




United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

AUG - 8 2011

MEMORANDUM

TO: RM/CFO – James L. Milette

FROM: OIG/DIG – Harold W. Geisel 

SUBJECT: Report on *Audit of Expenditures From the Department of State
Emergencies in the Diplomatic and Consular Service Appropriation*
(AUD/FM-11-29)

The subject report is attached for your review and action. As the action office for Recommendations 1 through 7, please provide your response to the report and information on actions taken or planned for the seven recommendations within 30 days of the date of this memorandum. Actions take or planned are subject to followup and reporting in accordance with the attached compliance response information.

The Office of Inspector General (OIG) incorporated your comments as appropriate within the body of the report and included them in their entirety as Appendix B.

OIG appreciates the cooperation and assistance provided by your staff during this audit. If you have any questions, please contact Evelyn R. Klemstine, Assistant Inspector General for Audits, at (202) 663-0372 or Gayle Voshell, Division Director, at (703) 284-2681 or by email at voshellg@state.gov.

Attachments: As stated.

cc: RM/CFO – (b) (6) 

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**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Audit of Expenditures From
the Department of State Emergencies
in the Diplomatic and Consular Service Appropriation**

**AUD/FM-11-29
August 2011**

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Spotlight: Audit of Expenditures From the Department of State Emergencies in the Diplomatic and Consular Service Appropriation

Office of Inspector General
AUD/FM-11-29

Why OIG Conducted This Audit

In order to meet unforeseen emergencies arising in the diplomatic and consular service, Congress provides the Department of State (Department) funding through the Emergencies in the Diplomatic and Consular Service appropriation (K Fund). In accordance with the U. S. Code, the Office of Inspector General is required to conduct periodic audits of the Department's emergency expenditures. During FYs 2008 and 2009, the Department expended approximately \$34.3 million from this fund.

Objective

OIG conducted this audit to determine whether expenditures from the K Fund were made in compliance with applicable provisions of the U. S. Code.

What OIG Determined

In general, OIG found that K Fund expenditures were made in accordance with the Fund's authorizing legislation. However, OIG identified expenditures totaling \$723,378 that were not made in accordance with the authorizing legislation. These exceptions included expenditures incurred during Presidential delegation visits to posts, for postage, a retirement function, a kitchen upgrade, and overseas representation activities. In addition to the unallowable expenditures, the K Fund office was unable to provide sufficient supporting documentation for 32 additional expenditures, totaling \$734,840. OIG also found that the quarterly reports on K Fund expenditures to Congress did not include expenditures that bureaus and offices incurred but did not submit to the K Fund office in a timely manner. In addition, the K Fund office had inadvertently reported certain evacuation expenditures twice.

OIG Recommendations and Management Response

OIG made recommendations that the Bureau for Resource Management (RM) should change its policy for providing funds to posts for expenditures related to Presidential delegations and develop guidance for postage-related and domestic representation activities of the Secretary of State; that the Department should obtain a legal opinion on the allowability of expenditures related to the kitchen upgrade and overseas representation activities; that the Department should require posts to provide an itemized list, including receipts, of post-incurred evacuation expenses to the K Fund office; and that the K Fund office should develop a process to ensure that the Congressional reports accurately represent all expenditures, including expenditures reported to the K Fund office after the quarterly report was submitted to Congress, and all types of evacuation expenditures. RM responded that it will review whether new policies should be implemented related to Presidential delegations and certain postage expenditures. RM did not indicate whether it agreed or disagreed that a policy for domestic representation events hosted by the Secretary of State was needed or that it should obtain legal guidance on the kitchen upgrade and the use of the K Fund for overseas representation events. RM did not concur that posts should provide the K Fund with supporting documentation for post-incurred evacuation expenditures, stating that an itemized list was sufficient. However, RM agreed that written guidance should be established to ensure that expenditures received after reports have been sent to Congress are reported and that an agreement on reporting evacuation expenditures should be formalized.



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

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

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

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

A handwritten signature in black ink, appearing to read "H. W. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

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Acronyms

A Bureau	Bureau of Administration
A/OPR/FMS	Bureau of Administration, Deputy Assistant Secretary for Operations, Office of Facilities Management Services
FAM	Foreign Affairs Manual
GFMS	Global Financial Management System
K Fund	Emergencies in the Diplomatic and Consular Service appropriation
OIG	Office of Inspector General
RM	Bureau of Resource Management
RM/CFO	Assistant Secretary for Resource Management and Chief Financial Officer
RM/GFS	Bureau of Resource Management, Global Financial Services
S/CPR	Office of the Secretary of State, Chief of Protocol
SEA	subsistence expense allowance
U.S.C.	United States Code

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Executive Summary

In order to meet unforeseen emergencies arising in the diplomatic and consular service, such as evacuating U.S. Government employees from posts in Egypt and Libya or paying rewards for information on terrorist activities, Congress provides the Department of State (Department) funding through the Emergencies in the Diplomatic and Consular Service appropriation (K Fund). The Department may make expenditures from the K Fund for activities that serve to further the realization of foreign policy objectives; are a matter of urgency to implement; and, when appropriate, require confidentiality in the best interests of the conduct of foreign policy. During FYs 2008 and 2009, the Department expended approximately \$34.3 million from this fund.

In accordance with the United States Code (U.S.C.),¹ which requires that the Office of Inspector General (OIG) conduct periodic audits of the Department's emergency expenditures, OIG conducted this audit to determine whether expenditures from the K Fund were made in compliance with applicable provisions of the Code. This audit was also performed in order to provide Government managers, Congress, and the public with information regarding the Department's accountability for the Fund expenditures.

In general, OIG found that K Fund expenditures were made in accordance with the Fund's authorizing legislation. However, OIG questioned whether expenditures totaling \$723,378 had been made in accordance with the authorizing legislation, including expenditures incurred during Presidential delegation visits to posts, for postage, a retirement function, an upgrade to the kitchen that services the Diplomatic Reception Rooms, and overseas representation activities. In addition to these expenditures, the K Fund office was unable to provide sufficient supporting documentation for 32 additional expenditures, totaling \$734,840. OIG found that the quarterly reports on K Fund expenditures to Congress did not include expenditures that bureaus and offices had incurred but had not submitted to the K Fund office in a timely manner. In addition, the K Fund office had inadvertently reported certain evacuation expenditures twice.

Although OIG did not identify significant issues related to the allowability of K Fund expenditures, it identified concerns with the internal control over these expenditures. The K Fund legislation is broadly written, and the Department concluded that the K Fund expenditures related to the kitchen upgrade and overseas representation activities were appropriate. However, no legal opinion was available on the allowability of these expenditures. Although the K Fund office has developed guidance for some K Fund activities, guidance for additional K Fund activities is needed. In addition, the K Fund office does not receive supporting documentation for all expenditures, even when existing guidelines require posts to provide documentation within a certain time period, such as for Presidential delegations. OIG also found that the Department had not developed a process to ensure that the Congressional reports represented all expenditures, including expenditures reported to the K Fund office after the quarterly report was submitted.

¹ 22 U.S.C. § 2671, "Emergency Expenditures."

Management Comments

In its July 2011 draft of this report provided to the Bureau of Resource Management (RM), OIG made seven recommendations to improve controls over K Fund expenditures. Specifically, OIG recommended that RM change its policy for providing funds to posts for expenditures related to Presidential delegations and develop guidance for postage-related and domestic representation activities of the Secretary of State (Secretary); that the Department obtain a legal opinion on the allowability of expenditures related to the kitchen upgrade and overseas representation activities; that the Department require posts to provide an itemized list, including receipts, of post-incurred evacuation expenses to the K Fund office; and that the K Fund office develop a process to ensure that the Congressional reports accurately represent all expenditures, including expenditures reported to the K Fund office after the quarterly report was submitted to Congress, and all types of evacuation expenditures.

In its July 27, 2011, response (see Appendix B), RM stated that it will “review” whether new policies should be implemented related to Presidential delegations and certain postage expenditures. RM did not indicate whether it agreed or disagreed that a policy for domestic representation events hosted by the Secretary was needed or that it should obtain legal guidance on the kitchen upgrade and the use of the K Fund for overseas representation events. RM did “not concur with the requirement” that posts should provide the K Fund with supporting documentation for post-incurred evacuation expenditures, stating that “an itemized list is sufficient.” However, RM did concur with the recommendations that written guidance should be established to ensure that expenditures received after reports have been sent to Congress are reported and that an agreement on reporting evacuation expenditures should be formalized.

Based on RM’s response, OIG considers five of the seven recommendations unresolved. Because the K Fund office is the steward of the K Fund, it is essential for the Department to implement policies to ensure that the K Fund office receives sufficient supporting documentation for overseas expenditures related to Presidential delegations and evacuations. In addition, clear guidance is necessary for users of the K Fund to understand the use of the K Fund for domestic activities related to the Secretary, such as postage and representation events. In addition, the Department needs to obtain legal opinions on the use of the K Fund for the kitchen upgrade and overseas representation events.

OIG considers the two recommendations with which RM agreed resolved because RM indicated that steps are being taken to implement the recommendations. However, these recommendations will remain open until evidence is provided that RM has fully implemented the recommendations.

Background

The Department faces numerous challenges in its conduct of foreign affairs in over 195 countries around the world, such as the recent events in Egypt and Libya that required the Department to take immediate action to evacuate American citizens safely, including U.S. Government employees and private citizens. To meet unforeseen emergencies such as these, Congress provides the Department funding through the K Fund appropriation.

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The Department may make expenditures from the K Fund for activities that serve to further the realization of foreign policy objectives; are a matter of urgency to implement; and, when appropriate, require confidentiality in the best interests of the conduct of foreign policy. Within these broad categories, the K Fund may be used to fund a wide range of activities. In addition to evacuating U.S. citizens when their lives are endangered by war, civil unrest, or natural disaster, the K Fund provides funding for certain travel-related expenditures, including paying for some of the travel of the President and the Vice President to a foreign country, the travel of delegations representing the President at foreign dignitary inaugurations and funerals, and the travel of the Secretary both within and outside the United States.

The K Fund is also used to pay the costs of certain Government functions, including both official representation functions of the Secretary and other Department principal officers. For instance, the K Fund was used to pay for a dinner hosted by the Secretary for the U.S.–China Strategic and Economic Dialogue. In addition, the K Fund may be used for official functions outside the United States that are not otherwise covered by amounts appropriated for representation allowances.

Other allowable expenditures from the K Fund include loans made for destitute U.S. citizens in other countries to return to the United States; the costs associated with visits by foreign chiefs of state or heads of government; gifts of nominal value given by the President, Vice President, or Secretary to a foreign dignitary; and the costs of investigations and apprehension of groups or individuals involved in the fraudulent issuance of U.S. passports and visas. The K Fund is also used for the payment of rewards provided for information related to international terrorism, the costs of certain narcotics-related programs, and the costs associated with specific war crimes tribunals.

Managing and Funding K Fund Activities

The responsibility for managing the K Fund has been delegated to the Assistant Secretary for Resource Management and Chief Financial Officer (RM/CFO). The K Fund Manager, a program officer in RM, reports directly to the RM/CFO and is responsible for allocating funds to K Fund programs, ensuring that the funds are spent for allowable purposes, and maintaining records of K Fund expenditures.

Although the K Fund office has overall responsibility for the Fund, a decentralized group of bureaus and offices is responsible for the routine activities allowed by the K Fund authorizing legislation such as the following:

- Evacuation Payments – The K Fund office, RM’s Global Financial Services (RM/GFS), and posts share responsibility for evacuations. The evacuating post provides travel orders² to evacuees using the fiscal data provided by the K Fund office. RM/GFS is responsible for processing the travel orders and for maintaining the documentation to support these payments. Posts are also authorized to use funds for expenditures incurred to support the evacuation, such as arranging transportation to take employees from an

² The travel orders cover subsistence expense allowance expenditures, including expenses such as evacuees’ meals, lodging, and transportation.

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embassy to the airport. Further, the K Fund office funds certain types of evacuation expenditures directly, such as chartering an aircraft to transport employees from a post being evacuated.

- Presidential Delegations – The Office of the Secretary of State, Chief of Protocol (S/CPR), is responsible for planning and making the detailed arrangements for the Presidential delegations and maintaining support for the K Fund expenditures related to Presidential delegations.
- Representation – Each bureau or office that receives representation funds is responsible for planning and arranging its official representation activities. These fund recipients are required to submit supporting documentation to the K Fund office for each expenditure quarterly.
- Presidential and Vice Presidential Travel – The Presidential Travel Support unit in the Bureau of Administration (A Bureau) is the principal liaison with the White House and is responsible for providing all logistical and administrative arrangements to support trips abroad made by the President and Vice President and their spouses. The Financial Management Division in the A Bureau maintains the support for the related K Fund expenditures.

Bureaus and offices process and account for K Fund transactions differently. Some expenditures, such as rewards, costs associated with Presidential delegations, and subsistence expense allowance (SEA) payments for evacuees, are recorded in and accounted for by the Department's domestic accounting system, the Global Financial Management System (GFMS). Some K Fund expenditures are made directly by the K Fund office using a master checking account. For example, some offices that make limited use of the K Fund will submit invoices to the K Fund office for payment. For other K Fund expenditures, such as official gifts, the K Fund office transfers funds from the master checking account to subsidiary checking accounts³ maintained for K Fund activities by other bureaus and offices. These bureaus and offices are responsible for managing the funds in their checking accounts and for reporting all K Fund expenditures to the K Fund Manager quarterly.

Expenditures for each K Fund expenditure category in FYs 2008 and 2009 are shown in Table 1. (The scope of this audit, which covered the period of FYs 2008 and 2009, is detailed further in Appendix A.)

³ The Department maintains 54 checking accounts for K Fund activities, including the master checking account.

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Table 1. K Fund Expenditures for FYs 2008 and 2009

Expenditure Category	FY 2008 Expenditures	FY 2009 Expenditures
General Entertainment	\$1,334,964	\$1,803,001
Representation	\$1,003,103	\$1,066,997
Official Visits	\$648,464	\$1,112,997
Official Gifts	\$845,376	\$964,619
Presidential Delegations	\$432,046	\$388,166
Secretary and Deputy Secretary's Travel	\$66,546	\$30,879
Presidential, Vice Presidential, and Congressional Travel	\$344,808	\$132,312
Evacuation Payments	\$1,688,221	\$1,049,419
Special Investigations	\$220,231	\$136,011
Confidential Payments	\$460,458	\$185,135
Rewards Program	\$10,857,050	\$9,497,643
Total	\$17,901,267	\$16,367,178

Source: Prepared by OIG based on data provided by the K Fund office.

Note: Totals may not add because of rounding.

Reporting K Fund Activities to Congress

The Department is required⁴ to prepare and submit a quarterly report on K Fund expenditures to certain Congressional committees⁵ within 30 days after the end of each quarter. This report should include a list of all K Fund expenditures made during that quarter, including the amount paid, the payee, and the purpose of the expenditure.

The K Fund office obtains information from various sources to prepare this quarterly report. The K Fund office maintains documentation to track expenditures made directly by the K Fund office. For expenditures made by bureaus and offices, the K Fund office requires that the bureaus submit information on all expenditures made during the quarter no later than 15 days after the close of each quarter. The K Fund office has developed a database (Representation Reports database) to capture representation and travel-related K Fund expenditures. Each bureau or office with this type of K Fund expenditure is responsible for entering its expenditures into the database quarterly. In addition, the K Fund office obtains information from GFMS for expenditures tracked in the accounting system, such as certain types of evacuation expenditures and some rewards.

⁴ 22 U.S.C. § 2680, "Appropriations for State Department; Information to Congressional Committees."

⁵ Specifically, the reports are required to be provided to the Senate Committees on Foreign Relations and Appropriations and the House of Representatives Committees on Foreign Affairs and Appropriations.

Objective

The primary objective of this audit was to determine whether K Fund expenditures were made in compliance with applicable provisions of the United States Code (part 22, section 2671).

Audit Results

Finding A. Expenditures Were Generally Allowable and Supported

In general, OIG found that K Fund expenditures were made in accordance with the K Fund's authorizing legislation.⁶ However, OIG questioned whether expenditures totaling \$723,378 had been made in accordance with the authorizing legislation, including expenditures incurred during Presidential delegation visits, for postage, a retirement function, an upgrade to the kitchen that services the Diplomatic Reception Rooms, and overseas representation activities. In addition, the K Fund office was unable to provide sufficient supporting documentation for 32 expenditures, totaling \$734,840. For 29 of these expenditures, totaling \$734,355, OIG could not determine whether the expenditures were for allowable purposes. However, for three of these expenditures, totaling \$485, OIG ascertained that the expenditures were for allowable purposes. (OIG's sampling methodology and results are detailed in Appendix A.)

The questioned items identified by OIG occurred for various reasons. The K Fund office does not receive support for all expenditures, even when required by existing guidelines. Also, although the K Fund office has developed guidance for some K Fund activities since the last OIG audit report issued in 2000,⁷ additional guidance is needed. Specifically, the Department should develop guidance on postage and domestic representation events hosted by the Secretary for S/CPR, and a policy requiring that some type of agreed-upon supporting documentation for post-incurred evacuation expenditures should be provided to the K Fund office. Some of the questioned items identified by OIG, specifically the items related to funds used for a retirement function, the kitchen upgrade, and overseas representation costs, occurred because the broad nature of the K Fund legislation has allowed for differing interpretations of allowability. Unless users of the K Fund comply with established policies, the K Fund office will be unable to ensure that the funds are used for allowable items.

OIG did not identify significant issues related to the allowability of K Fund expenditures. However, the lack of adequate supporting documentation increases the likelihood that improper payments could be made.

Allowable and Supported K Fund Expenditures

OIG tested a sample of K Fund expenditures from FYs 2008 and 2009. Of expenditures totaling \$34,268,445, OIG tested 288 expenditures, totaling \$24,542,516 and representing 71.6 percent of the total amount, to ensure that the expenditures complied with the authorizing legislation. OIG found that of the 288 expenditures, 244 expenditures, totaling \$23,792,722, were allowable and supported by adequate documentation provided by the Department. The number and dollar amount of the expenditures tested and the expenditures with no exceptions are shown in Table 2.

⁶ 22 U.S.C. § 2671.

⁷ *Operations and Expenditures From the Appropriation for Emergencies in the Diplomatic and Consular Service* (00-FM-011, Mar. 2000).

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Table 2. Expenditures Found To Be Allowable and Supported

Expenditure Category	Number of Expenditures Tested	Amount of Expenditures Tested	Number With No Exceptions	Amount With No Exceptions
General				
Entertainment	33	\$91,371	27	\$88,155
Representation	5	\$1,689	5	\$1,689
Official Visits	70	\$646,884	67	\$642,287
Official Gifts	17	\$38,475	16	\$38,243
Presidential Delegations	51	\$205,442	44	\$184,680
Secretary and Deputy Secretary's Travel	9	\$6,116	6	\$5,631
Presidential, Vice Presidential, and Congressional Travel	54	\$460,206	49	\$455,230
Evacuation Payments	24	\$2,737,640	5	\$2,022,113
Rewards Program	25	\$20,354,693	25	\$20,354,693
Total	288	\$24,542,516	244	\$23,792,722

Source: Prepared by OIG based on the results of its testing of K Fund expenditures.

Note: Totals may not add because of rounding; additionally, a single expenditure chosen for testing may have allowable, unallowable, and/or unsupported portions, since an individual expenditure may have multiple invoices.

Unallowable Expenditures Identified During Testing

Although the majority of the expenditures tested were allowable, OIG identified expenditures totaling \$14,378 that it concluded were not allowable under the K Fund authorizing legislation. Specifically, posts inappropriately charged, to the K Fund, some expenditures that they had incurred during Presidential delegation visits. In addition, the Department had spent funds for postage and shipping and had incurred an expenditure related to a retirement function. Finally, OIG found two other small miscellaneous transactions that it concluded should not have been paid using the K Fund. Information on the expenditures that OIG concluded were unallowable by expenditure category is provided in Table 3.

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Table 3. Unallowable Expenditures for FYs 2008 and 2009*

Expenditure Category	Number Unallowable	Amount Unallowable
General Entertainment		
Postage	4	\$1,489
Retirement Function	1	\$1,500
Other Miscellaneous	1	\$226
Official Visits		
Postage	3	\$4,396
Official Gifts		
Postage	1	\$232
Presidential Delegations	5	\$6,519
Presidential, Vice Presidential, and Congressional Travel		
Other Miscellaneous	1	\$14
Total	16	\$14,378

*This table includes only expenditure categories with unallowable expenditures.

Source: Prepared by OIG based on the results of its testing of K Fund expenditures.

Note: Totals may not add because of rounding; additionally, a single expenditure chosen for testing may have allowable, unallowable, and/or unsupported portions, since an individual expenditure may have multiple invoices.

Presidential Delegation Expenditures

During its testing of sample items, OIG identified expenditures of \$6,519 related to Presidential delegations that it concluded were unallowable. For instance, the K Fund paid \$298 for renting white suits (required for attending a Presidential inauguration) for personnel who were not official members of the Presidential delegation. The K Fund also paid \$5,209 for overtime related to one Presidential delegation visit to individuals who were not authorized to be paid for overtime work from the K Fund.

Before Presidential delegation visits, S/CPR provides a cable to posts that includes a list of delegation members and instructions for post expenditures made in connection with a Presidential delegation visit. The cable provides information on the types of authorized expenditures that the posts can incur, such as the number of computers that can be used and which embassy staff can be paid for working overtime, as well as notification that any other expenditures or events that have not been pre-approved by S/CPR will not be covered. None of the expenditures that OIG concluded were unallowed were authorized by the cables, and S/CPR did not separately approve these expenditures.

To ensure that the posts are using the K Fund for authorized delegation-related expenditures, S/CPR requires posts to “provide an itemized list of all expenses with original receipts . . . not more than 30 days after the visit.” Obtaining the supporting documentation would allow S/CPR staff to review expenditures and ensure that posts complied with the instructions. However, according to K Fund and S/CPR officials, posts do not always provide the support for their expenditures despite the clear instructions. An S/CPR budget analyst said that she sends followup emails to posts if she does not receive the itemized list and receipts. In

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some cases, she has had to follow up with a post two or three times before the post provides the information. Because of these followup efforts by S/CPR, the K Fund Manager said that posts have recently been providing more information. However, the supporting documentation for the items OIG identified as unallowable was not provided to either the K Fund office or to S/CPR until after OIG had requested the information as part of the audit.

Based on the issues it identified during its review of supporting documentation for sampled Presidential delegations expenditures, OIG determined that the certifying officers at posts did not always ensure that all expenditures were made in accordance with the instructions provided by S/CPR or with K Fund authorizing legislation. The issues OIG identified reinforce the need for posts to comply with the requirement to provide supporting documentation to S/CPR. S/CPR and the K Fund office staff have the knowledge needed to determine whether expenditures comply with the K Fund authorizing legislation. In addition, the K Fund office is responsible for reporting K Fund expenditures to Congress.

Postage

During its testing of sample items, OIG found that S/CPR had spent \$6,117 from the K Fund for postage and shipping. For example, in FY 2009, S/CPR paid \$496 in postage for invitations to holiday receptions hosted by the Secretary. Some of the postage-related expenditures were for shipping charges related to the acquisition of official gift inventory items.

According to the *Foreign Affairs Manual (FAM)*,⁸ bureau and post personnel are responsible for requesting funds for postage in their budgets.⁹ The FAM¹⁰ also states that “postage for mail originating at domestic offices is funded by the office’s parent bureau.” In addition to the FAM, RM’s Domestic Representation Guidelines for FYs 2008 and 2009 prohibited bureaus and offices from charging postage expenses to the K Fund, requiring that bureaus and offices use program funds instead.

According to K Fund officials, S/CPR, which is responsible for the gift program, had a small budget and did not have sufficient program funds to pay for the shipping costs associated with these acquisitions. Therefore, because the shipping costs were associated with K Fund-related acquisitions, S/CPR charged the K Fund for the shipping costs. Additionally, the Under Secretary for Management indicated that the FAM and Domestic Representation Guidelines do not apply to postage used for activities related to the Secretary, but the Department has not developed any written guidelines about whether the K Fund could be used for postage for activities related to the Secretary.

Because the Department does not have guidance on the use of the K Fund for postage related to activities for the Secretary, OIG based its analysis of the allowability of postage-related expenditures on existing Department guidelines. Using those guidelines, OIG questioned the use of the K Fund for postage and shipping expenditures. Specific guidelines on fund usage

⁸ 14 FAM 737, “Responsibility for Official Mail and Correspondence Handling.”

⁹ Although not specifically mentioned in the guidance, OIG concluded that the intent of this requirement would include shipping charges.

¹⁰ 14 FAM 736.1, “Funding for Domestic Mail.”

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are necessary to ensure that all Department employees are aware of the purpose of certain funds and how they can be used. Therefore, the Department should develop separate guidelines that are applicable to activities related to the Secretary.

Retirement Function

During its testing of sample expenditures from the K Fund, OIG found that the Department had spent \$1,500 from the K Fund appropriation to pay for renting linens used during a function hosted by the Secretary for a group of retired Department employees to recognize their Federal service. According to Department officials, this is an annual event that acknowledges the service of individuals who retired from the Department more than one year prior to the event. The K Fund office provided a 1999 opinion¹¹ from the Office of the Legal Adviser on the use of the K Fund for expenditures related to retirement parties. The opinion states that a “good argument might be made that the retirement event may be funded from a representation account, as it has apparently been held for at least a decade, and could reasonably be characterized as a ‘traditional function.’” The opinion also states that “proper use of official representation funds is largely a matter of Congressional intent.” The opinion then concludes that while the K Fund is “largely available for unanticipated entertainment events, its usage has evolved with Congressional acquiescence” to cover a broad range of domestic representation events hosted by high-level Department officials and that therefore the K Fund could be used to pay for expenditures related to retirement parties, “provided the items covered are consistent with the Department’s internal guidelines for the use of the K Fund.”

While the Department has some general guidance in the FAM¹² on entertainment hosted by the Secretary, it does not specifically address the types of expenditures that are allowed or that are not allowed at such functions. The Department has developed Domestic Representation Guidelines for events funded by the K Fund. These guidelines prohibit the use of the K Fund for employee retirement parties. Even though prohibited by the Domestic Representation Guidelines, the K Fund office concluded that using the K Fund for costs associated with retirement functions was allowable because the guidelines apply only to bureau-level representation events and the restriction therefore does not apply to events hosted by the Secretary. Because the legal opinion indicates that the K Fund should be used only for representation items that are consistent with internal guidelines and the only guidelines that were provided to OIG prohibit the use of the K Fund for retirement parties, OIG questioned whether costs of \$1,500 to pay for renting linens were allowable. The Department should develop specific guidance for domestic representation events that include functions hosted by high-level Department officials, including the Secretary.

Other Miscellaneous Expenditures

During its testing of sample items, OIG identified two small dollar value items, totaling \$240, that it concluded were unallowable. Specifically, OIG found that one invoice contained a duplicate charge for \$14 that was paid unnecessarily and another instance in which the K Fund was used to pay \$226 for engraving holiday cards for senior-level officials. Overseas

¹¹ Office of the Legal Adviser Memorandum, “K Fund and Retirement Day,” Dec. 8, 1999.

¹² 2 FAM 1434.2(a), “Entertainment by the Secretary and Acting Secretary.”

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representation guidelines allow for purchases of holiday cards for foreign officials. However, the domestic representation guidelines do not allow for purchases of holiday cards. Therefore, based on its analysis of existing guidelines, OIG determined that the K Fund should not have been used to fund the purchase of holiday cards as a domestic representation amount. While these items should not have been funded by the K Fund, these questioned items were considered to be insignificant in value.

Questioned Expenditures Identified by Analytical Procedures

In addition to testing a sample of the K Fund expenditures for FYs 2008 and 2009, OIG also questioned \$709,000 in expenditures by performing analytical procedures. Specifically, OIG found that the K Fund office had spent \$3,000 in FY 2009 and about \$318,000 in FY 2010 for a portion of a capital improvement, which was for an upgrade to the kitchen that services the Diplomatic Reception Rooms. Also, the K Fund office had used the K Fund for overseas representation expenditures of approximately \$388,000 during FYs 2008 and 2009. OIG concluded that these costs could have been funded using the Department's program funds and questioned whether the expenditures were an appropriate use of the K Fund.

Capital Improvement

The K Fund office paid about \$321,000 for a portion of an upgrade to the kitchen that services the Diplomatic Reception Rooms on the eighth floor of the Department's main building in Washington, DC. This kitchen is used for events hosted by the Secretary, other high-ranking officials from the Department as well as from other U.S. Government agencies, and international organizations.

According to the FAM,¹³ the A Bureau, Deputy Assistant Secretary for Operations, Office of Facilities Management Services (A/OPR/FMS), is responsible for operating and maintaining domestic Department facilities. An A Bureau official stated that A/OPR/FMS receives an operational budget and a capital improvement budget to operate and maintain the infrastructure of the buildings used by the Department. In addition, some bureaus and offices provide funds to A/OPR/FMS for discretionary renovations. The official also stated that because A/OPR/FMS did not have sufficient funds to pay for the entire kitchen renovation the K Fund was used to pay for a portion of the costs of the upgrade.

The Under Secretary for Management concluded that it was appropriate to use the K Fund to pay the costs associated with the upgrade because the kitchen is used for events that are appropriately funded by the K Fund, such as functions held by the Secretary for foreign officials. The Under Secretary for Management also considered the kitchen to be "internal space" for the Secretary, similar to a bureau's office space. Since the K Fund is used to support the Secretary's official functions, the Under Secretary concluded that it could be used for discretionary renovations to the kitchen. Additionally, according to a K Fund official, the Department concluded that it was appropriate to renovate the kitchen in order to reduce the use of caterers (the kitchen was renovated from a prep kitchen to a fully functioning facility in which meals could be prepared), which is more expensive than preparing meals on site.

¹³ 1 FAM 213.6, "Office of Facilities Management Services."

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OIG disagrees that using the K Fund for expenditures to renovate the kitchen was an appropriate use of the K Fund. The use of the kitchen facility is not limited to the Secretary. The kitchen is also used for functions in the Diplomatic Reception Rooms that can be hosted by various groups. In addition, the Department receives specific funding for capital projects for its domestic facilities.

Domestic Representation Funds Sent to Overseas Posts

OIG found that seven overseas posts were using representation funds from the K Fund. A K Fund official stated that during FYs 2008 and 2009, the Under Secretary for Management approved the use of domestic representation funds at seven overseas posts¹⁴ that receive a large number of visitors annually, such as American businessmen and members of Congress. The official further stated that the posts use representation funds to host these official visitors and that because these posts are “expensive,” additional representation funds were provided from the K Fund because funds were available. Furthermore, the Under Secretary for Management stated that the practice of giving a limited number of overseas posts additional representation funds has been in place for over 35 years, that the funds only are to be used for the Ambassador’s representation expenses, and the amounts distributed to the posts are estimates based on amounts the posts spent in the past. However, OIG found that the posts received these domestic representation funds on a quarterly basis; the K Fund had not provided the additional funds to the seven posts because the posts had used all the funds allotted for their annual representation budgets. Posts that received funds for representation events from the K Fund and the amounts the posts received are shown in Table 4.

Table 4. Representation Expenditures From the K Fund by Post

Post	FY 2008 Expenditures	FY 2009 Expenditures	Total
Berlin	\$23,317	\$25,018	\$48,335
London	\$25,000	\$25,000	\$50,000
Madrid	\$25,000	\$25,000	\$50,000
Moscow	\$25,000	\$25,287	\$50,287
Paris	\$25,000	\$25,530	\$50,530
Rome	\$25,000	\$20,428	\$45,428
Tokyo	\$56,250	\$37,016	\$93,266
Total	\$204,567	\$183,279	\$387,846

Source: Prepared by OIG based on the K Fund Congressional expenditure reports.

The authorizing legislation¹⁵ allows the K Fund to be used for official functions outside the United States that “are not otherwise covered by amounts appropriated for representation allowances.” The Department receives separate Congressional funding for overseas

¹⁴ For FY 2010, because of budget constraints within the K Fund and policy considerations, additional representation funding was provided only to Embassy Moscow, according to a K Fund official.

¹⁵ 22 U.S.C. § 2671.

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representation activities. It is unclear from the K Fund’s authorizing legislation under which specific circumstances it is allowable to provide additional representation funds to posts from the K Fund. OIG questions whether the decision to provide additional funds should be based solely on the availability of funds in the K Fund rather than on a consideration of the post’s need for additional representation funding. To ensure that the Department complies with the authorizing legislation, clarification is needed concerning under what circumstances K Funds can be provided to posts for overseas representation activities.

Unsupported Expenditures

OIG was unable to determine whether 19 expenditures for evacuations were for allowable purposes because the Department did not provide sufficient documentation for certain evacuation expenditures incurred by posts. In addition, the Department did not provide sufficient support for six Presidential delegation expenditures. OIG also identified seven travel-related expenditures for which support was not provided or was inadequate. However, OIG determined that three of the seven travel expenditures were for allowable purposes. The number and dollar amounts of the unsupported expenditures for which documentation was not available or was not adequate are shown in Table 5.

Table 5. Unsupported Expenditures by Category

Expenditure Category	Number Unsupported	Amount Unsupported
Evacuation Payments	19	\$715,527
Presidential Delegations	6	\$13,868
Presidential, Vice Presidential, and Congressional Travel	4	\$4,961
Secretary and Deputy Secretary’s Travel	3	\$485
Total	32	\$734,840

Source: Prepared by OIG based on the results of its testing of K Fund expenditures.

Note: Totals may not add because of rounding; additionally, a single expenditure chosen for testing may have allowable, unallowable, and/or unsupported portions, since an individual expenditure may have multiple invoices.

Evacuations

The Department was unable to provide sufficient supporting documentation for 19 evacuation expenditures, totaling approximately \$715,500 and representing 26.5 percent of the \$2.7 million of evacuation expenditures tested. These expenditures were incurred by overseas posts for, among other things, establishing and operating Operation Centers to organize and facilitate evacuations and for purchasing emergency food and water supplies.

While the Department sends an authorized departure cable to evacuating posts, which includes instructions for the evacuation, the cable does not include clear guidance requiring posts to provide support for these types of evacuation expenditures to the K Fund office. The K Fund office obtains information from GFMS relating to the evacuation expenditures incurred by

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overseas posts, which it needs to prepare the quarterly reports to Congress. However, the information in GFMS does not necessarily include sufficient details to determine whether the expenditures were made in accordance with the K Fund legislation.

OIG appreciates that evacuations occur on short notice and that obtaining complete supporting documentation may not always be feasible. However, the K Fund office is responsible for ensuring that expenditures from the K Fund are used in accordance with the authorizing legislation. Without a requirement for posts to provide all available supporting documentation for evacuation expenditures to the K Fund office for review, the K Fund office cannot fulfill its responsibilities as steward of the K Fund.

Presidential Delegations

Despite OIG's requests, the Department was unable to provide sufficient documentation to support six Presidential delegation expenditures from FYs 2008 and 2009, totaling \$13,868 and representing 7 percent of the \$205,442 of Presidential delegation expenditures tested. These expenditures were incurred by overseas posts for, among other things, delegate lodging and miscellaneous support costs such as locally employed staff overtime, vehicle rentals, and cell phones. The Department did not provide an explanation to OIG as to why this documentation could not be provided.

Had posts complied with instructions provided by S/CPR, which require posts to "provide an itemized list of all expenses with original receipts . . . not more than 30 days after the visit" to S/CPR, the supporting documentation should have been more readily available to support the sampled items. As discussed in the section "Presidential Delegation Expenditures" in this report, K Fund and S/CPR officials stated that posts do not always provide the support for their expenditures despite the clear instructions to do so.

Travel

OIG also identified seven travel-related expenditures, totaling \$5,446, for which the Department did not provide adequate support. Four of these expenditures, totaling \$4,961, were related to Presidential travel. For instance, during Presidential travel, someone used an ATM card to obtain \$200 in cash, but no record was available on how the money was used or why it was appropriate to charge the amount to the K Fund.

OIG also identified three expenditures for the Secretary's travel that were supported with handwritten, not original, receipts. These expenditures, totaling \$485, were for a meal and luggage handling fees, all costing over \$75 each. According to the Federal Travel Regulation,¹⁶ an individual must provide receipts for any expense costing over \$75. The Federal Travel Regulation also states that convenience is not a consideration for whether a receipt is obtained. Although adequate support was not provided, OIG determined that these travel-related expenditures were allowable. Once OIG brought this issue to the attention of officials in the Executive Office of the Executive Secretariat, the officials stated that they would, in the future, have staff obtain hotel-issued receipts for the luggage handling fees.

¹⁶ Federal Travel Regulation, ch. 301, "Temporary Duty (TDY) Travel Allowances."

Controls Over K Fund Expenditures Could Be Improved

In its 2000 audit report,¹⁷ OIG recommended that the Department prepare a policies and procedures manual. During this current audit, OIG found that the Department had developed some guidance on K Fund activities. For instance, the K Fund office had developed the Domestic Representation Guidelines to assist Department officials in carrying out their official representation responsibilities. Furthermore, individual offices have developed additional procedures related to K Fund activities. For example, in March 2009, the A Bureau established procedures for advances and payments for Presidential and Vice Presidential travel.

While the existing policies and procedures bring some clarity to the K Fund process, OIG found that the K Fund office faces challenges in ensuring that K Fund expenditures are valid and supported by adequate documentation. Specifically, although RM has developed some policies and procedures, additional guidance is needed for some K Fund activities. For example, the FAM¹⁸ provides general information on official entertainment by the Secretary, but it does not provide the same level of detail as the Domestic Representation Guidelines for entertainment hosted below the Secretary's level. The Department should have specific guidance for representation functions hosted by the Secretary, including a list of items for which the K Fund may not be used. Guidance is also needed for the use of the K Fund for postage costs incurred by S/CPR. In addition to guidance on activities related to the Office of the Secretary, guidance is also needed to ensure that supporting documentation for certain types of evacuation expenditures is provided to the K Fund office for review.

The K Fund office has a process to review unclassified expenditures. When bureaus and offices submit information on expenditures to the K Fund office, the K Fund office assesses expenditures to ensure that they are allowable. If an issue is identified, the K Fund office will follow up with the bureau or office responsible for the expenditure or will inform the bureau or office that the expenditure is not allowed and suggest that other types of funding be used. For instance, in October 2008, the K Fund office notified a bureau that it could not use the K Fund for expenditures related to an awards ceremony.

However, the K Fund office does not receive support for all expenditures, even when existing guidelines require posts to provide timely supporting documentation. Unless users of the K Fund comply with established policies and procedures, the K Fund office will be unable to ensure that the funds are used for allowable items and that the items acquired are sufficiently supported. A change in policy would assist the K Fund office in obtaining supporting documentation from posts for expenditures in a timely manner.

Inadequate Controls Could Lead to Funds Being Unavailable for Emergencies or Being Used Inappropriately

Although the K Fund is not significant to total Department financing, the K Fund could be vulnerable to theft or abuse and to allegations of misuse. Limited adherence to procedures,

¹⁷ (00-FM-011, Mar. 2000).

¹⁸ 2 FAM 1434, "Arranging for Official Entertainment."

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such as for overseeing and supporting expenditures, increases the likelihood that improper payments could be made or that waste, fraud, or abuse could occur and not be detected. Without proper oversight and adherence to RM guidance, there is no assurance that the K Fund will be used for allowable expenditures.

Conclusion

The proper stewardship of Federal resources is an essential responsibility of agency managers and staff. Management is responsible for developing and maintaining effective internal control, including establishing an effective organization and developing policies and procedures, to ensure that managers use their limited resources efficiently and effectively and in compliance with laws and regulations. Because of the unique nature of the K Fund and its decentralized operations among various bureaus and offices, clear and complete guidance is necessary to avoid confusion and erroneous use of the K Fund. In addition, it is essential that the K Fund office monitor and ensure that K Fund users comply with existing policies.

Recommendation 1. OIG recommends that the Bureau of Resource Management implement a policy requiring posts to reimburse the Emergencies in the Diplomatic and Consular Service appropriation for any expenditures that are unsupported by original receipt within 30 days after the completion of a Presidential delegation visit and then notify posts of this change of policy in the notification cable for future Presidential delegations.

Management Response: RM stated it will “review whether a policy should be implemented” for reimbursing unsupported expenses. However, it disagreed that posts should provide original receipts to RM. RM further stated that because posts “are responsible for certifying disbursements,” they should maintain the original receipts and that their providing copies of supporting documentation to RM “is sufficient for recordkeeping purposes.”

OIG Reply: As noted in the report, posts are not always providing documentation that supports expenditures related to Presidential delegations to the K Fund office in a timely manner. Providing this documentation is an essential control that will assist the K Fund office to ensure that the K Fund is used for allowable items. The Department needs to implement a process to ensure that posts provide documentation in a timely manner. OIG concluded that developing a policy requiring posts to reimburse the K Fund when expenditures are unsupported after 30 days would be useful. However, OIG accepts that other alternatives may also successfully address the control deficiency and agrees with RM that it would be sufficient for posts to provide copies of supporting documentation rather than original receipts. OIG’s recommendation related to original receipts was based on the K Fund office’s current policy.

OIG considers the recommendation unresolved. The recommendation can be closed when OIG reviews and accepts documentation showing that the Department has implemented a policy that provides sufficient incentive for posts to submit supporting

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documentation in a timely manner to the K Fund office for expenditures related to Presidential delegations.

Recommendation 2. OIG recommends that the Bureau of Resource Management develop specific guidance for postage used for activities related to the Secretary of State and for domestic representation events hosted by the Secretary of State similar to guidance contained in the Domestic Representation Guidelines provided to bureaus and offices.

Management Response: RM stated it will “review current guidance” for certain postage expenditures “to determine whether further guidance is necessary.”

OIG Reply: OIG found that the Department was not consistently using the K Fund for postage expenditures and concluded that additional guidance was needed. In addition, the Department, in its response, did not indicate whether it agreed or disagreed that a policy was needed for domestic representation events hosted by the Secretary. To avoid confusion among Department employees who are involved in K Fund activities, RM needs to provide clear guidance on activities related to the Secretary, just as it does for bureau-related activities.

OIG considers the recommendation unresolved. The recommendation can be closed when OIG reviews and accepts documentation showing that the Department has issued guidance for postage used for activities related to the Secretary and for domestic representation events hosted by the Secretary.

Recommendation 3. OIG recommends that the Bureau of Resource Management (RM) obtain an opinion from the Office of the Legal Adviser as to whether the Emergencies in the Diplomatic and Consular Service appropriation (K Fund) should have been used to upgrade the kitchen that services the Diplomatic Reception Rooms. If the opinion does not support the use of the K Fund for this purpose, RM should coordinate with the Bureau of Administration to reimburse the K Fund from program funds appropriated for domestic capital improvements.

Management Response: RM stated that it “works closely with the Office of the Legal Adviser to ensure that the Department’s use of the K Fund is legally permissible, and will continue to seek legal advice when necessary.”

OIG Reply: During the audit and in its response to the draft report, RM did not provide any evidence demonstrating that the Office of the Legal Adviser had opined on the use of the K Fund to upgrade a kitchen. Therefore, OIG considers the recommendation unresolved. The recommendation can be closed when OIG receives documentation showing that the Department has provided a legal opinion on the use of the K Fund to upgrade the kitchen that services the Diplomatic Reception Rooms.

Recommendation 4. OIG recommends that the Bureau of Resource Management obtain an opinion from the Office of the Legal Adviser on the specific circumstances under

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which additional representation funds can be provided to overseas posts from the Emergencies in the Diplomatic and Consular Service appropriation.

Management Response: RM stated that it “works closely with the Office of the Legal Advisor to ensure that the Department’s use of the K Fund is legally permissible, and will continue to seek legal advice when necessary.”

OIG Reply: During the audit and in its response to the draft report, RM did not provide any evidence demonstrating that the Office of the Legal Adviser had opined on what circumstances were necessary for the K Fund to be used for overseas representation events. Therefore, OIG considers the recommendation unresolved. The recommendation can be closed when OIG receives documentation showing that the Department has provided a legal opinion on the specific circumstances under which additional representation funds can be provided to overseas posts from the K Fund.

Recommendation 5. OIG recommends that the Bureau of Resource Management implement a policy requiring posts to provide an itemized list of all post-incurred evacuation expenditures, including receipts, not more than 60 days after the termination of an evacuation and ensure that posts are notified of this policy change in the authorized departure cable.

Management Response: RM stated that it did not concur with the recommendation that posts should be required to provide receipts for evacuation expenditures. RM further stated that posts certify vouchers prior to payment and should maintain the supporting documentation and indicated that an itemized list of expenditures would be sufficient.

OIG Reply: Although OIG agrees that posts certify vouchers, the K Fund office is the proper steward of the K Fund and therefore needs sufficient information to ensure that posts are using the K Fund for allowable expenditures. During the audit, OIG concluded that an itemized list, with receipts, was an important control that needs to be implemented.

OIG considers the recommendation unresolved. The recommendation can be closed when OIG reviews and accepts documentation showing that the Department has implemented a policy requiring posts to provide an itemized list, including receipts, of post-incurred evacuation expenditures.

Finding B. Reports to Congress Did Not Include All Expenditures

OIG found that the quarterly reports on K Fund expenditures to Congress did not include all expenditures that were reported by bureaus or offices because the bureaus and offices were not submitting the expenditures in a timely manner. In addition, the K Fund office had inadvertently reported certain evacuation expenditures twice because of confusion about which expenditures were included in the amounts reported by RM/GFS. During the audit, officials from the K Fund office and RM/GFS agreed on who would report which evacuation

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expenditures, but the agreement needs to be formalized. Without accurate quarterly reports, it is more difficult for Congress or Department management to properly oversee the K Fund.

Some Expenditures Were Not Included in Reports

OIG found that some K Fund expenditures in FYs 2008 and 2009 were not reported to Congress. Specifically, 33 expenditures, totaling \$16,096, were not included in the quarterly reports to Congress. For instance, the K Fund office did not include an expenditure for a lunch costing \$1,120 provided during a meeting with Israeli officials. The K Fund office also did not report an \$893 dinner expense incurred during a conference on consular issues. The K Fund office stated that 32 of the expenditures were not included because the responsible bureaus did not submit the data to the K Fund office in time for it to include the data in the quarterly report and the K Fund office did not include the information in subsequent reports. The K Fund office could not cite a specific reason as to why the one remaining expenditure had not been included in a quarterly report.

Certain Evacuation Expenditures Were Reported Twice

OIG also found that certain types of evacuation-related expenditures were being reported twice. To identify evacuation expenditures incurred during a quarter, the K Fund office requests data from RM/GFS on SEA payments and obtains information from GFMS on overseas charges incurred by posts. RM/GFS provides a spreadsheet of evacuation charges and collections to the K Fund office. The spreadsheet provided by RM/GFS each quarter included SEA payments and the overseas charges that were included in GFMS. The K Fund office was not aware that the spreadsheet included the overseas charges. As a result, the K Fund office inadvertently included certain overseas evacuation expenditures twice in the quarterly Congressional reports.

Improved Process for Reporting Information and Coordination With RM/GFS Is Needed

The K Fund office has developed guidance on reporting expenditures by bureaus and offices. Account managers are required to update the Representation Reports database and provide a copy of an expenditure report to the K Fund office no later than 15 days after the end of each quarter. The K Fund office will not provide funding for the next quarter to the bureau or office until the report is received and verified. OIG concluded that the guidance was sufficient for users of the K Fund, although OIG found instances where bureaus and offices did not adhere to this guidance.

When bureaus and offices did not submit the expenditure information timely, the K Fund office did not have a process in place to identify expenditures from prior periods that had been reported to the K Fund office after the required due date and report those in the next quarterly report to Congress. Even if the items are not reported in the correct quarter, it is essential for Congress to be notified of all expenditures from the K Fund.

The duplicate reporting of certain evacuation expenditures occurred because the K Fund office had not sufficiently coordinated with RM/GFS, which was responsible for tracking the costs of certain types of evacuation payments. After identifying this issue, OIG facilitated a

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meeting between officials of the K Fund office and RM/GFS to discuss the duplicate reporting and agree on reporting responsibilities. The K Fund office provided RM/GFS with a copy of the quarterly report to Congress so RM/GFS could have a better understanding of how evacuation expenditures are reported. As a result of these discussions, both parties have a better understanding of their respective responsibilities, and the K Fund office should be able to ensure that these expenditures are not reported twice in future reports to Congress. OIG acknowledges the quick action taken by RM to address the issue; however, the K Fund office should formalize the agreement on reporting these evacuation expenditures with RM/GFS.

Inaccurate Reports Impair K Fund Oversight

Although the number of inaccuracies identified was small, the K Fund office should ensure that the reports to Congress are accurate and complete. These reports allow both the Department and Congress to monitor the K Fund expenditures, which is a key control to reduce the risk of potential abuse created by the K Fund's flexible spending authority. In addition, without accurate reports, Congress may be unable to determine whether the amounts being requested by the Department are sufficient to meet the unforeseen emergency requirements in the conduct of foreign affairs.

Recommendation 6. OIG recommends that the Bureau of Resource Management prepare written guidance establishing how to report Emergencies in the Diplomatic and Consular Service appropriation expenditures received after the quarterly report has been sent to Congress.

Management Response: RM agreed with this recommendation.

OIG Reply: OIG considers the recommendation resolved, pending further action. This recommendation can be closed pending OIG's review and acceptance of RM's written guidance on how RM will report K Fund expenditures received after the quarterly report has been sent to Congress.

Recommendation 7. OIG recommends that the Bureau of Resource Management formalize the agreement developed in conjunction with Global Financial Services in Charleston, SC, on how to report evacuation expenditures.

Management Response: RM agreed with the recommendation, stating that it is "in the process of documenting procedures for generating the report."

OIG Reply: OIG considers the recommendation resolved, pending further action. This recommendation can be closed pending OIG's review and acceptance of the procedures RM is documenting for generating the report on evacuation expenditures.

List of Recommendations

Recommendation 1. OIG recommends that the Bureau of Resource Management implement a policy requiring posts to reimburse the Emergencies in the Diplomatic and Consular Service appropriation for any expenditures that are unsupported by original receipt within 30 days after the completion of a Presidential delegation visit and then notify posts of this change of policy in the notification cable for future Presidential delegations.

Recommendation 2. OIG recommends that the Bureau of Resource Management develop specific guidance for postage used for activities related to the Secretary of State and for domestic representation events hosted by the Secretary of State similar to guidance contained in the Domestic Representation Guidelines provided to bureaus and offices.

Recommendation 3. OIG recommends that the Bureau of Resource Management (RM) obtain an opinion from the Office of the Legal Adviser as to whether the Emergencies in the Diplomatic and Consular Service appropriation (K Fund) should have been used to upgrade the kitchen that services the Diplomatic Reception Rooms. If the opinion does not support the use of the K Fund for this purpose, RM should coordinate with the Bureau of Administration to reimburse the K Fund from program funds appropriated for domestic capital improvements.

Recommendation 4. OIG recommends that the Bureau of Resource Management obtain an opinion from the Office of the Legal Adviser on the specific circumstances under which additional representation funds can be provided to overseas posts from the Emergencies in the Diplomatic and Consular Service appropriation.

Recommendation 5. OIG recommends that the Bureau of Resource Management implement a policy requiring posts to provide an itemized list of all post-incurred evacuation expenditures, including receipts, not more than 60 days after the termination of an evacuation and ensure that posts are notified of this policy change in the authorized departure cable.

Recommendation 6. OIG recommends that the Bureau of Resource Management prepare written guidance establishing how to report Emergencies in the Diplomatic and Consular Service appropriation expenditures received after the quarterly report has been sent to Congress.

Recommendation 7. OIG recommends that the Bureau of Resource Management formalize the agreement developed in conjunction with the Global Financial Services in Charleston, SC, on how to report evacuation expenditures.

Scope and Methodology

In accordance with the United States Code (U.S.C.),¹ which requires the Office of Inspector General (OIG) to conduct periodic audits of the Department of State's (Department) emergency expenditures, OIG conducted this audit to determine whether expenditures from the Emergencies in the Diplomatic and Consular Service appropriation (K Fund) were made in compliance with applicable provisions of the Code. This audit was also performed to provide Government managers, Congress, and the public with information regarding the Department's K Fund expenditures.

OIG conducted fieldwork for this audit from September 2010 to February 2011 at the following Washington, DC, offices: the K Fund office; the Bureau of Administration (A Bureau), Financial Management Division; the Presidential Travel Support unit within the A Bureau; Office of the Secretary of State, Chief of Protocol (S/CPR); and the Office of the Secretary of State, Executive Secretariat, Executive Office. OIG also obtained information from the Bureau of Resource Management, Global Financial Services in Charleston, SC (RM/GFS).

OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

After the draft audit report was issued, OIG met with the Under Secretary for Management and K Fund officials on May 11, 2011. At the request of the Under Secretary, OIG extended the fieldwork until June 13, 2011, to allow the K Fund office additional time to obtain supporting documentation for expenditures related to evacuations, Presidential delegations, and other miscellaneous expenditures from posts and RM/GFS. In response to a request for the supporting documentation related to evacuations, RM/GFS officials suggested that OIG make a site visit to better understand the evacuation process. OIG told the officials that based on telephone discussions, the team sufficiently understood the general process for obligating and expending evacuation-related expenditures from the K Fund for the purposes of this audit. OIG also reiterated the need for documentation to support the expenditures made. No additional documentation was provided.

To obtain background for the audit, OIG researched and reviewed legislative requirements related to the K Fund, Government Accountability Office guidance, Office of Management and Budget circulars, and the Department's *Foreign Affairs Manual* and *Foreign Affairs Handbook*. OIG also reviewed Department guidance related to domestic representation expenditures; Presidential, Vice Presidential, and high-ranking official travel; Secretary and Deputy Secretary travel; official gifts; official visits; and Presidential delegations. In addition,

¹ 22 U.S.C. § 2671, "Emergency expenditures."

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OIG reviewed and analyzed OIG audit and inspection reports to identify information relating to K Fund issues that had been reported previously.

OIG interviewed Department officials to obtain an understanding of the procedures for approving and using the K Fund for expenditures and the nature of any internal reviews. OIG also gained an understanding of the evacuation process; the process related to general entertainment by the Secretary; and the processes used for travel for the President, the Vice President, the Secretary, and the Deputy Secretary.

OIG obtained the Department's K Fund quarterly reports to Congress for FYs 2008 and 2009, which should include all K Fund expenditures for that period, and also obtained information from the K Fund office's Representation Reports database. OIG used the information obtained from the Congressional reports and the K Fund office's database to develop a sampling methodology to test K Fund expenditures. (See the section "Detailed Sampling Methodology and Results" in this appendix for more details.) OIG reviewed supporting documentation for a selected sample of expenditures in several offices, including the K Fund office; the A Bureau, Financial Management Division; and S/CPR. In addition to testing the K Fund expenditures, OIG also performed analytical procedures on expenditures made during FYs 2008 and 2009.

Prior OIG Reports

Between 1990 and 2000, OIG issued three audit reports relating to the Department's K Fund.² In the 2000 report, OIG identified expenditures that may not have been in compliance with the law. In addition, the report noted that the Department did not prepare timely or accurate quarterly reports to Congress. OIG also found that the decentralized structure of the K Fund resulted in operational inefficiencies and exacerbated other internal control weaknesses in K Fund checking accounts, obligations, evacuations, and inventory. The report also concluded that the K Fund lacked written policies and an internal review capability. Significant recommendations in the report were for the Department to submit accurate reports to Congress, accurately record transactions in the accounting system, improve internal controls within various K Fund activities, improve evacuations, and prepare a policies and procedures manual.

Use of Computer-Processed Data

The audit team used computer-generated data from the Department during this audit. OIG obtained information from the Global Financial Management System (GFMS) on the K Fund's expenditures during FYs 2008 and 2009. OIG determined that GFMS did not record specific expenditures for all K Fund categories; instead, it included lump-sum transfers to bank accounts maintained by bureaus and offices. Therefore, OIG did not rely on GFMS information during the audit.

² *Operations and Expenditures From the Appropriation for Emergencies in the Diplomatic and Consular Service* (00-FM-011, Mar. 2000), *Followup Audit of Expenditures in the Appropriation for Emergencies in the Diplomatic and Consular Service* (04-FM-014, Feb. 1994), and *K Fund for Emergencies in the Diplomatic and Consular Service* (0-FM-009, Jan. 1990).

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OIG obtained information from the K Fund's Representation Reports database, which includes all unclassified expenditures. OIG used the information in this database to choose its sample of unclassified expenditures. OIG tested the database during its fieldwork. In addition, OIG obtained evacuation expense data from RM/GFS. OIG used the information in the evacuation database to assist with the testing of evacuation-related expenditures. Issues identified during fieldwork are detailed in the Audit Results section, Finding A, "Expenditures Were Generally Allowable and Supported." Other than the work described, OIG did not audit the data from these systems.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to K Fund expenditures. For example, OIG gained an understanding of the Department's processes for approving and using the K Fund. The OIG audit team also discussed issues identified during its testing of K Fund expenditures with K Fund staff members to better understand the reasons for the exceptions, which would highlight internal control issues. In addition, OIG gained an understanding of the Department's policies and procedures related to K Fund expenditures and determined how the Department oversees these expenditures. OIG identified internal control deficiencies during its audit of K Fund expenditures, as detailed in the Audit Results section.

Detailed Sampling Methodology and Results

OIG's sampling objective was to determine whether expenditures paid from the K Fund were in compliance with the authorizing legislation.

Population

OIG used the reports that the K Fund office provides to Congress to identify the target universe or population (that is, the population intended to be covered). The K Fund office reports the K Fund expenditures to Congress on a quarterly basis via two separate reports—one unclassified and one classified. The K Fund office uses the Representation Reports database to prepare the unclassified report and prepares the classified report manually. Consequently, the overall population of K Fund expenditures for FYs 2008 and 2009 was, in effect, divided into two subpopulations. OIG used the expenditures included in the Representation Reports database to obtain the sampling frame (that is, the listing of all the sampling units) for the unclassified subpopulation and the expenditures in the manually prepared Congressional report for the sampling frame for the classified subpopulation.

Unclassified Subpopulation

The K Fund office maintains expenditures for the unclassified report in the Representation Reports database. The data is entered into the database by a representative of the office responsible for the expenditure. OIG had to remove three expenditures with zero balances from the unclassified expenditure data to arrive at an overall subpopulation from which unclassified expenditures could be sampled. The data for the unclassified reports is categorized as shown in Table 1.

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Table 1. Unclassified Expenditures for FYs 2008 and 2009

Expenditure Category	Amount of Expenditures	Number of Expenditures	Mean Amount per Expenditure	Percent of Total Expenditure Amount	Percent of Total Expenditures
General Entertainment	\$3,137,965	799	\$3,927	30.8	13.6
Representation	\$2,070,100	3,649	\$567	20.3	62.2
Official Visits	\$1,761,461	232	\$7,593	17.3	4.0
Official Gifts	\$1,809,995	896	\$2,020	17.8	15.3
Presidential Delegations	\$820,212	152	\$5,396	8.1	2.6
Secretary and Deputy Secretary's Travel	\$97,425	82	\$1,188	1.0	1.4
Presidential, Vice Presidential, and Congressional Travel	\$477,120	59	\$8,087	4.7	1.0
Total	\$10,174,277	5,869	\$1,734	100.0	100.0

Source: Prepared by OIG based on unclassified expenditures from Representation Reports database.

Note: Totals may not add because of rounding.

Classified Subpopulation

For the classified expenditures, the classified portion of the Congressional quarterly report was used to verify the expenses provided by the K Fund office. OIG used modified descriptions of these expenditures in its working papers (audit documentation) as well as this report to have an unclassified report. In the quarterly report, the classified expenses are divided into four categories, as shown in Table 2.

Table 2. Classified Expenditures for FYs 2008 and 2009

Expenditure Category	Amount of Expenditure	Number of Expenditures	Mean Amount per Expenditure	Percent of Total Expenditure Amount	Percent of Total Expenditures
Evacuation Payments	\$2,737,640	24	\$114,068	11.4	20.7
Special Investigations	\$356,242	43	\$8,285	1.5	37.1
Confidential Payments	\$645,593	24	\$26,900	2.7	20.7
Rewards Program	\$20,354,693	25	\$814,188	84.5	21.6
Total	\$24,094,168	116	\$207,708	100.0	100.0

Source: Prepared by OIG based on classified expenditures from the Congressional quarterly report.

Note: Totals may not add because of rounding.

Sample Selection

OIG used both random and judgment sampling. For the unclassified expenditures, random sampling was employed utilizing categories or strata. The classified expenditures were selected using judgment sampling.

Selection of Unclassified Expenditures and Testing Results

For the unclassified expenditures, OIG employed random sampled utilizing categories, or strata. Analysis of the data for the seven categories provided to OIG disclosed that some of these categories encompassed a large percentage of the total amount expended while accounting for a relatively small percentage of total expenditures. For example, as shown in Table 1, the unclassified expenditures for Official Visits accounted for only 4.0 percent of total expenditures for FYs 2008 and 2009, but the amount expended for these expenditures was 17.3 percent of the entire amount for that period. In addition, the mean amount per expenditure for this category was \$7,593, which was second among the seven categories. Conversely, the category Representation had a greater percentage of expenditures than the amount expended, that is, 62.2 percent versus 20.3 percent, and had the lowest mean amount per expenditure, \$567. Consequently, stratification was used in the sampling to take advantage of this knowledge obtained during preliminary work, enabling OIG to expend more audit resources on categories such as Official Visits rather than on less significant categories such as Representation.

Specifically, the sample size for the unclassified universe, as shown in Table 3, was 239. OIG identified unallowable expenditures of \$14,378 and unsupported expenditures of \$19,314 from a sample of unclassified expenditures for FYs 2008 and 2009.

UNCLASSIFIED

Table 3. Results of Testing Unclassified Expenditures for FYs 2008 and 2009

Expenditure Category	Total Amount	Amount Tested	Number Tested	Specific Exceptions and Amounts			
				Number Unallowable	Amount Unallowable	Number Unsupported	Amount Unsupported
General Entertainment	\$3,137,965	\$91,371	33	6	\$3,215	0	\$0
Representation	\$2,070,100	\$1,689	5	0	\$0	0	\$0
Official Visits	\$1,761,461	\$646,884	70	3	\$4,396	0	\$0
Official Gifts	\$1,809,995	\$38,475	17	1	\$232	0	\$0
Presidential Delegations	\$820,212	\$205,442	51	5	\$6,519	6	\$13,868
Secretary and Deputy Secretary's Travel	\$97,425	\$6,116	9	0	\$0	3	\$485
Presidential, Vice Presidential, and Congressional Travel	\$477,120	\$460,206	54	1	\$14	4	\$4,961
Total	\$10,174,277	\$1,450,183	239	16	\$14,378	13	\$19,314

Source: Prepared by OIG based on the results of its random sample.

Note: Totals may not add because of rounding; additionally, a single expenditure chosen for testing may have allowable, unallowable, and/or unsupported portions, since an individual expenditure may have multiple invoices.

Selection of Classified Expenditures and Testing Results

For the classified expenditures, OIG used judgment sampling. Because this method uses discretionary criteria to effect sample selection, OIG was able to use information obtained and developed during its preliminary work to aid in making informed selections.

Specifically, analysis of the classified expenditure data in Table 2 disclosed that the overwhelming majority of the classified funds expended came from two of the four categories—Evacuation Payments and Rewards Program. These two categories totaled 42.3 percent of the expenditures while encompassing 95.9 percent of the dollars expended for FYs 2008 and 2009. Consequently, OIG judgmentally sampled all the expenditures for Evacuation Payments and Rewards Program, since the expenditures for the other two categories, Special Investigations and Confidential Payments, accounted for only 4.2 percent in total of the expended funds for the two fiscal years, which was an immaterial amount.

As shown in Table 4, OIG selected for testing 24 Evacuation Payments expenditures and 25 Rewards Program expenditures, for a total of 49 expenditures for FYs 2008 and 2009. OIG identified expenditures of \$715,527 that were not available for review from a sample of classified expenditures for FYs 2008 and 2009.

UNCLASSIFIED

Table 4. Results of Testing Classified Expenditures for FYs 2008 and 2009

Expenditure Category	Total Amount	Amount Tested	Number Tested	Specific Exceptions and Amounts	
				Number Unsupported	Amount Unsupported
Evacuation Payments	\$2,737,640	\$2,737,640	24	19	\$715,527
Special Investigations	\$356,242	\$0	0	0	\$0
Confidential Payments	\$645,593	\$0	0	0	\$0
Rewards Program	\$20,354,693	\$20,354,693	25	0	\$0
Total	\$24,094,168	\$23,092,333	49	19	\$715,527

Source: Prepared by OIG based on the results of its judgment sample.

Testing Methodology

To determine the compliance of the expenditures sampled, OIG obtained and reviewed the supporting documentation to include invoices, receipts of payment, and requests and approvals for payment. OIG determined that the expenditure complied with the law if it belonged to one of the following categories, which are included in the authorizing legislation:³

- The evacuation of U.S. Government employees, their dependents, and private U.S. citizens or third-country nationals when their lives are endangered by war, civil unrest, or natural disaster.
- Visits by foreign chiefs of state or heads of government to the United States.
- Travel of Presidential delegations at any inauguration or funeral of a foreign dignitary.
- Travel of the President, the Vice President, or a member of Congress to a foreign country.
- Travel of the Secretary within the United States and outside the United States.
- Official representational functions of the Secretary and other principal Department officers.
- Official functions outside the United States, the expenses for which are not otherwise covered by amounts appropriated for representational allowances.
- Investigations and apprehension of groups or individuals involved in fraudulent issuance of U.S. passports and visas.
- Gifts of nominal value given by the President, the Vice President, or the Secretary to a foreign dignitary.

OIG also considered any expenditure related to the payment of rewards (Rewards Program category) for information pertaining to international terrorism to be in compliance with the law. This category is not included in the K Fund authorizing legislation. However, Congress

³ OIG did not include repatriation loan assistance, which is authorized by the legislation, in the audit scope because the Bureau of Consular Affairs is responsible for this activity and the associated expenditures are not included in the K Fund Congressional reports.

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includes funds for this program in the K Fund appropriation and authorizes the Department to perform this function.

For classified expenditures, because of the sensitive nature of the subject, OIG verified that employees who received evacuation benefits (Evacuation Payments category) were assigned to post at the time of the evacuation and that the post received approval for evacuation. Additionally, for Rewards Program expenditures, OIG reviewed documentation, including reports, letters, and invoices, to determine whether the appropriate approvals were obtained to make the reward payment at the recommended amount.

Based on its review of the documentation, OIG made preliminary determinations of compliance, provided a list of questioned expenditures to K Fund staff, and requested that the staff review the questioned expenditures and provide additional information to support the questioned amounts. OIG considered the additional information provided, using the conditions cited, to make a final determination of compliance.



July 27, 2011

MEMORANDUM

TO: OIG – Harold W. Geisel

FROM: RM/EX – Philip J. Schlatter /s/ Barnaby Walsh for PJS

SUBJECT: Draft Report on *Audit of Expenditures From the Department of State Emergencies in the Diplomatic and Consular Service Appropriation*

RM appreciates the opportunity to comment on the subject Draft Report dated July 2011. RM's responses to the List of Recommendations on page 20 of the Draft Report are below.

Recommendation 1. OIG recommends that the Bureau of Resource Management implement a policy requiring posts to reimburse the Emergencies in the Diplomatic and Consular Service appropriation for any expenditures that are unsupported by original receipt within 30 days after the completion of a Presidential delegation visit and then notify posts of this change of policy in the notification cable for future Presidential delegations.

Response. RM will review whether a policy should be implemented for reimbursement of unsupported expenses. However, RM disagrees with the recommendation that Posts should be required to provide original receipts to RM. Posts are responsible for certifying all disbursements and therefore should keep original receipts. Providing copies of supporting documentation to RM is sufficient for record keeping purposes.

Recommendation 2. OIG recommends that the Bureau of Resource Management develop specific guidance for postage used for activities related to the Secretary of State and for domestic representation events hosted by the Secretary of State similar to guidance contained in the Domestic Representation Guidelines provided to bureaus and offices.

Response. RM will review current guidance to determine whether further guidance is necessary concerning the use of the K Fund to cover certain postage expenditures.

Recommendation 3. OIG recommends that the Bureau of Resource Management (RM) obtain an opinion from the Office of the Legal Adviser as to whether the Emergencies in the Diplomatic and Consular Service appropriation (K Fund) should have been used to upgrade the kitchen that services the Diplomatic Reception Rooms. If the opinion does not support the use of the K Fund for this purpose, RM should coordinate with the Bureau of Administration to reimburse the K Fund from program funds appropriated for domestic capital improvements.

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Response. RM works closely with the Office of the Legal Advisor to ensure that the Department's use of the K Fund is legally permissible, and will continue to seek legal advice when necessary.

Recommendation 4. OIG recommends that the Bureau of Resource Management obtain an opinion from the Office of the Legal Advisor on the specific circumstances under which additional representation funds can be provided to overseas posts from the Emergencies in the Diplomatic and Consular Service appropriation.

Response. RM works closely with the Office of the Legal Advisor to ensure that the Department's use of the K Fund is legally permissible, and will continue to seek legal advice when necessary.

Recommendation 5. OIG recommends that the Bureau of Resource Management implement a policy requiring posts to provide an itemized list of all post-incurred evacuation expenditures, including receipts, not more than 60 days after the termination of an evacuation and ensure that posts are notified of this policy change in the authorized departure cable.

Response. RM does not concur with the requirement that post provide receipts for evacuation expenditures. Because Posts have the responsibility to certify vouchers prior to disbursement of funds, posts should retain all supporting documentation. A cable or email from post containing an itemized list of expenditures is sufficient for keeping a record of such expenditures.

Recommendation 6. OIG recommends that the Bureau of Resource Management prepare written guidance establishing how to report Emergencies in the Diplomatic and Consular Service appropriation expenditures received after the quarterly report has been sent to Congress.

Response. RM concurs with this recommendation.

Recommendation 7. OIG recommends that the Bureau of Resource Management formalize the agreement developed in conjunction with the Global Financial Services in Charleston, SC, on how to report evacuation expenditures.

Response. RM concurs with this recommendation. RM/GFS is in the process of documenting procedures for generating the report and has communicated with the RM/CFO as to the specific costs that should be reported.

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