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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Semiannual Report to the Congress

October 1, 2002 to March 31, 2003



Pictured on the front cover: Embassy Ljubljana, Slovenia
Picture provided by the Bureau of Overseas Buildings Operations

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PREFACE

The Inspector General Act of 1978, as amended, requires each Inspector General to prepare a semiannual report summarizing the activities of that OIG for submission to the appropriate congressional committees or subcommittees. The attached report provides information on activities of the Department of State and the Broadcasting Board of Governors during the indicated period ending March 31, 2003.

The mission of the Office of Inspector General (OIG) is to serve as an independent, objective reviewer and evaluator of the operations and activities of the U.S. Department of State and the Broadcasting Board of Governors. OIG assesses those operations and activities with a view toward promoting effectiveness, efficiency, and economy and seeks out instances of fraud, waste, and mismanagement, as we work to prevent them. OIG reports to the Secretary of State, the Broadcasting Board of Governors, and the Congress, keeping them fully and promptly informed of significant developments and serious concerns.



Anne M. Sigmund
Acting Inspector General
April 30, 2003

EXECUTIVE SUMMARY

During this semiannual reporting period, the Office of Inspector General (OIG) reviewed and monitored Department of State (Department) and Broadcasting Board of Governors (BBG) programs, activities and operations, continuing to focus its work on four strategic goals:

The Department and the BBG adequately protect the people, information, and facilities under their control in the United States and abroad.

OIG performs specialized security inspections and audits in support of the Department's mission to provide effective protection to U.S. Government personnel, facilities, and sensitive intelligence information. During this reporting period, OIG's Office of Security and Intelligence Oversight conducted two audits, two security evaluations, nine limited-scope and six full-scope security inspections, and two follow-up reviews. OIG's Office of Information Technology also conducted information security reviews at four missions.

OIG issued a status report on the protection of classified documents at the Department's Harry S Truman Building and found that the Department had made substantial progress in improving protection of classified information, particularly secure compartmented information (SCI) material. Most significantly, responsibility for protecting SCI was transferred from the Department's Bureau of Intelligence and Research to the Bureau of Diplomatic Security (DS). By following an incremental transition plan, these bureaus completed the transfer of responsibility in 2002.

OIG also conducted a follow-up review of the Unit Security Officer (USO) Program. USOs are at the forefront of aiding the Department in the protection of national security information from disclosure to unauthorized persons, and they have oversight responsibility to ensure that classified information in their organiza-

tional unit is handled according to Department regulations. OIG found that the USO program has been only marginally successful. The program in its current form is piecemeal, which has resulted in inadequate program implementation and has produced poor results.

OIG conducted information technology (IT) security reviews at four posts overseas, including Embassy Lisbon, Portugal, Embassy Madrid, Spain, Embassy Buenos Aires, Argentina, and Embassy Montevideo, Uruguay. OIG inspected the management, operational and technical IT security controls and found several opportunities for improving IT security at these embassies.

The Department and BBG effectively, efficiently, and economically advance the foreign policy interests of the United States.

OIG inspects each of the approximately 260 embassies and diplomatic posts throughout the world, as well as international broadcasting installations and the various bureaus and offices of the Department and BBG, to determine whether policy goals are being achieved and whether the interests of the United States are being represented and advanced effectively. During this reporting period, OIG conducted two consular reviews and inspected 12 embassies, two BBG programs, and the Bureau of Western Hemisphere Affairs.

OIG's review of the Department's fraud prevention programs in domestic passport operations noted that the importance of the Bureau of Consular Affairs' (CA) passport antifraud program had come into sharper focus and under more scrutiny since the September 11, 2001, terrorist attacks. However, OIG found that DS did not always promptly investigate all case referrals, and the smuggling of children or substitution of the photographs of one child for another must be addressed. OIG recommended that CA eliminate the regulatory exemption that allows children under age 14 not to appear personally to apply for U.S. passports. Data sharing is now recognized as a key element in the fight against terrorism, but OIG found that CA and DS did not have sufficient access to intra-agency and interagency databases.

OIG also reviewed the Department's nonimmigrant visa issuance policy and procedures. OIG noted that the post-September 11, 2001, era should have witnessed immediate and dramatic changes in CA's direction of the visa process but

that a fundamental readjustment by Department leadership regarding visa issuance and denial had not taken place. OIG found that the Department still did not fully carry out the consular function as part of a coordinated national effort to manage border security and implement the Immigration and Nationality Act, in order to prevent the travel of those who might present risks to the United States and its citizens and also to facilitate legitimate travel.

During this reporting period, OIG inspected Embassy Moscow and Consulates General St. Petersburg, Vladivostok, and Yekaterinburg, Russia. OIG found that the Ambassador provided effective leadership and direction, gave public diplomacy high priority and actively promoted U.S. commercial interests. However, OIG noted that the executive office needed to review the diffuse mission coordination structure to make it more focused and responsive. Executive oversight of the embassy's large assistance programs also needed to be tightened.

In Eastern Europe, OIG inspected Embassy Zagreb, Croatia, and Embassy Ljubljana, Slovenia. At Embassy Zagreb, OIG found the embassy, for the most part, had the right personnel and administrative resources to perform its job. OIG noted that economic issues were fundamental to most U.S. interests in Croatia and should be given more concerted attention. Development of the new embassy compound was initiated in 1999, and the project was progressing rapidly. The embassy provided strong support to the Bureau of Overseas Buildings Operations (OBO) team and worked very well with the Department to keep the project on track.

Embassy Ljubljana has set its highest priority on preparing Slovenia and Washington for the upcoming decision on whether Slovenia will be invited to join the North Atlantic Treaty Organization (NATO). OIG found this priority designation appropriate as this issue affects not only U.S.-Slovenian relations, but also broader U.S. strategic interests in Europe and in the Balkans. However, given the limited resources allocated to this Special Embassy Program (SEP) mission, OIG found that the embassy was less able to exploit other opportunities in the relationship. Embassy Ljubljana's SEP designation may no longer be appropriate and should be reviewed.

In Europe and Eurasia, OIG also inspected embassies in the New Independent States, including Embassy Almaty, Kazakhstan; Embassy Ashgabat, Turkmenistan; Embassy Bishkek, Kyrgyz Republic; Embassy Dushanbe, Tajikistan; and Embassy Tashkent, Uzbekistan. Security vulnerabilities, inadequate space and limited IT infrastructures continued to be problems for these missions.

During this reporting period, OIG completed inspections of the Bureau of Western Hemisphere Affairs (WHA); Embassy Quito, Ecuador; Embassy Brasilia, Brazil; and the U.S. Mission to the Organization of American States. In its inspection of WHA, OIG noted that the bureau provides political judgment and analysis to the U.S. Trade Representative and the Department of the Treasury and is adequately and capably staffed to provide this input. The emergence of a Department of Homeland Security most likely will increase the resource demands on the Department, falling heavily on the WHA region. OIG found that WHA should take a more assertive role in shaping and influencing relevant decisions, especially those with resource implications about physical facilities and staffing.

The U.S. Mission to the Organization of American States points with satisfaction to successful efforts to restrain the growth of the budget of the Organization of American States (OAS). At the same time, financial support has not kept pace with the OAS-mandated functions, supported by the U.S. government. Sooner or later, the mismatch between policy objectives and funding levels must be addressed. OIG recommended closer coordination on policy and funding issues.

At Embassy Brasilia, OIG found that the new leadership team had revitalized the bilateral relationship and laid the groundwork for a positive and constructive engagement with the newly elected government. It has taken the initiative in redefining the bilateral agenda, underscoring Brazil's centrality to U.S. interests in the region. It also has done an impressive job of integrating the efforts of the mission's large and diverse country team. This includes, in particular, the important consulates general in Rio de Janeiro and Sao Paulo, cities that remain vital centers of economic, political, and cultural influence. Despite strong leadership by the head of OBO, pending buildings issues pose serious security concerns and constitute significant constraints on mission operations.

At Embassy Quito, embassy security and counterterrorism cooperation with the government of Ecuador are at the top of the Ambassador's priorities. Construction of new facilities in Quito, starting in 2004, and in Guayaquil, starting in 2005, presented an urgent need to review consular strategies and Consulate General Guayaquil's contribution to mission performance goals and to centralize all consular functions in Quito. Largely neglected, Consulate General Guayaquil suffered from management problems.

In Africa, OIG inspected the U.S. embassies in Maputo, Mozambique, and Port Louis, Mauritius. At Embassy Maputo, the Ambassador had a good relationship with the Mozambican government and a very positive image among Mozambicans.

However, OIG found that embassy management needed to focus on morale issues and on management control requirements. At Embassy Port Louis, the Ambassador's and the Department's highest priority was to prepare for the December cabinet-level U.S.-Sub-Saharan Africa Trade and Cooperation Forum. Embassy Port Louis was not rightsized. Personnel were working unusually long hours; economic reporting could not get done; Seychelles and Comoros, to which the Ambassador was accredited, were ignored; and morale had suffered.

In the area of international broadcasting, OIG found that new initiatives enacted by the Office of Cuba Broadcasting (OCB) director after July 2001 were generally positive; however, OIG documented a number of deficiencies in their implementation. OCB did not conduct a systematic personnel needs assessment before contracting out for talent to meet its new programming requirements. In addition, the procedures involving the hiring and use of talent contractors were inappropriate and inadequate. OIG documented violations of government procurement requirements and actions that created an appearance of favoritism.

The Helsinki Regional Monitoring Office is one of BBG's most active, but no American officer from Embassy Helsinki had specific liaison responsibility to assist with administrative support. OIG identified the need for an American liaison officer to ensure that International Broadcasting Bureau (IBB) regional staff received full value for administrative services provided by Embassy Helsinki under the International Cooperative Administrative Support Services system (ICASS). Overall, the office receives satisfactory administrative support.

OIG conducted a survey of the merger of the Worldnet Television and Film Service (WORLDNET) with the Voice of America (VOA). Congress approved the plan with the understanding that a reorganization of VOA and the merger of WORLDNET would result in efficiencies and cost savings. At present, however, merger plans do not indicate immediate cost savings. To allow the agency time to reorganize under a new VOA director, a new board chairman, and other new board members, OIG made only one recommendation in its survey, which called for a quarterly status report.

The Department and BBG have the necessary financial and support systems and controls to meet legal and operational requirements.

OIG audits Department and BBG operations and activities to ensure that they are as effective, efficient, and economical as possible. OIG strives to improve the management and conduct of Department and BBG programs and activities by providing timely, balanced, and credible evaluations and financial audits that identify problems and recommend solutions. During this reporting period, OIG reviewed a broad range of issues, including munitions exports, demining programs, financial statement audits, the domestic travel card program, and the Foreign Affairs Systems Integration.

In response to a congressional request, OIG reviewed the proposed procurement of a sports utility vehicle for Embassy Bogotá. The requestor expressed concern that the solicitation contained unnecessary features, had an unusually short response time, and was canceled after press reports highlighted the vehicle's luxurious features. Department officials acknowledged that mistakes were made in the vehicle procurement and they have taken corrective actions, including a new policy requiring that all draft solicitations receive supervisory approval before they are posted.

OIG reviewed the Department's end-use monitoring of munitions exports and found that the Office of Defense Trade Controls targeted end-use monitoring and verification for only a small number of license applications and approved licenses. Overseas, OIG observed that end-use monitoring was not consistently implemented. OIG believes that improved guidance and direction are needed, especially with regard to the requirements for conducting site visits. In addition, better reporting and communication are needed on the results of end-use checks.

At the request of the Department, OIG conducted a limited review of the Asia Foundation's indirect costs for fiscal years 1999, 2000, and 2001. OIG's primary purpose was to determine whether the indirect cost structure complied with applicable regulations. OIG found that the indirect cost rates reported by the Asia Foundation in its Office of Management and Budget (OMB) Circular A-133 audit report were mathematically correct and that the indirect cost structure complied with OMB Circular No. A-122, Cost Principles for Non-Profit Organizations. OIG also reviewed several other grantees, including Youth for Understanding and the Open Society Institute, and conducted a follow-up review of Project Harmony.

At the request of the Department, OIG reviewed allegations pertaining to procurements in the Office of Humanitarian Demining Programs. OIG found no evidence of impropriety in the award of a worldwide contract for demining supplies and services. The process used to award this contract was well documented and followed federal procurement regulations. OIG did not identify any evidence that would confirm specific allegations that the “contract was awarded unfairly” or that the procurement was “wired.”

OIG conducted a review of the Department’s energy conservation efforts. Since OIG last reported in 1994, the Department had made significant progress in its energy program and in complying with energy-related legislation. The Department reported that its energy consumption in federal buildings had been reduced by seven percent. The Department has been successful in its use of energy savings performance contracts, both domestically and overseas, and has taken action to identify a best practice overseas where individual employees are notified of their residential utility bills and how they compare to others.

In the area of financial management, OIG’s contractor completed several audits of Department financial statements, including the Department’s 2002 and 2001 Principal Financial Statements, the International Cooperative Administrative Support Services’ 2001 and 2000 Financial Statements, and the International Joint Commission’s 2001 and 2000 Principal Financial Statements. An independent external auditor issued an unqualified opinion on the Department’s 2002 and 2001 Principal Financial Statements. Although an unqualified opinion was issued, the report brings to management’s attention concerns about security over the unclassified network and the Paris Financial Service Center’s Accounting and Disbursing System; the inadequacy of internal controls over the management of undelivered orders and the collection and reporting of managerial cost accounting information; and the inadequacy of the Department’s financial and accounting system, which is both an internal control weakness and an issue of noncompliance with several laws and regulations.

OIG reviewed the domestic travel card program to determine whether the Department had effective policies and procedures in place to manage the program. Although the Department made a number of improvements, OIG found that it did not have a process in place to address delinquencies in the 60-day past due category, before the cards are automatically suspended. OIG also found that the Department had not done enough to prevent and detect misuse of the cards. In addition, OIG determined that the Department did not have controls in place to ensure that coordinators were managing the appropriate accounts, transferring or canceling accounts as needed, and identifying multiple accounts.

In the area of information technology, OIG reviewed the Department's progress in implementing the Government Paperwork Elimination Act (GPEA) objectives. The Department submitted its initial e-government plan and subsequent updates in a timely manner; however, the submissions had not adequately fulfilled OMB guidelines or met the administration's e-government objectives. The Department's ineffectiveness in meeting the reporting requirements can be attributed to the lack of a centralized program management organization responsible for coordinating and overseeing e-government initiatives and fulfilling GPEA objectives on an enterprise-wide basis. OIG recommended that the Department establish a full-time, e-government program management office to ensure the focus, accountability, and day-to-day coordination needed to meet GPEA requirements.

OIG also reviewed the Department's strategy for establishing a common knowledge management system under the auspices of the Foreign Affairs Systems Integration (FASI) program within the Department. Worldwide deployment of the system depends heavily on the results of the pilot test and evaluation. However, OIG found that poor timing, lagging content management, resource constraints, and unresolved system and technical problems hindered efforts to get pilot users trained, certified, and committed to using the system.

The Department and BBG ensure accountability, and prevent or eliminate in programs and operations fraud, waste, abuse, and mismanagement.

OIG investigates instances of fraud, waste, and mismanagement that may constitute either criminal wrongdoing or violation of Department and BBG regulations. During this semiannual period, OIG conducted investigations in the areas of contract fraud, theft, and employee misconduct.

OIG opened a contract fraud investigation early in 2002 based upon a complaint that the president of a company that was providing explosives ordnance detection (EOD) dogs and handlers to the Department as a subcontractor had made false statements regarding the company's qualifications to perform these services. It was also alleged that the company was providing the Department with dogs and handlers that could not meet the standards claimed by the company. Officials of the Bureau of Alcohol, Tobacco, and Firearms administered a standardized test to six of the EOD dogs that the company had assigned to work at the

Department. All six of the dogs failed the test. In March 2003, the president of the company was indicted by a federal grand jury on 26 felony counts of wire fraud and two felony counts of submitting false claims to the government as a result of this investigation. He was arrested subsequently on these charges.

In a case of theft, OIG opened an investigation in April 2002, based on information that the controller of a nonprofit organization receiving grant funds from the Department had improperly written checks to herself and to members of her family. OIG confirmed this and, in March, the controller pleaded guilty to a felony charge and agreed to make restitution of more than \$60,000.

In an employee misconduct investigation, OIG received information that a Foreign Service officer failed to file two required annual Financial Disclosure Reports, despite repeated written reminders from his office. In January 2003, the Department issued a three-day suspension without pay to the officer for his failure to follow instructions by not filing the Financial Disclosure Reports. In March 2003, OIG referred the matter to the Civil Division of the U.S. Department of Justice because of the officer's continuing failure to file his Financial Disclosure Reports. The civil case is currently pending.

CONGRESSIONAL ACTIVITIES AND OUTREACH

Reports Requested by Congress

OIG conducted the following reviews in response to legislative mandates and requests from Congress:

- In response to a request from the Chairman of the Senate Caucus on International Narcotics Control, OIG conducted a review following up on press reports that \$2 million in U.S. aid to Colombian National Police counternarcotics efforts was missing.
- As mandated by the FY 2003 Intelligence Authorization Act, OIG provided to the Senate Select Committee on Intelligence, the House Permanent Select Committee on Intelligence, the House International Relations Committee, and the Senate Foreign Relations Committee, two reports: “Status Report on the Protection of Classified Documents at State Department Headquarters” and “Follow-up Review of the Unit Security Officer Program.”
- At the request of the previous Chairman of the House Committee on Government Reform, OIG reviewed the procurement process of a sports utility vehicle for Embassy Bogotá.
- In response to a request from the Chairman of the Senate Caucus on International Narcotics Control, OIG conducted a review of the procedures and processes involved in the issuance of nonimmigrant visas at U.S. missions worldwide.
- As mandated by the Government Management Reform Act of 1994, an independent external auditor performed an audit of the Department’s FY 2002 and 2001 Principal Financial Statements, under the direction of OIG.

Proposed Legislation Reviewed by OIG

During this semiannual reporting period, OIG reviewed the Improper Payments Information Act of 2002 (HR 4878).

The Inspector General also met with members and staff of the House and Senate to review and comment on a variety of issues and questions on operations and programs of the Department and the BBG.

Outreach

The Inspector General briefs all newly appointed ambassadors and new Foreign Service officers on the role and function of OIG, as well as on specific issues related to their respective assigned embassies. OIG also addresses new Civil Service employees on OIG's role, mission, and services. During this reporting period, OIG participated in an ambassadorial seminar, a Foreign Service officer orientation, and two Civil Service orientations.

In January, the assistant inspector general for inspections, the deputy assistant inspector general for inspections, and several inspection team leaders met with the director and staff from the Foreign Service Institute's (FSI) School of Leadership and Management Studies for a briefing on FSI's initiatives to bolster those programs and to provide insights on leadership and management issues noted during recent inspections.

In February, the deputy assistant inspector general for inspections made a presentation to a conference of deputy chiefs of mission from U.S. embassies in Europe and the New Independent States on OIG's observations on leadership and management of missions abroad. Also in February, in response to a request from the Bureau of Population, Refugees, and Migration, OIG staff conducted a training session on the inspection and investigative processes for the Inspector General's Office at the United Nations High Commissioner for Refugees.

In March, the assistant inspector general for inspections and the deputy assistant inspector general for inspections provided a briefing for a delegation from Taipei's Foreign Ministry on inspection processes and procedures.

Review of the Department's Federal Financial Management Improvement Act Remediation Plan

Agency financial management systems must comply with the Federal Financial Management Improvement Act of 1996 (FFMIA) requirements. If they do not, the agency must establish a remediation plan, which includes the resources, remedies, and intermediate target dates to bring the systems into substantial compliance. The Department established a remediation plan in March 2000 for bringing its systems into compliance by September 2003. The Department updated the plan in October 2001.

Under FFMIA, OIG is required to report in its Semiannual Report to Congress instances and reasons when an agency has not met intermediate target dates established in the remediation plan. In its September 2002 Semiannual Report, OIG reported that the Department had made considerable progress in its efforts to comply with FFMIA and had reduced its degree of noncompliance. Although the Department had extended intermediate target dates for three projects, it expects to complete these projects by September 2003. In addition, the Department established new milestones and target dates for a fourth project, the Central Financial Planning System, and does not expect to complete this project until December 2004.

In February 2003, as part of the audit of the Department's 2002 and 2001 Principal Financial Statements, an independent contractor reported that the Department had completed several phases of its remediation plan and had indicated that the remainder of the plan was on schedule. However, the contractor found that the Department's remediation plan needed to address systems security and management of grants and other types of federal assistance.

Progress in Implementing the Government Performance and Results Act

OIG continues to review the Department's and the BBG's progress in implementing the Government Performance and Results Act of 1993 (GPRA), as part of its regular audits and inspections.

An independent public accountant performing the audit of the Department's FY 2002 Principal Financial Statements noted that the Department had significantly improved its compliance with GPRA. However, the contractor reported that the Department had not developed a comprehensive plan to validate and verify

performance data. OIG's report on the Department's domestic travel card program noted that developing objectives and identifying performance measures would be a beneficial management tool.

OIG Support for the President's Management Agenda

As part of its efforts to improve the economy, efficiency, and effectiveness of Department and BBG operations, OIG reviews issues that support the management improvement initiatives set forth in the President's Management Agenda (PMA). During the reporting period, OIG completed work and issued reports containing findings and recommendations for corrective action concerning Department and BBG activities related to the PMA initiatives of Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government (e-government), Budget and Performance Integration, and Rightsizing U.S. Overseas Presence, which are summarized below. Additional details can be found elsewhere in this report on the pages cited at the end of each summary.

Strategic Management of Human Capital: A review of the merger of the Worldnet Television and Film Service with the Voice of America examined the status of the merger and its resource implications, including human resources. Although a number of merger plans had been developed, the integration that had taken place was largely ad hoc, and the merger still was incomplete. With the arrival of a new VOA director in September 2002, the merger plan was settled upon, and actions taken to finalize it. To facilitate the merger, OIG has raised a number of human resources management issues for consideration by VOA and has requested a quarterly status report until such time as the merger is completed (see p. 77—report IBO-A-03-04).

Competitive Sourcing: OIG's survey of the Department's progress in complying with the Federal Activities Inventory Reform Act of 1998 found that the Department's FY 2001 inventory of 3,046 full-time equivalent positions available for competition was developed in an inconsistent manner and, consequently, was inaccurate. OIG briefed Bureau of Administration officials on the need for a clear, consistent methodology for preparing future inventories. As a result, the Department has improved its competitive outsourcing efforts by taking a more comprehensive, systematic approach in compiling the FY 2002 inventory. (see p. 41—report AUD-PR-03-10).

A review to assess OCB implementation of programming changes recommended that OCB conduct a systematic assessment of its program needs and the extent to which they could be met by regular employees or would require outside contractors, and then adjust the number of contractors hired, as necessary, to meet this need. OIG also recommended that OCB develop and implement a detailed competition plan and use all available options to expand competition for talent contractors, and that it review all existing talent contracts and terminate and recompetete those that do not meet provisions of the Federal Acquisition Regulation and agency procurement regulations (see p. 75—report IBO-A-03-01).

Improved Financial Performance: Department efforts to improve its financial performance were addressed in OIG reports on the Department's financial statements, compliance with federal financial systems requirements, and the accuracy of the Department's financial information.

OIG used an external auditor to perform audits of the Department's Principal Financial Statements, the International Joint Commission's Principal Financial Statements, and the ICASS Financial Statements. Although each of these financial statements received an unqualified opinion, the auditors identified several internal control weaknesses and instances of noncompliance with laws and regulations, including system security and other issues related to the Department's financial management systems. (see p. 49, 50-51—reports AUD/FM-03-01, 17, and 18).

A vulnerability assessment of the ICASS system found that, although specific security features appeared to function correctly and were well managed, certain vulnerabilities were detected during a technical vulnerability assessment. Because many of the same problems were found during vulnerability assessments of other Department applications, suggesting that they might exist throughout the Department's IT infrastructure, OIG recommended that they be addressed on a Department-wide basis (see p. 50— report AUD/FM-03-03).

A number of OIG management inspections of overseas missions also recommended improvements in financial practices, including replacing cash payments and currency invoices with electronic funds transfers, to the extent possible.

Expanded Electronic Government: OIG's review of the Department's implementation of GPEA found that, although the Department had submitted its initial e-government plan and subsequent updates in a timely manner to meet OMB reporting requirements, these submissions did not adequately fulfill OMB guidelines or meet the administration's e-government objectives. More specifically, the initial plan lacked an overarching GPEA vision and strategy, and subsequent

updates, while articulating the strategy better, failed to link the strategy with key planning processes and an enterprise architecture. In response to OIG recommendations, the Department has taken steps to improve oversight and coordination of its e-government initiatives and to enhance progress in meeting GPEA objectives, including establishing a centralized e-gov program management office to coordinate e-government activities and planning and to develop a Department-wide approach for e-government and GPEA efforts. The Department also approved a comprehensive plan to improve its IT capital planning processes to ensure that e-government is central to all IT planning and decision-making (see p. 55—report IT-A-03-01).

An OIG review of the Department's efforts to establish a common knowledge management system for web-based information sharing and collaboration among overseas missions found that the FASI project did not prioritize or ensure sufficient user input in developing requirements and did not adequately consider using existing systems as potentially less costly alternatives or coordinate its approach with related projects to avoid duplication. Based on OIG recommendations and other assessments, the Under Secretary for Management closed out the FASI project and its program management office and announced plans to address the requirements for interagency connectivity and collaboration as part of a broader initiative to replace the Department's messaging system. (see p. 56—report IT-A-03-02).

Budget and Performance Integration: OIG's review of the FASI project also included a recommendation that, within the context of the broader messaging system initiative, the Department develop cost estimates, funding strategies, and a cost-benefit analysis for a proposed collaborative initiative, before requesting commitment by the foreign affairs agencies.

Rightsizing U.S. Overseas Presence: OIG inspections have reviewed rightsizing of U.S. overseas presence as one of the areas of emphasis surveyed during each mission management inspection. Many of the inspection reports issued during the past six months have identified rightsizing (e.g., staffing), resource, security, and support issues affecting each mission's ability to accomplish its goals and objectives. In general, staffing was found to be appropriate and adequate to meet U.S. foreign policy goals. However, hard-to-fill missions increasingly have had to use alternative staffing methods to achieve their goals. OIG expressed concern about the effectiveness of NSDD-38 (National Security Decision Directive) in preventing the accretion of programs and staff by agencies other than the Department. As necessary, OIG evaluated the requests for additional staffing and made recommendations on specific cases, supporting some and disagreeing with others. Lack of

adequate and secure space also continues to hamper embassies' efforts to carry out their missions and remains a major impediment to employees' ability to function efficiently. Additional details on concerns at specific missions are addressed on pages 23-39.

A review of nonimmigrant visa issuance policy and procedures recommended that the Department assess and reallocate consular workloads worldwide, determine where consular workloads do not require a full-time consular position, and create regional consular positions to handle the workload at missions with a limited demand for consular services (see p. 24—report ISP-I-03-26).

SECURITY

During this reporting period, the Office of Inspector General, Office of Security and Intelligence Oversight conducted two audits, two security evaluations, 15 security oversight inspections, and two follow-up reviews. Nine of these inspections were conducted in conjunction with management reviews by OIG's Office of Inspections and were limited to an examination of physical security and emergency preparedness. Full-scope inspections, covering the full-range of a mission's security program, were conducted at six missions.

Because these reports discuss specific security vulnerabilities at the Department and its missions, report summaries will be published as a separate, classified annex to this report. A list of the classified reports issued during this semiannual period may be found in Appendix 2 (page 69) of this report.

Security Audits

Status Report - Protection of Classified Documents at State Department Headquarters (SIO-A-03-30)

In response to Section 832 of the FY 2003 Intelligence Authorization Act, OIG issued a status report on the Protection of Classified Documents at State Department Headquarters. OIG found the Department has made substantial progress in improving the protection of classified information, particularly SCI material, since several serious security breaches occurred between 1998 and 2000. Most significantly, at the request of a former Secretary of State, in response to OIG's 1999 report, responsibility for protecting SCI material was transferred from the Department's Bureau of Intelligence and Research to DS. Following an incremental transition plan, the two bureaus completed the responsibility transfer in

2002. Additionally, in response to previous OIG's audit recommendations, the Department advised that DS:

- implement procedures for controlling accountable and non-accountable SCI documents according to Director of Central Intelligence Directive requirements;
- establish procedures to ensure that vulnerabilities identified by technical surveillance countermeasure evaluations are corrected promptly and began introducing aggressive procedures to detect and correct unknown technical and physical security vulnerabilities;
- strengthen internal procedures for adjudicating security violations and referring valid violations to the Department's Bureau of Human Resources (HR) for possible disciplinary action; and
- introduce a procedure that provides Department bureaus and offices with a means to account for employees who have taken required annual refresher security awareness training.

Follow-up Review of the Unit Security Officer Program (SIO-A-03-35)

Also in response to the FY 2003 Intelligence Authorization Act, OIG conducted a follow-up review of the Department's USO program. OIG had initially reviewed the USO program as part of its audit, Protecting Classified Documents at State Department Headquarters (SIO/A-99-46, September 1999).

USOs are in the forefront of aiding the Department in the protection of national security information from disclosure to unauthorized persons, although the responsibility for protection of classified information is shared among DS, principal USOs, bureau executive directors, supervisors, and employees. USOs have oversight responsibility to ensure that classified information in their organizational unit is handled according to Department regulations.

The results of this follow-up review indicated that, although USO training and awareness have improved since the initial audit, overall the USO program has been only marginally successful. The program in its current form is piecemeal, which has resulted in inadequate program implementation and poor results.

INSPECTIONS

Review of Domestic Passport Operations, Phase II: Fraud Prevention Programs (ISP-CA-03-25)

The importance of CA's passport antifraud program has come into sharper focus and under more scrutiny since the September 11, 2001, terrorist attacks. According to DS and fraud prevention managers, U.S. attorneys are now showing more interest in prosecuting passport fraud cases. DS, however, does not always promptly investigate all case referrals. The availability of DS field office investigators is below the authorized level because many agents are either temporarily filling security officer positions at embassies abroad or are working domestic protective details.

Smuggling of children or substitution of the photographs of one child for another must be addressed. Detection of passport fraud involving substitution and child smuggling is gathering momentum throughout the country. At the time of the inspection, Department regulations did not require children under age 14 to appear personally when passport applications were executed on their behalf (see sidebar). The personal appearance of minors is a strong fraud deterrent. The expanded network of agents who accept passport applications can easily accommodate the personal appearance of all minors under age 14. OIG recommended that CA eliminate the regulatory exemption that allows children under age 14 not to appear personally to apply for U.S. passports.

Data sharing is now recognized as a key element in the fight against terrorism. CA and DS do not have sufficient access to intra-agency and interagency databases. It is anticipated that CA will have access to components of the DS database currently under development. Neither bureau, however, has determined how best to gain access to other potentially available databases. The El Paso Intelligence Center (EPIC) is an interagency data-sharing entity, and CA and DS should determine the appropriate staffing requirements to maximize access to EPIC's interagency databases.

Training of individuals authorized to accept passport applications needs a systemic solution. This is the Department's first line of defense in controlling passport fraud. CA's Office of Passport Services should develop and implement training schedules for all acceptance agents. There is no definitive written guidance on who manages the passport antifraud program. The Office of Fraud Prevention Programs and the Office of Passport Policy and Legal Advisory Services share program responsibilities. This has led to uncertainty among some passport agency personnel as to where to seek advice on complex cases.

Department Agrees to Require Personal Appearance of Children

The Bureau of Consular Affairs has recently notified posts abroad that it plans to revise passport regulations and the passport application form later this year so that all children under age 14 will be required to appear personally when passport applications are executed on their behalf. These changes should reduce the numbers of passport fraud cases involving minor children.

Review of Nonimmigrant Visa Issuance Policy and Procedures (ISP-I-03-26)

In response to a request from the Chairman of the Senate Caucus on International Narcotics Control, OIG conducted a review of the procedures and processes involved in the issuance of nonimmigrant visas at U.S. missions worldwide.

Until the events of September 11, 2001, the visa process was seldom considered a major element of national security. This is so despite the fact that, after the first attack on the World Trade Center in 1993, Congress mandated the issuance of machine-readable visas and Consular Lookout and Support System (CLASS) name checks worldwide, while authorizing a visa application fee to provide funding to make this possible.

The post-September 11, 2001, era witnessed immediate efforts to effect dramatic changes in CA's direction of the visa process. However, Department leadership has not universally accepted this fundamental readjustment regarding visa

issuance. The Department, as a whole, still does not fully use the consular function as part of a coordinated national effort to manage border security and implement the Immigration and Nationality Act, in order to prevent the travel of those who might present risks to the United States and its citizens and also to facilitate legitimate travel. CA has begun to address shortcomings identified after September 11, 2001, that include:

- lack of uniformity in visa processing from mission to mission, and
- lack of a planning staff to develop and advance options for consular input into border security initiatives and directions.

In the months since September 11, 2001, CA has made significant progress in bringing uniformity to the visa process. OIG found, however, that more needs to be done if the visa process is to be made more secure. It must be considered as a part of a larger process, beginning with visa issuance and continuing through the admission of aliens to the United States and tracking them while they remain in this country. As Congress recognized when it mandated worldwide implementation of machine-readable visas, financial and human resources must be provided to realize these changes. Perhaps the most significant problems addressed by this report were in human resources. Insufficient numbers of officers, inexperienced officers in management positions, and under-graded positions were identified as potential vulnerabilities. The Department, at every level, must rethink its approach to this task and devote the necessary resources and effort to it. New leadership in CA is committed to continuing efforts to minimize the vulnerabilities in visa processing.

This review was begun before the passage of legislation creating the Department of Homeland Security and vesting it with major responsibilities with regard to visas. Nevertheless, the findings of this report and the recommendations remain valid no matter where the ultimate authority for visa policy and issuance resides.

Bureau of European and Eurasian Affairs

Inspection of Embassy Almaty, Republic of Kazakhstan (ISP-I-03-01)

Despite entrenched opposition in some parts of the Kazakhstani government to the principles inherent in economic reform and democratization, Embassy Almaty has been extremely active in both areas. There are obstacles to achieving these goals. Greater program coordination is called for, but under good front office leadership, U.S. policy is being well implemented.

Nonetheless, effective and proper U.S. representation to the government of Kazakhstan requires that Embassy Almaty be relocated to Astana, the new capital. Until the embassy moves, the day-to-day conduct of relations will suffer, and the development of crucial personal relationships will be made more difficult. Political and economic reporting would benefit from more embassy contact with government leaders in the capital and more travel to areas outside Astana and Almaty, particularly to the energy-rich west and to the south. Coverage of the capital will not increase until an interim office is established, but more field travel and reporting could be done now, and Foreign Service nationals (FSNs) should be more engaged and productive.

The consular section is well managed and should be granted authority to process immigrant visas for residents of Kazakhstan and neighboring Central Asian countries. In order to maintain adequate supervision, training, and customer service, the consular manager position must continue to be filled by an experienced mid-level officer.

The embassy's greatest resource challenge is to provide safe, adequate facilities in Almaty and Astana. For the next four years, the burden of this challenge will continue to test the embassy's efficiency and its management controls. Recognizing this, the embassy and the Bureau of European and Eurasian Affairs (EUR) have properly increased administrative staff.

Embassy Almaty generally has good management controls in place, but the heavy workload in the administrative section militates against them in some areas. Weaknesses that should be corrected exist in cashier operations, funds account management, the motor pool, and warehouse property.

Inspection of Embassy Ashgabat, Turkmenistan (ISP-I-03-02)

Embassy Ashgabat has developed a positive relationship with the chief of state, overcoming his neutrality policies and obtaining important benefits for the war against terrorism. The most important gain from this engagement is a U.S. Air Force humanitarian refueling operation. Support for this effort should be made the mission's prime goal.

Policy implementation is good. It includes assistance offers to the host government, but more promising are those public diplomacy and assistance efforts that reach out to the country's next generation of leaders. Embassy Ashgabat has experienced leadership and concentrates on the issues that matter most. Cooperation among the five agencies present is good.

Turkmenistan is not receptive to security and law enforcement assistance programs. Although \$10.6 million is available for such activities in FY 2002, only a fraction of this has been obligated, and still less has been actually delivered. Offers of official aid are greeted with indifference and hesitation. Despite the obstacles, the embassy continues to promote nonproliferation, defense, and counternarcotics objectives.

In spite of this year's unexpected challenges—authorized departure, evacuation of Peace Corps volunteers, establishment of a U.S. military presence, a heavy visitor workload, and the accompanying stress—Embassy Ashgabat has managed modernized key operations and made improvements in local staff programs.

Inspection of Embassy Bishkek, Kyrgyz Republic (ISP-I-03-03)

Embassy Bishkek's success in enabling and supporting the combat airbase used by the United States and its allies with respect to actions in Afghanistan is noteworthy. It has met the coalition's needs with respect to its base while sustaining a wide-ranging relationship with the host government. The embassy has pursued an ex-

haustive schedule in trying to satisfy both these priorities. With the base established, the embassy can return to a more normal workweek. Embassy management should set the example in doing so.

Under close supervision by the Ambassador and deputy chief of mission (DCM), the combined political/economic section has reported on significant events and trends affecting the bilateral relationship, advocated support for the war on terrorism, and encouraged democratic and economic reform. Efforts to establish and maintain the coalition military base and support a steady stream of official visitors have dominated the section's time in recent months. These events have required a level of personal effort and commitment that is admirable, but that cannot be sustained indefinitely.

After ten years of hard work developing government, media, academic, and other contacts at all levels, the public affairs section now conducts a broad-based and well-conceived array of programs of value to the U.S. government, particularly as it relates to the war on terrorism.

The embassy has improved the IT and security infrastructure, even during this busy period. The embassy also benefits from strong support from regional offices in Frankfurt and Almaty. If the administrative section sets clear goals and builds a team, it can begin to apply innovations practiced at other embassies.

Embassy Bishkek's new, prefabricated chancery works well and is a tribute to OBO, which will use it as a model for future projects. Management controls at Embassy Bishkek are in place but need strengthening.

Best Practice: Local FSN of the Year

Issue: Supervisors often neglect the awards program, and standards and criteria for awards sometimes vary among supervisors, offices, and agencies.

Response: Embassy Bishkek established an "FSN of the Year" award.

Result: The award draws attention to the awards program, is given on an annual basis, and provides a standard against which to measure all other awards.

Inspection of Embassy Dushanbe, Republic of Tajikistan (ISP-I-03-04)

OIG found that Embassy Dushanbe—a very small, isolated, frontline embassy in a remote but now strategic country—has borne, with distinction, a much heavier load than it is equipped to carry. With good leadership and a deep personal commitment by all involved, it has obtained diplomatic, military, and logistical support for the war on terrorism from the Tajikistani government.

The embassy suffers from many handicaps, beginning with the anomaly of being officially located in Almaty, Kazakhstan, but increasingly working out of Dushanbe. Embassy Dushanbe is not staffed, housed, or equipped to play the role that the expanding U.S.-Tajikistani relationship will require. Improvements are under way, but some of the security restrictions that were imposed in response to previous conditions should be lifted if a new threat analysis indicates that such a change is appropriate.

Policy implementation, including reporting, is necessarily operational and program-related. Core functions are adequately performed but limited by overarching program demands and scarce resources.

Inspection of Embassy Ljubljana, Slovenia (ISP-I-03-05)

Embassy Ljubljana has set its highest priority on preparing Slovenia and Washington for the upcoming decision on whether Slovenia will be invited to join NATO. This priority designation is appropriate, as this issue affects not only U.S.-Slovenian relations but also broader U.S. strategic interests in Europe and in the Balkans. However, given the limited resources allocated to this SEP mission, the embassy is less able to exploit other opportunities in the relationship.

The embassy has grown recently to seven officers and will increase further with the addition of a temporary political/military position and a possible new assistant defense attaché position. This is a substantial staff for a SEP mission, but may be appropriate, given the increased workload associated with Slovenia's NATO candidacy and membership.

Embassy Ljubljana's SEP designation may no longer be appropriate and should be reviewed. Political and economic reporting is solid. Under the current Ambassador, the embassy has improved its reputation for objective reporting. The public affairs section is fully engaged and effective but is straining to handle multiple demands with minimal staff.

The embassy, with assistance from OBO, should actively pursue the possibility of acquiring property adjacent to the mission to improve operational efficiency and security and to address a potential increase in the consular workload that would result from any elimination of the visa waiver system.

Inspection of Embassy Moscow and Consulates General St. Petersburg, Vladivostok, and Yekaterinburg, Russia (ISP-I-03-07)

Despite the end of the Cold War, the Russian relationship remains central to the achievement of important U.S. security goals—reducing strategic weapons, protecting nuclear materials, controlling weapons of mass destruction, promoting missile defense, and developing the NATO relationship. The bilateral relationship now also encompasses a wide spectrum of U.S. international policy and program activities, as evidenced by the presence of 17 executive branch agencies, assistance programs totaling about \$1.1 billion, and exchange programs involving 5,000 people annually.

The bureaucratic culture of the Soviet era remains, however, obstructing implementation of major U.S. programs and activities. There also is widespread skepticism and some opposition among Russian elites, military, and the general public to the developing relationship with the United States. The embassy is addressing this in its public diplomacy programs and activities.

The embassy is large and complex, and handles an impressive array of policy issues. The Ambassador, ably supported by the DCM, gives the embassy effective leadership and direction. Overall, country team agencies work well together under the Ambassador's lead. The Ambassador puts public diplomacy high on his personal list of priorities and actively promotes U.S. commercial interests. However, the executive office needs to review the present, diffuse mission coordination structure to make it more focused and responsive. Executive oversight of the embassy's large assistance programs also needs to be tightened.

The large public affairs section efficiently manages a \$40-million budget for exchanges and cultural activities. The press office performs exceptionally well, supporting the Ambassador and other mission elements. The section needs a broad public diplomacy plan as a framework for interaction with other mission elements on Mission Performance Plan objectives, including regional outreach. It is time for the embassy to consider establishing a Fulbright Commission.

Reversing long-standing negative perceptions within the embassy and among the Russian public, the consular section now receives praise for its performance and its increasingly successful public outreach efforts. This has been accomplished in the face of the section's growing workload and a forced move, for security reasons, to nearly dysfunctional work facilities.

The administrative section has made progress in correcting serious long-standing financial management weaknesses, but there is still much to be done. In past years, the embassy did not effectively use its budgetary resources. From FY 1998 to FY 2001, \$10 million in program, ICASS, and security allotments were left idle and ultimately forfeited by the mission. The embassy did not take initial corrective action until last year.

The embassy needs to integrate the consulates general more completely into mission planning and programming, and the leadership role of the consuls general should be better defined and strengthened in the consular and public diplomacy oversight functions.

Management controls at the consulates are taken seriously, but there are deficiencies. Inventory controls are inadequate and contracting and procurement operations need more oversight and corrective measures.

Inspection of Embassy Tashkent, Republic of Uzbekistan (ISP-I-03-09)

After the events of September 11, 2001, Uzbekistan became a major partner in the war against terrorism. A dual policy promotes the strategic partnership while emphasizing that only Uzbekistani political and economic reforms will make it sustainable. Implementation is tightly focused on four core priorities that begin with counterterrorism. The embassy maintains a positive dialogue that is credited

with contributing to recent encouraging developments. A measure of the expanded bilateral relationship is a trebling in U.S. assistance programs to approximately \$162 million in FY 2002. With seven entities providing law enforcement and security assistance, a formal coordinating mechanism is needed.

Embassy Tashkent's political/economic section reflects mission priorities. The public diplomacy section manages an active program well. Embassy leadership sees the section as a key policy implementation asset.

The consular section suffers from a severe lack of workspace that hinders efficiency. Ongoing initiatives to expand the core office and interviewing areas to permit initial document processing at the public entrance and to handle information and correspondence from offsite will help to reduce and, eventually, eliminate chronic backlogs in visa interviews. OIG commends the embassy and OBO for addressing these urgent needs now, before the new chancery is completed in 2004-2005.

Pressure for growth and administrative services, especially visitor support, peaked in recent months and is receding now. Nevertheless, Embassy Tashkent has one of the most overcrowded chanceries imaginable, and this poses a serious challenge to staff morale, health, and safety. By properly controlling permanent and temporary staff growth and carefully managing space, the embassy may ameliorate the effects of overcrowding until a new chancery is available.

Inspection of Embassy Zagreb, Croatia (ISP-I-03-10)

Embassy Zagreb, for the most part, has the right personnel and administrative resources to perform its job. Although the staff appears large for a country the size of Croatia, many staff with OBO or the U.S. Agency for International Development (USAID) will be phased out as the new embassy compound is completed and Croatia graduates from the Support for East European Democracy (SEED) program. The remaining staff is appropriate for the embassy's mission.

The Department and OMB have reduced assistance from the SEED program to Croatia and other countries in the region. There was little consultation on the cuts with affected embassies and little evidence of any objective assessment of the

decision's implications for broader U.S. interests in Croatia and the region. Embassy Zagreb should provide an assessment of those implications for the Department.

Although the embassy has fully addressed the policy priorities established in coordination with the Department, neither the embassy nor the Department has fully integrated economic issues into those priorities. Economic issues are fundamental to most U.S. interests in Croatia and now need to be given more concerted attention.

Development of the new embassy compound was initiated in 1999, and the project is progressing rapidly. The embassy provided strong support to the OBO team and worked very well with the Department to keep the project on track. It also established an effective planning mechanism to prepare for the move and to anticipate problems associated with it.

Bureau of African Affairs

Inspection of Embassy Maputo, Mozambique (ISP-I-03-06)

The Ambassador has a good relationship with the Mozambican government and a positive image among Mozambicans. However, in OIG's administrative services satisfaction questionnaire, personnel awarded low marks to embassy management for its inattention to morale. Embassy management needs to demonstrate greater effectiveness in dealing with morale issues.

Washington agencies expressed considerable interest in Mozambique's democracy, the political participants, and prospects for economic reform. Notwithstanding general satisfaction with the reporting, readers in both the Department and other agencies want more analysis on where the embassy sees Mozambique going in the future.

Embassy Maputo has critical space needs. Embassy efforts to occupy office space to be vacated by USAID will alleviate some of these space needs in the short term. The embassy is on the OBO priority list for a new facility in 2006. Replacement of the Maputo chancery was reviewed recently by OBO and was reconfirmed. The Marine house also should be replaced.

The administrative section needed attention. Although systems support was good and budget and fiscal work were performed adequately, human resources and general services (notably maintenance) required front office attention. Communication within the administrative section, and between the section and clients, had been limited. Overall dissatisfaction with administrative services has had a negative effect on embassy morale. Embassy management also needed to focus more systematically on management control requirements. Improvements were needed in controls affecting property management, vehicle disposal, motor pool operations, procurement, cashier operations, financial management operations, and human resources.

Inspection of Embassy Port Louis, Mauritius (ISP-I-03-08)

At Embassy Port Louis, the Ambassador's and the Department's highest priority was to prepare for the December 2002 cabinet-level U.S.-Sub-Saharan Africa Trade and Cooperation Forum. High-ranking U.S. participation was expected at the trade forum, but the embassy did not possess classified e-mail capability, hampering embassy effectiveness in preparing for the conference.

Embassy Port Louis is not rightsized. Personnel are working unusually long hours; economic reporting cannot get done; Seychelles and Comoros, to which the Ambassador is accredited, are ignored; and morale has suffered. The assignment of a new security officer and information management specialist will ease the burden on the embassy.

Bureau of Western Hemisphere Affairs

Bureau of Western Hemisphere Affairs (ISP-I-03-23)

Canada and Mexico were the most important U.S. trading partners in 2001, and overall U.S. trade with countries in the Western Hemisphere was higher that year than with the European Union. International financial matters, such as the ongoing

crisis in Argentina, also loom large. WHA provides political judgment and analyses to the U.S. Trade Representative and the Department of the Treasury. WHA is adequately and capably staffed to provide this input.

The Bureau Performance Plan identified combating “endemic corruption” as its highest priority. The Assistant Secretary has been vigorous in articulating this position, and the bureau is correct in stressing this both within the administration and in diplomatic dialogue with governments throughout the region.

The bureau’s Office of Policy Planning and Coordination carries out a very effective and important coordinating role within the Department and in interagency forums. However, the press of daily business and the need to respond to crises leaves little time for attention to the longer-term planning function. The planning, is in part, accomplished through a series of country-focused “offsite” sessions. It is not clear how effectively the bureau pursues ideas that emerge from such sessions.

The emergence of a Department of Homeland Security most likely will increase the resource demands on the Department, falling heavily on the WHA region. For example, since September 11, 2001, 19 positions have been added at U.S. missions in Canada, and 34 at those in Mexico. WHA should take a more assertive role in shaping and influencing relevant decisions, especially those with resource implications about physical facilities and staffing. WHA is commended for its efforts to cooperate closely and productively with other entities in the Department and across federal, state, and local government.

OIG agrees with the many outside observers who perceive the integration of public diplomacy officers in WHA to have been exemplary. At the same time, there is some WHA front office frustration with public outreach programming. OIG questions the pattern of augmentation and dispersion of staff assigned to handle these efforts.

WHA manages its financial resources well. Its management of human resources, particularly for overseas missions, is marked by innovative practices such as job sharing, training, and aggressive recruiting for voluntary coverage of staffing gaps. Significant but rectifiable deficiencies exist in controls over personnel performance evaluation and property management.

Inspection of the U.S. Mission to the Organization of American States (ISP-I-03-24)

The U.S. Mission to the Organization of American States (USOAS) points with satisfaction to successful efforts to restrain the growth of the budget of the OAS. At the same time, financial support has not kept pace with the OAS-mandated functions that are supported by the U.S. government. Sooner or later, the mismatch between policy objectives and funding levels must be addressed.

Funding for OAS operations passes through USOAS but is budgeted initially by the Bureau of International Organization Affairs (IO) or other Department entities, notably WHA and the Bureau of International Narcotics and Law Enforcement Affairs. In budgeting, IO tends to give priority to matters under the United Nations system, which, in effect, reduces attention to the OAS. There should be closer coordination on policy and funding issues. USOAS commands great respect within the OAS for the professionalism, skill, and success with which mission representatives pursue U.S. goals and objectives.

USOAS operates both as a multilateral diplomatic mission and as an adjunct to WHA. Maintaining a distinct identity is a continuing challenge for the mission. USOAS does not have significant visibility with Department principals. All correspondence to Department principals is passed through WHA and forwarded under the signature of that bureau's leadership.

Inspection of Embassy Brasilia, Brazil, and Constituent Posts (ISP-I-03-12)

Since their arrival in the spring of 2002, the new Ambassador and DCM have revitalized the bilateral relationship, underscoring Brazil's centrality to U.S. interests in the region. They also have done an impressive job of integrating the efforts of the mission's large and diverse country team, including the important consulates general in Rio de Janeiro and Sao Paulo.

Recognizing the new security imperatives following the terrorist attacks of September 11, 2001, the mission is moving ahead with appropriate modifications in its management of consular operations. In that context, it has argued persuasively

that plans made before September 2001 to relocate some visa operations from Rio de Janeiro to Sao Paulo, which assumed continued use of travel agency referrals and waivers of most personal interviews, should be revised, but in such a way as to conform with the original congressional intent to fund a smaller consular operation in Rio de Janeiro and a larger consular operation in Sao Paulo.



Embassy Brasilia

Despite strong leadership by the head of OBO, and the progress made to date by OBO, pending buildings issues pose serious security concerns and constitute significant constraints on mission operations. Three ongoing infrastructure projects are critical to the mission's ability to

function effectively: completing the newly acquired consulate compound in Sao Paulo; finding a new site for Consulate General Rio de Janeiro; and upgrading systems and easing space strains on the chancery in Brasilia. Some of these projects are longstanding. The search for a new facility in Rio de Janeiro, for example, has been ongoing for at least seven years. OBO should give high priority to concluding these projects as quickly as possible.

Additional staffing is needed in several key areas. Given the importance of U.S. interests in Brazil, WHA and HR should consider requested increases for consular staffing in Recife, for the economic and administrative functions in Sao Paulo, and for public diplomacy operations in Recife and Sao Paulo.

Inspection of Embassy Quito, Ecuador, and Constituent Post (ISP-I-03-19)

At Embassy Quito, the Ambassador and DCM have contributed much-needed direction and management by articulating clear goals and coordinating interagency counternarcotics and law enforcement activities. Embassy security and counterterrorism cooperation with the government of Ecuador are at the top of the Ambassador's priorities.

Construction of new facilities in Quito starting in 2004 and in Guayaquil starting in 2005 presents an urgent need to review consular strategies and Consulate General Guayaquil's contribution to mission performance goals and to centralize all consular functions in Quito. Largely neglected, Consulate General Guayaquil suffers from management problems.

Narcotics affairs and interdicting trafficking are the embassy's most important program activity. Funding for the program to support and train Ecuadorian police and military units increased from \$0.5 million in 1998 to \$15.7 million in 2002 and is expected to grow further. Administrative oversight has been limited by inadequate staffing to perform end-use monitoring.

Embassy Quito's administrative section deserves praise for providing FSN's with a new, superior retirement system and for obtaining about \$1 million in annual value-added tax reimbursement from the host government. However, embassy staff perceive a lack of customer service and transparency in administrative operations.

Best Practice: Document Scanning

Issue: The financial management office wanted to reduce the volume of paper associated with vouchers, invoices, and payment documentation.

Response: The information management office researched and found a document scanning system that would meet requirements to copy documents and store them electronically.

Result: The financial staff scan vouchers, invoices, and other documents into a database. Users retrieve copies using various software systems and work with spreadsheet data. There is no longer a need to retype information, and copies are shared among staff as e-mail attachments. The information officer plans to provide document scanning capabilities for other embassy sections, including the medical unit and the general services office.

AUDITS

Program Reviews Division

Survey of Department Compliance with the Federal Activities Inventory Reform (FAIR) Act of 1998 (AUD/PR-03-10)

OIG completed its survey of the Department's progress in complying with the FAIR Act. The FAIR Act directs federal agencies to issue an inventory each year of all commercial activities performed by federal employees; that is, those activities that are not inherently governmental. OIG found that the Department's FY 2001 inventory of 3,046 full-time-equivalent positions available for competition was developed in an inconsistent manner and, consequently, was inaccurate. As a result of OIG's review, the Department has taken a more comprehensive, systematic approach to compiling the 2002 inventory.

Review of Department of State's Bogotá Vehicle Procurement (AUD/PR-03-13)

At the request of the previous Chairman of the House Committee on Government Reform, the OIG reviewed the proposed procurement of a sports utility vehicle for Embassy Bogotá. The congressional request was made in response to several press reports criticizing the solicitation, which was posted as a public notice on the Federal Business Opportunities web site. The Chairman expressed concern that the solicitation contained unnecessary features, had an unusually short response time, and was canceled after press reports highlighted the vehicle's luxurious features.

OIG found that the solicitations issued by the Department for a sports utility vehicle with luxury features resulted from a combination of miscommunications and procurement errors that went undetected because of a lack of supervisory review by the Department. Department officials acknowledged that mistakes were made in the vehicle procurement and have taken corrective actions, including a new policy requiring that all draft solicitations receive supervisory approval before they are posted.

Attestation Review of Annual Accounting of Drug Control Funds for FY 2002 (AUD/PR-03-23)

OIG reviewed the Chief Financial Officer's FY 2002 detailed accounting submission to the Director of the Office of National Drug Control Policy (ONDCP). The Chief Financial Officer prepared the submission in compliance with ONDCP Circular: *Annual Accounting of Drug Control Funds*, dated May 30, 2002. The Department is responsible for this submission.

Based on this review of the accounting submission, OIG did not detect any irregularities that would lead OIG to surmise that the accompanying assertions do not, in all material respects, reliably represent the FY 2002 obligation data presented to ONDCP.

U.S. Direct Assistance to Colombian National Police (AUD/PR-03-27)

In response to a request from the Chairman of the Senate Caucus on International Narcotics Control, OIG conducted a review following up on press reports that \$2 million in U.S. aid to Colombian National Police (CNP) counternarcotics efforts was reported missing.

In August 2001, the Narcotics Affairs Section (NAS) of Embassy Bogotá issued a report to CNP that raised concerns regarding vendor invoices, including the identification of 15 vendors that NAS auditors believed had committed fraud. As of June 2002, NAS Bogotá auditors questioned approximately \$1.7 million in expenditures, based on their review of CNP invoices submitted from January 2000

to April 2002. At that same time, NAS Bogotá refused to conduct business with CNP until it was reassured that the CNP officers implicated in the fraud were terminated. In September 2002, Embassy Bogotá reported that 16 officers had been removed from their positions.

As a result of the decision to dismiss the officers, NAS Bogotá resumed business with CNP and established a new agreement and procedures. Specifically, NAS Bogotá assumed direct responsibility for all procurement actions and limited the number and kinds of goods and services it finances. The procurement system now in place has adequate safeguards to prevent a recurrence of the fraud, according to the Bureau of International Narcotics and Law Enforcement Affairs officials.

Embassy Bogotá is working with the Colombian government to ensure that the officers who committed the alleged fraud are prosecuted. The Colombian government has criminal and administrative investigations under way. If the prosecutions are successful, the Department will attempt to recover the stolen funds from the guilty parties.

Review of Department of State's End-Use Monitoring of Munitions Exports (AUD/PR-03-31)

Section 150 of the Arms Export Control Act of 1976, as amended, provides that, to the extent practicable, the President shall establish a program for the end-use monitoring of defense articles and services to identify high-risk exports for regular end-use verification. The program, commonly referred to as the Blue Lantern Program (BLP), was designed to provide reasonable assurance that the recipient is complying with U.S. government requirements and that such articles and services are being used for the purposes intended.

OIG found that the Office of Defense Trade Controls targets end-use monitoring and verification for only a small number of license applications and approved licenses. Overseas, OIG observed that end-use monitoring was not consistently implemented. Site visits to foreign consignees (host country commercial businesses purchasing munitions through U.S. companies) and end-users (typically, host government military services) did not occur at four of the nine missions that OIG visited. OIG believes that improved BLP guidance and direction are needed, especially with regard to the requirements for conducting site visits. In addition, better reporting and communication are needed on the results of end-use checks.

OIG also noted that export monitoring and enforcement are limited at U.S. ports. OIG found that the Department and U.S. Customs do not coordinate effectively when questions arise about whether items require an export license. OIG believes that the Department could enhance its export enforcement process by providing additional training to U.S. Customs' inspectors on the identification of U.S. Munitions List items.

OIG recommendations include increasing the number of end-use checks and site visits performed, providing additional BLP guidance and compliance office direction with regard to site visits, and improving the reporting and communication on the results of end-use checks.

Contracts and Grants Division

Review of the Asia Foundation's Indirect Cost Rates for Fiscal Years 1999, 2000, and 2001 (AUD/CG-03-11)

At the request of the Department, OIG conducted a limited review of the Asia Foundation's indirect costs for fiscal years 1999, 2000, and 2001. OIG's primary purpose was to determine whether the indirect cost structure complied with applicable regulations.

OIG found that the indirect cost rates reported by the Asia Foundation in its OMB Circular A-133 audit report were mathematically correct and that the indirect cost structure complied with OMB Circular No. A-122, Cost Principles for Non-Profit Organizations. In August 1999, the Asia Foundation changed its indirect cost methodology, which resulted in about a ten percent reduction in the rate from FY 2000 to 2001. OIG recommends that the rates reported by the Asia Foundation be used in finalizing the indirect cost rates for the stated periods.

Review of Selected Awards to Youth for Understanding, Inc. (AUD/CG-03-12)

At the request of the Department, OIG conducted a limited review of nine grants totaling approximately \$7.7 million awarded to Youth for Understanding, Inc. (YFU). On March 8, 2002, YFU ceased operations due to financial problems and later filed Chapter 11 bankruptcy documents in the District of Columbia. At the time of the shutdown, YFU had nine open grants, six ongoing grants and three grants that were complete but still open because the required final reports had not been submitted. In March 2002, a separate organization, YFU-USA, Inc., began operations and YFU-USA requested that the Department transfer all open, ongoing grants to the new organization and allow this entity to complete the projects. The Department did not transfer the agreements to YFU-USA and, instead, made preparations to assign the grants to other organizations. In conjunction with these actions, the Department requested OIG's assistance in determining the amount of federal funds, if any, that YFU owed to the Department.

OIG conducted a limited review of the nine grants and found that, at a minimum, YFU owes the Department \$315,793. YFU also could not demonstrate that it met its cost-sharing provision for six of the nine grants.

Audit of Costs Claimed by the Open Society Institute Under Selected U.S. Department of State Awards (AUD/CG-03-16)

At the request of OIG, a contract auditor performed an audit of costs claimed by the Open Society Institute (OSI) on two grants. The audit determined that OSI did not distribute salary and benefit costs to grants based on employee timesheets. OSI charged salaries and benefits to grants based on estimates of each employee's activities. The estimates were determined before any services were performed. Employees were required to prepare timesheets that were an after-the-fact summary of activities; OSI did not, however, use these summaries to distribute salary and benefit costs. The audit questioned \$218,168 of unsupported costs.

Also, OSI did not meet its cost-sharing requirement under one of the grants. Accordingly, the federal share was overclaimed, and the audit questioned \$108,911. Cost-share expenses claimed for tuition waivers provided by the host university were overstated because OSI miscalculated the amount claimed. The audit recalculated tuition waiver costs and questioned the \$85,160 difference.

Other questioned costs of \$116,807 (\$101,142 of federal share and \$15,665 of cost share) related to expenses charged to the wrong grant and differences between OSI's records and costs claimed.

Follow-up Review of Project Harmony, Inc. (AUD/CG-03-28)

At the request of the Department and Project Harmony, OIG conducted a follow-up review of actions taken on OIG recommendations in its report, *Review of Selected Awards to Project Harmony, Inc., for Activities in the New Independent States* (01-FMA-R-080, dated September 2001). Specifically, OIG reviewed corrective actions taken by Project Harmony and also examined its indirect cost structure and methodology for claiming reimbursement of indirect expenses for FY 2001. In this review, OIG found:

- Project Harmony had taken significant steps to implement OIG's recommendations; however, it had not fully implemented all portions of the recommendations, in part, because of limited resources. OIG also concluded that, based on the grantee's level of compliance, the restriction against establishing an indirect cost rate for Project Harmony was no longer necessary.
- Project Harmony had calculated indirect cost rates for FY 2001 based on actual costs incurred. OIG reduced the proposed rates due to questioned unallowable costs totaling about \$8,000 and because Project Harmony had inappropriately excluded capital costs from the direct cost bases. OIG had planned to review the costs and rates for FY 2002, but Project Harmony had not prepared the required indirect cost rate proposal for FY 2002.

Review of Department's Management of Financial Assistance (AUD/CG-03-29)

OIG conducted an analysis of the Department's spending on federal financial assistance programs and its current structure and processes for managing such assistance. OIG reviewed data related to federal financial assistance awarded domestically during FYs 1998 through 2000. Specifically, OIG identified domestic bureaus and offices within the Department providing financial assistance; ascertained the types of funding mechanisms used to award assistance; quantified the dollar value of assistance; and identified policies, procedures, and systems used to manage the assistance programs. In addition, OIG reviewed actions the Department was taking to implement the Federal Financial Assistance Management Improvement Act of 1999, which requires, among other things, streamlining and simplification of the processes, administration, and reporting procedures for federal financial assistance programs.

Procurement, Property and Administrative Support Division

Review of Energy Conservation (AUD/PPA-03-04)

Since OIG last reported in 1994, the Department has made significant progress in its energy program and in complying with energy-related legislation. In 1994, the Department established a position for an energy policy and conservation officer, and that person has established a comprehensive energy plan. OBO has improved its oversight and reporting for overseas energy consumption, as requested by the Department of Energy. In addition, OBO annually performs comprehensive energy management surveys at overseas embassies and consulates. OBO also has had success in its utility management program, which gathers information by surveying meter rates. These surveys found more than \$540,000 in annual savings from facilities that had the wrong utility rates imposed and inaccurate meters. The Department has also met its performance goals related to domestic alternative fuel vehicles.

In addressing the goals set forth in Executive Order 13123, the Department reported that its energy consumption in federal buildings has been reduced by seven percent. The Department has been successful in its use of energy savings performance contracts (ESPCs) both domestically and overseas. Also, to provide the best service to the energy policy and conservation officer, several contracting officers should receive Department of Energy's specialized training in ESPCs. In addition, the Department has taken action to identify a best practice overseas where individual employees are notified of their residential utility bills and how they compare to others.

Review of Allegations Regarding the Office of Humanitarian Demining Programs (AUD/PPA-03-25)

At the request of the Assistant Secretary for the Bureau of Political-Military Affairs (PM), OIG reviewed allegations pertaining to procurements in the Office of Humanitarian Demining Programs (PM/HDP). The allegations were posted on an Internet web site that had been established to share advice and information among the worldwide demining community.

OIG found no evidence of impropriety in the award of a worldwide contract for demining supplies and services. The process used to award this contract was well documented and followed federal procurement regulations. OIG did not identify any evidence that would confirm specific allegations that the "contract was awarded unfairly" or that the procurement was "wired." Similarly, OIG found no evidence of impropriety in working relations between the contractor and PM/HDP officials. The two people posting the above allegations were later interviewed by OIG. Both people either withdrew their allegations or could not provide any evidence to support their assertions.

Financial Management Division

Audit of the International Joint Commission's 2001 and 2000 Principal Financial Statements (AUD/FM-03-01)

Under OIG's direction, an independent external auditor audited the International Joint Commission's (IJC) 2001 and 2000 principal financial statements. The objectives of the audit were to report on whether the financial statements fairly present IJC's financial position and results of financial operations, in accordance with generally accepted accounting principles; to determine whether IJC had an internal control structure that provided reasonable assurance of achieving internal control objectives; and to determine whether IJC complied with applicable laws and regulations.

The auditor issued an unqualified opinion on the statements; however, the report brings to management's attention concerns about security over the Department's information system networks and instances of noncompliance with selected provisions of applicable laws and regulations relating to the Department's financial management systems. Because IJC's financial statements are prepared using the Department's books and records, these weaknesses also affect IJC.

OPM Application of Agreed-Upon Procedures (AUD/FM-03-02)

Under OIG's direction, an independent auditor performed required procedures solely to assist the Office of Personnel Management in assessing the reasonableness of Retirement, Health Benefits, and Life Insurance withholdings and contributions as well as enrollment information submitted by the Department via the Semiannual Headcount Report. No material differences were noted. However, the audit identified several instances in which the Department did not have required forms on file to support employee life insurance elections.

Information Technology Vulnerability Assessment of the International Cooperative Administrative Support Services System (AUD/FM-03-03)

The Government Management Reform Act of 1994 (GMRA) requires that the Department's principal financial statements be audited annually. Audits of the principal financial statements require, among other things, understanding and assessing the adequacy of the internal control process for recording, accumulating, and reporting financial data. This, in turn, requires an assessment of the security over the automated systems that process financial data. At OIG's direction, independent external computer specialists performed a vulnerability assessment of the ICASS system.

OIG found that the specific security features associated with the ICASS application appeared to function correctly and were well managed. The OpenNet segment that supports the ICASS application needed some improvements but was sufficiently secure to satisfy most system requirements. There were a number of vulnerabilities detected during the technical vulnerability assessment. Most of these pertained to system configuration issues that could be corrected without affecting overall network performance or availability. Many of these issues also were noted during vulnerability assessments of other applications, which suggests that the problems still exist throughout the Department's IT infrastructure and, therefore, should be addressed Department-wide rather than one segment at a time.

Audit of the International Cooperative Administrative Support Services' 2001 and 2000 Principal Financial Statements (AUD/FM-03-17)

Under OIG's direction, an independent external auditor audited the ICASS 2001 and 2000 financial statements in order to obtain reasonable assurance and express an opinion on whether the financial statements fairly present, in all material respects, the financial position and results of financial operations, in conformity with generally accepted accounting principles; to determine whether ICASS had an

internal control structure that provided reasonable assurance of achieving internal control objectives; and to determine whether ICASS complied with applicable laws and regulations.

The external auditor issued an unqualified opinion on the ICASS 2001 and 2000 financial statements. Although an unqualified opinion was issued, the report brought to management's attention concerns about security over the Department's information system networks and the Paris Financial Service Center's Accounting and Disbursing System, the inadequacy of the Department's financial and accounting system, and the Department's controls over undelivered orders.

Audit of U.S. Department of State 2002 and 2001 Principal Financial Statements (AUD/FM-03-18)

The Government Management Reform Act requires that the Department's Principal Financial Statements be audited. The objectives of the audit are to report on whether the financial statements fairly present the Department's financial position and results of financial operations, in accordance with generally accepted accounting principles; to determine whether the Department had an internal control structure that provided reasonable assurance of achieving internal control objectives; and to determine whether the Department complied with applicable laws and regulations.

An independent external auditor issued an unqualified opinion on the Department's 2002 and 2001 Principal Financial Statements. Although an unqualified opinion was issued, the report brings to management's attention concerns about security over the unclassified network and the Paris Financial Service Center's Accounting and Disbursing System; the inadequacy of internal controls over the management of undelivered orders and the collection and reporting of managerial cost accounting information; and the inadequacy of the Department's financial and accounting system, which is both an internal control weakness and an issue of noncompliance with several laws and regulations.

Agreed-Upon Procedures Report on Federal Intragovernmental Activity and Balances (AUD/FM-03-19)

The Treasury Department annually prepares and submits to the President and the Congress an audited financial statement covering all executive agencies. Each agency is required to furnish certain financial and operational information to the Department of the Treasury through the Federal Agencies' Centralized Trial-Balance System (FACTS). Agencies must reconcile and confirm intragovernmental balances with their trading partners and ensure that these balances agree with FACTS reporting and audited financial statements before submitting year-end data to the Treasury Department.

Under OIG's direction, a contract auditor performed required procedures solely to assist the Treasury Department, the General Accounting Office, and OMB with accounting for and eliminating intragovernmental activity and balances in the preparation of agency and governmentwide financial statements and reports. The auditor reviewed the Chief Financial Officer Representations for Federal Intragovernmental Activity and Balances, copies of the reconciliations, and confirmations. The auditor noted no differences but disagreed with the responses provided by the Chief Financial Officer for accounts receivable, earned revenue, and transfers in because the auditor did not believe that sending confirmations constituted completing reconciliations.

Agreed-Upon Procedures Report on Federal Agencies' Centralized Trial Balance System (AUD/FM-03-20)

The Treasury Department annually prepares and submits to the President and the Congress an audited financial statement covering all executive agencies. Each agency is required to furnish certain financial and operational information to the Treasury Department through the FACTS. The Chief Financial Officer of the agency must compare the information submitted through FACTS with the agency financial statements and explain any differences identified.

Under OIG's direction, a contract auditor performed required procedures solely to assist the Treasury Department, the General Accounting Office, and OMB to evaluate management's assertion that it compared the summarized FACTS data to the related information in the agency's consolidated financial statements as of and for the year ended September 30, 2002. The auditor identified no differences, but noted that the Department identified material differences for the accounts grouping worksheet balance sheet that were due to transfer funds. The auditor validated the amount of the difference related to fund balance with the Treasury Department, but the Department did not provide supporting documentation for the difference in unexpended appropriations.

Domestic Travel Card Program (AUD/FM-03-22)

The Department recently instituted a number of initiatives to improve oversight of the travel card program. For instance, the Department implemented a process to address travel card payment delinquencies in the 90-day and 120-day past due categories and to detect misuse. OIG could not fully assess the effectiveness of most of these initiatives because they had not been in place long enough. However, OIG believes that if the initiatives are implemented as planned, they should decrease the rate of travel card payment delinquency and misuse.

Although the Department made a number of improvements, OIG found that it did not have a process in place to address delinquencies in the 60-day past due category before the cards are automatically suspended. OIG also found that the Department had not done enough to prevent and detect misuse of the cards. The Department was working, however, to establish a process to notify HR, DS, and OIG about misuse and delinquency so that these bureaus could take appropriate action.

OIG found that the Department did not have controls in place to ensure that the administrative oversight of the travel card program was adequate. For instance, the Department needed to ensure that the program coordinators were managing the appropriate number of accounts, transferring or canceling accounts as needed, and identifying multiple accounts. Also, the Department had not developed measurable performance goals specific to the travel card program. Although performance goals are not required for this program, developing objectives and identifying performance measures are useful management tools.

INFORMATION TECHNOLOGY

Improved Approach Needed to Achieve Government Paperwork Elimination Act Objectives (IT-A-03-01)

OIG conducted a review of the Department's implementation of GPEA, and found that the Department had submitted its initial e-government plan and subsequent updates in a timely manner to meet OMB's annual GPEA reporting requirements. However, these submissions have not adequately met OMB guidelines or the administration's e-government objectives. Specifically, although the Department's initial plan in 2000 met the basic GPEA requirement to provide an inventory of information collection activities to be made electronic by the law's 2003 deadline, the plan lacked an overarching GPEA vision and strategy. Subsequent 2001 updates to the plan better articulated the Department's GPEA strategy, but fell short in a number of areas, including the failure to link the strategy with key planning processes and an enterprise architecture.

The Department's ineffectiveness in meeting the reporting requirements can be attributed to the lack of a centralized program management organization responsible for coordinating and overseeing e-government initiatives and fulfilling GPEA objectives on an enterprise-wide basis. Other federal agencies and comparable projects within the Department have demonstrated the merits of instituting program management offices to accomplish shared objectives across organizational units.

Establishing a full-time, e-government program management office would ensure the focus, accountability, and day-to-day coordination needed to help the Department meet the administration's objectives and GPEA requirements. Such an office also would help the Department meet the challenges of coordinating its GPEA and e-government approach with sound strategies for ensuring security in electronic transactions and the increased use of web-based technologies as it works to modernize its IT infrastructure.

The Foreign Affairs System Integration Project Needs Redirection (IT-A-03-02)

OIG reviewed the Department's strategy for establishing a common knowledge management system under the auspices of the FASI program within the Department. The initiative is currently at risk of not meeting the objectives of supporting effectively a decision on an approach to communications and knowledge management among the U.S. foreign affairs community overseas. FASI's approach to planning and prototyping the system is not based on adequate analysis of the mission and business processes that the system is intended to support. The requirements identified also were not based on sufficient input from the range of users and functions across participating organizations, and did not consider adequately the use of existing systems as potentially less costly alternatives or coordinate with related projects to ensure that there was no duplication in its approach for ensuring connectivity and knowledge management at overseas missions.

Further, while the office has coordinated with selected agency representatives, Department bureaus, and overseas missions directly involved in the project, the office has not marketed the system with other entities whose commitment will also be critical to supporting global system deployment. Worldwide deployment of the system depends heavily on the results of the pilot test and evaluation. However, poor timing, lagging content management, IT resource constraints, and unresolved system and technical problems have hindered efforts to get pilot users trained, certified, and committed to using the system.

To maximize the benefits of its IT investments, the Department recently decided to merge FASI with a related messaging system replacement initiative. In this context, FASI program redirection should include a reexamination of user requirements and alternative approaches to meeting those requirements. As the lead agency for the initiative, the Department also must take steps to establish executive sponsorship, well-defined cost models, and interagency agreements to ensure funding and commitment to global implementation of the system.

Information Technology Inspections of
Embassy Lisbon, Portugal (IT-I-03-03),
Embassy Madrid, Spain (IT-I-03-04),
Embassy Montevideo, Uruguay (IT-I-03-05), and
Embassy Buenos Aires, Argentina (IT-I-03-06)

The OIG inspected the management, operational, and technical IT security controls implemented by four missions. These controls involved IT security policies, procedures, activities, and software and hardware settings. OIG found several opportunities for improving IT security at all four embassies. The missions could significantly improve:

- management controls by periodically assessing its IT security vulnerabilities and risks, preparing and implementing IT security plans to mitigate the identified vulnerabilities and risks, and routinely reviewing and improving the established IT security controls;
- operational controls by better ensuring the adequacy of IT security experience, training and education for its cleared American IT administrators; and of its annual IT security awareness training for all users;
- technical controls by improving the management of its identification, authentication, configuration, and audit trails controls.

INVESTIGATIONS

Contract Fraud

OIG opened an investigation early in 2002 based upon a complaint that the president of a company that was providing explosives ordnance detection dogs and handlers to the Department as a subcontractor had made false statements regarding the company's qualifications to perform these services, and was providing the Department with dogs and handlers that could not meet the standards claimed by the company. The company had begun to provide EOD dogs and handlers to several federal entities, including the Department, after September 11, 2001. This became a joint investigation with the Offices of Inspector General of the Department of Homeland Security, the Federal Reserve System, and the Department of the Treasury Inspector General for Tax Administration.

In April 2002, officials of the Bureau of Alcohol, Tobacco, and Firearms administered a standardized test to six of the EOD dogs that the company had assigned to work at the Department. All six of the dogs failed the test. Immediately following this test, the primary contractor terminated its subcontract with this company.

In March 2003, the president of this company was indicted by a federal grand jury in Alexandria, Virginia, on 26 felony counts of wire fraud, and two felony counts of submitting false claims to the government, as a result of this investigation. He was arrested subsequently on these charges. Resolution of these charges was pending at the end of this reporting period. (02-034)

Theft

OIG opened an investigation in March 2001, based on information from OIG's Office of Audits indicating that a former employee of a Department grantee may have been involved in the theft of grant funds. The investigation developed evidence that the former employee of a non-government organization had charged

personal expenditures to grant funds, and had fraudulently increased his own salary without the approval or knowledge of his supervisor. In November 2002, he pleaded guilty to a misdemeanor charge of bank larceny. As part of the plea agreement, he agreed to make restitution of \$12,874.27. Sentencing was pending at the end of this reporting period. (01-049)

OIG opened an investigation in April 2002, based on information that the controller of a nonprofit organization receiving grant funds from the Department had improperly written checks to herself and to members of her family. An OIG investigator, working with OIG auditors, was able to confirm this through analysis of available financial records. The subject of the investigation admitted to theft during an interview. In March 2003, she pleaded guilty in U.S. District Court to a felony charge and agreed to make restitution of more than \$60,000. Sentencing was pending at the end of this reporting period. (02-030)

The Bureau of Administration, Office of the Procurement Executive, informed OIG in February 2001 that a cellular telephone leased by the Bureau of Near Eastern Affairs (NEA) for a peace conference was missing and that approximately \$10,000 in unauthorized charges had accrued. An OIG investigation determined that some numbers called from this cellular telephone were associated with an employee from NEA who had administrative responsibility for leasing cellular telephones for the peace conference and who had reported this telephone missing.

When interviewed by OIG investigators, the employee admitted that she had kept the telephone after the peace conference had ended, that she had used the telephone for personal calls, and that she had also allowed a relative to use the telephone. In July 2002, following criminal declination of the case, OIG reports of investigation were provided to the Department. The Department notified the employee that she owed the government \$9,765.63 as a result of these actions. In September 2002, the Department sent the employee a notice proposing removal from Department employment. In February 2003, the Department made a final decision to mitigate this action to a suspension of 14 days without pay. (01-057)

Employee Misconduct

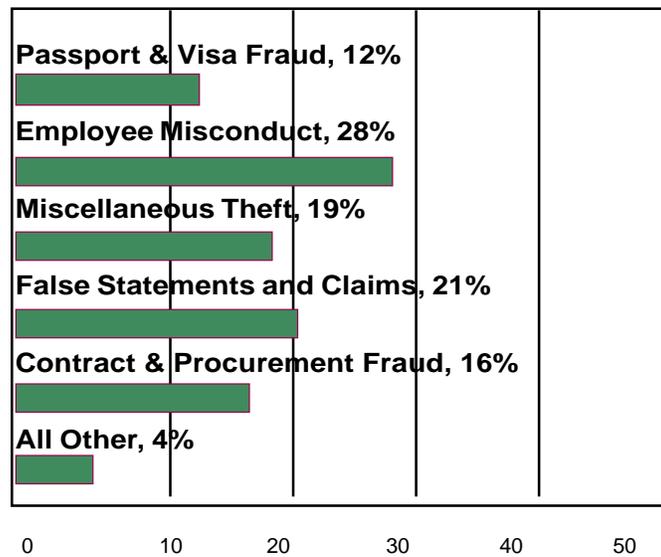
OIG received information that a former Department employee failed to file her termination Financial Disclosure Report, despite repeated written reminders from her office. In October 2002, the former employee paid \$2,000 to settle a civil complaint filed by the Department of Justice, Civil Division, in the United States District Court for the District of Columbia. In December 2002, the former employee filed the required Financial Disclosure Report. (02-007)

OIG received information that a Foreign Service Officer failed to file two required annual Financial Disclosure Reports, despite repeated written reminders from his office. In January 2003, the Department issued a three-day suspension without pay to the officer for his failure to follow instructions by not filing the Financial Disclosure Reports.

Follow-up Actions

OIG opened a joint investigation with the Department of Labor, Office of Racketeering and Fraud Investigations; Immigration and Naturalization Service, and Internal Revenue Service in May 2001, based upon information that a Virginia immigration attorney and a Department personal services contract employee were involved in a scheme of employment-based immigrant visa fraud. The manager of a Virginia restaurant, which is part of a nationwide chain, informed the government that the immigration attorney had filed labor certifications with the government without the consent or knowledge of restaurant management.

Types of Cases*



(*Reflects combined ongoing investigative activities for the Department of State and BBG.)

The investigation established that the Department contract employee, who was employed as a fire safety engineer, had acted as middleman for the immigration attorney in approaching managers of restaurants and other businesses in the Washington, D.C., area. He also had assisted the immigration attorney in submitting hundreds of applications for labor certification through the Virginia Employment Commission to the U.S. Department of Labor. All of these applications were determined to be fraudulent. The investigating agents obtained additional evidence through interviews, surveillance, and analysis of financial records. They also recorded conversations between an undercover agent and the two subjects of the investigation.

In July 2002, the investigating agents arrested the immigration attorney and the Department contract employee based upon arrest warrants for immigration fraud. Search warrants were executed at the immigration attorney's office, and at the Department contract employee's residence, bank, and Department office space. The agents seized more than \$40,000 that the Department contract employee had in his possession at the time of his arrest. They also seized more than \$900,000 in cash during the search of his apartment; and seized approximately \$2.5 million from his bank account. The contract employee's personal services contract was terminated after his arrest.

In August 2002, the former Department contract employee pleaded guilty to five felony counts, including immigration fraud, money laundering, extortion, labor certification fraud, and conspiracy to commit labor certification fraud. He also agreed to cooperate with the government. He was sentenced to 97 months' imprisonment and was ordered to pay restitution of \$4 million. In December 2002, after a jury trial, the immigration attorney was found guilty on all 57 felony counts in a grand jury indictment, including conspiracy to commit labor certification fraud, false statements, immigration fraud, and laundering of monetary instruments. In March 2003, he was sentenced to 121 months' imprisonment and was ordered to pay restitution of \$2.3 million. (See OIG Semiannual Report, April 1 to September 30, 2002, p. 61) (01-064)

In May 2001, HR's Office of the Executive Director (HR/EX) informed OIG that an internal review had disclosed significant suspect charges regarding post assignment travel (PAT) associated with Embassy Lusaka. HR/EX stated that almost \$2 million in suspect charges had been identified.

OIG investigators reviewed records of payments from the Department to vendors in connection with PAT vouchers filed at Embassy Lusaka. This review, and subsequent investigative activity, determined that numerous payments had

been made to bogus vendors that had provided no services to the embassy or the Department. Several of these bogus vendors were located in the United States, in Connecticut and in the Washington, D.C., area. Others were located in the Republic of South Africa and in the United Kingdom.

OIG investigators traveled to Embassy Lusaka and determined that a former FSN employee at the embassy had caused approximately \$2.5 million to be sent to bank accounts associated with bogus vendors that had provided no services.

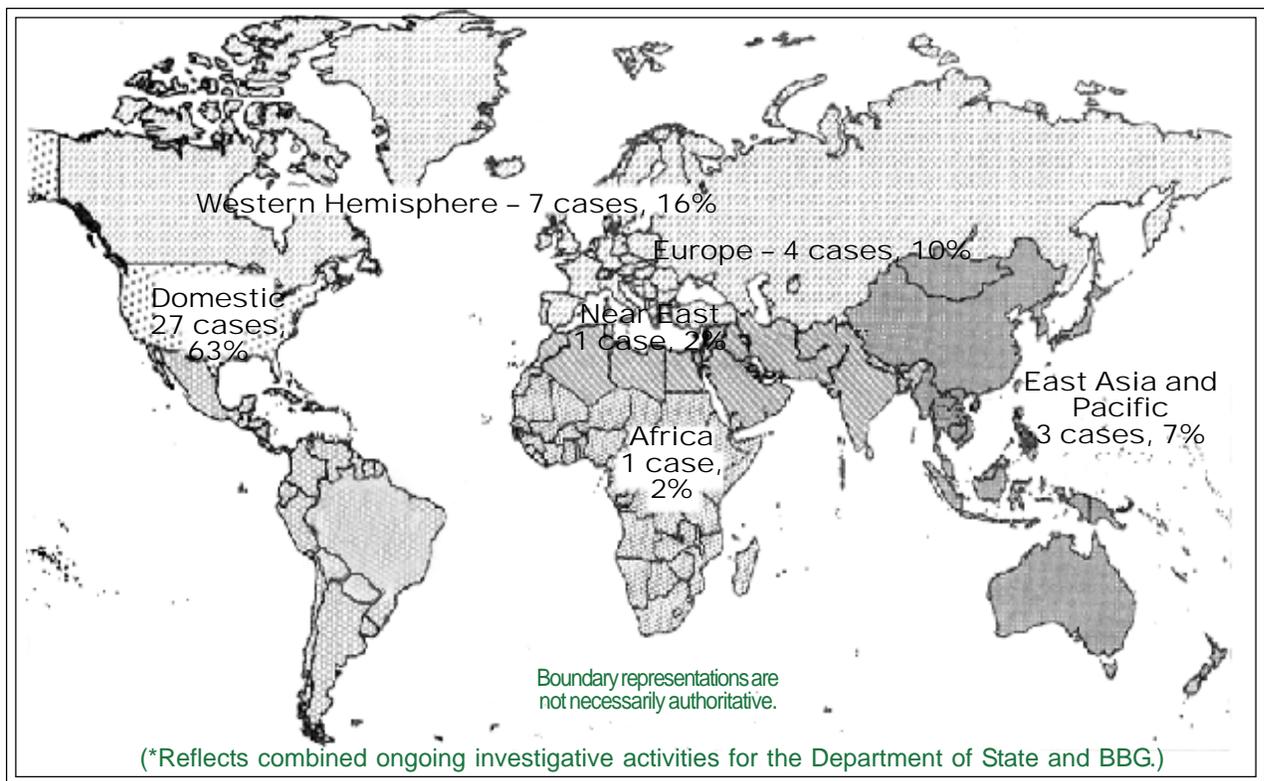
In March 2002, OIG agents executed an arrest warrant in Waterbury, Connecticut on a Zambian national who had received some of these fraudulent payments. Search warrants were also executed, in both Connecticut and Virginia, at residences associated with the bank accounts.

In June 2002, this individual pleaded guilty in U.S. District Court, Washington, D.C., to a felony charge of conspiracy to receiving stolen government money. In November 2002, he was sentenced to 30 months' imprisonment and was ordered to make restitution of more than \$2 million. (See OIG Semiannual Report, April 1 to September 30, 2002, pp. 62-63) (01-059)

OIG received information from the Bureau of Information Resource Management (IRM) indicating that a Civil Service computer operator had claimed to be working for the Department when she also was being paid by a Department contractor. Record reviews established that she regularly left her Department duty station 2 hours prior to the end of her shift to report to work for the contractor, but claimed that she had worked her full shift as a Department employee. The employee admitted her misconduct to OIG investigators. In July 2002, OIG provided reports of investigation to HR and to the Bureau of Resource Management (RM). RM provided the employee with a notice of indebtedness in the amount of \$3,289, and HR provided the employee with a notice of proposed removal. In January 2003, HR informed the employee that, based upon several factors, HR had decided to mitigate the penalty from removal to a suspension of 30 days without pay. (See OIG Semiannual Report, April 1 to September 30, 2002, pp. 63-64)(02-024)

OIG opened a joint investigation with INS, IRS, and the Social Security Administration's Office of Inspector General, in August 1999, based upon information that a network of people was engaged in a scheme involving visa fraud, alien smuggling, and money laundering. The group, operating in several parts of the United States and in the Czech Republic, was engaged in a conspiracy to profit from the employment of unauthorized alien workers in the United States.

Geographic Distribution of Ongoing Investigations*



The investigation determined that the group assisted foreign nationals in obtaining nonimmigrant visas from U.S. consulates by misrepresenting the true purpose of the travel and by providing fraudulent documentation in support of visa applications. Once in the United States, many of these foreign nationals were provided with counterfeit H1-B visas, which authorize employment. The fraudulent visas then were used to obtain social security cards and other identity documents.

Four Czech nationals, who had been living in the United States, entered guilty pleas to felony charges in U.S. District Court in Norfolk, Virginia, in February 2000. One of the individuals, who had pleaded guilty to conspiracy to launder monetary instruments, was sentenced to 84 months' incarceration and was ordered to forfeit \$136,763 in seized assets. The other three individuals received lesser sentences.

In April 2001, two Slovak nationals residing in Florida were arrested and subsequently pleaded guilty in Norfolk, to charges of knowingly employing ten or more unauthorized aliens. One of the individuals was sentenced to seven months' imprisonment; the other was sentenced to nine months' imprisonment.

In July 2001, two naturalized U.S. citizens residing in Florida were indicted on felony charges related to the scheme. One of these individuals pleaded guilty to conspiracy to launder monetary instruments. He was sentenced to 87 months' incarceration and fined \$20,000. After a jury trial, the other individual was found guilty of conspiracy to commit money laundering, knowingly employing ten or more unauthorized aliens, and encouraging unauthorized aliens to enter and reside in the United States. He was sentenced to 60 months' incarceration.

In August 2002, a Slovak national, who had fled to the Czech Republic during the investigation, was returned to the United States after extradition proceedings. He pleaded guilty to counterfeiting alien documents. In January 2003, he was sentenced to 27 months' imprisonment. He will be deported from the United States after his release. (See OIG Semiannual Report, April 1 to September 30 2002, pp. 66-67; OIG Semiannual Report, October 1, 2001 to March 31, 2002, pp 68- 69; OIG Semiannual Report, April 1 to September 30, 2001, pp. 58-59; and OIG Semiannual Report, October 1, 2000 to March 31, 2001, pp. 52-53) (99-072)

OIG opened an investigation in August 1999 based upon information received from a police detective in California. The information indicated that a passport seized during the execution of a search warrant contained the picture of a Nigerian national who was under investigation for forgery and fraud; the name on the passport was not the true name of this individual. OIG obtained and reviewed relevant passport application records. In January 2001, a criminal complaint was filed in the Southern District of California, charging the Nigerian national with passport fraud. The individual was arrested in February 2001.

In December 2002, the Nigerian national went on trial for passport fraud and credit card fraud in U.S. District Court in Los Angeles, California. The OIG case agent testified at trial regarding the passport fraud charge. The defendant was convicted on one count of passport fraud. The jury did not reach a verdict on the other charges. The defendant remains incarcerated, as he has been since February 2001, awaiting sentencing and a decision as to whether to try him again on the charges of credit card fraud. (See OIG Semiannual Report, October 1, 2000 to March 31, 2001, p. 51) (99-073)

OIG opened an investigation in May 2002, based upon allegations that a contract passport processor at the Miami Passport Agency had been involved in identity theft. The OIG investigation determined that the employee had used personal information from a passport applicant in an attempt to purchase a computer using the passport applicant's name. The contract employee was terminated from her position.

In October 2002, the contract employee pleaded guilty to one count of fraud in U.S. District Court, Miami, Florida. The employee was sentenced to 24 months probation and a \$100 special assessment. (See OIG Semiannual Report, April 1, 2002 to September 30, 2002, p. 63) (02-039)

Hotline

The OIG Hotline, operated by the Office of Investigations, is a prompt, effective channel for employees and others to report incidents of fraud, waste, abuse, and mismanagement to the Inspector General. Below is a summary of Hotline activity for the agencies for which OIG has oversight.



Total allegations received	242
Held for action within OIG	24
Referral to other offices for action	162
No action necessary	56

APPENDIX 1: INVESTIGATIVE ACTIVITIES¹

Workload		Total Judicial Actions	25
Cases pending 10/01/02	47	Criminal	
New cases opened	17	Prosecutive referrals	9
Cases closed	21	Prosecutive declinations	6
Cases pending 3/31/03	43	Prosecutive dismissals	0
Preliminary inquiries pending 10/01/02	19	Acquittals	0
Preliminary opened	38	Indictments ²	1
Preliminary closed	36	Convictions	5
Preliminary converted to cases	1	Sentencings	3
Preliminary inquiries pending 3/31/03	22	Time sentenced	97 months
		Time probation	3 years
Total Administrative Actions	6	Court-ordered fines	\$12,874.27
Admonishments	0	Court-ordered restitutions	\$6,300,000.00
Counseling	0		
Curtailment	0	Civil	
Demotions	0	Referrals	1
Reimbursements	1	Declinations	0
Reprimands	0	Complaints	0
Resignations	0	Judgments	0
Suspensions	3	Court-ordered fines	\$2,000.00
Terminations (Department employees)	0	Recoveries	0
Terminations (Contract employees)	0	Total judgments and recoveries	0
Administrative referrals	2		
PFCRA ³ referrals	0		
Savings	0		

Administrative recoveries ⁴	\$ 3,262.36
Judicial recoveries ⁵	\$ 6,314,874.27
Total Investigative Recoveries	\$ 6,318,136.63

¹ This appendix reflects investigative statistics for the Department of State only. Please see page 79 for investigative statistics related to BBG.

² Indictments included formal criminal charges brought against a subject. The manner in which charges are brought varies from country to country.

³ Program Fraud and Civil Remedies Act.

⁴ Includes recoveries from administrative actions, such as reimbursements and savings.

⁵ Includes recoveries from judicial actions, including court-ordered fines and restitutions and civil judgments and recoveries.

The statistics and narrative case descriptions of investigative activities appearing in this Semiannual Report to the Congress are the result of reports received from prosecutive and administrative authorities. The final actions may be changed at a later date by individual use of administrative and judicial appeals processes.

APPENDIX 2: REPORTS ISSUED

Office of Security and Intelligence Oversight

SIO-I-03-01	Embassy Amman, Jordan	11/02
SIO-I-03-02	Embassy Almaty, Kazakhstan	12/02
SIO-I-03-03	Embassy Ljubljana, Slovenia	12/02
SIO-I-03-04	Embassy Apia, Samoa	11/02
SIO-I-03-05	Embassy Cotonou, Benin	11/02
SIO-A-03-06	Secure Shipment of Classified Information Processing Equipment	12/02
SIO-I-03-07	Embassy Tbilisi, Georgia	12/02
SIO-I-03-08	Embassy Dublin, Ireland	12/02
SIO-I-03-13	Limited-Scope Security Inspection Embassy Belgrade	03/03
SIO-I-03-14	Embassy Zagreb, Croatia	01/03
SIO-I-03-15	Embassy Tokyo, Japan and Constituent Posts	03/03
SIO-I-03-16	Embassy Abu Dhabi and Consulate General Dubai	02/03
SIO-I-03-17	Embassy Muscat, Oman	02/03
SIO-I-03-19	Embassy La Paz, Bolivia	02/03
SIO-I-03-23	Security Evaluation on Control of Communications Security Materials and Electronic Storage	02/03
SIO-C-03-24	Security Compliance Followup Review of Embassy Beijing and Constituent Posts	03/03
SIO-I-03-25	Embassy Quito, Ecuador and Constituent Post	02/03
SIO-I-03-26	Embassy Maseru, Lesotho	03/03
SIO-I-03-28	Security Inspection of Embassy Yaounde, Cameroon	03/03
SIO-A-03-30	Status Report Protection of Classified Documents at State Department Headquarters	01/03
SIO-C-03-35	Followup Review of the Unit Security Officer Program	01/03
SIO-I-03-38	Compound Access Control Vulnerabilities	11/02

Office of Inspections

ISP-I-03-01	Inspection of Embassy Almaty, Republic of Kazakhstan	12/02
ISP-I-03-02	Inspection of Embassy Ashgabat, Turkmenistan	02/03
ISP-I-03-03	Inspection of Embassy Bishkek, Kyrgyz Republic	02/03
ISP-I-03-04	Inspection of Embassy Dushanbe, Republic of Tajikistan	01/03
ISP-I-03-05	Inspection of Embassy Ljubljana, Slovenia	02/03
ISP-I-03-06	Inspection of Embassy Maputo, Mozambique	12/02
ISP-I-03-07	Inspection of Embassy Moscow and Consulates General St. Petersburg, Vladivostok, and Yekaterinburg, Russia	12/02
ISP-I-03-08	Inspection of Embassy Port Louis, Mauritius	01/03
ISP-I-03-09	Inspection of Embassy Tashkent, Republic of Uzbekistan	01/03
ISP-I-03-10	Inspection of Embassy Zagreb, Croatia	02/03
ISP-I-03-12	Inspection of Embassy Brasilia, Brazil and Constituent Posts	03/03
ISP-I-03-19	Inspection of Embassy Quito, Ecuador and Constituent Post	03/03
ISP-I-03-23	Inspection of Bureau of Western Hemisphere Affairs	03/03
ISP-I-03-24	Inspection of U.S. Mission to the Organization of American States	03/03

ISP-CA-03-25	Review of Domestic Passport Operations, Phase II: Fraud Prevention Programs	01/03
ISP-I-03-26	Review of Nonimmigrant Visa Issuance Policy and Procedures	12/02

Office of Audits

AUD/FM-03-01	Audit of the International Joint Commission's 2001 and 2000 Principal Financial Statements	10/02
AUD/FM-03-02	OPM Application of Agreed-Upon Procedures	11/02
AUD/FM-03-03	Information Technology Vulnerability Assessment of the International Cooperative Administrative Support Services System	12/02
AUD/PPA-03-04	Review of Energy Conservation	01/03
AUD/PR-03-10	Survey of Department Compliance with the Federal Activities Inventory Reform Act of 1998	12/02
AUD/CG-03-11	Review of the Asia Foundation's Indirect Cost Rates For Fiscal Years 1999, 2000, and 2001	02/03
AUD/CG-03-12	Review of Selected Awards to Youth for Understanding, Inc.	12/02
AUD/PR-03-13	Review of Department of State's Bogota Vehicle Procurement	12/02
AUD/PPA-03-14	Embassy Khartoum Fiscal Irregularity	12/02
AUD/CG-03-16	Audit of Costs Claimed by the Open Society Institute Under Selected U.S. Department of State Awards	02/03
AUD/FM-03-17	Audit of the International Cooperative Administrative Support Services' 2001 and 2000 Principal Financial Statements	01/03
AUD/FM-03-18	Audit of U.S. Department of State 2002 and 2001 Principal Financial Statements	02/03
AUD/FM-03-19	Agreed-Upon Procedures Report on Federal Intragovernmental Activity and Balances	02/03
AUD/FM-03-20	Agreed-Upon Procedures Report on Federal Agencies' Centralized Trial Balance System	02/03
AUD/FM-03-22	Domestic Travel Card Program	03/03
AUD/PR-03-23	Attestation Review of Annual Accounting of Drug Control Funds for FY 2002	02/03
AUD/PPA-03-25	Review of Allegations Regarding the Offices of Humanitarian Demining Programs	03/03
AUD/PR-03-27	U.S. Direct Assistance to Colombian National Police	03/03
AUD/CG-03-28	Follow-up Review of Project Harmony, Inc.	03/03
AUD/CG-03-29	Review of the Department's Management of Financial Assistance	03/03
AUD/PR-03-31	Review of Department of State's End Use Monitoring of Munitions Export	03/03

Information Technology

IT-A-03-01	Improved Approach Needed to Achieve Government Paperwork Elimination Act Objectives	12/02
IT-A-03-02	The Foreign Affairs System Integration Project Needs Redirection	12/02
IT-I-03-03	Inspection of Embassy Lisbon, Portugal	01/03
IT-I-03-04	Inspection of Embassy Madrid, Spain	01/03
IT-I-03-05	Information Technology Security Inspection of Embassy Montevideo, Uruguay	03/03
IT-I-03--06	Information Technology Security Inspection of Embassy Buenos Aires, Argentina	03/03

APPENDIX 3: SAVINGS & MORE EFFECTIVE USE OF RESOURCES

Table I
INSPECTOR GENERAL ISSUED AUDIT REPORTS¹
WITH QUESTIONED COSTS²

	Number of Reports	(Dollars in Thousands)	
		Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period ³	14	17,523	11,196
B. Which were issued during the reporting period	2	537	5
Subtotals (A + B)	16	18,060	11,201
C. For which a management decision was made during the reporting period – based on formal administrative or judicial appeal			
(i) dollar value of disallowed costs	1	10	0
(ii) dollar value of costs not disallowed	5 ⁴	5,732	2,107
D. For which no management decision has been made by the end of the reporting period	10	12,318	9,094
Reports for which no management decision was made within 6 months of issuance	8	11,781	9,089

¹ Includes audit reports issued by the Office of Audits and by the Office of Security and Intelligence Oversight.

² Questioned costs are costs that are questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, such costs are not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

³ Includes adjustments for prior years' reporting errors.

⁴ One report had management decisions both disallowing and not disallowing costs.

Table II
INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE¹

	Number of Reports	Dollar Value (in thousands)
A. For which no management decision has been made by the commencement of the reporting period ²	3	17,541
B. Which were issued during the reporting period	1 ¹	429
Subtotals (A + B)	4	17,970
C. For which a management decision was made during the reporting period ³	2	17,300
(i) dollar value of recommendations that were agreed to by management	2	14,200
– based on proposed management action		
– based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management	1	3,100
D. For which no management decision has been made by the end of the reporting period	2	670
Reports for which no management decision was made within 6 months of issuance	1	241

¹ A “recommendation that funds be put to better use” is a recommendation by the OIG that funds could be used more efficiently if Department management took actions to implement and complete the recommendations, including: reductions in outlays; deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; costs not incurred by implementing recommended improvements related to the operations of the Department, a contractor, or a grantee; avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified.

² Includes adjustment for prior years’ reporting errors.

³ One report had management agreement on only part of the dollar value.

APPENDIX 4: RESOLUTION OF REPORTS & RECOMMENDATIONS

PREVIOUSLY REPORTED SIGNIFICANT AUDIT RECOMMENDATIONS¹ PENDING FINAL ACTION²

Report Number	Rec. Number	Report Title Recommendation Summary	First Reported
93-A-34/ ARR-95-08		Grants Management Follow Up 5. Require monthly reporting requirements on the project's status. 6. Ensure that data in the grants system is reconciled with data in other grant-related systems.	3/31/95
APR-96-07		Exchange Visitor Information System 3. Determine the feasibility of electronically transmitting J Visa data from sponsor organizations to the EVIS database at USIA.	3/31/96

¹ Includes audit recommendations reported as significant in semiannual reports prior to March 31, 2002, on which Department management has agreed to take corrective action but for which those actions are not yet complete.

² Final action is recorded when a proposed course of action in response to a recommendation has been accepted by OIG and completed by management to OIG's satisfaction.

**SUMMARY OF AUDIT REPORTS
WITHOUT MANAGEMENT DECISION FOR MORE THAN SIX MONTHS**

Town Affiliation Association of the U.S. (00-CG-019), July 2000

Summary: OIG made recommendations on questioned costs totaling about \$908,812 and internal controls and compliance issues.

Reason Unresolved: The Department is reviewing additional documentation provided by the grantee.

To be resolved by: July 2003

The American Councils for International Education (00-CG-032), September 2000

Summary: OIG made recommendations on questioned costs totaling \$1,186,847 and compliance issues.

Reason Unresolved: The Department is seeking clarification and additional documentation from the grantee.

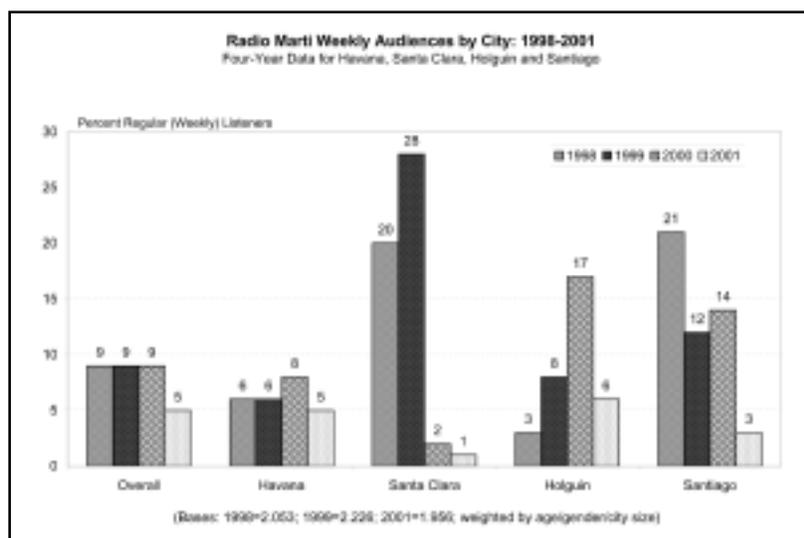
To be resolved: July 2003

BROADCASTING BOARD OF GOVERNORS

Review of the Effectiveness and Implementation of Office of Cuba Broadcasting's New Program Initiatives (IBO-A-03-01)

OIG reviewed the new Radio Marti programming initiatives instituted by the OCB director after July 2001. OIG found the initiatives seemed to be targeting important new audiences in Cuba; however, it was too early to determine the impact of these new programs on increasing the number of Cuban listeners. Available information on listenership in Cuba was inconclusive concerning whether program changes in Radio and TV Marti had a positive impact on the Cuban audiences. New audience research planned for late 2002 and 2003 may provide a better indication of the overall impact of the new OCB programming. In the meantime, OCB should use other approaches, such as audience mail and telephone calls from listeners, to assess the impact of its programming.

The new initiatives are generally positive; however, OIG documented a number of deficiencies in their implementation. OCB did not conduct a systematic personnel needs assessment before contracting out for talent to meet its new programming requirements. In addition, the practices and procedures involving the hiring and use of talent contractors were inappropriate and inadequate. OIG documented some violations of government procurement requirements and actions that created an appearance of favoritism.



Source: IBB Office of Research, Foreign Media in Cuban Cities—1998-2001

Since his arrival, the OCB director has operated without some key management personnel who might have been able to provide him with guidance on government rules and regulations, particularly, a chief of staff and a Radio Marti director. Although a chief of staff worked for a brief period, the Radio Marti director position remained vacant. OIG believes that the absence of these key individuals contributed to the administrative irregularities concerning the use of talent contractors. Additionally, the lack of some important OCB internal controls may have exacerbated these problems.

Inspection of the Helsinki Regional Monitoring Office (IBO-I-03-03)

IBB personnel, operating out of a regional monitoring office in Helsinki, Finland, monitor whether the radio transmission signals sent out by IBB for 40 language services of the Voice of America and Radio Free Europe/Radio Liberty are received clearly. An IBB staff of two, hired locally, supervises 20 contract staff, who visit monitoring sites in Russia and the New Independent States to maintain and service equipment used by the contract monitors. Approximately 20,000 observations per week are submitted to the regional office. The regional office then provides these observations by cable to the Office of Engineering and Technical Services, Spectrum Management Division.

The Helsinki Regional Monitoring Office is one of BBG's most active, but no American officer from Embassy Helsinki has specific liaison responsibility to assist with administrative support. OIG identified the need for an American liaison officer to ensure that IBB regional staff receive full value for administrative services provided by Embassy Helsinki under the ICASS system. Overall, the office receives satisfactory administrative support.

OIG also recommended that the embassy ensure that all originating offices receive a confirmation copy of outgoing cables, or the ability to track transmission electronically, to verify that the cables have been sent. This would help ensure that embassies and consulates in Russia or the New Independent States receive adequate notification to provide regional contract staff the necessary support to carry out their mission.

Survey of the Merger of Worldnet Television with the Voice of America (IBO-A-03-04)

The development of new media, including television and Internet, and changing foreign policy priorities require greater efficiencies in broadcasting. To obtain such efficiencies, the BBG notified Congress in February 2000 of its decision to merge the Worldnet Television and Film Service (WORLDNET) with the Voice of America (VOA). In November 2001, the VOA director proposed that the merger become part of a complete reorganization of VOA.

At present, merger plans do not indicate immediate cost savings. Congress approved the plan with the understanding that the reorganization of VOA and the merger of WORLDNET would result in efficiencies and cost savings. Savings were originally envisioned based on the premise that correspondents and technical personnel would be cross trained and multifunctional, and video-journalists would provide television products for multimedia use.

The merger has already partially taken place. OIG observed that WORLDNET has become a production house providing technical support to all VOA-TV products. VOA-TV projects have been created, are being broadcast, and in some cases, have attracted a significant audience. For example, the Indonesian and Azerbaijani television programs each have a strong viewing audience. Several simulcast programs are produced, such as *VOA NewsReview* and *Conversemos En Esta Noche*, that require both radio and TV technicians to work together to make a simulcast happen. There are WORLDNET employees that work full-time on specific VOA-TV products for language services. These employees should be assigned to and supervised by the respective language services.

To allow the agency time to reorganize under a new VOA director, a new board chairman, and other new board members, OIG made only one recommendation, which called for a quarterly status report. BBG has agreed to provide OIG with a quarterly status report on the merger, ending with completion of the merger. At the same time, BBG has taken under consideration several matters that OIG suggested to facilitate completion of the merger.

Review of the BBG Monitoring of Contractor Performance (AUD/PPA-03-21)

OIG conducted a review to determine whether the BBG had effective systems and procedures in place to monitor contractor performance. Although OIG conducted this review domestically, it also administered a questionnaire to obtain the views of BBG personnel worldwide with contractor performance monitoring responsibilities.

Overall, OIG found that BBG personnel were adhering to applicable policies and procedures in monitoring contractor performance on the three contracts that OIG examined. However, OIG found some instances where BBG personnel allowed contractor services to be performed before appropriate contract modifications were established to authorize the services. Some of these examples constituted unauthorized commitments that were not in keeping with BBG guidance. Also, OIG found that the contracting officer had not formally delegated authority to some field personnel with performance monitoring responsibilities, which was contrary to BBG policy.

BBG personnel with performance monitoring responsibilities also were ensuring that contract terms and conditions were being met and were versed in their duties and responsibilities. With one contract, however, OIG found that the contract itself was vague as to how contractor performance was to be monitored. Also, OIG determined that, of BBG's 40 employees with delegated contractor performance monitoring responsibilities, 50 percent were handling multiple contracts, and 55 percent were stationed domestically while the contractor performed work overseas. The constraints that time and distance place on these people reduce the amount of oversight that they are able to perform and increase the risk to BBG that contractor performance problems may go undetected.

Finally, OIG found that the BBG personnel with whom it met, as well as those who responded to the questionnaire, thought that they were adequately qualified to perform their duties and had received training. However, BBG regulations did not specify any minimum training requirements for personnel with performance monitoring responsibilities, which would be a prudent business practice, given the importance of proper contractor performance monitoring.

APPENDIX 1: INVESTIGATIVE ACTIVITIES

Workload

Cases pending 10-01-02	1
New cases opened	0
Cases closed	0
Cases pending 3-31-03	1

Total Judicial Actions 0

Prosecutive Referral 0

Prosecutive Declination 0

Total Administrative Actions 0

The statistics and narrative case descriptions of investigative activities appearing in this Semiannual Report to the Congress are the result of reports received from prosecutive and administrative authorities. The final actions may be changed at a later date by individual use of administrative and judicial appeals processes.

APPENDIX 2: REPORTS ISSUED

IBO-A-03-01	Review of the Effectiveness and Implementation of Office of Cuba Broadcasting's New Program Initiatives	02/03
IBO-I-03-03	Inspection of Helsinki Regional Monitoring Office	03/03
IBO-A-03-04	Survey of the Merger of Worldnet Television with the Voice of America	03/03
AUD/PPA-03-21	Review of the BBG Monitoring of Contractor Performance	03/03

APPENDIX 3: SAVINGS & MORE EFFECTIVE USE OF RESOURCES

The Inspector General did not identify any questioned costs or funds to be put to better use for this reporting period.

SUMMARY OF AUDIT REPORTS

WITHOUT MANAGEMENT DECISION FOR MORE THAN SIX MONTHS

Within the last six months, OIG has worked closely with BBG to close out a number of long-standing recommendations included in the last semiannual report. These reports and a description of the principal actions taken are described below. For this reporting period, BBG has no recommendations without management decision for more than six months.

BBG Audience Research Program (01-FP-R-042), May 2001 – The primary objectives of this OIG review were to determine BBG's progress in developing a reliable research capability, evaluate how BBG gathers and uses the research, and analyze the related contracting practices. OIG found that BBG had made significant progress in developing an audience research program covering all of its broadcast entities, but also found and recommended areas for improvement. In general, BBG agreed with most of the recommendations and addressed a number of these through its establishment of a single-master audience research contract. Through this contract, BBG has regularized the allocation of annual audience research for each of the broadcast entities and requires annual qualitative and quantitative research for each language service. Initially, BBG did not agree with OIG findings and recommendations concerning the systematic use of audience research. However, BBG subsequently indicated that the new research contract addressed OIG's concerns and that it had established procedures for improvement.

Review of the Broadcasting Board of Governors' Affiliates Program (IBO-A-02-01), November 2001 – As shortwave radio listenership has declined, BBG has increased its use of FM and AM affiliate radio stations and affiliate television stations overseas. The objectives of the review were to determine whether the affiliates program was adequately planned and effectively implemented and whether monitoring and controls are in place and effective. OIG made a number of recommendations to improve the program. One of the key recommendations was for the IBB Affiliates Office to complete and implement a comprehensive strategic plan for the affiliates program. In November 2002, BBG reported that the plan had been completed. OIG's review of the plan found it to be comprehensive and that it appeared to provide a sound approach for guiding the work of the IBB affiliate marketing and program placement office. This and other information allowed OIG to close the open report recommendations.

LIST OF ABBREVIATIONS

BBG	Broadcasting Board of Governors
BLP	Blue Lantern Program
CA	Bureau of Consular Affairs
CNP	Colombian National Police
DCM	Deputy chief of mission
Department	Department of State
DS	Bureau of Diplomatic Security
EOD	Explosives ordnance detection
EUR	Bureau of European and Eurasian Affairs
FA SI	Foreign Affairs Systems Integration
FFMIA	Federal Financial Management Improvement Act of 1996
FSI	Foreign Service Institute
FSN	Foreign Service national
GMRA	Government Management Reform Act
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance and Results Act of 1993
HR	Bureau of Human Resources
HR/EX	Bureau of Human Resources, Office of the Executive Director
IBB	International Broadcasting Bureau
ICASS	International Cooperative Administrative Support Services
IT	Information Technology
NATO	North Atlantic Treaty Organization
OAS	Organization of American States
OBO	Bureau of Overseas Buildings Operations
OCB	Office of Cuba Broadcasting

OIG	Office of Inspector General
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
PM	Bureau of Political-Military Affairs
RM	Bureau of Resource Management
SEP	Special Embassy Program
SIO	OIG, Office of Security and Intelligence Oversight
USOAS	U.S. Mission to the Organization of American States
USO	Unit Security Officer
USAID	U.S. Agency for International Development
WHA	Bureau of Western Hemisphere Affairs
Worldnet	Worldnet Television and Film Service

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

REQUIREMENT	SUBJECT	PAGE NUMBERS
Section 4(a)(2)	Review of legislation and regulations	13-14
Section 5(a)(1)	Significant problems, abuses, and deficiencies	21-66, 75-78
Section 5(a)(2)	Significant recommendations for corrective action	21-66, 75-78
Section 5(a)(3)	Prior significant recommendations unimplemented	73
Section 5(a)(4)	Matters referred to prosecutive authorities	59-66
Section 5(a)(5)	Information or assistance refused	None
Section 5(a)(6)	List of reports issued	69-70
Section 5(a)(7)	Summaries of significant reports	21-66, 75-78
Section 5(a)(8)	Audit reports—questioned costs	71, 80
Section 5(a)(9)	Audit reports—funds to be put to better use	72, 80
Section 5(a)(10)	Prior audit reports unresolved	74, 81
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which OIG disagreed	None

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