



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

Semiannual Report to the Congress

October 1, 2003 to March 31, 2004



Office of Inspector General

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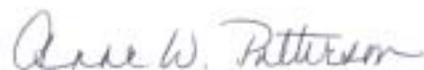
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PREFACE

The Inspector General Act of 1978, as amended (PL 95-452), requires each Inspector General to prepare a semiannual report summarizing the activities of that Office of Inspector General for submission to the appropriate congressional committees or subcommittees. The attached report provides information on our activities during the indicated period ending March 31, 2004. The summaries reflect the conditions at the post or office at the time of the inspection or audit.

The mission of the Office of Inspector General 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.

The Office of Inspector General assesses those operations and activities with a view toward promoting effectiveness, efficiency, and economy and seeks out instances of fraud, waste, abuse, and mismanagement as we work to prevent them. The Office of Inspector General 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 W. Patterson
Deputy Inspector General
April 30, 2004

EXECUTIVE SUMMARY

Over the course of this period, the Office of Inspector General (OIG) reviewed and monitored programs, activities, and operations of the Department of State (Department) and Broadcasting Board of Governors (BBG). OIG's most significant activities are a reflection of the most serious management and performance challenges faced by both agencies. Key reviews are highlighted below in the context of OIG's four strategic goals.

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

During this semiannual reporting period, the Department and BBG faced new challenges due to war on terrorism, U.S. efforts in Iraq, and U.S. border security. OIG's work reflects these important and changing circumstances at our posts overseas and in our domestic bureaus. OIG has implemented a multi-disciplinary team approach to inspections. During this period, OIG inspected 11 overseas posts, four domestic bureaus, and conducted two consular reviews.

Among the issues OIG examined were passport operations and the potential for fraud. Annually, over 250,000 persons seek U.S. passport services at posts abroad. In comparison to visa issuance, fraudulently obtained passports constitute an equal, if not greater, threat to homeland and U.S. border security. OIG's review of the Overseas Passport Issuance Program showed that there were inconsistencies in the decisionmaking on claims to American citizenship made by first-time passport applicants. OIG recommended that the Bureau of Consular Affairs (CA), which is responsible for passport issuance, develop and implement a plan for quality assurance. In addition, OIG recommended that CA transfer oversight of the overseas passport issuance program to the Directorate of Passport Services or design an acceptable alternative.

In response to a recommendation from a congressional joint inquiry on the terrorist attacks of September 11, 2001, OIG reviewed Department procedures related to the issuance of the visas to the September 11, 2001 terrorists. OIG

concluded that the consular officers who issued the visas adhered to prevailing policies at the missions at the time, and to the Department's published policies, practices, and procedures required by law in effect at the time.

Domestically, OIG inspected the Bureaus of Economic and Business Affairs, Educational and Cultural Affairs (ECA), Near Eastern Affairs (NEA), and South Asian Affairs (SA). In NEA, whose responsibilities include antiterrorism, the aftermath of the war in Iraq, the Israeli-Palestinian peace process, and advancing the Middle East Partnership Initiative, OIG identified staffing concerns. Stemming in part from its tremendous workload, OIG noted that the possibility of employee burnout may prevent development of the needed cadre of skilled, language-trained officers. In SA, which is also on the front line of the war on terror, OIG found that the executive office shared with NEA is understaffed in light of the growing responsibilities for establishing an embassy in Baghdad.

Overseas, OIG inspected U.S. embassies in Kathmandu, Nepal; Colombo, Sri Lanka; Dhaka, Bangladesh; Ulaanbaatar, Mongolia; Seoul, Republic of Korea; Brussels, Belgium; Luxembourg; and Dili, East Timor. Other posts inspected included the U.S. Mission to the European Union, the U.S. Mission to the North Atlantic Treaty Organization, and the European Logistical Support Office in Antwerp, Belgium.

At Embassy Seoul, OIG observed that the country team was well coordinated, and did a fine job of coordinating with the U.S. Forces in South Korea, the American military command headquartered in Seoul. Although the embassy has fought to seek a clear commitment from the South Korean government to allow construction to go forward on a new chancery and housing compound, there was a lack of progress linked to South Korean sensitivity to public criticism, not to the embassy's lack of trying. OIG noted that resolving the facilities issue was critical.

OIG's inspection of Embassy Ulaanbaatar found that the new front office team was providing needed leadership to bring the embassy into compliance with Department standard operating procedures. However, financial management was deficient, and OIG recommended that a corrective management controls statement with a plan of action should be submitted. OIG also noted that the embassy's consular services could be improved through better workload management and by focusing on nonimmigrant visa processing.

OIG also inspected the BBG's Middle East news bureaus and International Broadcasting Bureau transmitting stations in Sri Lanka and Kuwait. At the news bureaus, OIG focused on program management and performance and on management and internal controls. OIG found coordination and cooperation among the

bureaus were lacking, that equipment levels were uneven at the bureaus, and that management controls were weak. At the transmitting station in Sri Lanka, which has expanded its transmission capabilities by nearly 50 percent in three years, there were good management controls, although OIG found that the station could benefit from more competition in its procurements. At the Kuwait Transmitting Station, OIG conducted a similar assessment and found the station has low costs, performs well, and is well managed. However, OIG also found that, in January 2003, the station relied on verbal and written assurances of being granted a new frequency and initiated FM broadcasts of Radio Sawa to Kuwait City. OIG pointed out that the lack of formal approval from the government of Kuwait, if left unresolved, may jeopardize continuation of those broadcasts.

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

During this period, OIG conducted 11 security oversight inspections and a compliance follow-up review. Security inspections focus upon protecting people, facilities, and national security information. The details of these inspections are discussed in the classified annex to this report. OIG also reviewed the Department's protection of classified information at headquarters and at overseas posts. At overseas posts, OIG concluded that existing Department policies provide adequate guidance for protecting classified documents and noted that the revised security incident policy appears to be having a positive influence on classified document protection. The review at Department headquarters examined, among other matters, whether the Department has a system for tracking security violations and whether such violations affect personnel security clearances. OIG concluded that the Department's methods for maintaining accountability and control comply with the relevant requirements.

OIG Information Technology (IT) staff participated in security reviews at several domestic bureaus and at embassies in Seoul, Dhaka, Kathmandu, Brussels, and other cities. The IT inspections called for improvements in management and operational and technical controls. Specifically, Embassy Dhaka was found to need strategic and budgetary planning and information systems documentation, whereas Embassy Kathmandu, which has unreliable electrical and telephone service, was found to need an information technology strategic plan that includes a lifecycle schedule for replacement of information technology equipment. At Embassy

Ulaanbaatar, OIG found a need for contingency planning to ensure continuity of information technology operations. OIG recommended that the embassy develop and implement a contingency plan for its information systems.

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

Over this period, the OIG conducted audits and reviews of programs, contracts and grants, procurement, property and administrative support, and financial management. Responding to a request from ECA, OIG reviewed a Department grantee and found that the grantee had reported budgeted costs, not incurred costs, on its quarterly financial reports. Therefore, OIG questioned about \$226,000 of direct costs, of which \$20,543 was classified as unsupported. Similarly, OIG's review of the indirect cost rates of the National Democratic Institute for International Affairs for fiscal years 1999 through 2002 found that the rates did not comply with Office of Management and Budget cost principals for non-profit organizations. As a result, OIG questioned costs of \$45,124 for advertising and public relations.

OIG's review of the Department's unauthorized commitments and ratifications process for fiscal 1997 through June 2002 identified 122 unauthorized commitments totaling about \$6.8 million. OIG identified gaps in the Department's ratification procedures and found that bureaus had about \$4 million in recurring unauthorized commitments from fiscal 1997 to June 2002. Unauthorized commitments for contracts of recurring goods and services amounted to 66 percent of the \$6.8 million. OIG recommended that the Department issue guidance about the potential for disciplinary action resulting from unauthorized commitments.

OIG conducted an extensive survey of the Department's Regional Information Management Center, looking at allegations regarding the foreign post telephone contract. OIG determined that the allegations had no basis. In response to an OIG Hotline complaint alleging contract irregularities, OIG looked at the procurement in question and identified routine contract administration deficiencies and several contract irregularities. OIG recommended that the contract be closed out immediately.

The Department made significant improvements and received an unqualified opinion on its financial statements for the seventh year. However, OIG also deter-

mined that more still needs to be done. The audit of the financial statements identified significant internal control weaknesses related to computer system security, the adequacy of the Department's financial systems, undelivered orders, and tracking and reporting of managerial cost accounting data. In addition, OIG reviews regarding payments found internal control weaknesses. For instance, it found that there were more potential duplicate payments than the Department had identified and that there was not evidence that the Department took sufficient follow-up action on potential duplicate payments. Strengthening internal controls in these areas will help the Department in its efforts to comply with the Improper Payments Information Act.

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

OIG helps carry out its mission of ensuring accountability and preventing fraud, waste, abuse, and mismanagement in the Department and BBG. Over the period, Investigations handled cases involving employee misconduct, false statements and claims, theft, passport and visa fraud, and contract and procurement fraud. Among these was a case involving a Department warehouse employee, who was arrested recently and convicted of theft of government equipment from the warehouse. An undercover investigation in fiscal 2003 found that the employee, who acted alone, stole approximately \$20,119 in equipment, pawning it for cash. The investigation recovered seven items valued at \$2,634.42 and resulted in the employee being charged with four counts of theft of government property and, upon conviction, being ordered to pay \$17,484.95 in restitution. An investigation into the theft of \$2.7 million in Post Assignment Travel funds from Embassy Lusaka, Zambia, by a former Foreign Service national resulted in a 114-count criminal indictment being filed against three Zambian nationals with alleged ties to the scheme.

Also during this period, OIG reviewed allegations related to the Bureau of Resource Management's (RM) relocation from Washington to the Financial Service Center in Charleston, South Carolina. OIG determined that RM would meet its obligations under law and regulation regarding the notification that must be provided before separating employees as long as the Department adheres to its intended transition milestones. In addition, OIG also advised RM to develop a detailed transition plan as soon as possible, but noted that RM had provided sufficient information to employees regarding other employment opportunities.

CONGRESSIONAL ACTIVITIES AND OUTREACH

Reports Requested by Congress

The Office of Inspector General (OIG) conducted the following reviews in response to legislative mandates and requests from Congress:

- In response to a joint request by the Senate Select Committee on Intelligence and the House Permanent Select Committee on Intelligence, OIG reported on the Review of Department of State Procedures Related to the Issuance of Visas to the September 11, 2001, Terrorists (ISP-CA-04-17).
- As mandated by Section 832 of the FY 2003 Intelligence Authorization Act (Public Law 107-306), OIG reported to the Senate Select Committee on Intelligence, the House Permanent Select Committee on Intelligence, the Senate Foreign Relations Committee, and the House International Relations Committee on the Protection of Classified Information at State Department Headquarters (SIO/A-04-11).
- In response to concerns raised by Rep. Steny Hoyer (D-MD-5), OIG was asked by the Bureau of Resource Management to review allegations related to the relocation of employees of the Bureau of Resource Management to the Charleston Financial Service Center (ISP-I-04-18).

The Deputy Inspector General and OIG staff met with staff of the following to review and comment on a variety of issues regarding the operations and programs of the Department and the Broadcasting Board of Governors (BBG): Senate Appropriations Subcommittee on Commerce, Justice, State and the Judiciary; the House Appropriations Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies; the Senate Foreign Relations Committee; the House International Relations Committee, and the House Government Reform Committee.

Outreach/Media Assistance

OIG participates in several courses offered by the Foreign Service Institute to inform all newly appointed ambassadors, deputy chiefs of mission, new Foreign Service officers, and new Civil Service employees on the role, mission, and services provided by OIG. In addition, the Inspector General or Deputy Inspector General individually briefs all newly appointed ambassadors prior to their departure regarding issues specifically related to their assigned embassies. OIG participated in one Ambassadorial Seminar, three Foreign Service Officer orientations, and four new Civil Service officer orientations.

In January 2004, the assistant inspector general for inspections presented a briefing to an anti-corruption delegation from Uzbekistan regarding OIG's inspection process and the deputy assistant inspector general for investigations answered questions regarding OIG's investigative process.

During this reporting period, OIG responded to media inquiries concerning OIG's 2001 and 2002 reviews of the Iraqi National Congress Support Foundation.

Legislation Monitored

- S. 2144 - The Foreign Affairs Authorization Act, FY 2005.
- S. 2127 - The Stabilization and Reconstruction Civilian Management Act of 2004, a bill that would give the Department greater control over rebuilding war-ravaged nations.
- H.R. 2673 - The Consolidated Appropriations Act, 2004 (Public Law 108-199).
- H.R. 1950 - A bill to authorize appropriations for the Department for the Fiscal Years 2004 and 2005.
- H.R. 2417 - Intelligence Authorization Act for FY 2004
- H.R. 3826 - A bill to require the review of government programs at least once every five years for purposes of evaluating their performance

Policy Review

Review of existing and proposed regulations

OIG continued to review new and revised Department regulations and policies and make suggestions to improve internal and management controls over Department programs and operations. In addition, the OIG actively participated in the Department's FAM-X project to review and rewrite regulations, policies and instructions in the foreign affairs manuals and handbooks with the goal of writing them in "plain English" and making them more useful to readers. Many of OIG's suggestions to make this project more effective and efficient were accepted and are being implemented.

Participation on the President's Council on Integrity and Efficiency

OIG participation on the President's Council on Integrity and Efficiency included attending a meeting with the President to commemorate the 25th anniversary of the Inspector General Act, attending its annual retreat with the theme "Returning America's Investment in the Inspectors General," and providing input to various committee projects on crosscutting issues.

Federal Managers' Financial Integrity Act

OIG continued its prominent role as a non-voting member of the Department's Management Control Steering Committee. The committee implements provisions of the Federal Managers' Financial Integrity Act and Office of Management and Budget (OMB) Circular A-123 on Management Accountability and Control. OIG provided independent, objective quality assurance for the committee to determine if material weaknesses or reportable conditions exist in the

Department's programs and operations, and if corrective actions have been implemented to meet the Committee's criteria for not reporting them in the Department's annual performance and accountability report.

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

During this semiannual reporting period, OIG continued to selectively evaluate Department and BBG efforts to manage for results by reviewing mission and bureau performance plans for each mission and bureau inspected, recommending establishment of effective performance measures for selected programs and operations, and identifying issues, concerns, and improvements related to the implementation of the President's Management Agenda (PMA).

Strategic and performance planning, performance measurement, and budget integration continue to be major challenges for the Department, but the Department has devoted considerable effort to improving its planning and resource allocation process and to addressing weaknesses in its planning and performance reporting that have been identified by OMB and independent evaluation groups. The planning and resource allocation process is receiving attention at the highest levels of the Department, with the Deputy Secretary chairing the reviews of bureau performance plans and resource requests. Improvements to the Department's automated application for submitting mission and bureau performance plans have standardized performance goals and measures across bureaus and have integrated Performance Assessment Review Tool (PART) evaluation information into the planning process. The issuance of a joint strategic plan with U.S. Agency for International Development (USAID) last fall led to the establishment of two joint councils. The Joint Policy Council, chaired by the Deputy Secretary of State and the Administrator for USAID, and the Joint Management Council, chaired by the Under Secretary of State for Management and the Deputy Administrator of USAID, are responsible for addressing policy and management issues that cut across the two agencies. These collaborative efforts are directed toward ensuring that foreign policy and development assistance are fully aligned to advance the National Security Strategy of the United States.

OIG's work on the Department's strategic and performance planning and implementation efforts was limited largely to assessments of individual program and mission efforts rather than systemic activities. As part of its inspection process, OIG

routinely reviews how the inspected embassy or bureau develops and uses its performance plan. For the posts and bureaus inspected this semiannual reporting period, OIG generally found that the Mission Performance Plans (MPPs) and Bureau Performance Plans (BPPs) were effective. For example:

- The Bureau of South Asian Affairs (SA) (ISP-I-04-12) BPP linked goals and objectives to resources and resource needs, was successfully contributing to bureau efforts to obtain additional personnel, and reflected efforts to fulfill the PMA, particularly in rightsizing. However, it did not have any goals that incorporated Information Technology (IT) plans, upgrades, and lifecycle management issues.
- The Bureau of Economic and Business Affairs (ISP-I-04-06) pursued an orderly process of setting and tracking priorities based on key objectives, tracked the BPP and updated it semiannually based on a review of the bureau's priorities, and used the process as a tool to educate staff about bureau priorities and the work of the component directorates. While it did not list a specific public diplomacy goal, it did recognize the importance of public diplomacy in advancing U.S. government economic policy objectives.
- The Bureau of Educational and Cultural Affairs (ISP-I-04-07A) performed well in developing its BPP, even though the contributions of its programs to the long-term goal of building mutual understanding were inherently difficult to measure. The evaluations it developed over the past five years supported the measurement of accomplishment at the core of the strategic planning process.

OIG also identified some MPPs and BPPs that needed improvement. For example:

- Embassy Brussels' (ISP-I-04-02A) MPP was too long and detailed and should have been more sharply focused on key bilateral issues and programs. The embassy was starting a country team review of the implementation of key goals in an effort to use the MPP more effectively as a management tool.
- Embassy Kathmandu's (ISP-I-04-09A) MPP gave appropriate emphasis to the protection of American citizens, but failed to discuss adequately the rapid increases in visa workloads that had resulted in the need for additional staff and consular workspace.

- The Bureau of Near Eastern Affairs (NEA) 's (ISP-I-04-11) BPP assigned priority to only three public diplomacy goals, none of them areas where its public diplomacy unit had action or significant control, and lacked specificity on IT planning. Although the current BPP stated that NEA will extend the use of state-of-the-art technologies, equipment, and capabilities as it renovates current facilities, the bureau had not developed a strategic IT plan to accomplish that objective.

BBG also has made some progress in its planning efforts. BBG has indicated that it intends to prioritize its goals and align its budgetary resources to align with its new vision, and will reflect this focus in the agency's FY 2005 program plan and FY 2006 budget proposal. In addition, in response to OIG's review of Strategic Management of Human Capital and Workforce Planning Initiatives at the Broadcasting Board of Governors (Report Number IBO-A-03-02, September 2003) BBG's Office of Personnel hired a contractor in January 2004 to examine the effectiveness of its provision of services, organization, and scope of agency support for use in the agency's new Workforce Analysis and Restructuring Plan.

A major focus of the Department's strategic goal of management and organizational excellence is the PMA. Although OIG did not perform any work designed specifically to evaluate Department efforts to implement the PMA, it did evaluate PMA-issues relevant to specific mission and bureau inspections and other program reviews. One initiative of the PMA that is of particular importance to the Department is the rightsizing of U.S. overseas presence --ensuring the most appropriate interagency staffing of U.S. missions around the world. OIG found NEA and SA to be understaffed to meet the growing demands of their overseas missions. In the Bureau of Educational and Cultural Affairs, OIG recommended a formal review to determine the appropriate mix of Civil Service and Foreign Service personnel to achieve the bureau's mission.

Staffing at some overseas missions, notably Embassies Seoul (ISP-I-04-13A), Brussels, the U.S. Mission to NATO (ISP-I-04-16A) and the U.S. Mission to the European Union (ISP-I-04-15A), were in line with priorities, budget allocations, and security concerns. At other missions, such as Kathmandu (ISP-I-04-09A) and Ulaanbaatar (ISP-I-04-14A), OIG recommended remedial solutions to address the dramatic growth in staffing over a relatively short period, which had placed significant demands on resources, space, and management services.

Another PMA area of particular emphasis in OIG management inspections is budget and performance integration. OIG recommendations on this issue included:

- Holding regular interagency meetings tied to major goals and objectives, and preparing a reporting plan to cover some of the major political and economic goals in the MPP at Embassy Dili (ISP-I-04-05A);
- Developing a training plan for all employees that reflects MPP objectives, professional development requirements, and available funding at Embassy Ulaanbaatar (ISP-I-04-14A); and
- Restructuring the public affairs section to make better use of resources to achieve the MPP's public diplomacy goals at Embassy Seoul (ISP-I-04-13A).

Several audits also focused on the reduction of improper payments, an element of the PMA initiative to improve financial management, which are a long-standing, widespread problem in the federal government, amounting to about \$35 billion. The Department has contracted with an accounting firm to develop a process to measure and report on the extent of its improper payments, in compliance with the Improper Payments Information Act of 2002. To assist the Department, OIG conducted three audits--Payments Made Without an Obligation (AUD/FM-04-16), Audit of Duplicate Payments (AUD/FM-04-17), and Audit of the Vendor Reference Table (AUD/FM-04-18) of areas not addressed by the contractor and identified internal control weaknesses and recommended ways to strengthen internal controls in each area.

SECURITY

During this reporting period, OIG conducted 11 security oversight inspections and one compliance follow-up review, which were issued in ten reports.¹ All of these inspections were full-scope inspections, covering the full-range of a mission's security program, with the exception of that of Embassy Mexico City, which was limited to a review of physical security, emergency preparedness, and information systems security. Also during the reporting period, OIG conducted two audits. One reviewed the Department's protection of classified information at its headquarters and the other examined the protection of classified documents at overseas posts.

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 of this report.

¹ Inspections of the U.S. Mission to the North Atlantic Treaty Organization and the U.S. Mission to the European Union were included with the report on Embassy Brussels, thus being listed in this count only as one report.

INSPECTIONS

Consular Affairs

Review of the Overseas Passport Issuance Program, ISP-CA-04-01

Following the terrorist attacks of September 11, 2001, OIG expanded its review of all consular operations related to U.S. border security, including an evaluation of the overseas passport function. Over 250,000 claimants annually seek U.S. passport services at posts abroad. In comparison to visa issuance, fraudulently obtained passports constitute an equal, if not greater, threat to homeland and border security. OIG's review showed that decisions on claims to American citizenship for first-time passport applicants overseas are inconsistent. For example, some posts permitted waivers of certain applicants' personal appearances to help streamline and facilitate "crowd control." In sum, there is no quality assurance program in place for the overseas passport issuance program.

The Bureau of Consular Affairs (CA) is responsible for implementing the passport function both domestically and overseas. OIG therefore recommended that CA design and implement a quality assurance program to identify trends and issues that require more training and information sharing. OIG also recommended that CA transfer oversight of the overseas passport issuance program to the Directorate of Passport Services to make overseas passport procedures consistent with the restrictions currently being placed on domestic passport processing or submit an acceptable alternate plan. CA concurred with these recommendations and is in the process of implementing them.

Consolidation of Consular Operations at Embassy Quito

During this semiannual reporting period, the Deputy Inspector General notified the Under Secretary for Management of OIG's intention to initiate impasse proceedings on a recommendation to consolidate consular operations at Embassy Quito. The recommendation was contained in OIG's Inspection of Embassy Quito, Ecuador, and Constituent Post (ISP-I-03-19) issued in March 2003.

During the inspection, OIG found that working conditions at the consulate general in Guayaquil were unacceptable due to security concerns, and cramped, inefficient consular work areas that impeded workflow, effective management controls, and normal supervision. OIG believed that consolidating consular operations at Embassy Quito would address these problems. The Bureau of Western Hemisphere Affairs and the Bureau of Consular Affairs disagreed with OIG's recommendation.

Implementing this recommendation has become an urgent matter due to a recent Bureau of Overseas Buildings Operations (OBO) determination to drop plans to construct a new \$80 million building in Guayaquil due to budget constraints. As planning for the construction of the new Quito embassy is in the early stages, it is vital that OBO's planning factor in the needs of a consolidated consular section at Quito. The Under Secretary for Management is in the process of resolving this issue.

Review of Department of State Procedures Related to the Issuance of Visas to the September 11, 2001, Terrorists, ISP-CA-04-17, December 2003

In response to a recommendation contained in a congressional joint inquiry on the terrorist attacks of September 11, 2001, OIG reviewed Department procedures related to the issuance of visas to the September 11, 2001 terrorists.

OIG interviewed each of the visa officers and consular associates responsible for issuing a visa to one or more of the 19 terrorist hijackers. OIG also visited the missions at which those visas were issued and interviewed staff regarding policies, procedures and practices in effect at that time. Similarly, relevant bureaus and offices within the Department were consulted. OIG's review concluded that the consular officers who issued visas to the terrorist hijackers acted in accordance with policies that prevailed at their missions at the time the visas were issued, with published policies, practices and procedures established by the Department, and required by visa law in effect at the time.

Domestic Bureaus

Inspection of the Bureau of Economic and Business Affairs, ISP-I-04-06

More than at any other time in recent memory, the Bureau of Economic and Business Affairs (EB) is directly and deeply engaged in a wide range of policy formulation and execution. It does so by taking the lead on important issues such as Iraq reconstruction and by performing a critical coordinating role on other issues. EB has carried out these responsibilities efficiently. The Assistant Secretary gets much of the credit for moving the bureau into this position of centrality.

EB organized the Iraq Reconstruction Donors' Conference in Madrid. It was a significant success with 93 participating governments and international organizations represented. Pledges of \$13 billion were forthcoming in addition to the U.S. contributions. About 400 U.S. private sector firms met with Iraqi officials to explore commercial and business prospects.

Program changes impacting EB workload warrant shifting resources to other priority programs. In some areas EB has achieved the purposes for which the offices were established or special negotiator portfolios created. These include programs for conflict diamonds, Caspian basin energy diplomacy, and biotechnology. Some of these should now be phased out, with residual responsibilities folded into other units within the bureau. Concurrently, EB will need to provide at least staff support to the Secretary in his role as chairperson of the newly established Millennium Challenge Corporation, whose initial funding of \$650 million for FY 2004 is expected to increase.

EB faces the significant challenge of providing support to U.S. businesses overseas in places without a Foreign Commercial Service (FCS) presence. Over 100 posts have no American FCS staff, and projections are that this number will increase over the next few years. EB is the logical place to deal with this change. OIG recommended that EB prepare and submit a plan to support non-FCS commercial officers.

As a bureau, EB is exceptionally rank-heavy with 29 percent of its 206 positions at the senior levels compared to the Department average of 17 percent. OIG discussed with EB management the need to resist pressures for further rank escalation and made recommendations for balancing rank by reclassifying downward some positions.

EB's leadership was engaged in all aspects of the bureau's operations, including human resources and workforce management, ensuring EB's ability to operate with increased effectiveness and flexibility using innovative management practices. EB used Foreign Service short tours, rehired annuitants, contractors, presidential management interns, detailees from other agencies, science fellows, and temporarily converted Foreign Service to Civil Service positions to address staffing gaps, workload surges, and new initiatives. The front office gave special attention to recruitment, good onward assignments for employees, and training and development.

Best Practice: Improving morale, communication, and productivity between office management specialist staff and their supervisors in the Bureau of Economic and Business Affairs

Issue: Pervasive discontent existed among Office Management Specialist (OMS) staff.

Response: The Foreign Service Institute facilitated a retreat for the OMS staff, and EB created a task force of officers and OMS personnel to develop standard operating procedures and to recommend improvements in the support functions. In addition, the bureau drafted a guide to office relations.

Result: The project was considered positive by most, and many OMS staff have taken on new opportunities and challenges as a result.

Inspection of the Bureau of Near Eastern Affairs, ISP-I-04-11

The Bureau of Near Eastern Affairs (NEA) was doing an admirable job in addressing its challenges, but the tremendous workload and the stress of crisis management, could lead to employee burnout and threaten the development of a sufficient cadre of skilled, language-trained officers needed in the coming decades. NEA was understaffed and was seriously hobbled by lack of space in the Harry S Truman building. Its responsibilities for addressing the aftermath of the war in Iraq, terrorism, the Israeli-Palestinian peace process, and for improving relations with the nations of the Middle East through the Middle East Partnership Initiative (MEPI), involve both intensive diplomacy and successful management of massive resources.

To improve the integration of work formerly performed by the U.S. Information Agency (USIA) into NEA, and to make public diplomacy more relevant to the main work of the bureau, at least two positions in the Office of Press and Public Affairs should be transferred into the regional offices, with more to follow.

The bureau's administrative operations are widely considered to be among the strongest in the Department. Understaffing, however, threatened productivity. The information management function received high marks for customer service, but this came at the expense of efficient information management and effective information systems security.

OIG reviewed the multinational force and observers and found that while NEA's policy oversight was strong, management and personnel oversight needed improvement. OIG recommended that management oversight responsibilities be transferred from the Office of Regional Affairs to the Office of the Executive Director.

The Department has only a handful of employees with language skills sufficient for interviews on Arab TV or radio and needs more language qualified officers. However, the Department lacks the necessary number of mid-level personnel to allow for a "float" to enable sufficient employees to take advanced language training. Increased hiring under the Diplomatic Readiness Initiative should help to begin to remedy this.

Rightsizing

During this reporting period, OIG inspections reported on rightsizing issues faced by overseas missions and domestic bureaus. In the Department, OIG found NEA to be seriously understaffed relative to its ever-growing responsibilities. The bureau traditionally had preferred a "lean and mean" staffing structure with fewer, but carefully selected, officers in both its embassies and in the Department. The approach had worked well in normal circumstances but left the bureau with little surge capacity for dealing with crises. Officers were coping with a tidal wave of work by staying longer hours, courting burnout in order to complete requirements. The bureau had few officers for some of its most important desks.

Embassies and consulates that responded to OIG's inspection questionnaire urged OIG to look closely at understaffing in the bureau. While lauding the performance of individual NEA officers across the board, many respondents contended that NEA did not have adequate staff to meet their needs. OIG heard similar complaints from functional bureaus that work closely with NEA.

OIG's inspection of SA noted that it had more than doubled in size since 1996, increasing from 31 to 68 positions. OIG believed the staffing growth was warranted by priorities in Afghanistan, Pakistan, and India and that the bureau needs the additional staff it has requested. Some offices had become top heavy and very small through organizational realignments, and OIG counseled management to carefully monitor staffing levels for its offices.

Overseas, OIG found that the staffing at Embassy Seoul was generally in line with MPP priorities, budget allocation, and security concerns. In the months before the inspection the Ambassador approved requests from other agencies for four additional U.S. direct-hire positions, stipulating that the incumbents would not be allocated new office space within the chancery nor be provided U.S. government owned housing. He also denied the request from one embassy section to include staff increases in the MPP, arguing that existing staff, if properly deployed, was adequate for the function. The limit on U.S. government owned housing is a factor in restricting the number of approvals for additional positions for Department and other agency positions.

At Embassy Kathmandu, the growth of U.S. diplomatic activity had been matched by dramatic growth of embassy staff. During FY 2003, the Department staff increased by more than 50 percent - primarily junior officers and specialists in the consular and management sections. The increase had placed significant demands on resources and space. At Embassy Ulaanbaatar, the staffing had increased from 67 employees in 1997 to 158 in 2003. The embassy still required outside support to improve management services, and OIG recommended that it seek support from EAP, regional training centers, and nearby embassies.

OIG found staffing at Embassy Brussels, U.S. Mission to the North Atlantic Treaty Organization, and the U.S. Mission to the European Union, appropriate in terms of mission, cost, and security.

Bureau of Near Eastern Affairs The Middle East Partnership Initiative

The Middle East Partnership Initiative (MEPI) was launched in May 2002 as a key ingredient of a broad new strategy to foster democratic development and advance U.S. policy interests throughout the Middle East. While the Deputy Secretary of State is the coordinator of the initiative, MEPI's day-to-day management is handled by NEA's Office of the Partnership Initiative (NEA/PI), which was created in June 2003 and reports to NEA's deputy assistant secretary for economic policy. MEPI was funded at \$29 million in FY 2002, \$100 million in FY 2003, and \$90 million in FY 2004.

The initiative has wider goals than even these sizable appropriations suggest. Aside from managing MEPI's four "pillars" of economic growth, democratic governance, education, and women's empowerment---MEPI's deputy assistant secretary has been given the mandate to review all U.S. assistance programs in the region and, if necessary, refocus them to ensure they support the MEPI goals of political and economic reform. These programs range from an annual assistance package of \$600 million for Egypt to smaller, but also sensitive, programs in the West Bank and Gaza, Jordan, Yemen, Morocco, and Lebanon. NEA/PI's present intention is to manage directly some of the grants it funds, while transferring an undetermined portion of its program funding to other agencies such as USAID to administer.

OIG did not conduct a full inspection of NEA/PI, given the newness of the office and the recent arrival of many of its staff. However, OIG found that NEA/PI runs the risk of duplicating existing regional programs of the Bureau of Educational and Cultural Affairs, USAID, the Department of Treasury (Treasury), the U.S. Trade Representative, and other entities in areas such as scholarships and media training, which fall within its four broad pillars. In addition, OIG found that NEA/PI is not coordinating well with the field on MEPI projects and programs, tasking embassies and public affairs officers in an unprioritized and uncoordinated way and causing confusion among a number of embassies. OIG counseled NEA management about both of these problems. OIG also suggested that MEPI staff receive training in contracting so they could serve as technical representatives of the Department's contracting officers.

Inspection of the Bureau of South Asian Affairs (SA), ISP-I-04-12

The Bureau of South Asian Affairs (SA) is doing a commendable job on the front line in the war on terror and in addressing other top foreign policy challenges such as nonproliferation and the threat of war between India and Pakistan. These issues command the close involvement of the highest levels of the U.S. government. The bureau's leadership brings clear vision, knowledge, and energy to pursuing U.S. interests in South Asia.

Bureau leadership focused admirable attention on furthering the improvement of the bureau and positioning it to meet challenges in its strategic and volatile region. Leadership paid close and disciplined attention to recruitment for key positions, training, and staff development. Space was insufficient for the bureau.

The bureau was doing an excellent job of supporting Embassy Kabul and U.S. efforts on counterterrorism, narcotics production, and reconstruction in Afghanistan. Bureau leadership invigorated its public diplomacy program, and its activities were increasingly robust. The assistant secretary personally led this effort.

SA shares an Executive Office with the Bureau of Near Eastern Affairs (NEA). OIG found the office understaffed, especially given the responsibilities for establishing an embassy in Baghdad and addressing frequent crises. Understaffing threatened productivity and led to dissatisfaction with its administrative support. SA believed it needed its own Executive Office; however, the bureau's small size indicated economies of scale in sharing an office with NEA.

Review of Allegations Related to the Relocation of Operations of the Bureau of Resource Management to the Charleston Financial Service Center (ISP-I-04-18)

In Summer 2002, the Bureau of Resource Management (RM) relocated Washington-based operations including payroll and retirement to the Financial Service Center in Charleston, South Carolina. The relocation was part of a worldwide consolidation of financial services and systems started more than a decade ago to improve efficiency in the Department.

In September 2003, one employee whose position was being relocated to Charleston, South Carolina, wrote a letter to Congress, alleging that her rights as an employee were violated and that she had been subject to discriminatory practices. The Department reviewed the employee's concerns and responded to Congress denying any breach of regulations or other wrongdoing in the matter. Shortly thereafter, the Chief Financial Officer of the Department asked OIG to provide an independent assessment of the situation.

Based on the employee's letter, OIG reviewed several areas, including: timeliness of notifications, adequacy of information provided, and adherence to government guidance and laws.

OIG found that RM will meet its obligations under laws and regulation regarding notification required before separating employees provided that it adheres to its intended transition milestones. However, RM needs to develop a detailed transition plan as soon as possible to ensure that the move to Charleston is conducted smoothly.

RM also provided sufficient information to employees on other employment opportunities. However, offices with hiring authority did not always process applications correctly and need to be better informed and educated regarding proper procedures. OIG did not identify any individual who had been denied excused absences as allowed in Career Transition Assistance regulations.

Inspection of the Bureau of Educational and Cultural Affairs, ISP-I-04-07A

The Bureau of Educational and Cultural Affairs (ECA) was doing an excellent job of carrying out its long-standing policy mandate of promoting mutual understanding. Paradoxically, job satisfaction in ECA is high, but morale is low. Measures have already been started to address some of the management shortcomings. What may prove more difficult to overcome is the attitude, held by many of the bureau's long-time employees, that many in the Department still do not accord exchanges the importance they deserve, and were accorded, when ECA was part of the U.S. Information Agency.

Bureau leadership has directed significant resources toward audiences in the Arab and Muslim world. ECA could do more in this area if it had additional staff and funds, however, further redirecting currently available resources from other regions toward these audiences is not a viable long-term strategy as the United States is facing a rise in attitudes critical of America throughout the world. Even with additional resources, ECA's public diplomacy efforts should not be expected in the short run to change current unfavorable foreign attitudes towards the United States.

Post-September 11, 2001, interagency visa clearance procedures have had an adverse effect on U.S. government efforts to inform, engage, and influence target audiences in the Muslim world. The issuance of student visas has declined sharply, and some prospective exchangeees have not been able to participate in their programs because of delays in visa processing. ECA has worked with CA to speed visa processing of student and official visitors and has sought the Department of Homeland Security's help in preventing embarrassing incidents from recurring at U.S. ports of entry.

ECA has made commendable progress in adapting to Department budget and fiscal practices, but has yet to comply fully with the Department's required procurement and property management standards and practices. OIG also found weaknesses in personnel operations.

The Bureau of Educational and Cultural Affairs Needs to Monitor Exchange Visitor Visas

OIG is concerned that the Bureau of Educational and Cultural Affairs (ECA) is not monitoring adequately grantors who sponsor J-1 visa applicants. In 1 FAM 342.4, the Office of Exchange Coordination and Designation is authorized to designate qualifying exchange visitor programs as U.S. government sponsored. In addition, it is authorized to develop and implement policy and to oversee these programs. Despite a dedicated staff, a shortage of personnel and travel resources makes full oversight of exchange visitor programs impossible. Since 2000, the bureau has not been able to monitor all grantors because ECA's annual requests for increased budget for this purpose have not been approved.

Not monitoring all grantor program sponsors can result in incomplete guidance to the field by ECA. As a consequence, consular officers abroad could misjudge the visa eligibility of J-1 applicants. According to an OIG survey conducted as part of this inspection, many consular officers believe that since the U.S. program sponsor vets exchange visitor visa applicants they are less likely to apply fraudulently or to become illegal immigrants. Because ECA is not able to monitor some of these program sponsors, this confidence may be misplaced and lead to inappropriately issued exchange visitor visas. OIG recommended that ECA establish a new office to carry out oversight responsibilities and, if appropriated funds are not available, seek alternate funding.

Best Practice: Creating an Effective Interagency Working Group in the Bureau of Educational and Cultural Affairs

Issue: Many interagency committees and working groups across the federal government are not always effective. The representatives of the participating departments and agencies sometimes do not believe that either they or their agencies benefit very much from the group, and among their competing job responsibilities their participation may not be a high priority.

Response: At the time the interagency group was created, the coordination staff began by evaluating the challenge and engaging in careful, thoughtful planning. They realized that other agencies would cooperate more if they received benefits from participation. The work of the interagency group was designed so that other agencies would receive more useful information about exchanges across the federal government.

Result: The Interagency Working Group has been successful and, without any authority to compel other agencies to participate, has achieved a measure of coordination of international exchange programs among federal agencies. The coordination staff has evolved into a clearinghouse of information and the hub of a network of individuals at various federal agencies involved in international exchanges. The coordination staff has held workshops for all participating agencies on topics of mutual interest, such as coping with visa problems.

Best Practice: Evaluations to Determine Program Results in the Bureau of Educational and Cultural Affairs

Issue: Federal programs may be conducted for many years without any method of determining whether their efforts have the intended results. The operations of a program may be conducted very efficiently and competently, and in that sense be considered productive, but they may not be achieving the effects for which the program was created.

Response: Six years ago, the Office of Policy and Evaluation created an evaluation program that conducts periodic evaluations of the Bureau of Educational and Cultural Affairs (ECA)'s exchange programs. The office hires well-qualified research or evaluation consulting firms to conduct the evaluations by means of well-established social scientific research techniques. The data measures the changes in understanding and knowledge that exchange participants have of the United States and its people.

Result: ECA has scientifically developed data to show the results of its program. ECA leaders and staff can cite this information to show the effectiveness of the bureau's programs. Because of ECA's success, other federal agencies requested that the evaluation staff conduct a daylong workshop to share information about their practices and accomplishments. In addition, the information developed by the evaluations contributes to the documentation of the bureau's accomplishments for its Bureau Performance Plan, and ECA now has the highest score of any Department bureau under OMB's Program Assessment Review Tool.

Overseas Inspections

Inspection of Embassy Kathmandu, Nepal, ISP-I-04-09A

The Ambassador and the deputy chief of mission at Embassy Kathmandu had focused their attention inordinately on substantive issues, and as a result basic management had suffered at the post. Morale was low and employee relations were

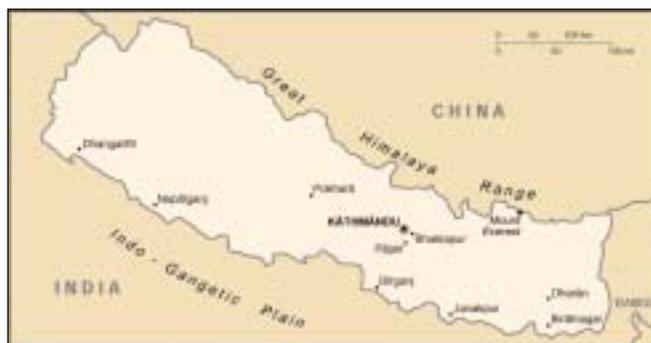
strained due to management shortcomings. The deputy chief of mission had not provided necessary guidance and mentoring to eight junior officers and six specialists.

The Ambassador had achieved significant success in dealing with the government of Nepal and had advanced U.S. efforts to help address the Maoist insurgency that threatens the regime, the economic growth of the country, and stability in the region. This daunting task demanded significant diplomatic engagement. The Ambassador and his staff played a central role, helping to set U.S. policy and pushing hard to encourage others to support our efforts. American programs to assist Nepal have grown dramatically over the past two years.

The political/economic section provided valuable spot reporting but should provide greater analytical coverage to assist Washington in evaluating broad trends. Public diplomacy was active and the information resource center well utilized.

In the area of resource management, the post had made improvements in regularizing administrative operations. However, OIG found serious problems in overall embassy management.

Consular workspace was woefully inadequate due to rapid workload expansion, with officers and staff working in severely cramped quarters. The proposed move to a new facility may alleviate many problems; however, the embassy must take interim steps to provide additional workspace and adjust procedures to be able to meet current processing mandates. The front office paid an inordinate amount of attention to individual visa cases, placing unnecessary pressure on the consular chief and junior officers.



Map of Nepal

The growth of U.S. diplomatic activity in Nepal has been matched by a dramatic growth of embassy staff. Over the past year there has been an increase of more than 50 percent in Department staff - primarily junior officers and specialists in the consular and management sections. The increase placed significant demands on resources and space.

Inspection of Embassy Colombo, Sri Lanka, ISP-I-04-03A

The arrest of the management officer and the consular associate for malfeasance (visa fraud) at the end of April 2003, the investigations supporting this action, and the dismissal of several Foreign Service nationals cast a pall over effective management operations at Embassy Colombo, leaving a legacy of failed management controls and improper application of rules and procedures. The current executive, consular, and management teams face an enormous challenge of restoring this mission's operations and procedures to an acceptable level of effective management controls.

The number of actions already taken by the management team -- whose collective tenure at post at the time of the inspection could be measured in weeks, not months - was impressive, underscoring senior management's commitment to put overall embassy operations back on track.



Map of Sri Lanka

Following two decades of civil war that cost nearly 70,000 lives and brought Sri Lanka near collapse, a peace process was initiated in early 2002. Support for the peace process and strengthening democratic institutions dominate U.S. policy in Sri Lanka and are key mission performance plan goals of Embassy Colombo.

As the ceasefire holds and the peace process advances, there is growing opportunity for U.S. trade and investment with Sri Lanka. Embassy Colombo was taking advantage of these opportunities, and USAID operations - once in decline - were again on the rise.

Consular issues were a pressing priority for the new front office. Immediately following the recent malfeasance-related arrests, new management began to institute long-needed controls. Most areas of vulnerability had been addressed. Regional consular oversight would further enhance overall consular management controls and procedures.

Overall morale among Americans was high (most are newly arrived), with satisfaction expressed on housing, schooling, medical, and general life in Sri Lanka. Foreign service national morale, in contrast, poses a greater challenge primarily as a result of the events of the past year.

Inspection of Embassy Dhaka, Bangladesh, ISP-I-04-04A

Embassy Dhaka was a well-managed mission with very high morale, despite an exceedingly difficult operating environment. Extreme poverty, growing crime, dangerous traffic, widespread corruption, poor building standards, and periodic natural disasters complicate embassy operations.

Counterterrorism, economic growth, and democratic development are proper MPP goals and underscore the importance of strong embassy engagement with the government, opposition groups, and the public. Public outreach as structured was inefficient and insufficient. These operations should be reoriented for greater effectiveness. Similarly, the embassy should also evaluate the utility of its commercial library operation to refocus staff on more effective commercial activities

Allocation of workspace within the mission needed to be reviewed. The reorientation of programs at the current American Center should make it possible to cease use of that facility and move staff to more secure locations such as the chancery or General Services Office compounds.

Overall management operations were functioning effectively, with all divisions receiving high marks from embassy personnel. The mission is to be commended for a range of innovative practices. International Cooperative Administrative Support Services, one stop customer service, and foreign service national working groups had improved the effectiveness of operations and provided significant support to embassy staff.



Map of Bangladesh

As the result of a consular environment permeated by fraud, management created a strong fraud prevention unit. Expanding visa workloads and new requirements for visa issuance were exacerbated by a poorly configured workspace. The high number of entry-level rotational officers assigned to Dhaka's consular section reduced effectiveness. Conversion of one entry-level position to a mid-level supervisory position would provide much needed expertise.

The American International School of Dhaka and the American Recreation Association are essential to attract staff to serve in Dhaka and to maintain embassy morale. The front office and the management section worked closely with both operations. The embassy expended considerable resources in its effort to ensure the viability of the school. Continued recreation area improvements are important, particularly to provide a secure environment for embassy youth.

Inspection of Embassy Ulaanbaatar, Mongolia, ISP-I-04-14A

Embassy Ulaanbaatar effectively conducts its mission in an environment of friendly, open relations. Mongolia supports U.S. efforts in the global war against terrorism. Small military contingents serve in Iraq and in Afghanistan.



Map of Mongolia

A new front office team was providing needed leadership to bring the embassy into compliance with Department standard operating procedures. However, financial management was deficient, and a corrective management controls statement with a plan of action should be submitted. The embassy can improve its consular services through better workload management focusing on nonimmigrant visa processing.

As staffing has more than doubled since 1997, Embassy Ulaanbaatar had graduated from specific administrative support supplied by Embassy Beijing to regular regional support for consular, public affairs information resources, and medical services. However, the embassy still required outside support to improve management services, especially in the area of human resources, and to train relatively new staff members. OIG recommended that the embassy request such support from the Bureau of East Asian and Pacific Affairs, regional training centers, and nearby embassies.

A high standard of housing that includes new townhouse and single-family dwellings in a landscaped compound raised morale among direct-hire Americans assigned to Embassy Ulaanbaatar, and OBO's "wellness project"² for the chancery had significantly improved the work environment. With enlargement and accreditation of the international school, Ulaanbaatar is now a "family friendly" embassy, despite the harsh climate and isolation of the country.

Inspection of Embassy Seoul, Republic of Korea, ISP-I-04-13A

Embassy Seoul's officers had extensive contacts throughout Korean society and used them effectively in advancing U.S. interests. The country team was well coordinated; a supplementary series of regularly scheduled meetings insured interagency coordination and attention to all goals identified in the MPP. The Ambassador was influential among Washington policymakers, helping to shape U.S. strategy and tactics toward both North and South Korea.

Embassy management did a fine job of coordinating with U.S. Forces in South Korea (USFK), the American military command headquartered in Seoul. The embassy and USFK used creative joint approaches to handle rising complaints about troop presence, to develop negotiating positions in the ongoing talks with the South Korean government over the future of the alliance, and to deal with issues relating to the embassy staff living in the 152 housing units located at the military base.

The public affairs section had taken major steps to expand its outreach in South Korea. At the time of the inspection, American Corners were planned to soon function in public libraries in two of the four major provincial cities and there are plans for two others. A media-oriented Ambassador gave frequent interviews and speeches and had appeared on Internet news programs. Some internal reorganization would make staff utilization more efficient.

The consular section was dealing well with the need to interview an increasing percentage of Korean visa applicants while maintaining minimum delays before visa issuance. The physical plant was being expanded to the maximum extent possible, and the embassy tried hard to explain to a skeptical public the link be-

²The OBO "Wellness Program" is intended to address quality of life issues at high differential posts by upgrading the most pressing facilities' improvement needs, i.e. "making them well." Embassy Ulaanbaatar was one of two posts approved for the program in FY 2003, the first year OBO offered the program.

tween the new procedures and U.S. security concerns in the wake of September 11, 2001. The challenge was to avoid additional delays as the percentage of interviews rises further.

Political and economic reporting was extensive and well done. Despite a fractious domestic political structure that made South Korean government decision making difficult, the embassy successfully advanced its political and economic objectives on the domestic scene and had been successful in obtaining greater Korean involvement in the international arena, including in Afghanistan and Iraq.

The embassy had fought to seek a clear commitment from the South Korean government to allow construction to go forward on a new chancery and housing compound, and OBO had been supportive. Lack of progress at the time of the inspection was linked to South Korean sensitivity to public criticism, not to the embassy's lack of trying. Nonetheless, resolving the facilities issue is critical.

Administration of this large and complicated mission was generally good. Some management controls needed strengthening. The information management team provided excellent support to embassy staff. There was room for improvement in operations and customer service attitudes, notably in the general services office. Family member hiring procedures needed to be formalized and made more transparent.

Inspection of Embassy Brussels, Belgium, ISP-I-04-02A

At the time of the inspection, the ambassador of two years had just left post, with no replacement for the foreseeable future. Over the past two years, the former deputy chief of mission, now chargé d'affaires, is credited with defending U.S. interests during a particularly difficult period in bilateral relations along with other embassy staff. The chargé will now need to establish a regular dialogue with senior Belgian government officials.

More tri-mission cooperation among the three missions -- Embassy Brussels, the U.S. Mission to the European Union and the U.S. Mission to the North Atlantic Treaty Organization -- was needed to improve coordination and explore economies of scale in public diplomacy and other areas.

The consular section was understaffed, and the practice of issuing passports to American citizens resident in Libya, based on information collected at the U.S. Interests Section at the Belgian Embassy in Tripoli, created a vulnerability. The joint administrative services section provided excellent administrative services to all three U.S. missions in Belgium. While embassy staffing was generally rightsized, reprogramming several locally employed staff positions to the administrative section would further enhance services.

Inspection of the U.S. Mission to the European Union, ISP-I-04-15A

The U.S. Mission to the European Union (USEU) does an outstanding job of advancing U.S. interests across the full range of important economic and political issues with the European Union (EU). It is well positioned to deal with the expansion of the EU from 15 to 25 member countries in 2004.

Mission leadership had a clear vision of the significance of the EU's growing role and aggressively urged more U.S. attention to the opportunities this presents. The mission's well-informed reporting had become more user-friendly with a focus on shorter and more condensed reports.

The mission had substantially expanded its support to and cooperation with bilateral U.S. embassies in EU member and applicant countries. Staffing levels were appropriate, but a modest increase in public diplomacy resources could enable the mission to explain U.S. policies more effectively. The joint administrative services section of Embassy Brussels provided solid administrative support; however, visitor support needed clarification. Morale was generally good; however, the mission must improve communication with office management staff and ensure they are treated with professional courtesy.

Inspection of the U.S. Mission to the North Atlantic Treaty Organization, ISP-I-04-16A

The U.S. Mission to the North Atlantic Treaty Organization (USNATO) has effectively led the U.S. effort to transform the North Atlantic Treaty Organization (NATO) to deter and defeat new threats, including those outside its traditional area. OIG found that Department and Department of Defense staffs coordinated well

despite interagency disagreements in Washington. Also, despite long working hours and constant pressure, the political section attracted top-flight people by paying increased attention to good management and staff needs.

USNATO was pursuing an aggressive public diplomacy program to address increasing skeptical and hostile public opinion in Europe. The public diplomacy section was helping NATO improve its own public diplomacy operations.

Inspection of Embassy Luxembourg, ISP-I-04-10A

Embassy Luxembourg's energetic leadership and small staff pursue activist and successful diplomacy and commercial advocacy. Progress has been made in balancing an ambitious agenda with limited embassy resources.

As a special embassy program post with limited reporting resources, Embassy Luxembourg needed help to prioritize the constant stream of European and NATO related demarches. With the arrival of a public affairs officer in 2004 the embassy's



Map of Luxembourg

capacity to address increasing negative public perceptions of U.S. policies will be enhanced. Department support is needed to develop an effective public diplomacy strategy for Embassy Luxembourg.

Management operations were stretched to the breaking point, in part because of ongoing and planned construction projects and an inexperienced administrative section. Long-term

temporary duty management officer support was needed to ensure completion of construction and other needed projects. Additional facilities maintenance support was also needed.

Inspection of the European Logistical Support Office, Antwerp, Belgium, ISP-I-04-08

The European Logistical Support Office (ELSO) effectively carries out its mission, which is to arrange and track shipments of household goods and personal effects, vehicles, and equipment and supplies to and from embassies and consulates primarily in Europe, Africa, and the Middle East. In 2003, ELSO arranged 10,400 shipments and met its shipping performance standards 95 percent of the time.

Embassies praised ELSO's expedited logistics program for reducing the time and cost to obtain needed items. The budget and fiscal section audits and pays transportation invoices and collects ELSO charges. In 2002 and 2003, the section identified and recovered \$450,000 and \$209,000 respectively, in contractor overcharges. The systems administrator effectively managed and controlled incoming and outgoing communications and supported ELSO's systems. Connectivity through Embassy Brussels was seamless and effective. Although fiscal operations' efficiency was reduced during the Department's accounting system conversion, the new system vastly improved accuracy and accountability for shipping charges at the post level.

Management Assessment Review of Embassy Dili, East Timor, ISP-I-04-05A

Embassy Dili is nearing the end of a period of inadequate facilities and staffing vacancies. The first part of a new office building should be ready for occupancy in April 2004; the embassy's full complement of Department Americans was present for the first time ever at the end of November 2003.

The Ambassador was achieving important public diplomacy goals despite the absence of support staff or specific planning. Post management needed to adopt a more structured framework to discuss and pursue embassy objectives. Although Embassy



Map of East Timor

Dili had good contact with all elements of East Timor society, embassy reporting was scarce and contained little analysis.

Embassy Dili requires a strong administrative presence at this point in its development. Adding a management/consular position would enable Embassy Dili to improve and institutionalize its operations. Additional modular housing was needed for American officers and their families.

AUDITS

Contracts and Grants

Review of AYUSA International, AUD/CG-04-09

At the request of the Bureau of Educational and Cultural Affairs (ECA), OIG reviewed costs claimed by AYUSA International to determine whether the grantee (1) adequately accounted for federal funds, and (2) complied with applicable federal laws and regulations related to the terms and conditions of the grant. In addition, OIG reviewed the indirect cost rate per student claimed for FY 2002 to determine the reasonableness, allowability, and allocability of the indirect cost allocation method. OIG found the following:

- The grantee, in general, adequately accounted for federal funds and could segregate costs by grant in its accounting system. However, the grantee reported budgeted costs instead of incurred costs on its quarterly financial reports submitted to the Department. In addition, the grantee did not always comply with the terms and conditions of the agreement. Specifically, the grantee did not document cost share amounts or use timesheets to support employees' time worked on federal programs. As a result, OIG questioned about \$226,000 of direct costs, of which \$20,543 were classified as unsupported.
- The grantee's FY 2002 indirect cost rate per student was reasonable, allowable, and allocable to U.S. government grants. However, the grantee does not adjust the indirect costs billed to the Department once the actual year-end rate is determined.

OIG recommended that ECA require the grantee to comply with the terms and conditions of its grant agreements, reimburse the Department for unallowable costs, and provide additional documentation for the unsupported costs.

Quality Control Review of a Public Accounting Firm

As the oversight agency for a Department grantee, OIG performed a quality control review of an audit performed by a public accounting firm on the financial statements of the grantee. Based upon its audit, the public accounting firm opined that the grantee's financial statements presented fairly, in all material respects, the grantee's financial position.

The objective of OIG's quality control review was to ensure that the public accounting firm performed its audit in accordance with the requirements of generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants. Based upon its review, OIG concluded that the public accounting firm's performance of the audit failed to meet minimum generally accepted auditing standards in that the public accounting firm was not independent of the grantee within the meaning and spirit of the auditing standard on independence. Also, the public accounting firm failed to meet the auditing standard on sufficiency of evidential matter to opine that the grantee's financial statements fairly presented its financial position and results of operations. OIG referred the results of its quality control review to the relevant state board for public accountancy for action.

Review of the National Democratic Institute for International Affairs Indirect Cost Rates for Fiscal Years 1999, 2000, 2001, and 2002, AUD/CG-04-10

At the request of the Bureau of Administration's Office of Logistics Management, Office of Acquisitions Management and as part of the overall audit of the National Endowment for Democracy, the Office of Audits conducted a review of the indirect costs reported by the National Democratic Institute for International Affairs (NDI) for fiscal years ending September 30, 1999, 2000, 2001, 2002. OIG's primary purpose was to determine whether the indirect cost rate structure complied with applicable regulations and recommend final rates for the stated periods.

OIG found that the rates did not comply with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. For example, NDI did not submit a new indirect cost rate proposal within the required six months of its fiscal year-end, nor did it break out the indirect cost component into the required facilities and adminis-

trative categories. OIG also identified costs in the indirect cost pool that are unallowable as per OMB Circular A-122. Consequently, OIG questioned costs of \$45,124 for advertising and public relations costs.

OIG recommended that the bureau use OIG's audit-determined rates to finalize NDI's indirect cost rates for the stated periods and require NDI to comply with Circulars A-122 and A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and make necessary accounting adjustments and reimburse the questioned costs.

Review of the National Committee on United States-China Relations, Inc., AUD/CG-04-20

At the request of the Bureau of Educational and Cultural Affairs, OIG reviewed the National Committee on United States-China Relations, Inc. claimed indirect cost rates. The grantee's accounting system was adequate to accumulate and report indirect costs and allocate costs equitably among final cost objectives. OIG did identify several inconsistencies and errors in the grantee's claimed rate calculations, and OIG has made appropriate adjustments in the claimed rate calculations. OIG recommended that the Bureau of Administration's Office of Logistics Management, Office of Acquisitions Management determine the effect of these adjusted rates, if any, on the grantee's claimed grant costs.

Review of the Center for International Private Enterprise Indirect Cost Rates Fiscal Years 2001 and 2002, AUD/CG-04-21

At the request of the Bureau of Administration's Office of Logistics Management, Office of Acquisitions Management and as part of the overall audit of the National Endowment for Democracy, OIG conducted a review of the Center for International Private Enterprise, Inc.'s (CIPE) indirect cost rates for FYs ending September 30, 2001, and 2002. OIG's primary purpose was to determine whether the indirect cost rate structure complied with applicable regulations and recommend final rates for the stated periods.

OIG found that the indirect cost rates reported by CIPE in its annual audit reports for the stated periods complied with applicable regulations. Moreover, tracing components of the indirect cost rates to the audited financial statements did not disclose any matters that significantly affected the indirect cost rates. OIG advised that the bureau use the recommended rates determined during this review in finalizing the indirect cost rates.

Procurement, Property and Administrative Support

Review of Department of State's Unauthorized Commitments and Ratification Process, AUD/PPA-04-01

OIG reviewed whether Department officials were adhering to policies and procedures regarding unauthorized commitments.³ Specific objectives were to: assess management coordination for preventing unauthorized commitments; examine contract susceptibility to unauthorized commitments; and analyze Department training to prevent unauthorized commitments.

Between FY 1997 and June 2002, the Department had 122 unauthorized commitments totaling about \$6.8 million. In recent years, the Department has issued several guidance documents, created a training program to educate employees, and given copies of ratifications to the bureau executive offices where unauthorized commitments occurred to increase personal accountability. Despite these improvements, unauthorized commitments continued to occur.

OIG's assessment pointed to several shortcomings. Unauthorized commitments were often ratified even though program offices and diplomatic missions did not ensure that ratification requests included all the information required by regulations. For most of the 122 ratification requests, at least one piece of information was omitted. In addition, Department bureaus had about \$4 million in recurring unauthorized commitments from FY 1997 to June 2002 because program offices and

³An unauthorized commitment is an agreement that is not binding solely because the government representative lacked the authority to enter into that agreement (FAR 1602-3(a)). Both federal and Department regulations allow for ratification of an unauthorized commitment in certain circumstances to create an enforceable contract.

diplomatic missions did not implement required corrective actions to prevent repeated violations. OIG also found there is little deterrent to making unauthorized commitments because official disciplinary action is almost never taken even though regulations state that there are consequences for violations.

OIG determined that contracts for recurring goods and services were often susceptible to unauthorized commitments because of the limited funding available during periods of continuing resolution. These contracts account for 26 percent of the 122 requests and 66 percent of the \$6.8 million.

Finally, OIG found that three out of four relevant training courses did not adequately cover unauthorized commitments and that personnel whose lack of training clearly contributed to an unauthorized commitment were not required to take training.

OIG recommended that the Department do the following: require a more active role for bureaus in preventing unauthorized commitments; issue guidance concerning the potential disciplinary actions to be taken and guidance on alternatives for funding recurring goods and services during continuing resolutions; and require training when a lack of it contributes to making unauthorized commitments.

Review of Administrative Operations at Embassy Colombo, Sri Lanka, AUD/PPA-04-03

OIG, at the request of the former Ambassador, reviewed administrative operations, financial accounts, and management controls at Embassy Colombo, Sri Lanka. The Ambassador also requested an independent evaluation of specific procurement actions, including the sale of the former Marine residence. The report provided assistance to the post to strengthen management controls. Some of the issues and findings of the review were as follows:

- Financial and management controls were weak or nonexistent, which allowed unsupported claims for travel vouchers and dependent education expenses.
- Procurements were not fairly competed, which resulted in higher prices and substandard work.
- Warehouse operations had management control deficiencies, most of which had been corrected shortly before OIG conducted its review.

OIG found that the sale of the former Marine security guard residence had questionable insider dealings that may have resulted in a lower sales price. In addition, the human resources office had management weaknesses in its operations and record keeping. Lastly, property management and housing deficiencies existed that warrant corrective action. A more detailed OIG inspection of the post in October 2003 confirmed that the post had corrected many of the above deficiencies.

Review of Allegations Regarding the Foreign Post Telephone Contract, AUD/PPA-04-04

OIG reviewed allegations of mismanagement involving a Department contract to upgrade U.S. embassy communications systems worldwide. Specifically, a hotline allegation stated that the Department did not provide adequate supervision of the contract; the new telephone systems cost far more than comparable commercial off-the-shelf systems; and the installed new systems had performance problems. It also was alleged that there was no direct Department inspection of newly installed systems to ensure that they met contractual requirements.

The Foreign Post Telephone Division, Bureau of Information Resource Management (IRM) has responsibility for managing the replacement of public telephone systems at all foreign posts. In August 2001, DynCorp Systems & Solutions, LLC (DynCorp), was awarded the contract to continue the installation of Nortel Meridian telephone systems. In a memorandum of agreement with the Department, the 38th Engineering Installation Group, U.S. Air Force, was to provide engineering expertise in monitoring the contract.

OIG surveyed the Department's Regional Information Management Center (RIMC) telephone technicians to obtain information on DynCorp's contract performance issues and assess the operation and maintenance of the newly installed systems. The survey, developed with the help of IRM headquarters and field officials, resulted in responses from 25 of the 38 RIMC technicians (66 percent).

OIG found no evidence of impropriety relating to the management and implementation of the contract. The 38th Engineering Installation Group of 19 full and part-time contracting, engineering, and financial personnel provided contract supervision at a cost to the Department for travel and per diem only. No payroll costs were charged. If the Department had to hire its own personnel, annual estimated costs would be about \$650,000, not including fringe benefits.

For the second allegation, OIG determined that all items are purchased as commercial off-the-shelf items except for the telephone. The Nortel system was selected because it supports all commercial off-the-shelf items and produces the telephone used by embassies. In addition, each system is designed for the specific post where it is to be installed. OIG concluded that the cost of commercial off-the-shelf equipment procured through the contract was comparable to standard commercial off-the-shelf items.

For the third allegation, OIG found that the new systems were properly installed, with few subsequent performance problems. In addition, most of the RIMC telephone technicians that assist the posts in systems maintenance and troubleshoot technical problems rated DynCorp's installation as good to excellent.

For the final allegation, OIG identified sufficient controls in place to ensure that proper inspections had been occurring. The 38th Engineering Installation Group's monitoring was more than adequate as evidenced by the Group Meritorious Honor Award bestowed by the Department.

In summary, OIG received positive responses from the technicians on the performance, reliability, and adequacy of the Nortel Meridian systems. Some RIMC technicians suggested that post technical personnel needed more training to maintain properly and utilize fully the new telephone systems. RIMC technicians also believed that their post visits should be scheduled immediately after installation to train post personnel and identify issues before they become problems. The procedure was to wait until there were problems before dispatching a technician.

Review of Electrical Engineering Services Procurement, AUD/PPA-04-13

OIG received a hotline complaint alleging contract irregularities concerning a \$1.8 million contract that provided worldwide electrical engineering services to the Department. Overall, OIG identified contract administration deficiencies that also have been reported in prior OIG audits: contracting officer's representatives lack the required skills to monitor contract provisions and protect government interests; contracting officer's representatives lack an appointment by the contracting officer and yet are certifying contractor invoices for payment; the Department incurs penalties because of late payment on the invoices submitted by the contractor; and contract file documentation is inadequate. OIG also found, and Department procure-

ment officials agreed, that an inappropriate contract vehicle was used to procure the electrical engineering services. As a result, federal and Department acquisition regulations and requirements for full and open competition were not met. In addition, OIG has concerns that the winning contractor may have inappropriately received advance information on the proposed statement of work that was not available to other prospective bidders.

OIG confirmed the appearance of contract irregularities. The contractor's accounting system was poor and resulted in untimely submission of invoice charges and cases of duplicate billings and underbillings against the contract. Neither Department contracting officials nor the contractor had a good command of contract provisions, which resulted in unauthorized labor charges for \$17,000, unapproved contract modifications totaling almost \$300,000, and underbillings of more than \$75,000. Ultimately, the contractor was able to provide receipts and supporting documentation for invoices submitted to the Department for payment. However, OIG does not agree that actions taken by the former contracting officer were sufficient to close out the contract. OIG is recommending that the findings in this review be considered in closing out the contract at the soonest date possible. Finally, Department records were inconclusive, and OIG could not confirm the allegation that contract employees retained government equipment. The Department agreed with OIG recommendations and is determining allowable contractor costs.

Program Reviews

Independent Attestation Review of Annual Accounting of Drug Control Funds by the Department of State, AUD/PR-04-11

OIG reviewed the chief financial officer's FY 2003 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 April 18, 2003. This submission is the responsibility of the Department.

OIG conducted its review in accordance with attestation standards established by the American Institute of Certified Public Accountants as specified in Section 6 of the Office of National Drug Control Policy circular. The scope of a review is substantially less than an examination, which expresses an opinion on the submission. Accordingly, OIG does not express such an opinion.

OIG's review of the accounting submission brought up nothing that caused OIG to believe that the assertions presented do not, in all material aspects, reliably represent the FY 2003 obligation data presented in the submission.

Financial Management

Application of Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance, AUD/FM-04-06

Under OIG's direction, a contractor 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 of State via the Semi-annual Headcount Report. The contractor did not identify any material differences.

Audit of U.S. Department of State 2003 and 2002 Principal Financial Statements, AUD/FM-04-12

The Chief Financial Officer's Act, as amended, 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.

OIG's contractor issued an unqualified opinion on the Department's 2003 and 2002 principal financial statements. Although an unqualified opinion was issued, the report brings to management's attention concerns about security over the sensitive but unclassified network; 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-04-14

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

Under OIG's direction, a contractor performed required procedures solely to assist Treasury, the General Accounting Office (GAO), and OMB with accounting for and reconciling intragovernmental activity and balances in the preparation of agency and governmentwide financial statements and reports. The contractor reviewed the chief financial officer representations for federal intragovernmental activity and balances and reconciliations, compared the amounts in the audited agency financial statements to the amounts in the FACTS reports, and reviewed the status of disposition of identified differences. The contractor noted no discrepancies.

Agreed-Upon Procedures for the Final Account Groupings Worksheet, AUD/FM-04-15

Treasury 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 Treasury through the federal agencies' centralized trial-balance system (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 contractor performed required procedures solely to assist Treasury and GAO in the preparation and audit of the governmentwide financial statements. The contractor identified no material differences.

Audit of Payments Made Without an Obligation, AUD/FM-04-16

OIG reviewed payments made without an obligation to determine whether the Department had adequate controls over payments that it processed when an obligation had not been established in its accounting system, the central financial management system (CFMS).

OIG found that the Department did not have adequate controls over processing payments made without an obligation. The Bureau of Resource Management (RM) did not have the documentation required to support a significant number of the payments that OIG reviewed. In addition, RM may have processed some payments without an obligation unnecessarily because of a lack of communication with the bureaus. As a result, the Department could not ensure that the payments it made without an obligation were proper and correct.

OIG recommended that RM develop detailed instructions for completing and maintaining documentation to support payments made without an obligation and a

process to ensure that these instructions are followed. In addition, OIG recommended that RM develop, and provide to the Department's bureaus, procedures to ensure that obligations are recorded in CFMS before payments are made.

Audit of Duplicate Payments, AUD/FM-04-17

OIG reviewed the Department's payment processing to determine whether the Department was effectively identifying and following up on potential duplicate payments.

Although the Department does have a duplicate payment program in place, OIG found that more potential duplicate payments existed than the Department had identified. Also, there was inadequate evidence that the Department took sufficient action to follow up on the potential duplicate payments it did identify. As a result, the Department was not aware of all potential duplicate payments on which it should have followed up and may not have collected all the funds owed for the duplicate payments it identified.

OIG recommended that the Department examine a larger universe of payments and improve the database queries used to identify potential duplicate payments. In addition, OIG recommended that the Department follow up on the additional potential duplicate payments OIG identified and that it maintain records to document its follow-up activities of potential duplicate payments.

Audit of the Vendor Reference Table, AUD/FM-04-18

The Department's Central Financial Management System (CFMS) will not process a payment to a vendor unless the vendor has been established in the CFMS vendor reference table. The objective of this audit was to determine whether the Department had adequate controls for establishing and maintaining vendors in the vendor reference table.

OIG found that the Department did not have adequate controls over the vendor

reference table. The Department did not always verify vendor information before it was entered into the table. In addition, the table contained a significant number of unnecessary vendor records and records with errors. OIG found that there were no formal policies and procedures that provided a standard format for entering vendor information into the table or that required thorough, periodic reviews and updates of the table. As a result, fraudulent vendors could have been added to the table, and unnecessary records could have been used to make improper payments.

OIG recommended that the Department develop and implement policies and procedures that ensure the validity of vendors before they are entered into the vendor reference table; that include consistent standards for creating vendor codes and entering data into each vendor record field and guidelines for deactivating and archiving vendor records; and that provide a process for thorough, periodic reviews and updates of the table. OIG also recommended that the Department review the table, deactivate or archive unnecessary records, and identify and correct errors.

Status of the Department's Remediation Plan for the Federal Financial Management Improvement Act, AUD/FM-04-19

Agency financial management systems must substantially 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 to bring its systems into compliance by September 2003, and it updated the plan in October 2001.

Under FFMIA, OIG is required to report in its semiannual report to the Congress instances when and reasons why an agency has not met the intermediate target dates established in the remediation plan. OIG reviewed the Department's progress, as of May 2003, in meeting the intermediate target dates it had established. The Department had made considerable progress in its efforts to comply with FFMIA by completing 71 percent of its remediation plan projects and, as a result, reducing its degree of noncompliance. However, OIG found that the Department had extended intermediate and completion target dates for three projects: Business Continuity and Contingency Plans, Information Systems Network Security, and Central Financial Planning System (CFPS). Extended target dates for the first two projects were the

result of delays in project initiation and adding steps deemed critical to the project. The Department restructured the third project, CFPS, and established new milestones and target dates. The above projects are not expected to be completed until FY 2004 and FY 2005. As a result, the Department was not in substantial compliance with FFMIA as of its September 2003 target.

Additionally, in the Audit of the U.S. Department of State 2003 Principal Financial Statements (AUD/FM-04-12, Dec. 24, 2003), OIG's contractor reported that the Department's remediation plan also needed to specifically address systems security and management of grants and other types of federal assistance.

INFORMATION TECHNOLOGY

As reported in the September 2003 OIG Semiannual Report to Congress, OIG developed a multidisciplinary approach to the inspection process as an outgrowth of an organizational self assessment. This approach incorporated key aspects of OIG's traditional post, security and intelligence oversight, and information technology inspections.

OIG evaluated the information technology (IT) security and information management (IM) programs in the Department. More specifically, OIG inspected the management, operational, and technical controls, and assessed the effectiveness of the information management policies and procedures implemented by seven overseas missions -- Ulaanbaatar, Mongolia; Seoul, Republic of Korea; Dhaka, Bangladesh; Colombo, Sri Lanka; Kathmandu, Nepal; Brussels, Belgium; and the United States Mission to the European Union -- and four domestic bureaus, including the Bureau of Near Eastern Affairs, the Bureau of Educational and Cultural Affairs, the Bureau of South Asian Affairs, and the Bureau of Economic and Business Affairs. These controls included IT security and IM policies, procedures, activities, and hardware and software configuration settings. OIG found many opportunities for improving IT security and IM at all overseas missions and domestic bureaus. In general, the missions and bureaus could significantly improve the following:

- Management controls by developing and implementing information systems security program plans to alleviate potential vulnerabilities and risks, creating and implementing strategic plans that outline long-term IT goals and objectives, and ensuring independent information systems security oversight.
- Operational controls by developing information systems contingency plans to protect systems from a variety of disruptions, increasing the monitoring of information systems to prevent intrusion, and issuing standard procedures for the operation of information systems.
- Technical controls by managing the identification and authentication procedures, logical access constraints, and audit trails.

The overseas missions and the domestic bureaus have concurred with the OIG recommendations and agreed to implementation actions to address the reported deficiencies. Listed below are summaries of IT inspections at overseas posts during this reporting period.

Embassy Dhaka, Bangladesh, ISP-I-04-04A

Strategic and budgetary planning and the development of information systems documentation will assist the mission in mitigating the inherent problems associated with undependable computer systems and telecommunications service. OIG noted that Embassy Dhaka does not have a lifecycle schedule for all embassy-funded IT equipment, nor does it have an embassy-specific IT budget plan that includes lifecycle costs. OIG recommended that Embassy Dhaka develop a strategic plan to assist with future IT planning.

Embassy Kathmandu, Nepal, ISP-I-04-09A

Strategic planning, budgetary planning, and documentation within IM are not adequate to meet the challenges of providing systems support to an expanding mission in a country where power and telephone service are unreliable. OIG recommended that Embassy Kathmandu develop an IT strategic plan, including a lifecycle schedule for replacement of embassy-funded information systems center and information program center equipment, and integrate the strategic plan with the budget plan.

Embassy Ulaanbaatar, Mongolia, ISP-I-04-14A

Contingency planning is designed to ensure continuity of operations under adverse conditions. Contingency planning also addresses the ability to recover from a disruption and provide service sufficient to meet the minimal needs of users. OIG recommended that Embassy Ulaanbaatar develop and implement a contingency plan

for its unclassified and classified information systems. OIG also recommended that Embassy Ulaanabaatar either disconnect or obtain the appropriate Department waiver for its additional Internet connection.

Inspection of Embassy Seoul, Republic of Korea, ISP-I-04-13A

OIG recommended that the information management staff more adequately monitor compliance with information management policies and procedures.

Inspection of the Bureau of Near Eastern Affairs, ISP-I-04-11

OIG reported that NEA needs to develop a comprehensive strategic plan that outlines IT goals and objectives and takes a long-term approach, and not current reactive, short-term focus. OIG noted that the bureau IT strategic plan should include budgetary, tactical, operational, and staffing plans.

Inspection of the Bureau of Educational and Cultural Affairs, ISP-I-04-07A

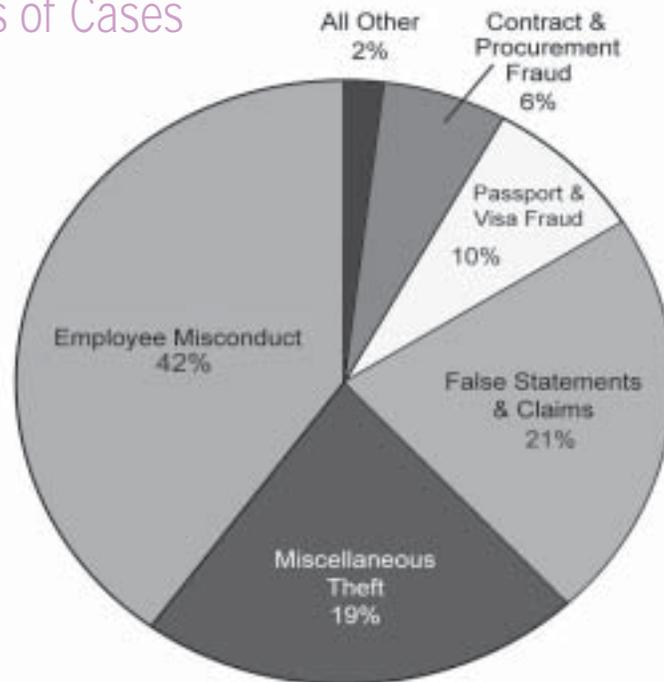
OIG made recommendations to ensure that ECA and the Office of Information Technology Services in the Bureau of International Information Programs develop up-to-date guidance or a memorandum of understanding outlining IT support responsibilities, create a training program for IT support staff, document a policy or practice for the replacement of IT equipment, establish security incident reporting procedures, create and protect logs, and perform random checks.

INVESTIGATIONS

Employee Theft

An employee of the Department was recently arrested and convicted of theft of government equipment from a Department warehouse. An OIG investigation and undercover operation determined that the employee had stolen approximately \$20,119 in equipment that he pawned for cash. Between January and April 2003, an OIG Special Agent worked undercover in the warehouse and determined that the employee was acting alone. Subsequently, the warehouse employee was interviewed and admitted stealing 55 items from Department warehouses since April 2000 and pawning them for extra cash. Seven items valued at \$2,634.42 were recovered during the investigation. The employee was indicted by a federal grand jury in the Eastern District of Virginia and charged with 4 counts of theft of government property in violation of 18 USC 641. On October 17, 2003, the employee was sentenced to three years supervised probation, ten days incarceration, and ordered to pay \$17,484.95 in restitution to the Department.

Types of Cases



Follow-up Actions

Employee Embezzlement Scheme

An OIG investigation into the theft of \$2.7 million in Post Assignment Travel funds by a former FSN from the U.S. Embassy, Lusaka, Zambia, has resulted in the filing of a 114-count criminal indictment against three Zambian nationals with alleged ties to the scheme. Acting on information provided by OIG, Zambian prosecutors in the Chikwa Subordinate Court of Lusaka have charged the three subjects with receiving stolen property, theft by a servant, false and fictitious accounting, and destroying account documents -- charges with potential prison terms of seven years and over \$2 million in fines. This complex scheme involved the laundering of stolen funds through bogus business accounts set up at banks around the world. In addition, the U.S. Attorney's Office in the District of Columbia has issued an arrest warrant for a key member involved in the scheme. Extradition is being held in abeyance pending the outcome of the Zambian charges. OIG, in coordination with Embassy Lusaka's Regional Security Office, the Zambian Police Service, the Federal Bureau of Investigation, and the U.S. Department of Justice's Office of International Affairs, continues to pursue additional charges and subjects in this matter. (See OIG Semi-Annual Report, October 1, 2002, to March 31, 2003, pp. 62-63)

Geographic Distribution of Ongoing Investigations



Near East and South Asia	1%
East Asia and Pacific Islands	1%
Africa	22%
Europe	10%
Western Hemisphere	10%
Domestic	56%
Total	100%

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 Department and BBG.



Held for action within OIG	12
Referral to other offices for action	128
No action Necessary	44
Total Allegations received	184

APPENDIX 1: INVESTIGATIVE ACTIVITIES

Workload		Total Judicial Actions		19
Cases pending 9/30/03	37	Criminal		
New cases opened	23	Prosecutive referrals		7
Cases closed	12	Prosecutive declinations		5
Cases pending 3/31/04	48	Prosecutive dismissals		0
Preliminary inquiries pending 9/30/03	18	Acquittals		0
Preliminary inquiries opened	19	Indictments		3
Preliminary inquiries closed	14	Convictions		1
Preliminary inquiries converted to cases	8	Sentencings		1
Preliminary inquiries pending 3/31/04	15	Time sentenced	10 days	
		Time probation	36 months	
		Court-ordered fines		\$0
		Court-ordered restitutions		\$17,484.95
Total Administrative Actions	5	Civil		
Admonishments	0	Referrals		1
Counseling	0	Declinations		1
Curtailment	0	Complaints		0
Demotions	0	Judgments		0
Reimbursements	0	Court-ordered fines		\$0
Reprimands	0	Recoveries		2
Resignations	1	Total judgments and recoveries		\$0
Suspensions	2			
Terminations (DOS employees)	0			
Terminations (Contract employees)	1			
Administrative referrals	1			
Program Fraud and Civil Remedies Act referrals	0			
Savings	0			

Administrative recoveries	\$ 2,634.42
Judicial recoveries	\$ 17,484.95
Total Investigative Recoveries	\$ 20,119.37

This appendix reflects investigative statistics for the Department only; investigative statistics for BBG are in Appendix 1 of the BBG section of this report. The statistics and narrative case descriptions of investigative activities appearing in this Semiannual Report 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.

Indictments include formal criminal charges brought against a subject. The manner in which charges are brought varies from country to country. **Judicial recoveries** include recoveries from judicial actions, including court-ordered fines and restrictions and civil judgments and recoveries. **Administrative recoveries** include recoveries from administrative actions, such as reimbursements and savings.

APPENDIX 2: REPORTS ISSUED

Security and Intelligence Oversight

Inspections

SIO-I-04-01	Limited-scope Security Inspection of Embassy Mexico City and Constituent Posts, Mexico	01-04
SIO-I-04-02A	Security Inspection of Embassy Brussels, U.S. Mission to The European Union and U.S. Mission to the North Atlantic Treaty Organization	01-04
SIO-I-04-03A	Security Inspection of Embassy Colombo, Sri Lanka	01-04
SIO-I-04-04A	Security Inspection of Embassy Dhaka, Bangladesh	01-04
SIO-I-04-05A	Security Inspection of Embassy Dili, East Timor	01-04
SIO-I-04-07A	Security Inspection of the Bureau of Educational and Cultural Affairs	01-04
SIO-I-04-09A	Security Inspection of Embassy Kathmandu, Nepal	01-04
SIO-I-04-10A	Security Inspection of Embassy Luxembourg	01-04
SIO-I-04-13A	Security Inspection of Embassy Seoul, Republic of Korea	01-04

Audits

SIO-A-04-08	Protection of Classified Documents at Overseas Posts	03-04
SIO-A-04-11	Protection of Classified Documents at Headquarters	02-04

Compliance Follow-Up

SIO-C-04-14A	Compliance Follow-up of Embassy Ulaanbaatar, Mongolia	01-04
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Inspections

ISP-I-04-02A	Inspection of Embassy Brussels, Belgium	01-04
ISP-I-04-03A	Inspection Embassy Colombo, Sri Lanka	01-04
ISP-I-04-04A	Inspection of Embassy Dhaka, Bangladesh	01-04
ISP-I-04-05A	Management Assessment of Review of Embassy Dili, East Timor	01-04
ISP-I-04-06	Inspection of the Bureau of Economic and Business Affairs	01-04
ISP-I-04-07A	Inspection of the Bureau of Educational and Cultural Affairs	03-04
ISP-I-04-08	Inspection of the European Logistical Support Office, Antwerp, Belgium, Memorandum Report	01-04
ISP-I-04-09A	Inspection of Embassy Kathmandu, Nepal	01-04
ISP-I-04-10A	Inspection of Embassy Luxembourg	01-04
ISP-I-04-11	Inspection of the Bureau of Near Eastern Affairs	02-04
ISP-I-04-12	Inspection of the Bureau of South Asian Affairs	01-04
ISP-I-04-13A	Inspection of Embassy Seoul, Republic of Korea	01-04
ISP-I-04-14A	Inspection of Embassy Ulaanbaatar, Mongolia	01-04
ISP-I-04-15A	Inspection of the U.S. Mission to the European Union	01-04
ISP-I-04-16A	Inspection of the U.S. Mission to the North Atlantic Treaty Organization	01-04
ISP-I-04-18	Review of Allegations Related to the Relocation of Operations Of the Bureau of Resource Management to the Charleston Financial Service Center	03-04

Consular Affairs

ISP-CA-04-01	Review of the Overseas Passport Issuance Program	11-03
ISP-CA-04-17	Review of the Department of State Procedures Related to the Issuance of Visas to the September 11, 2001, Terrorists	12-03

Audits

Contracts and Grants

AUD/CG-04-09	Review of AYUSA International	12-03
AUD/CG-04-10	Review of the National Democratic Institute for International Affairs Indirect Cost Rates for Fiscal Years 1999, 2000, 2001, and 2002	01-04

AUD/CG-04-20	Review of the National Committee on United States-China Relations, Inc.	03-04
AUD/CG-04-21	Review of the Center for International Private Enterprise Indirect Cost Rates for Fiscal Years 2001 and 2002	03-04

Procurement, Property and Administrative Support

AUD/PPA-04-01	Review of Department of State's Unauthorized Commitments and Ratification Process	10-03
AUD/PPA-04-03	Review of Administrative Operations at Embassy Colombo	12-03
AUD/PPA-04-04	Review of Allegations Regarding the Foreign Post Telephone Contract	03-04
AUD/PPA-04-05	Joint Review of the Inventory of Assets of the Diplomatic Telecommunications Service Program Office (Classified)	12-03
AUD/PPA-04-13	Review of Electrical Engineering Services Procurement	01-04

Program Reviews

AUD/PR-04-11	Independent Attestation Review Annual Accounting of Drug Control Funds by the Department of State	03-04
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Financial Management

AUD/FM-04-06	Application of Agreed-Upon Procedures: Retirement, Health Benefits and Life Insurance Withholdings/ Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management	10-03
AUD/FM-04-12	Audit of U.S. Department of State 2003 and 2002 Principal Financial Statements	12-03
AUD/FM-04-14	Agreed-Upon Procedures Report on Federal Intragovernmental Activity and Balances	02-04
AUD/FM-04-15	Agreed-Upon Procedures for the Final Account Groupings Worksheet	02-04
AUD/FM-04-16	Audit of Payments Made Without an Obligation	03-04
AUD/FM-04-17	Audit of Duplicate Payments	03-04
AUD/FM-04-18	Audit of the Vendor Reference Table	03-04
AUD/FM-04-19	Status of the Department's Remediation Plan for the Federal Financial Management Improvement Act	03-04

APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

Table 1

INSPECTOR GENERAL ISSUED AUDIT REPORTS WITH QUESTIONED COSTS⁴

		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	10	12,318	9,094
B.	Which were issued during the reporting period	3	789	21
	Subtotals (A+B)	13	13,107	9,115
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	515	
	(ii) dollar value of costs not disallowed			
D.	For which no management decision has been made by the end of the reporting period	12	12,592	9,115
	Reports for which no management decision was made within 6 months of issuance	10	12,318	9,094

⁴ 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.

Table 2

**INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE⁵**

		Number of Reports	Dollar Value (in thousands)
A	For which no management decision has been made by the commencement of the reporting period.	2	670
B.	Which were issued during the reporting period	0	0
	Subtotals (A+B)	2	670
C.	For which a management decision was made during the reporting period	0	0
	(i) dollar value of recommendations that were agreed to by management —based on proposed management action —based on proposed legislative action	0	0
	(ii) dollar value of recommendations that were not agreed to by management	0	0
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.	2	670

⁵ 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.

Significant Management Successes In Implementing OIG Recommendations

Review of Department of State's Unauthorized Commitments and Ratification Process, AUD/PPA-04-01

In response to OIG's recommendations, the Department has taken several steps to clarify the policy on unauthorized commitments and decrease their number, some of which are:

- The Bureau of Administration, Office of the Procurement Executive has updated Department of State Acquisition Regulation System to require that all requests for ratification of unauthorized commitments be submitted through bureau executive offices, which are to indicate what action will be taken to ensure that such commitments not occur again.
- The office has issued guidance advising all Department employees of potential personal consequences of making unauthorized commitments.
- The Bureau of Human Resources has revised 3 FAM 4377 and 3 FAM 4542 adding unauthorized commitments to the list of offenses that may be subject to disciplinary action. As a condition of ratifying an unauthorized commitment, the Bureau of Administration, Office of the Procurement Executive is requiring training based on a review of the facts of each case.

BROADCASTING BOARD OF GOVERNORS INSPECTIONS

Inspection of the International Broadcasting Bureau's Transmitting Station in Sri Lanka, IBO-I-04-02

The Sri Lanka Transmitting Station performs well. It began transmission in 2000 and has expanded its transmission capabilities by almost 50 percent in three years. This helps the Broadcasting Board of Governors (BBG) achieve its objective of effectively reaching target markets in the Middle East, Asia, North and East Africa, Afghanistan, the Caucasus, Tibet, and Turkey.

The transmitting station worked closely with Embassy Colombo to complete negotiations with the government of Sri Lanka for authorization to install a seventh transmitter. In addition, while operating in a climate of potential political unrest and civil war, the station has community action projects to maintain good rapport with its neighbors.

Adequate management controls are in place. However, the station's procurement challenges include an increasing workload for the procurement agent and a national procurement environment that involves kickbacks, known locally as "commissions." The station could benefit from more competition in its procurements.

Embassy Colombo, through the International Cooperative Administrative Support Services and the International Broadcasting Bureau (IBB) headquarters, provides personnel and other services. The authority to classify Foreign Service national positions at level eight and above has been held by IBB's Office of Personnel in Washington since 1993. The Department of State's (Department) Bureau of Human Resources, under contract, developed a computer-aided job evaluation system. The software contract was advertised in February 2001 and was available for use as of September 1, 2002, for human resource offices that had completed the requisite training. Some personnel have been waiting for two years for the automated system to go into effect and update their job classifications.

Inspection of the Middle East News Bureaus of the Broadcasting Board of Governors, IBO-I-04-08

The purpose of this inspection was to assess the general operations of BBG's news bureaus in the Middle East, including their program management, program performance, and management and internal controls. The news bureaus are staffed with dedicated people performing a key role in fulfilling the agency's mission to promote and sustain freedom and democracy by broadcasting accurate and objective news and information about the United States and the world to audiences overseas.

Coordination and cooperation among the news bureaus is lacking. Staff point to their diverse missions as the reason for the lack of coordination or cooperation. The conflict in Iraq has become the major news story, eclipsing the attention given to the Middle East peace process. The demands for news about Iraq are being met at the expense of news operations in other parts of the region, including Jerusalem. In addition, some bureaus are far better equipped than others, but the tools used by the news bureaus are being upgraded.

Management controls are generally weak. This situation arises from the fact that the primary purpose of the bureaus is the business of news. Management controls are thus both misunderstood and neglected; however, the primary job of news gathering and reporting has not suffered from this vulnerability.

Best Practice: Creating New Programming Awards for Internet Achievement

Issue: Management recognized a need to fairly evaluate the quality of the different media produced for: radio, Internet, and television.

Response: Instead of having radio and Internet projects competing with television, which the Voice of America director cited as very unfair, he changed the system so that radio stories competed only with other radio stories, television with television, and Internet with Internet.

The Voice of America director created three new award categories solely for Internet entries: (1) Best Original Internet Production, (2) Best Use of Internet for Coverage of a Special Event or Topic, and (3) Americana and the American Experience.

Result: This change will provide new incentives for excellence in what OIG sees as a major means of distributing news and information in the future.

Inspection of the International Broadcasting Bureau's Kuwait Transmitting Station, IBO-I-04-04

The purpose of this inspection was to assess the general operations of IBB's transmitting station in Kuwait, including its program management, program performance, and management controls. The Kuwait Transmitting Station is strategically located, has very low operating costs, and performs well. This enables BBG to achieve its objective of effectively reaching target audiences of the Middle East and South Asia, especially with regard to the war on terrorism, with a daily 24-hour flow of information from the agency's broadcasting entities that are relevant to these audiences.

The Kuwait station is expanding its transmitting capabilities to make better use of the advantages afforded by its location and low operating costs. This sound decision by BBG management will increase the impact of the agency's scarce resources.



Kuwait Transmitting Station

A major project to support shortwave transmissions to Afghanistan, for the first time from the Kuwait Transmitting Station, has experienced difficulties that have delayed the scheduled February 2004 project completion. However, the delays appear to be attributable to the contractor rather than to station management or its monitoring of the project. To save the cost of purchasing new units, IBB reprogrammed three 250-kW shortwave transmitters from the closed Gloria Transmitting Station in Portugal.

Although generally well managed, the Kuwait Transmitting Station needs to improve on a number of its procedures in order to strengthen management controls, including time and attendance and inventory control. Staff possessing contract warrants do not meet federal certification standards for performing such work. They need to have the training and certification required by the Office of Federal Procurement Policy.

The Kuwait Transmitting Station initiated FM broadcasts of Radio Sawa to Kuwait City in January 2003. This was done on the basis of verbal and written assurances, in principle, of being granted an additional new frequency. The station did not have formal approval from the government of Kuwait, which may jeopardize the continuation of those broadcasts.

BROADCASTING BOARD OF GOVERNORS AUDITS

Review of the Broadcasting Board of Governors' Use of the Internet and Related New Technologies, IBO-A-04-03

Two of BBG's strategic goals have particular relevance to its broadcasting entities' use of the Internet. Goal I is to "...design the broadcasting architecture for the 21st century." Goal III is to "...employ modern communication techniques and technologies" across the board.

BBG's broadcasting entities --Voice of America (VOA), Office of Cuba Broadcasting (OCB-Radio and TV Marti), Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), Radio Sawa, and Radio Farda -- have a wide variety of web sites, ranging from those that post basic information and are infrequently updated to others that provide a vast array of information and options. OIG worked closely with BBG and entity officials to prepare detailed charts that show the kinds of Internet activity for each entity. For example, VOA's worldwide news homepage is VOA's most comprehensive site. RFE/RL's English language web site offers a portal for all RFE/RL web site operations. RFA has ten language web sites that range from Burmese to Vietnamese, featuring audio programs in two possible formats. OCB is continuing to revamp its language service web site. From its homepage, it has links to Radio Marti and TV Marti. Radio Sawa came on the air in March 2002 and launched its web site two weeks later, streaming six different subregional programs simultaneously.

BBG's Internet presence and management's support continue to grow. Over the course of this review, an Internet evaluation team was meeting weekly to standardize performance measures; IBB's Office of Internet Services hired a new network systems coordinator; VOA, RFE/RL, and RFA were redesigning and improving their content management systems; RFA's Lao service got up and running; and Radio Sawa and Radio Farda sites were growing.

Still, BBG faces challenges in developing its Internet presence. These challenges include organizational structure, strategic planning, adequate funding, Internet blocking, and human capital issues. BBG's organizational structure has no high-level advocate who can support Internet development and resolve internal disagreements.

Strategic planning needs to be more specific, and funding and reallocation of resources are crucial. BBG would benefit from conducting an analysis of its human capital needs for the Internet and from presenting to the OMB and relevant congressional committees a package of its needs for developing its use of the Internet.

BBG continues to explore related new technologies to reach target audiences. Congress has assisted BBG by providing funding enhancements to combat jamming and Internet blocking. Several language services are using e-mail for distributing their messages. Some consider e-mail better than the Internet because it is harder to block, goes directly to users, and may be safer for users to receive than to actively surf the Internet because they can say that the e-mail was unsolicited. In addition, technology allows using wireless devices, such as cellular mobile telephones, personal digital assistants, and others, for Internet-based access. RFE/RL reported that it had protocol sites that people in Russia and a few other countries could access via their cellular telephones. OIG learned that in the Middle East there are places without access to Internet but with access to short messaging and e-mail service through their cellular telephones. This technology is now available, but the issue is the cost and Congress' willingness to fund it.

Best Practice: Creating a Symbiotic Relationship to Avoid Functional Duplication

Issue: The collocation of VOA and Radio Sawa staff in Jerusalem avoided wasteful duplication.

Response: The two operations developed a symbiotic relationship in the same office without interfering with the mission of either one. Some news events are worked in tandem; actualities are shared; and VOA provides administrative support, access to wire services, as well as office space and equipment.

Result: BBG saves scarce funds by avoiding unnecessary and wasteful duplication. The news coverage of both operations is enhanced.

BROADCASTING BOARD OF GOVERNORS INVESTIGATIONS

Conflict of Interest

OIG received information from BBG's Office of General Counsel that a BBG employee was engaging in a conflict of interest. The senior BBG employee oversaw the disbursement of \$92,000 in training grant funds to a grantee, which then subcontracted with a company headed by the BBG employee's spouse. In October 2003, OIG executed a search warrant on the BBG employee's personal residence that uncovered further evidence of the conflict of interest. On January 14, 2004, the BBG employee pleaded guilty in U.S. District Court to one count of violating 18 USC 208. Concurrently, the employee was terminated from BBG and was debarred from doing business with BBG for three years. Sentencing is tentatively scheduled for May 2004.

BROADCASTING BOARD OF GOVERNORS

APPENDIX 1: INVESTIGATIVE ACTIVITIES

Workload	Number
Cases pending 9/30/03	3
New cases opened	0
Cases closed	0
Cases pending 3/31/04	3
Preliminary inquiries pending 9/30/03	1
Preliminary inquiries opened	1
Preliminary inquiries closed	2
Preliminary inquiries converted to cases	0
Preliminary inquiries pending 3/31/04	0
Total Judicial Actions	2
Prosecutive Referral	0
Prosecutive Declination	0
Criminal Indictment	1
Criminal Conviction	1
Total Administrative Actions	1
Terminations	1

The statistics and narrative case descriptions of investigative activities appearing in this semiannual report 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.

BROADCASTING BOARD OF GOVERNORS

APPENDIX 2: REPORTS ISSUED

Inspections

IBO-I-04-02	Inspection of IBB's Transmitting Station in Sri Lanka	03-04
IBO-I-04-04	Inspection of IBB's Kuwait Transmitting Station	03-04
IBO-I-04-08	Inspection of the Middle East News Bureaus of the BBG	03-04

Audits

IBO-A-04-03	Review of the BBGs' Use of the Internet and Related New Technologies	03-04
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BROADCASTING BOARD OF GOVERNORS

APPENDIX 3: SAVINGS AND MORE EFFECTIVE USE OF RESOURCES

Table 1

INSPECTOR GENERAL ISSUED AUDIT REPORTS WITH QUESTIONED COSTS

		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	0	0	0
B.	Which were issued during the reporting period	0	0	0
	Subtotals (A+B)	0	0	0
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	0	0	0
	(ii) dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period	0	0	0
	Reports for which no management decision was made within 6 months of issuance	0	0	0

Table 2

INSPECTOR GENERAL ISSUED AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

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

BROADCASTING BOARD OF GOVERNORS

APPENDIX 4: RESOLUTION OF REPORTS AND RECOMMENDATIONS

Previously Reported Significant Audit Recommendations¹ Pending Final Action²

Report Number IBO-A-02-03

Review of the Broadcasting Board of Governors' Controls on Domestic Personal Property

First Reported: September 30, 2002

Recommendation No. 1	Complete an agencywide inventory by January 2003.
Recommendation No. 2	Implement agency plan to comply with applicable property accounting and reporting requirements.

¹ Includes audit recommendations reported as significant in semiannual reports prior to March 31, 2004, on which the 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.

Significant Problems, Abuses and Deficiencies

The inspection of the Kuwait Transmitting station revealed two significant deficiencies. The training requirements for officers holding warrants were not being met. Also, the transmitting station and Embassy Kuwait City had not formally completed an exchange of diplomatic notes with the Government of Kuwait to amend the bilateral agreement to grant an additional FM radio frequency. Although it was clearly the intent of the Government of Kuwait to approve the U.S. request, the failure to complete this matter subjects future FM broadcasts of Radio Sawa to unnecessary risks.

Significant Management Success in Implementing OIG Recommendations

The BBG continues to take significant steps in implementing recommendations from Strategic Management of Human Capital and Workforce Planning Initiatives at the Broadcasting Board of Governors Report Number IBO-A-03-02, September 2003. For example, the agency completed a detailed annual plan for workforce diversity, including specific objectives, action items, and a thorough analysis of its workforce. The plan, along with the workforce analysis, has been filed with the Equal Employment Opportunity Commission. Further, BBG has pledged to ensure that workforce restructuring and human capital plans incorporate workforce diversity plans. In March 2004, BBG's Office of Civil Rights, in conjunction with the Diversity Leadership Council, plans to disseminate questionnaires for an agency-wide survey of attitudes in the current work environment.

As a result of training deficiencies impacting warrants, described in Inspection of the International Broadcasting Bureau's Kuwait Transmitting Station Report Number IBO-I-04-04, March 2004, BBG sent a January 2004 instruction alerting BBG domestic and overseas staff to mandatory training requirements prescribed by the Office of Federal Procurement Policy (OFPP) and detailed how this training requirement could be satisfied. OIG did see evidence later that IBB engineering staff were taking immediate action. However, perhaps because the BBG instruction focused on transmitting stations about to be inspected by OIG, Voice of America correspondents did not appear to be sensitized to the need to comply with OFPP guidance. Although an important step was taken, more work remains to be done.

LIST OF ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
BBG	Broadcasting Board of Governors
BPP	Bureau Performance Plan
CA	Bureau of Consular Affairs
CFMS	Central Financial Management System
CFPS	Central Financial Planning System
CIPE	Center for International Private Enterprise, Inc.
Department	Department of State
EB	Bureau of Economic and Business Affairs
ECA	Bureau of Educational and Cultural Affairs
ELSO	European Logistical Support Office
EU	European Union
FACTS	Federal Agencies' Centralized Trial-Balance System
FCS	Foreign Commercial Service
FFMIA	Federal Financial Management Improvement Act of 1996
FSN	Foreign Service National
GAO	General Accounting Office
IBB	International Broadcasting Bureau
IM	Information Management
IRM	Bureau of Information Resource Management
IT	Information Technology
MEPI	Middle East Partnership Initiative
MPP	Mission Performance Plan
NATO	North Atlantic Treaty Organization
NDI	National Democratic Institute for International Affairs

NEA	Bureau of Near Eastern Affairs
NEA/PI	Bureau of Near Eastern Affairs/Office of the Partnership Initiative
OBO	Bureau of Overseas Buildings Operations
OCB	Office of Cuba Broadcasting
OFPP	Office of Federal Procurement Policy
OIG	Office of Inspector General
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
PART	Performance Assessment Review Tool
PMA	Presidential Management Agenda
RFA	Radio Free Asia
RFE/RL	Radio Free Europe/Radio Liberty
RIMC	Regional Information Management Center
RM	Bureau of Resource Management
SA	Bureau of South Asian Affairs
SEVIS	Student and Exchange Visitor Information System
Treasury	Department of the Treasury
USIA	U.S. Information Agency
USAID	U.S. Agency for International Development
USEU	U.S. Mission to the European Union
USFK	U.S. Forces in South Korea
USNATO	U.S. Mission to the North Atlantic Treaty Organization
USUN	U.S. Mission to the United Nations
VOA	Voice of America

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

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Section 5(a)(4)	Matters referred to prosecutive authorities	61-65, 83-85
Section 5(a)(5)	Information or assistance refused	None
Section 5(a)(6)	List of reports issued	67-69, 87
Section 5(a)(7)	Summaries of significant reports	17-59, 75-82
Section 5(a)(8)	Audit reports—questioned costs	71, 89
Section 5(a)(9)	Audit reports—funds to be put to better use	72, 90
Section 5(a)(10)	Prior audit reports unresolved	71-72
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which OIG disagreed	None

Summary of OIG Accomplishments

Financial Results:

Questioned costs

Issued during the reporting period	\$ 789, 000
Management decision during the reporting period	\$ 515,000

Recommendations for funds to be put to better use

Issued during the reporting period	\$ 0
Management decision during the reporting period	\$ 0

Investigative recoveries

\$ 20,119

Investigative Results:

Cases opened	23
Cases closed	12
Judicial actions	21
Administrative actions	6
Hotline and complaint activity	184

Reports Issued:

52

Pictured on the front cover: Embassy Kathmandu, Nepal

Photo provided by Office of Overseas Buildings Operations

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