq. Establishing American presence posts in five provincial cities had effectively expanded public diplomacy, trade promotion, and American citizens services throughout the country at relatively low cost to the U.S. government.

Property issues dominated Embassy Paris operations and were in flux. The embassy was focusing its efforts on the security of embassy facilities. It sold some assets and planned to refit others. Despite significant attention by post management, many problems still needed to be addressed. Severely reduced and poorly configured consular space affected the embassy's ability to provide requested consular services and to maintain standards of oversight and training for the consular staff. This situation will continue until the section is moved to more secure and appropriately designed space, not anticipated before 2006.

Cost-Savings Related to ICASS

In its inspection of Embassy Paris, OIG recommended that the embassy, in coordination with USOECD and USUNESCO, develop a joint management structure to provide administrative services, through ICASS, for those missions. At USOECD, OIG found that management operations duplicated the ICASS functions Embassy Paris provides. USOECD subscribed to a full range of ICASS services, paying about \$3.9 million annually. USOECD had seven locally employed staff who provided liaison with Embassy Paris' ICASS functions and duplicated many ICASS functions. Additionally, a Foreign Service officer provided oversight by attending meetings and delegating administrative responsibilities to the local staff. OIG believed that USUNESCO would also benefit from becoming a full participant in a joint administrative service organization and receiving all administrative services through ICASS.

Financial Support and Training Office, Paris, France, Memorandum Report (ISP-I-05-07)

In 2003, the Bureau of Resource Management (RM) successfully closed the Paris Financial Service Center and established the Financial Support and Training Office (FSTO). A reduction-in-force, with financial incentives costing over \$3.85 million, reduced the staff from 124 local employees to 14 employees. After temporarily transferring financial responsibility for 98 missions and 220 cashiers to the Charleston Financial Service Center, RM returned responsibility for 45 missions and 60 cashiers to FSTO because the Paris staff's skills were crucial to resolving financial management problems. OIG believes that the office fills a vital need for services and that its Paris location is appropriate and effective.

U.S. Mission to the United Nations Educational, Scientific, and Cultural Organization (ISP-I-05-08)

USUNESCO has existed only a matter of months and has only recently been adequately staffed and housed. OIG found the mission has made a sound beginning in advancing and protecting U.S. interest. Mission personnel properly focused on the most problematic educational, scientific, and cultural initiatives and programs and on prompting programs and budget discipline. They forged the relationships with secretariate staff and other delegations necessary for effective advocacy and negotiation. However, OIG noted that the public diplomacy was ill-defined.

U.S. Mission to the Organization for Economic Cooperation and Development (ISP-I-05-09)

OIG's inspection of USOECD found it played a key role in advancing U.S. government international economic, financial, and social policy objectives. OIG found that no Washington process fully coordinated the interests of the 23 U.S. government agencies, U.S. business, and other nongovernmental groups with interests in the organization, and this complicated strategic planning for the Department and mission leadership.

U.S. dues in arrears to the organization exceeded \$100 million. U.S. failure to meet its financial commitments caused operational problems for the organization, generated resentment from member states that pay on time, damaged U.S. credibility, and complicated the mission's ability to advance U.S. interests.

Embassy Bucharest dealt admirably with a vastly expanded bilateral relationship and a heavy flow of high-level American visitors, as Romania moves toward membership in the European Union and on the United Nations Security Council, and participation in peacekeeping operations in Afghanistan and Iraq.

Construction of a new embassy compound for Embassy Bucharest is scheduled to start in FY 2009 to replace the present eight cramped and outmoded facilities. The embassy and the Department are in the process of securing new temporary quarters for the public affairs section and should continue to seek an early move.

The embassy information office in Cluj was engaged in a broad range of activities that promoted U.S. interests in Romania's important region of Transylvania. However, the office was underused and did not receive effective supervision from Embassy Bucharest. OIG made recommendations to broaden the scope of the office's activities and strengthen its relationship with the embassy.

Inspection of Embassy Sofia, Bulgaria (ISP-I-05-11A)

OIG's inspection of Embassy Sofia found that the use of the Mission Performance Plan to coordinate progress on goals and objectives was intense and effective. The Ambassador had aligned (USAID) priorities tightly with those of the Mission Performance Plan. The Ambassador had inserted post management into the USAID budget process and directed some of that budget toward innovative programs in such areas as trade development and Peace Corps self-help projects.



Embassy Sofia

At the time of the inspection, the embassy was within weeks of moving into a new embassy compound, an impressive facility that is secure, functional, and attractive. Coordination between OBO and Embassy Sofia had been exemplary.

Inspection of Embassy Chisinau, Moldova (ISP-I-05-12A)

Embassy Chisinau was well managed, an impressive achievement given its limitations. Buildings were outmoded. Remodeling had alleviated some hazards, and completion of a Marine post one and a controlled access area will also help. However, long-term resolution will only come with the construction of a new embassy compound.

A two-year tour of duty policy and the frequent assignment of officers to important reporting and administrative positions for which they have no prior experience posed major mentoring and management issues almost every fall. During the inspection, Embassy Chisinau was particularly focused on bringing its political/economic section up to the necessary level of performance.

Public affairs was a success story. Getting most American officers involved in the public speaking effort and a careful system for tracking and staying close to Moldovan alumni of embassy programs were particular achievements.

Review of Off-Site Support to Embassy Baghdad and Constituent Units (ISP-IQO-05-53)



Partially destroyed Embassy
Baghdad Communications Ctr.

Embassy Baghdad is one of the largest and most complex U.S. missions in the world, with several thousand employees and contractors and an FY 2005 operating budget of approximately \$766 million. Reliance on military contractors to provide life-support adds to the uniqueness of the mission. The threat to Iraqi nationals associated with U.S. government operations in Iraq stymies efforts to establish a cadre of experienced Foreign Service nationals. As a result, the mission is – and will remain – dependent on off-site administrative assistance and support. The Department has established Iraq logistics and travel support units in Amman, Jordan; Kuwait City, Kuwait; and Washington, DC. Interaction between Embassy Baghdad and these off site support units should be better coordinated. OIG recommends the development of standard operating procedures and memoranda of understanding.

Although there has been some discussion of moving parts of the Iraq Support Unit in Amman to such locations as Frankfurt, Germany, OIG recommends that the Amman offices remain intact and collocated within the Amman chancery compound. Any move to other locations would have to take into account Baghdad's need for exclusively dedicated services, 24-hour support, and Arabic-speaking employees.

In sum, OIG found that decisions on where to provide support were not well coordinated and that the Department had not yet fully developed a coherent regional support model appropriate for Embassy Baghdad.

Review of the Staffing of Embassy Baghdad (ISP-IQO-05-57)

In keeping with its oversight responsibilities, OIG reviewed the staffing of Embassy Baghdad and determined that the transition of duties from the Coalition Provisional Authority to Embassy Baghdad had been rational, orderly, and well planned. To recruit staff for Embassy Baghdad, the Department uses personal targeting and the Iraq Service Recognition Package, which is a mix of significant financial and career incentives. This strategy was sufficient to staff the embassy for the 2005-06 assignment cycle. However, OIG shares the widely held concern that future recruits to the embassy will become increasingly scarce as the talent pool of qualified and highly motivated Foreign Service officers shrinks with each cycle. An increasing number of eligible Foreign Service officers are likely to be influenced more by financial rewards and family considerations than by less tangible considerations.

To overcome this problem at Embassy Baghdad and prepare for future emergency staffing situations elsewhere, the Department will either have to expand its current benefits package for Baghdad and other dangerous and hard-to-staff posts or undertake drastic measures, including directed assignments. The issue of directed assignments is a complicated one that deserves further study before implementation. There are a number of less dramatic possibilities that the Department is considering for enhancing its ability to recruit for combat-zone posts. These include implementing greater use of flexible tours of duty, a more rational approach to the separate maintenance allowance, temporary relief from time-in-class and time-in-service limits, higher grade pay for stretch assignments, removal of restrictions on the use of when-actually-employed and contract employees, exemption from taxation, linked assignments, and additional availability of family-friendly arrangements.

BEST PRACTICES

Embassy Chisinau

Best Practice: Public Outreach by Embassy Officers

Issue: Although Moldova provides ample public speaking opportunities for embassy officers on Mission Performance Plan themes, the public affairs officer at Embassy Chisinau has had difficulty recruiting volunteers for public speaking events.

Response: Following discussions with the country team on how best to involve embassy officers in outreach efforts, the Ambassador initiated the inclusion of one public speaking event a year into the work requirements of each Department officer.

Result: The public affairs office now coordinates an active embassy public speaking program throughout Moldova involving all Department officers. Most officers have requested additional speaking opportunities beyond the one specified in their work requirements.

Embassy Amman

Best Practice: Electronic Shopping Basket for Expendable Supplies

Issue: Individuals at many posts are unfamiliar with expendable supplies that are available locally. Orders for supplies may be incorrectly completed, requiring telephone calls or delays as requirements are clarified.

Response: Embassy Amman has an electronic shopping basket for expendable supplies that allows customers to select exactly what they need, when they need it.

Result: Embassy employees receive better service, dispensing of supplies is streamlined, and the embassy is better able to manage its stock of supplies.

Embassy Paris

Best Practice: Structured Training Program for Entry-Level Information Management Specialist.

Issue: Embassy Paris has a large number of first- or second-tour information management specialists. Upon completion of this tour, many of the information management specialists are assigned as the information programs officer or information systems officer at much smaller diplomatic missions where they must perform the full range of duties within an information programs center or information services center.

Response: The Embassy Paris information programs center has set up a regularly scheduled training program in which duties are rotated every eight weeks.

Result: Individuals receive training in every critical information program function and are therefore better prepared for their next overseas tour as information management specialists.

INFORMATION TECHNOLOGY

OIG evaluates IT information management and, information systems security, in the Department through a program of evaluations, inspections, and reviews. During this reporting period, OIG completed a memorandum report summarizing the information systems security issues reported in FY 2004, issued two inspection reports focused specifically on Regional Information Management Center (RIMC) operations, and inspected embassies to determine the effectiveness of a comprehensive information systems security program promulgated by the Department.

Memorandum Report: Summary of FY 2004 Information Systems Security Issues (IT-I-05-01)

During FY 2004, OIG inspected more than 40 posts and bureaus, gaining valuable insight into the Department's ongoing information systems security efforts. Modernizing the global IT systems, a move championed by then Secretary Colin L. Powell and executed by the Chief Information Officer (CIO), was proving successful. Installing advanced information systems, however, must be met with an equivalent advancement in systems security.

OIG found that the Department must address several issues to ensure continued advancement in systems security. Specifically, the CIO should:

- ensure that information systems security officer's (ISSO) duties and responsibilities are prioritized properly;
- establish written guidance and procedures on what actions will be taken against overseas posts that do not install security patches deemed necessary by the Department;

- inform the posts and bureaus of the information systems documentation requirements and implement procedures for verifying and validating all requirements are met;
- and develop a policy and implementing guidance on the use of Universal Serial Bus storage drives on all Department systems.

OIG found many opportunities for improving IT security and information management at all overseas missions and bureaus. For information systems security, OIG reviewed controls, including IT security and information management policies, procedures, and activities, and hardware and software configuration settings. Below are summaries of IT inspections during this reporting period.

RIMC Inspections

Regional Information Management Center Frankfurt (IT-I-05-02)

RIMC Frankfurt provides high-quality support for the 117 posts within its region, which includes parts of four geographic bureaus. Although management is effective and makes the best use of limited resources, steps need to be taken to ensure that current levels of customer service do not decline. Specifically, RIMC Frankfurt needs to increase its staff of operations officers and radio technicians, establish a memorandum of agreement with the FSI, streamline the student registration process, and provide technicians with the appropriate tools, including administrator-level access to systems for which they are responsible.

Regional Information Management Center Fort Lauderdale (IT-I-05-03)

RIMC Ft. Lauderdale provides support to 49 posts within its geographic region. Management has been effective in raising the level of service to meet or exceed customer expectations, but steps need to be taken to maintain its current level of

service. To provide better support for digital technologies, RIMC Ft. Lauderdale should realign its organizational structure to prevent overlaps in functional responsibilities with the operations officer and Regional Information Technology Support Office (RITSO) sections. RIMC Ft. Lauderdale should:

- establish a memorandum of agreement with FSI for funding its training center;
- provide its technicians with systems administrator-level access for better diagnostic capability;
- and have the technicians increase their use of the Department's information center and universal trouble ticket tracking system, to allow for better recording and analysis of systemic issues.

On the basis of RIMC Ft. Lauderdale's workload data, the Department should establish a satellite branch office with one or more resident technicians in Bogotá, Colombia, to better meet the needs of that large and expanding mission. Finally, the Department should purchase maintenance or customer support contracts for Nortel switches, to ensure that technicians have access to the information they need to assist customers in the field.

Combined Embassy Inspections

Embassy Amman, Hashemite Kingdom of Jordan (ISP-I-05-02)

Embassy Amman operates a comprehensive information management program, including computer networks, communications, mail, pouch, radio, telephone, and digital videoconferencing services. OIG noted that although users are satisfied, the information processing center facilities are inadequate and potentially unhealthy to staff. Information management resources are being stretched through obligations to provide support to other government agencies within the region, and the post needs to improve its future resource requirements in line with Department policy on providing services to other agencies. Deficiencies in systems security planning and program implementation, including the ISSO's role, are discussed in a classified security report.

Embassy Cairo and American Presence Post in Alexandria, Egypt (ISP-I-05-04A)

Embassy Cairo was the first embassy outside Europe to have received the International Organization for Standardization 9001 certification. The embassy was managing operations and supporting mission requirements. However, OIG identified key areas for improvement, including the post's ISSO program, training, tracking of IT service calls, inventorying IT assets, equitable sharing of courier escort responsibilities, and organizing the telephone frame rooms to ensure proper and timely maintenance.

Embassy Paris, France, and Constituent Posts (ISP-I-05-06A)

Embassy Paris operates a comprehensive information management program that meets the needs of its approximately 800 authorized users in most areas and has developed a best practice in training new information management specialists. However, Embassy Paris has not implemented fully the Department's information security program. Key areas that require immediate attention include the ISSO program, software security patch management, systems security documentation, and network protection. Further, OIG found that management should improve documentation for its emergency and evacuation radio tests, complete waiver requests justifying stand-alone Internet access workstations, and improve accessibility to the mission's web site for individuals with disabilities.

U.S. Mission to the United Nations Educational, Scientific and Cultural Organization - Paris (ISP-I-05-08) and U.S. Mission to the Organization for Economic Cooperation and Development - Paris (ISP-I-05-09)

USUNESCO and USOECD shared the same information management system and staff in Paris. Two locally employed American staff members paid by USOECD and a third locally employed staff member, whose salary USUNESCO pays, administered the system.

OIG found that USOECD has not completed mandatory information systems documentation requirements and therefore does not have:

- contingency plans to address continuity of operations;
- a systems security plan for protecting IT resources;
- an annual self-assessment of the security of its sensitive but unclassified and classified information systems; or
- an information system configuration management plan that provides assurance that system operation is in the correct configuration and that changes are reviewed for security.

USOECD does have a patch management installation procedure in place and an IT Configuration Control Board.

Embassy Bucharest, Romania (ISP-I-05-10A)

Embassy Bucharest's information management and information security programs generally met the needs of its approximately 285 authorized users. However, OIG found the post should improve its records management, its oversight of the use of government equipment, timeliness and accuracy of IT inventories, and web site management. Management should address information security issues, radio checks, and physical security.

Embassy Sofia, Bulgaria (ISP-I-05-11A)

Embassy Sofia's information management and information security programs are well run with a dedicated staff that works to maintain a secure classified and unclassified environment in support of approximately 190 authorized users. However, OIG found that the embassy was not ensuring that its systems were adequately purged of personal user files and e-mails and recommended action to correct this situation. Corrective action should prevent overloading the system and reduce susceptibility to virus attacks or the introduction of other hazardous files to the post's systems.

Embassy Chisinau, Moldova (ISP-I-05-12A)

Embassy Chisinau's information management and information security programs met the needs of its approximately 130 authorized users and showed high marks for management of information resources, adequacy of cellular telephone and radio programs, and responsiveness of unclassified information management support. However, OIG found that the post had no systems security and contingency plans, written patch management procedures, documented reviews of operational and management logs, and written procedures for handling incident responses. The post information management specialists were working to correct these deficiencies once OIG brought them to their attention.

Bureau of Verification and Compliance (ISP-I-05-51), Bureau of Arms Control (ISP-I-05-49), and Bureau of Nonproliferation (ISP-I-05-50)

The Bureau of Verification and Compliance's, Office of Verification Operations (VC/VO) provides information management support for each of the four bureaus operating under the Office of the Under Secretary for Arms Control and International Security. IT support provided to the bureaus includes management of networks, procurement of IT hardware and software, maintenance of web sites, operation of the help desk, and administration of IT contracts. The IT staff was managing the migration of a local area network to the Department's OpenNet Plus and VC/VO bureau's move from Windows 2000 to Windows XP.

Within each of the four bureaus, OIG identified deficiencies in the performance of ISSO duties. Such deficiencies place the Department at risk for intrusion into its networks. OIG identified excessive personal use of government equipment as well as inappropriate software, including games and music files on government workstations. Notwithstanding the identified weaknesses, OIG noted effective information management practices within the bureaus, including bureau-wide user briefings before allowing access to government systems and annual refresher briefings or training to continue use of the system.

VC/VO received high marks for customer service and the extensive support that it provides to the bureaus. Although VC/VO is performing its mission effectively, many of its operations were not central to that of VC. Department offices should be placed in structures that

most reflect and match their basic mission and provide sufficient, close management. OIG recommended that VC/VO be attached to the Office of the Executive Director which is charged with providing support services to the VC and bureaus of Arms Control, Nonproliferation and Political-Military Affairs, and Verification and Compliance.

Bureau of Political-Military Affairs (ISP-I-05-03)

The Directorate of Defense Trade Controls for the Bureau of Political-Military Affairs relies on the IT staff in VC/CO to provide systems management and technology support, including day-to-day operations of the Defense Trade Application System (DTAS) activities. This is the computerized system that allows applicants to apply for arms export licenses electronically. OIG found that the bureau needed to:

- establish a formal process for developing business requirements for the export license application process; and
- ensure, in coordination with VC, compliance with Department IT life-cycle standards by developing a project plan compliant with the Department's Managing State Projects methodology.

INVESTIGATIONS

FALSE CLAIMS

OIG opened an investigation into allegations that a Bureau of Diplomatic Security agent submitted a false claim for Separate Maintenance Allowance (SMA) payments. The investigation determined that the agent received \$4,570 in SMA payments despite being legally separated from his wife prior to applying for SMA. On February 16, 2005, the Bureau of Human Resources notified the agent of a proposed 5-day suspension of him for improperly receiving SMA benefits.

OIG opened an investigation into allegations that a former Department of State employee was paid for 5 months of sick leave (\$28,161), after she had left the Department of State (Department), and had started work at another job. When interviewed by OIG, the employee admitted to the allegations, but stated that she sought approval from Department management and was never told she could not take sick leave and work at another job at the same time. The former employee also said she was willing to repay the money to the government. After the case was declined for criminal prosecution, OIG referred the matter to the Bureau of Resource Management (RM) for collection action.

EMPLOYEE MISCONDUCT

OIG opened a joint investigation with the Bureau of Diplomatic Security into allegations that three regional security officers (RSOs) at a U.S. embassy made unauthorized purchases of electronic equipment, clothing, and weapons and ammunition that were given to local officials and also kept for the RSOs' personal use. The investigation confirmed the allegations and on January 26, 2005, the Director General of the Bureau of Human Resources notified one of the three RSOs that he was to receive a 90-day suspension without pay. Administrative action on the other two RSOs is pending.

OIG opened an investigation into allegations that a Department of State employee was operating a real estate business from his office. The investigation confirmed that the employee was operating a real estate business during official business hours, used government telephones, and had taken sick leave to attend real estate closings. On March 1, 2005, the Bureau of Human Resources notified the employee of a 14-day suspension of him for misuse of government property, improper use of sick leave, and misuse of official time.

OIG opened an investigation into allegations received from the Federal Bureau of Investigation that a Department employee made false statements in an affidavit she submitted to the former Immigration and Naturalization Service. The investigation determined that the employee used Department letterhead stationery to execute an affidavit supporting her ex-husband's application for permanent residency. In the affidavit, the employee stated that she was the applicant's wife, when in fact they had already been divorced. On May 27, 2004, the employee pleaded guilty to two counts of making false statements (18 U.S.C. 1001). On February 18, 2005, the Bureau of Human Resources notified the employee that she would be fired.

VISA FRAUD

OIG joined an investigation with the Department of Labor, the Internal Revenue Service, the Federal Bureau of Investigation, and the Department of Homeland Security regarding information that an employment and immigration services company was falsifying employment visa applications, on behalf of its employer clients, by claiming the employers had a need for skilled workers that could not be filled from the local pool of U.S. workers. The investigation determined that false certifications were used to apply for visas for foreign nationals to enter the United States. A search warrant was executed at four locations, including the offices of the employment and immigration services company. On February 10 and March 9, 2005, seven individuals were indicted in the U.S. District Court, Eastern District of Virginia, on charges of conspiracy to commit immigration fraud, conspiracy to encourage an alien to unlawfully enter the United States, money laundering, and misprision of a felony. The investigation is ongoing.

EMBEZZLEMENT

OIG opened an investigation, of a Department employee, after information was received that the employee was selling U.S. government purchased cellular telephones and airtime to private individuals. The investigation confirmed that the employee, who oversaw his office cellular telephone program, purchased cellular telephones for resale, to friends and family members, with the bills being paid by the Department. The employee resigned from the Department, after learning that his illegal activities had been discovered, to avoid being fired. The employee pleaded guilty in the U.S. District Court, Eastern District of Virginia, to theft of cellular telephones and airtime. On February 25, 2005, the employee was sentenced to 6 months home confinement, 3-years probation, a \$100 fine, and payment of restitution of \$21,757.62.

On December 1, 2004, a Management Assistance Report was given to the Acting Inspector General and recommended changes in the management of this cellular telephone program to prevent the recurrence of these types of thefts.

MANAGEMENT ASSISTANCE REPORT

OIG investigated the use of official vehicles at an embassy and discovered that embassy employees had routinely used official vehicles for unofficial purposes without reimbursing the embassy. The embassy vehicle records were so poorly kept that the precise amount of unofficial use could not be determined. On December 13, 2004, a Management Assistance Report was sent to the Department of State bureau overseeing the embassy. The report recommended that the embassy establish clear guidelines on the use of embassy vehicles and ensure better record-keeping of the official vehicle logs.

FOLLOW-UP ACTIONS

EMPLOYEE MISCONDUCT

OIG received information that a senior Foreign Service officer assigned to a U.S. embassy, routinely used embassy vehicles for personal errands, without reimbursing

the Department of State as required by regulations. OIG's investigation determined that the officer extensively used embassy vehicles for personal reasons, including driving to and from the embassy, transporting the officer's children to and from school, and transporting relatives to and from the airport.

On January 25, 2005, the Bureau of Human Resources (HR) issued the officer a 30-day suspension. HR also notified the officer that she owed the government \$5,378.50, for her personal use of the vehicle, and that the debt was being referred to the Bureau of Resource Management for collection action. (See OIG Semi-Annual Report, March 31, 2004 to September 30, 2004, pp 80-81)

VISA FRAUD

A joint investigation with the Bureau of Diplomatic Security, Visa Fraud Branch, determined that an immigrant visa chief (IVC) at a U.S. embassy married a woman before divorcing his first wife and then petitioned for immigrant visas for his second wife and her son. The IVC submitted a false divorce certificate to the Department of Homeland Security to have the petitions expedited and approved. As a result of the investigation, the IVC was relieved of his duties and returned to the United States where he was arrested for visa fraud. On September 9, 2004, the IVC pleaded guilty in the U.S. District Court, Eastern District of Virginia, to one count of visa fraud and was sentenced to 3 years of supervised release and 300 hours of community service. He also resigned from the Foreign Service. (See OIG Semiannual Report, March 31, 2004 to September 30, 2004, pp 81)

EMBEZZLEMENT

OIG previously reported on a joint investigation with the Federal Bureau of Investigation of the theft of \$2.7 million in post assignment travel funds by a former Foreign Service national (FSN) at U.S. Embassy Lusaka, Zambia. The investigation resulted in the arrest and indictment of the former FSN and two other Zambians involved in the theft. On February 24, 2004, the Zambian Police Service charged the three Zambians under a 114-count criminal indictment.

On August 3, 2004, Zambian prosecutors consolidated some of the charges and dismissed others that resulted in a superseding indictment of 72 counts against the 3 defendants. In November 2004 an OIG investigator testified at the trial of the former FSN and the other two Zambians. The trial will continue in Zambia, during March and April 2005, with two Foreign Service officers and several FSNs scheduled to testify. (See OIG Semiannual Report, March 31, 2004 to September 30, 2004, pp 82-83)

Types of Cases*

Passport & Visa Fraud,	14%
Employee Misconduct,	17%
Embezzlement & Theft,	23%
False Statements & Claims,	14%
Contract & Procurement Fraud,	16%
Conflict of Interest,	11%
All Other,	4%

* = Does not equal 100% due to rounding.

Hotline



Held for action within OIG	18
Referral to other offices for action	118
No action Necessary	75
Total Allegations received	211

APPENDIX 1: INVESTIGATIVE ACTIVITIES

Criminal Investigation Activities

Indictments/Information.....	7
Convictions.....	2
Sentencings	
- Jail.....	0
- Probation.....	72 mos.
Referrals for Prosecution.....	10
Referrals for Prosecution Declined.....	6
Criminal Judgments/Restitutions.....	\$21,858

Civil Investigative Activities

Civil Referrals.....	3
Civil Declinations.....	0
Civil Recoveries.....	\$126,052

Administrative Investigative Activities

Pending Administrative Referrals.....	18
Personnel Actions	
- Removals.....	3
- Suspensions.....	5
- Reimbursements.....	1
Management Assistance Reports.....	2
Administrative Recoveries.....	\$5,379

Investigative Workload

Cases pending (9/30/04).....	60
New cases opened.....	31
Cases closed.....	21
Cases pending (3/31/05).....	70
Preliminary inquiries pending (9/30/04).....	7
Preliminary inquiries opened.....	97
Preliminary inquiries closed.....	22
Preliminary inquiries converted to cases.....	4
Preliminary inquiries pending (3/31/05).....	78

APPENDIX 2: REPORTS ISSUED

Report Number	Report Title	
AUD/CG-05-04	Review of Direct Labor & Indirect Expense Rates Proposed by Moore Ruble Yudell & Its Subcontractors	10/2004
AUD/G-05-08	Application of Agreed-Upon Procedures on Costs Claimed by [a Department Contractor]. Under U.S. Department of State Delivery Order #SLMAQM 03 F 5106	11/2004
AUD/CG-05-13	Agreed-Upon Procedures Review of Daily Direct Labor, Aerial Support Equipment & Indirect Expense Rates Proposed by [a Department Contractor]. Contractor's Accounting System & Time Keeping Procedures	02/2005
AUD/CG-05-18	Survey of Department of State's Funding for Iraq	03/2005
AUDCG-05-22	Audit of the Kellogg Brown & Root Termination for Convenience Proposal for Contract S-FBOAD-99-D0016, Task Order 57, Havana, Cuba	03/2005
AUD/CG-05-23	Review of Selected Awards to MiraMed Institute	03/2005
AUD/CG-05-27	Quality Control Review of KPMG LLP	03/2005
AUD/FM-05-06	Assessment of the Certification & Accreditation, Change Management, & Patch Management Processes	12/2004
AUD/FM-05-07	Vulnerability Assessment of the Foreign Affairs Retirement & Disability System	12/2004
AUD/FM-05-09	Audit of U.S. Department of State 2004 & 2003 Principal Financial Statements	11/2004
AUD/FM-05-10	Agreed-Upon Procedures Report on Federal Intragovernmental Activity & Balances	12/2004
AUD/FM-05-11	Independent Auditor's Report on Special-Purpose Financial Statements	11/2004
AUD/FM-05-21	Management Letter as of & for the years ended September 30, 2004 & 2003	03/2005
AUD/IQO-05-16	Review of Agreed Upon Procedures for the Verification of Excessive Fuel Charges in Support of the Jordan International Police Training Center	03/2005
AUD/IQO-05-24	Agreed-Upon Procedures Review of Indirect Rates and Equipment Delivery Charge Proposed By Armor Group North America And Review of Accounting System	03/2005

AUD/PPA-05-01	Review of Department of State's Overseas Purchase Card Program	12/2004
AUD/PPA-05-02	Review of Lighting Standards for Compound Physical Security Upgrades Projects	11/2004
AUD/PPA-05-03	Review of Procurement & Property Operations at Embassy Bamako	11/2004
AUD/PPA-05-17	Review of the Bureau of African Affairs Unauthorized Commitments	03/2005
AUD/PR-05-19	Independent Attestation Review of Annual Accounting of Drug Control Funds by the Department of State	01/2005
AUD/PR-05-20	Controls Over the Department of State's Language Incentive Pay Allowance Payments	02/005
ISP-C-05-01	Review of Treaty Management Responsibilities in the Office of Treaty Affairs	12/2004
ISP-CA-05-52	Management Review of Visa & Passport Fraud Prevention Programs	12/2004
ISP-CA-05-55	Review of Watch List Vulnerabilities	02/2005
ISP-CA-05-56	Nonimmigrant Visa Adjudications: The Visa Referral Process	03/2005
ISP-CA-05-58	NIV Adjudications: Standards for Refusing Applications	03/2005
ISP-I-05-02A	Inspection of Emb. Amman, Hashemite Kingdom of Jordan	03/2005
ISP-I-05-03	Inspection of the Bureau of Political-Military Affairs	03/2005
ISP-I-05-04A	Inspection of Emb. Cairo & American Presence Post in Alexandria, Egypt	03/2005
ISP-I-05-06A	Inspection of Emb. Paris, France, & Constituent Posts	03/2005
ISP-I-05-07	Financial Support and Training Office, Paris, France	02/2005
ISP-I-05-08	Inspection of US Mission to the United Nations Educational, Scientific & Cultural Organization Paris	03/2005
ISP-I-05-09	Inspection of the U.S. Mission to the Organization for Economic Cooperation & Development Paris	03/2005
ISP-I-05-10A	Inspection of Emb. Bucharest, Romania	03/2005
ISP-I-05-11A	Inspection of Emb. Sofia, Bulgaria	03/2005
ISP-I-05-12A	Inspection of Emb. Chisinau, Moldova	03/2005
ISP-I-05-26	U.S. Section of the International Boundary and Water Commission	03/2005
ISP-I-05-45	Inspection of the Bureau of Diplomatic Security, Directorate of Security Infrastructure	12/2004
ISP-I-05-49	Inspection of the Bureau of Arms Control	12/2004
ISP-I-05-50	Inspection of the Bureau of Nonproliferation	12/2004
ISP-I-05-51	Inspection of the Bureau of Verification & Compliance	12/2004

ISP-I-05-54	Summary Report on Public Diplomacy at the Department of State	03/2005
ISP-IQO-05-53	Review of Off-Site Support to Emb. Baghdad & Constituent Units	12/2004
ISP-IQO-05-57	Review of the Staffing of Embassy Baghdad	03/2005
ISP-S-05-02A	Security Management Inspection of Emb. Amman, Jordan	03/2005
ISP-S-05-04A	Security Inspection of Emb. Cairo, Egypt, & the American Presence Post in Alexandria	03/2005
ISP-S-05-06A	Security Management Inspection of Emb. Paris, France, & the US Missions to the Organization for Economic Cooperation & Development & to the United Nations Educational, Scientific, & Cultural Organization	03/2005
ISP-S-05-10A	Security Management Review of Emb. Bucharest, Romania	03/2005
ISP-S-05-11A	Security Management Review of Emb. Sofia, Bulgaria	03/2005
ISP-S-05-12A	Security Management Review of Emb. Chisinau, Moldova	03/2005
IT-I-05-01	Summary of FY 2004 Information Systems Security Issues	03/2005
IT-I-05-02	Regional Information Management Center Frankfurt	03/2005
IT-I-05-03	Regional Information Management Center Ft. Lauderdale	03/2005
SIO-A-05-11	Program Management Review (Phase I) of the Anti-Terrorism Assistance Program	01/2005
SIO-A-05-13	Protection of Classified Information at State Department Headquarters	02/2005

APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

Table 1

Inspector General Issued Audit Reports
With Questioned Costs

	Number of Reports	Questioned Costs	Unsupported Costs
		(Dollars in Thousands)	
A. For which no management decision has been made by the commencement of the reporting period	16	16,392	12,515
B. Which were issued during the reporting period	2	5,099	264
C. For which a management decision was made during the report period - based on formal administrative or judicial appeal	9	7,144	2,107
(i) dollar value of disallowed		1,653	
(ii) dollar value of costs not disallowed		5,491	
D. For which no management decision has been made by the end of reporting period	9	16,000	10,672
Reports for which no management decision was made within 6 months of issuance	5	9,248	10,672

Table 2

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

	Numbers of Reports	Dollar Value (in thousands)
A. For which no management decision has been made by the commencement the reporting period.	2	670
B. Which were issued during the reporting period.	4	21,753
Subtotals (A+B)	6	22,423
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.	4	22,423
Reports for which no management decision was made within 6 months of issuance	2	670

Significant management success in resolving and implementing recommendations

Task Force to Merge the Bureaus of Arms Control and Nonproliferation

In its inspections of the Bureaus of Arms Control (ISP-I-04-41) and Nonproliferation (ISP-I-04-50), issued in December 2004, OIG stated that a merger and redefinition for the bureaus would eliminate unnecessary duplication, ensure accountability, improve management, and focus staff more effectively on their primary missions. OIG recommended that the Department establish a task force to craft the merger of the Bureau of Arms Control and the Bureau of Nonproliferation.

In response to the draft report, the Secretary of State asked the Under Secretary for Management to establish a task force charged with evaluating the current organization of the T family bureaus, making recommendations for necessary changes and preparing an implementation strategy for structural changes. Implementation of those recommendations is ongoing.

Reductions in Visa Processing Times

In its inspection of the Bureau of Educational and Cultural Affairs (ISP-I-04-07A, February 2004) OIG found that the Student and Exchange Visitor Information System needed improved communication and coordination between ECA offices and other responsible federal agencies. OIG recommended that the bureau ensure that the Department's designated Student and Exchange Visitor System liaison roles were clearly documented and implemented, that a training program be developed for Student and Exchange Visitor Information System users, and that designated liaison contacts share information on policy and regulation changes with Department of Homeland Security officials concerning the use of the Student and Exchange Visitor Information System.

On February 18, 2005, the Departments of State and Homeland Security issued a statement announcing that improved visa and port of entry policies and programs had resulted in a significant reduction in visa processing times for those wishing to study or work in certain sensitive scientific or technical fields in the United States. The statement said that the Government Accountability Office had validated these efforts, noting that the addition of staff, investments in systems, additional guidance to officers, and interagency cooperation had resulted in significant declines in processing times.

Increase in Diversity Visa Fees

In its review of the Diversity Visa Program (Memorandum Report ISP-CA-03-52, September 2003), OIG reported that, unlike other visa applications, the current diversity visa processing fee was collected only from applicants selected as “winners.” The U.S. government pays all costs not covered by the fee, which CA estimated to exceed \$840,000 in FY 2002. OIG recommended that the Bureau of Consular Affairs request authority to collect processing fees from all persons who apply for the diversity visa program.

In March 2005, the Department increased the Diversity Visa Lottery surcharge from \$100 to \$375, to cover all costs of the program.

Reestablishing a Diplomatic Presence in Bangui, Central African Republic

OIG conducted a management assessment review of Embassy Bangui (ISP-I-04-48) that was issued in September 2004. In the report, OIG found that U.S. interests were receiving little attention in the Central African Republic, and American facilities in the capital city were deteriorating, notwithstanding annual expenditures of almost \$2 million. OIG urged the Department to assign appropriate, effective oversight over U.S. interests, however minimal they may be, as well as resources. On October 27, 2004, a U.S. diplomatic presence was reestablished in Bangui, and Embassy Bangui had resumed normal operations.

Discontinuation of the Domestic Revalidation of Nondiplomatic Visas

In its inspection of the Directorate of Visa Services in the Bureau of Consular Affairs (ISP-CA-03-46, August 2003), OIG found that a potential border security vulnerability existed in CA/VO’s procedures for revalidating nondiplomatic visas. If applicants required interviews or security clearances, they were turned away and instructed to apply at a U.S. mission abroad. CA/VO did not keep records of these quasi-refusals or report them to law enforcement or intelligence agencies. OIG recommended that the Department exercise the discretion provided in 9 FAM 41.111 (b) to stop revalidating nondiplomatic visas domestically. In July, 2004, the Department discontinued the domestic revalidation service.

Minimizing Cashier Provided Accommodation Exchange Overseas

In July 2004, OIG issued a memorandum report on Minimizing Cashier-Provided Accommodation Exchange Overseas (ISP-I-04-34). OIG found that although local banking facilities and automated teller machines (ATMs) were widely available and adequate in some countries, embassies continued to use U.S. government funds to pay cashiers to provide routine accommodation exchange services for mission employees. OIG recommended that the Department issue a cable encouraging posts to use local banking facilities and automated teller machines.

The Department has since encouraged posts to use local banking facilities, including ATMs, to facilitate provision of accommodation exchange services instead of the Embassy cashier services wherever possible.



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

April 29, 2005

MEMORANDUM

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

FROM: 
Cameron R. Hume
Acting Inspector General

SUBJECT: Semiannual Report to Congress,
October 1, 2004 to March 31, 2005

I am pleased to transmit to you the Office of Inspector General's Semiannual Report to the Congress for the period ending March 31, 2005. During this reporting period, OIG reviewed and monitored programs, activities, and operations of the Broadcasting Board of Governors (BBG).

OIG recently reorganized to realize greater efficiency and effectiveness in conducting its work. A peer review by the Department of Interior's OIG that identified concerns with OIG's audit structure was central to the decision to reorganize. OIG is now more closely aligned with its core functions of audits, inspections, and investigations. OIG remains committed to delivering high-quality reviews of Broadcasting Board of Governors' (BBG) programs and operations.

During this period OIG assessed BBG's program management and performance and management controls at the Delano Transmitting Station. Some of the challenges included technical staff attrition, dated equipment, and state regulatory restrictions and rules. OIG determined that the station needs to take deliberate steps to ensure it has skilled employees at the ready.

In accordance with the Chief Financial Officers Act, as amended, OIG oversaw the audit of BBG's 2004 Balance Sheet by the independent external auditor. The accompanying Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing were not audited. Although BBG received an unqualified opinion, the report and the separate management letter brought several matters of concern to BBG management's attention.

OIG also reviewed the interagency agreement between BBG and USAID to use Radio Sawa to fill the void in communications in post-conflict Iraq.

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 May 31, together with any comments you may wish to make.

BROADCASTING BOARD OF GOVERNORS AUDITS

Audit of the Broadcasting Board of Governors' FY 2004 Principal Financial Statements (AUD/FM-05-12)

The Chief Financial Officers Act, as amended, requires that BBG's principal financial statements be audited. The objectives of the audit are to report on whether the financial statements fairly present BBG's financial position and results of financial operations in accordance with accounting principles generally accepted in the United States, to determine whether BBG had an internal control structure that provided reasonable assurance of achieving internal control objectives, and to determine whether BBG complied with applicable laws and regulations.

An independent external auditor issued an unqualified opinion on BBG's Balance Sheet as of September 30, 2004, but was unable to audit the accompanying Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. Although an unqualified opinion was issued on the Balance Sheet, the report brings to management's attention concerns about the inadequacy of internal control over BBG's financial and accounting system, the lack of review of overall management controls, and the noncompliance of BBG's financial management system with several laws and regulations.

Management Letter Related to the Audit of the Broadcasting Board of Governors' (BBG) Balance Sheet as of 9/30/04 (AUD/FM-05-14)

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 an audit of BBG's Balance Sheet as of September 30, 2004, an independent external auditor identified internal control weaknesses relating to BBG's payroll documentation, accounts receivable balance, accounts payable records, property records and balances, and suspense account balance. The external auditor recommended that BBG take appropriate action to address these weaknesses.

INTERNATIONAL BROADCASTING OVERSIGHT

Review of the Broadcasting Board of Governors' Progress in Linking Its Budget Process and Strategic Planning (IBO-A-05-01)

OIG initiated this review to assess how well the BBG has integrated its strategic planning and budgetary process. Two Government Accountability Office reports in the last three years have addressed BBG's strategic planning and performance measures. The first discussed BBG's efforts at creating a strategic plan, and the second looked at, among other things, whether or not the new strategic approach had measurable program objectives. OIG's review sought to supplement those reports and focused specifically on the extent to which BBG met the requirements of the Government Performance and Results Act of 1993 and the President's Management Agenda in integrating its budget process with its strategic planning. OIG found that BBG:

- has made progress in developing its performance measures, the first steps in linking the strategic plan with the budget process;
- was using strategic planning to drive its budget and improve the way it budgeted its capital planning;
- was making progress in using OMB's PART in the budget process; and
- was creating measures and strategic plans for its support divisions that complemented its overall strategic plan.

Recognizing BBG's steady progress, OIG had no formal recommendations and encouraged BBG to continue its work toward full compliance with legislation in this area.

Review of Radio Sawa Support to the Transition in Post-Saddam Iraq (IBO/IQO-A-05-02)

To address the communication deficiencies in post-conflict Iraq, the USAID, Office of Transition Initiatives entered into an interagency agreement with the BBG International Broadcasting Bureau (BBG/IBB) to use Radio Sawa of the Middle East Radio Network to fill the information void.

The objectives of OIG's review were to determine whether:

- USAID funds transferred to BBG were used effectively to enhance the dissemination of humanitarian and other information in Iraq; and
- BBG successfully launched the three program components of the interagency agreement:
 - establishing a stringer network;
 - airing programs that address humanitarian and reconstruction efforts; and
 - conducting audience research.

According to USAID officials, BBG did not use the transferred funds to enhance the dissemination of reports of humanitarian and related information to Iraq. As a result USAID provided only partial funding to BBG.

BBG partially met the second objective:

- the lack of skilled, trained stringers made some reporting unusable; and
- BBG did not properly coordinate the audience research part of the agreement with USAID.

BBG did not provide periodic performance reports or purchase specific equipment. According to USAID officials, requests for information from BBG went unanswered, as did requests for written performance status reports.

Inspection of the International Broadcasting Bureau's Delano, California, Transmitting Station (IBO-I-05-05)

OIG assessed the transmitting station's program management, program performance, and management controls. The Delano Transmitting Station provides shortwave transmissions to Cuba, the Caribbean, Latin America, and the Pacific Ocean and serves as a gateway for the Satellite Interconnect System, which serves the Far East, the Caribbean, Central and Latin America, and the Pacific and Indian Ocean regions.

The inspection found the transmitting station faced several challenges. These included:

- fulfilling its mission with fewer employees;
- managing the transition from older, experienced employees to newer, less experienced ones;
- maintaining dated equipment for shortwave broadcasting;
- working within a budget subject to California's electrical power supply and pricing situation; and
- working under California's restrictions and strict environmental rules.

In 2003, Delano lost seven employees to retirement or attrition; three technical positions remain vacant, and over the next three years, three more employees will be eligible to retire. Station management said effective scheduling of remaining employees has helped keep pace with maintenance, repairs, and emergencies. Nonetheless, the station needs to take more deliberate steps to ensure employee succession and readiness.

APPENDIX 1: INVESTIGATIVE ACTIVITIES

Workload	Number
Cases pending 9/30/04	1
New cases opened	2
Cases closed	1
Cases pending 3/31/05	2
Preliminary inquiries pending 9/30/04	0
Preliminary inquiries opened	0
Preliminary inquiries closed	0
Preliminary inquiries converted to cases	0
Preliminary inquiries pending 3/31/05	0
Total Judicial Actions	0
Prosecutive Referral	0
Prosecutive Declination	0
Criminal Indictment	0
Criminal Conviction	0
Criminal Sentencing	0
Time Probation	0 Months
Court Ordered Fine	\$0
Court Ordered Restitution	\$0
Total Investigative Recoveries	\$0

APPENDIX 2: REPORTS ISSUED

Report Number	Report Title	
AUD/FM-05-12	Audit of FY 2004 BBG Principal Financial Statements	11/2005
AUD/FM-05-14	Management Letter Related to the Audit of the Broadcasting Board of Governors' (BBG) Balance Sheet as of 9/30/04	01/2005
IBO/IQO-A-05-02	Review of Radio Sawa Support to the Transition in Post-Saddam Iraq	1//2005
IBO-A-05-01	Review of the Broadcasting Board of Governors' Progress in Linking Its Budget Process and Strategic Planning	12/2005
IBO-I-05-05	Inspection of the International Broadcasting Bureau's Delano, California, Transmitting Station	03/2005

APPENDIX 3: SAVINGS & MORE EFFECTIVE USE OF RESOURCES

Table I
Inspector General Issued Audit Reports
With Questioned Costs

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

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

	Numbers of Reports	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.	0	0
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.	0	0
Reports for which no management decision was made within 6 months of issuance.	0	0

LIST OF ABBREVIATIONS

AC	Bureau of Arms Control
A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
AF/EX/IRM	Bureau of African Affairs, Office of the Executive Director, Information Resource Management Division
ATA	Anti-terrorism Assistance
BBG	Broadcasting Board of Governors
CA	Bureau of Consular Affairs
CIO	Chief Information Officer
CLASS	Consular Lookout and Support System
DHS	Department of Homeland Security
DS	Bureau of Diplomatic Security
FARADS	Foreign Affairs Retirement and Disability System
FSI	Foreign Service Institute
FSTO	Financial Support and Training Office
ICASS	International Cooperative Administrative Support Services
IITEWA	Information and Infrastructure Technologies
INL	International Narcotics and Law Enforcement Affair
IRM/OIA	Bureau of Information Resource Management, Office of Information Assurance
IRRF	Iraq Relief and Reconstruction Funds
ISSO	Information systems security officer
IT	Information Technology
JIPTC	Jordan International Police Training Center
LGB	Leonard G. Birnbaum
NIV	Nonimmigrant visa

OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
PART	Program Assessment Review Tool
RIMC	Regional Information Management Center
RM	Bureau of Resource Management
RSO	Regional security officer
SSN	Social security number
USAID	U.S. Agency for International Development
USIBWC	U.S. International Boundary and Water Commission
USOECD	U.S. Mission to the Organization for Economic Cooperation and Development
USUNESCO	U.S. Mission to the U.N Educational, Scientific and Cultural Organization
VC/VO	Bureau of Verification and Compliance, Office of Verification Operations

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	9
Section 5(a)(1)	Significant problems, abuses, and deficiencies	11-47, 65-69
Section 5(a)(2)	Significant recommendations for corrective action	11-47, 65-69
Section 5(a)(3)	Prior significant recommendations unimplemented	none
Section 5(a)(4)	Matters referred to prosecutive authorities	49-51
Section 5(a)(5)	Information or assistance refused	none
Section 5(a)(6)	List of reports issued	57-59 & 73
Section 5(a)(7)	Summaries of significant reports	11-47, 65-69
Section 5(a)(8)	Audit reports—questioned costs	61& 75
Section 5(a)(9)	Audit reports—funds to be put to better use	61 & 75
Section 5(a)(10)	Prior audit reports unresolved	61 & 75
Section 5(a)(11)	Significant revised management decisions	none
Section 5(a)(12)	Significant management decisions with which OIG disagreed	none

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