



Office of Inspector General United States Department of State

MANAGEMENT CHALLENGES AND OVERSIGHT OF DEPARTMENT OF STATE AND UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAMS

STATEMENT BY
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COMMITTEE ON APPROPRIATIONS, SUBCOMMITTEE ON
STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS

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Chairwoman Lowey, Ranking Member Rogers, and other Members of the Subcommittee, thank you for inviting me to testify today regarding the work of the Office of Inspector General (OIG) for the Department of State (Department) and the U.S. Agency for Global Media (USAGM, formerly Broadcasting Board of Governors). We appreciate your interest in and support of OIG's work.

In this testimony, I will highlight some of our recent work, including our oversight of top management challenges facing the Department and USAGM. I will also discuss priority recommendations and issues, OIG initiatives, and the impact of our work.

I. MISSION AND OVERSIGHT EFFORTS

It is my honor to have led OIG since the beginning of FY 2014, and I am pleased to have this opportunity to discuss our work. OIG's mandate is extensive, requiring us to oversee both Department and USAGM programs and operations, which include more than 75,000 employees and over 270 overseas missions and domestic entities. We are responsible for oversight of more than \$70 billion in Department and USAGM programs and operations, including more than \$14 billion in combined annual appropriations and more than \$18 billion in Department-managed foreign assistance.

Additionally, our mandate is unique in that we are statutorily required to inspect and audit every domestic and overseas operating unit of the Department and USAGM at least once every 5 years (although this requirement has routinely been waived by Congress). Due to our limited resources, OIG employs a risk-based approach to planning inspections that allows us to use our resources more efficiently. Under this approach, we are focusing on higher risk missions and tailoring inspections to the needs at specific posts.

Our work has resulted in significant monetary and non-monetary benefits for the Department, USAGM, and the American public. I discuss these results in more detail below.

Management and Performance Challenges: Department of State

In this testimony, I will focus on the Department's top management and performance challenges as identified in the statutorily mandated annual report on this matter. In FY 2018, we noted seven key challenges: the protection of people and facilities; oversight of contracts, grants, and foreign assistance; information security and management; financial and property management; operating in contingency and critical environments; workforce management; and promoting accountability through internal coordination and clear lines of authority.

Protecting People and Facilities

One of OIG's top priorities is overseeing the protection of the Department's greatest asset, its people. The threat of terrorism or physical violence against U.S. diplomats and U.S. diplomatic facilities touches every region of the world. Additionally, natural disasters, environmental hazards, and ordinary crime continually pose risks to the health and safety of Department personnel and their families serving abroad.

Although the Department has made improvements in overseas safety and security since the 2012 attacks in Benghazi, Libya, our inspection and audit work continues to identify vulnerabilities that put

our people at risk. Given the sensitive nature of OIG's work in this area, many of the reports related to safety and security are classified. As these reports pertain to some of our most important work—including, for example, setback and perimeter issues at overseas posts; employees working in unprotected spaces, such as warehouses; and the status of emergency medical supplies at some posts—I encourage you to review those materials in an appropriate setting. This testimony includes only information that is publicly available, much of which relates to the day-to-day work Department employees perform—the safety and appropriateness of the facilities in which they work, the vehicles that they drive, and the places where they live.

Constructing and maintaining safe and secure diplomatic facilities has been an ongoing challenge for the Department, and this challenge is compounded in regions affected by conflict and humanitarian crises. In existing facilities, our inspection work frequently finds overseas posts that lack comprehensive and routine preventative maintenance programs. In new construction, one significant challenge our work increasingly highlights is the management and oversight of construction contracts. Aside from their substantial cost, they have significant security implications. For example, OIG examined the construction of two buildings at Embassy Kabul. In one audit report, OIG concluded that poor quality assurance and oversight of the construction process resulted in a failure to adhere to electrical and fire safety standards. A follow-up report in FY 2018 also revealed risks to personnel and property due to the improper installation of the embassy's fire alarm system as part of a major office and residential expansion.

As a general matter, we have found that systemic issues in the Department contribute to our concerns about physical security measures. One longstanding and significant issue is the tracking and prioritizing of physical security needs at overseas posts. Although the Department has made substantial progress in this area, as I will discuss later in this testimony, work remains.

Another area of OIG focus related to the safety of Department personnel has been the operation of official vehicles overseas. Our inspection work continues to find longstanding deficiencies that pose health and safety risks. These include failure to follow policies related to permissible work hours, lapses in medical clearances for operators of official vehicles, and outdated or absent safety training for drivers.

Finally, we have identified issues related to the Department's residential housing program and overseas posts' emergency preparedness that pose risks to the health and safety of Department personnel. In several FY 2018 and FY 2019 inspection reports, we identified posts that could not demonstrate they had properly inspected residential properties for health and safety risks before assigning employees to occupy them.

Oversight of Contracts, Grants, and Foreign Assistance

OIG continues to focus on oversight of contracts and grants, an area where the Department expends substantial resources. The Department's obligations in FY 2018 included approximately \$15 billion for contracted services and the same amount in grants and fixed charges. The Department faces continuing challenges managing its contracts, grants, and cooperative agreements, particularly those that are long term and complicated. The Department must ensure that contractors and grantees are appropriately selected, work is properly conducted and monitored, objectives of the grant or contract are achieved, and costs are effectively managed. As with ensuring the safety of personnel, management of grants and

contracts is especially challenging in conflict areas, which present unique obstacles to effective oversight.

Overall, we have found that the Department can significantly improve its oversight of contracts and grants. As a result, a large percentage of our audit and inspection reports address, at least in part, deficiencies in this area. Additionally, nearly 41 percent of the investigations OIG's Office of Investigations closed in FY 2018 related to contract and grant fraud. At the root of many of these deficiencies are inexperienced and untrained oversight personnel, staff rotations that lead to inefficiency, and complex programs and contracts that simply require more robust oversight. Although the Department has addressed some problems, particularly related to invoice review processes in certain bureaus, we continue to identify widespread weaknesses.

In recent reports, inspectors and auditors have noted that routine contract management tasks, such as validating performance metrics to assess contractor performance and maintaining complete and accurate contract files, were not being performed in compliance with Department guidance and Federal regulations. For example, an audit of food safety controls at Embassy Baghdad found that the Department failed to develop a quality assurance surveillance plan that included measurable and structured performance standards and was unable to provide documentation for over one-quarter of required food service inspections.

OIG's audit and inspection reports also highlight circumstances where contracting officer's representatives (CORs) served without proper training or without proper designation, which could affect their ability to ensure adequate oversight of contractors. For instance, in the audit report described above, the CORs assigned to the food services task order we audited—which had an obligated value of nearly \$300 million as of December 2017—had no experience in food safety and received no food safety training before assuming oversight responsibilities. Taking a more systemic view, one management assistance report identified structural issues that contribute to the agency's widespread contract oversight challenges. It reported that the broad dispersal of CORs throughout the Department limits the ability of Washington-based contracting officers and Office of the Procurement Executive specialists to oversee the performance of CORs who often work in other bureaus and offices, frequently far from Washington, D.C.

Inadequate or unskilled contract oversight can be costly for the Department. For example, OIG found that contracting personnel for the same food services task order at Embassy Baghdad referenced above did not effectively implement contractually established cost controls to protect the Department's financial interest. We identified approximately \$45 million in questioned costs in this review.

A growing body of OIG's work addresses a subset of Department contracts: those for the construction of new diplomatic facilities. These contracts are usually long term, complex, and of high value. The inadequate management and oversight of construction poses significant financial risks for the Department. One approach intended to reduce costs for high-value contracts is the value engineering program—a systematic process of reviewing and analyzing systems, projects, equipment, facilities, services, and supplies for the purpose of achieving the essential functions at the lowest life-cycle cost consistent with required levels of performance, reliability, quality, or safety. Although Office of Management and Budget policy requires agencies to have a value engineering program, we found that the Department had not implemented one outside of OBO. Moreover, in an audit of the OBO value

engineering program, we could not complete some planned analysis because of missing documentation that prevented auditors from evaluating the overall effectiveness of the program. Therefore, we concluded that the Department is missing opportunities to consider cost reductions for major procurements, including construction projects.

With regard to grants and foreign assistance programs, we have noted problems with performance monitoring and risk assessment. For example, in an inspection of the Bureau of African Affairs foreign assistance program, we reported a lack of documented processes related to foreign assistance project planning, monitoring and evaluation, and risk management. We concluded that the program did not consistently deploy monitoring and evaluation resources effectively across the bureau and did not coordinate site visits.

Additionally, several FY 2018 reports identified concerns regarding the Department's ability to plan and design foreign assistance programs that meet policy goals. For example, in one Bureau of International Law Enforcement Affairs foreign assistance program in Central America, our inspection work found that inadequate planning resulted in the acquisition and provision of unusable equipment. Specifically, five helicopters furnished to the host government could not be used for drug interdiction missions—a core focus of the program—because they had been grounded since 2016 as a result of poor maintenance. On a broader scale, an audit of the Department's aviation program found that the Department had not succeeded in permanently increasing host nations' institutional capability to operate programs without U.S. Government assistance. Efforts to do so have faltered primarily because transition plans, including benchmarks, had not been developed and executed with the host countries.

Information Security and Management

The Department depends on information systems and electronic data to carry out essential functions that are critical to its mission. The Department is entrusted with sensitive information, both classified and unclassified, which it processes and stores on those systems. The security of these systems is vital to protecting national and economic security, public safety, and the flow of commerce. IT security and management is a longstanding and significant management challenge for the Department.

As in prior years, OIG's annual assessment of the Department's information security program identified numerous control weaknesses that significantly affected program effectiveness and increased the Department's vulnerability to cyberattacks and threats. Additionally, our other work continues to identify various areas where the Department could strengthen its cybersecurity performance. For example, our inspection work noted numerous lapses in the performance of Information Systems Security Officer (ISSO) duties at overseas posts. This is a significant risk because ISSOs are responsible for implementing the Department's information systems security program and for working closely with system managers to ensure compliance with information systems security standards. Several inspections of overseas posts also noted deficiencies in IT contingency planning, which risks ineffective responses to or loss of critical communication during an emergency crisis. Finally, we have repeatedly identified concerns regarding the Department's ability to maintain an accurate inventory of its IT assets.

Two of the issues that contribute to OIG's concerns regarding IT security and management at the Department are the lack of an effective risk management strategy and dispersed authority for IT matters. In particular, the Chief Information Officer (CIO), who is the head of the Bureau of Information Resource Management (IRM), is not well placed in the organization to be fully accountable for

information security program issues. For example, DS, which also has information security responsibilities, does not report to the CIO. During FY 2018, the Department took some steps to strengthen the delegation of authority to the CIO. We will assess whether this change noticeably improves the Department's IT security program during our FY 2019 audit of this topic.

This management challenge is particularly significant because of the uniquely broad effect that information security program weaknesses have on the Department's overall programs and operations. Such weaknesses can affect the integrity of financial applications, which, in turn, increases a variety of risks.

Financial and Property Management

Financial management has historically been a challenge for the Department, and we continue to identify wide-ranging concerns related to this issue and to property management.

Weaknesses in the Department's collection, use, and analysis of financial information are a particularly significant manifestation of this challenge. In one notable report from FY 2017, OIG highlighted significant flaws in the Department's processes that set certain cost-of-living allowances for Department employees who are stationed in foreign areas. Our report described a laborious, subjective, and error-prone process for gathering data that has not changed in decades. We estimated that using independent economic data, instead of collecting the underlying information on its own, would have saved the Department more than \$18 million from FY 2013 to FY 2015 at six of the seven posts audited. Nonetheless, our recommendation to develop and implement a plan to use independent economic data to determine post allowance rates remains unimplemented.

We regularly identify internal control weaknesses at the Department, which is another subset of its financial and property management challenge. Internal control deficiencies span a wide range of Department operations and may be related to unliquidated obligations, acquisition planning, warehouse operations, or oversight of bulk fuel inventory, to name a few examples. In one FY 2018 audit, we found that the Department is not optimally managing aviation resources and that it spent \$72 million on unnecessary services over a 4-year period. Our audit report noted that a lack of procedures and guidance contributed to insufficient accountability over aircraft equipment and improper disposal of aircraft, placing aviation assets at increased risk for fraud, waste, and abuse.

Lastly, we assess the difficulty the Department faces in tracking and reporting on foreign assistance funds under this challenge. The lack of information on this crucial aspect of the Department's work hinders its ability to manage foreign assistance resources strategically, identify whether programs are achieving objectives, and determine how well bureaus and offices implement foreign assistance programs. I will discuss this further when I highlight our priority issues below.

Operating in Contingency and Critical Environments

We recognize the unique difficulties the Department faces in managing posts and programs in environments characterized by contingency operations or other types of conflict or instability. Because of the security concerns, constant change, and sometimes dramatic swings in personnel and funding that can occur in these environments, every other challenge the Department faces is magnified in these locations.

Managing contracts and foreign assistance can be particularly challenging in contingency and critical environments, and our audit work concerning security-related construction projects at Embassy Kabul demonstrates this well. In one audit of new construction projects at Embassy Kabul, we found the Department declared new construction substantially complete even though 14 major buildings systems were not fully tested and confirmed to meet the design intent and specified performance requirements. We learned that an unstable security environment and the pressure to move staff into hardened structures contributed to this action, which ultimately resulted in personnel occupying buildings that had a range of ongoing deficiencies, including issues affecting plumbing systems and heating, ventilation, and air conditioning systems. As noted previously, some of the identified deficiencies created electrical and fire safety issues. Similarly, at Embassy Baghdad, Department officials told us they did not implement a point-of-sale cafeteria system because of a security-related crisis in Iraq and later because of morale concerns. Further, officials told us that local national employees were allowed access to the dining facility because contractual limitations were ignored and adequate controls were not implemented. As a result of these weaknesses in oversight, we estimated that the Department inappropriately paid for at least 450,000 meals valued at more than \$4 million.

Financial and property management challenges are also exacerbated in difficult operating environments. For example, in an inspection of the Yemen Affairs Unit we found that the Department lacked critical information needed to make informed decisions about retaining a leased residential facility that OIG estimated would cost more than \$23 million to operate in FY 2018 and FY 2019. Similarly, lost records made addressing unliquidated obligations difficult and labor-intensive.

Workforce Management

A challenge we first identified in FY 2017 and again in FY 2018 is workforce management. Across functional areas and geographic regions, OIG found that inexperienced staff, insufficient training, staffing gaps, and frequent turnover contribute to the Department's other management and performance challenges. These problems afflict programs and operations domestically and overseas and are identified in a range of reports that cover a variety of topics.

Deficiencies associated with oversight of contracts and grants are sometimes connected to these issues. For example, an audit of the Bureau of Near Eastern Affairs' selection and management of contract oversight personnel illustrated how the Department's contract oversight and workforce management challenges intersect. We found that the bureau did not consistently nominate CORs with the required certification level and technical expertise to oversee contracts in Iraq and did not always effectively evaluate the performance of contract oversight staff. As a result, we also found deficiencies in COR files and contractor performance monitoring. In another example, we found that in one office in IRM, a single COR was responsible for overseeing 14 complex contracts worth over \$100 million per year in FY 2016 and FY 2017. As a result, we found oversight weaknesses, including approval of invoice payments without appropriately verifying that goods had been received.

More generally, we see that many Foreign Service personnel are assigned management of contracts and grants as a collateral duty but do not receive the necessary training. Most Foreign Service employees rotate in and out of posts frequently, and some assignments are as short as 1 year. As a result, many

large grants and contracts have multiple employees overseeing them, which leads to a lack of both continuity and accountability.

Another area of concern is significant staffing shortfalls at certain bureaus. For example, our inspection of the Bureau of African Affairs noted the bureau's profound difficulties in attracting Foreign Service Officers to its overseas posts. The Bureau of South and Central Asian Affairs experiences similar challenges.

Promoting Accountability Through Internal Coordination and Clear Lines of Authority

Another challenge that we first identified in FY 2017 relates to internal coordination and clear lines of authority. We found that poor coordination and vague or dispersed authority are often at the root of some of the Department's other challenges. This is a concern that affects a wide range of Department functions. It is often implicated in problems particular to certain Department programs or projects, and it is likewise relevant to some of the Department's more longstanding and systemic difficulties, including ensuring physical and information security, both of which I mentioned previously.

In one FY 2018 report, OIG found that the Department did not effectively implement its non-financial management control program. Although Department policy gave overall responsibility for designing this program to the Bureau of the Comptroller and Global Financial Services (CGFS), the Department's Comptroller stated that the policy did not accurately reflect the entities responsible for particular tasks and that such obligations were actually split between CGFS and the Office of Management Policy, Rightsizing, and Innovation. We concluded that, nonetheless, the two entities did not coordinate or maintain close communication and did not have the same understanding of their respective obligations. This report illustrates how unclear lines of responsibility make it more difficult for the Department to manage its overall risks.

Additionally, in a review of passport seizures at Embassy Sana'a, Yemen, we found that diffused and overlapping legal responsibilities at the Department—along with the lack of a single decision maker with clear authority for resolving differing viewpoints—contributed to the prolonged and difficult search for a resolution.

Management and Performance Challenges: U.S. Agency for Global Media

During my tenure, we have issued numerous reports on USAGM programs and operations. Many challenges we identified are similar to those affecting the Department, including information security and management, financial and property management, and grants management. For example, in our annual assessment of its information security program, we reported that USAGM has not fully developed and implemented an effective organization-wide program to identify, protect, detect, respond to, and recover from information security weaknesses using risk-based decisions.

Additionally, we recently issued a targeted inspection of USAGM's governance structure, which had undergone changes in response to prior OIG recommendations. Although we identified some persistent deficiencies related to internal controls and workforce management, we reported that the governance structure in place since 2015—led by a CEO supported by a bipartisan board that had transitioned to a more advisory role—significantly improved the executive direction of the agency.

II. PRIORITY RECOMMENDATIONS AND ISSUES

Many of our recommendations are specific to particular posts or programs, but others address more systemic issues that have the potential to improve overall operations of the Department and USAGM. With respect to the Department, we believe that taking action on the following issues would go far in addressing the most important management challenges.

As to physical security, DS and OBO have overlapping responsibilities for crucial physical security issues. As described above, OIG recommended that the bureaus develop and implement formal, standardized processes to prioritize physical security needs. Follow-up work found that the Department made significant progress on this recommendation by developing and populating a physical security deficiencies database to collect all deficiencies at overseas posts. Nonetheless, it has not yet fully implemented a process to prioritize, fund, and plan for security upgrades in a systematic, deliberate way.

On the topic of IT, we have reported on deficiencies with the Department's risk management strategy for the past 5 years, and we continue to urge the Department to implement a strategy to identify, assess, respond to, and monitor risk. Although a Cyber Risk Office was established in the Bureau of Information Resource Management, we found little had been accomplished on a strategy as of the issuance of our annual information security program audit report in October 2018. An effective organization-wide approach would enable the Department to understand its current risk profile, identify opportunities to improve risk management, and communicate risk. As described previously, another IT issue of concern to OIG is the organizational placement of the CIO. We will continue to monitor whether further corrective action is required to ensure that the Department properly manages its information security risk.

Another longstanding issue relates to the tracking of foreign assistance. In a 2017 compliance follow-up review, we found that the Department did not comply with 2015 recommendations to implement a comprehensive plan for tracking and reporting foreign assistance funding. Without such a system, the Department cannot make data-driven decisions. We accordingly recommended that the Deputy Secretary issue clear requirements for the data needs of senior Department policymakers and prioritize the Department's efforts related to foreign assistance tracking and reporting. The Department took sufficient action to close this recommendation in April 2018. In FY 2020, however, we plan to follow up on how the Department has developed and implemented plans to address foreign assistance management, including legal and regulatory oversight needs and external reporting requirements.

To reiterate, I treat these issues as a priority in large part because they relate to the systemic concerns that we have identified as key management challenges. Attention to these issues—particularly the need for coordination and clear lines of authority—will go far in addressing specific deficiencies identified in individual reports.

III. OIG INITIATIVES

Since I became Inspector General in FY 2014, we have undertaken a number of initiatives to make the most of our limited resources to further our oversight mission. Soon after my arrival, we began to issue management assistance reports and management alerts to alert senior Department leadership to

significant issues requiring immediate corrective action. These reports allow us to bring issues that we identify in the course of fieldwork to the Department's attention quickly, without waiting for the conclusion of our overall work.

In August 2016, OIG established its own IT network. Before we made this change, our IT infrastructure was part of the Department's unclassified network, which meant that vulnerabilities in that network directly affected us. Moreover, the contents of our unclassified network could be accessed easily by the Department, a situation that placed our independence at unnecessary risk and did not reflect best practices within the IG community.

More recently, to further enhance our commitment to transparency, we started posting monthly reports to our website. These reports identify our unclassified recommendations, which include the total number of open recommendations as well as the number of recommendations closed in the previous month. Additionally, for relevant congressional committees, we provide monthly information on unclassified, classified, and sensitive but unclassified recommendations.

We also continue to fulfill our responsibilities related to whistleblower protection. In addition to conducting outreach to educate Department and USAGM employees on the rights and protections available to whistleblowers, our whistleblower protection coordinator oversees investigations of allegations of retaliation filed by employees of contractors, subcontractors, grantees, subgrantees, and personal services contractors.

IV. IMPACT OF OIG'S WORK

Through our audits, evaluations, inspections, and investigations, OIG returns substantial value to the American public. In my first 5 years as Inspector General (FY 2014-FY 2018), we issued more than 600 reports and identified more than \$1.7 billion in potential monetary benefits, which amounts to a fourfold potential return to taxpayers for every dollar appropriated to OIG.

Additionally, OIG embraces its mission to protect people and information, although these efforts rarely result in a monetary return on investment. By helping the Department improve its security, OIG's work safeguards the lives of people who work in or visit our posts abroad. Our security work is a source of immense pride.

Since 2014, our investigative work has seen consistent and positive growth in administrative actions and criminal convictions associated with our cases. For example, one of our investigations resulted in the conviction and sentencing of a former Department employee to 26 years in prison for conspiring to produce more than 1,000 sexually explicit images and videos of minor children in Canada during a 2-year period. Another investigation led to a Department contract company agreeing to pay a nearly \$1 million administrative settlement to resolve allegations that it knowingly provided false information to the Department. Our special agents determined that the company did not comply with contractual obligations to ensure that U.S. embassy local guard force personnel were adequately trained to contract specifications. Finally, a joint investigation with the Department's Bureau of Diplomatic Security resulted in the sentencing by a foreign court of three Department locally employed staff, along with three local foreign national citizens, to probation. The court also ordered restitution of \$460,000 to the Department, in addition to various fines. The individuals participated in a large-scale theft of approximately \$2.3 million in diesel fuel from Embassy Tbilisi, Georgia. In addition, 11 individuals were

debarred, and post management terminated six employees. At least two pensions were withheld, resulting in approximately \$46,500 in funds put to better use.

In recent years, we have also observed notable improvements on specific aspects of Department programs and operations. Regarding the physical security deficiencies database I mentioned previously, the Department has completed the majority of past-due physical security surveys and populated the deficiencies database, and the work done thus far has already made the database a useful tool. As I emphasized with respect to our priority recommendations, though, the Department must still implement a method for prioritizing those deficiencies, and this vital aspect of our recommendation should be addressed as soon as possible. The Department also developed an e-filing document management system for CORs to store contract files that had previously been kept in hard copy. Although the development of the e-filing system is an important step toward providing effective contract file inventory control, the Department has not fully deployed it and required its use. We recommended that the Department issue guidance mandating use of the system. In response to our audit and inspection of the armored vehicle program, which illustrated program management deficiencies and health and safety issues, the Department made a number of improvements to the program. For example, the Department established mandatory training for all overseas professional drivers and developed and implemented an armored vehicle program plan and hired a program manager. The Department is also working to develop a system to ensure that posts are reassessing the need for armored vehicles at posts and an oversight mechanism to ensure posts are performing the reassessment.

VI. CONCLUSION

In conclusion, I want to again thank Chairwoman Lowey, Ranking Member Rogers, and other Members of the Subcommittee for inviting me to testify. I also want to emphasize that OIG's accomplishments are a credit to the talented and committed staff that I have had the privilege to lead, and I also want to thank them for their hard work. I take my statutory requirement to keep the Congress fully and currently informed seriously, and I appreciate your interest in our work.