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OIG

Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

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Compliance Follow-up Review: Department of State is Still Unable to Accurately Track and Report on Foreign Assistance Funds

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Summary of Review

OIG conducted a compliance follow-up review of the Department of State's (Department) implementation of the recommendation in *Management Assistance Report: Department Financial Systems are Insufficient to Track and Report on Foreign Assistance Funds* (ISP-I-15-14, February 2015). OIG determined that the Department had not complied with the report's recommendation to implement a comprehensive plan with target completion dates to ensure it is able to accurately track and report foreign assistance funding.

In 2014, the Department created a working group to address the challenge of tracking and reporting foreign assistance activity. This working group ultimately attempted to address the shortcomings identified in the 2015 OIG report. OIG found the group had made limited progress and lacked executive guidance and support. The working group's current approach would cost an estimated \$1 million, but OIG concluded it would not produce the full range of data useful to senior policymakers, the bureaus that manage foreign assistance programs, or external audiences. Because the Department had made such limited progress in building the capacity to centrally track foreign assistance data, OIG strengthened and reissued the recommendation in the original report and made an additional recommendation focused on the need for executive leadership to address this Department-wide management challenge.

BACKGROUND

Congress appropriates foreign assistance funding in support of diverse U.S. policy objectives around the world, including security, public health, democracy and governance, humanitarian relief, and nonproliferation, among others. In FY 2015, Congress appropriated \$32.6 billion in foreign assistance funds for the Department and the U.S. Agency for International Development (USAID). In addition to the foreign assistance funds they manage, the Department and USAID can also transfer funding to other Federal agencies to implement programs on their behalf.¹ The Department of Defense, Department of Justice, and the Centers for Disease Control and Prevention are the primary recipients of such transferred funds from the Department. For the foreign assistance funds directly managed by the Department's bureaus and offices, annual outlays increased from approximately \$2.43 billion in FY 1998 to \$4.70 billion in FY 2015—a 93 percent increase.² The number of Department bureaus and offices responsible for managing foreign assistance resources increased from 15 to 22.

Since the creation of the Office of U.S. Foreign Assistance Resources in 2006, the Department has standardized and centralized its foreign assistance budget planning and request processes.³ However, it has not developed a corresponding ability to centrally oversee and manage foreign assistance funds once they have been appropriated. The Department's financial management

¹ The authority to transfer foreign assistance funds comes from the Foreign Assistance Act of 1961, as amended.

² This estimate, calculated by OIG, reflects foreign assistance accounting transactions reported by the Department on www.foreignassistance.gov.

³ Foreign assistance program sectors were adopted as a Department standard by the Application and Data Coordination Working Group in March 2016.

and procurement IT systems were not designed to track and report programmatic details of foreign assistance. In response, individual bureaus and offices have spent millions of dollars and assigned considerable personnel to develop and maintain their own foreign assistance program management IT systems; alternatively, individual bureaus and offices rely on labor-intensive manual data collection processes.

As a result, the Department cannot obtain timely and accurate data necessary to provide central oversight of foreign assistance activities and meet statutory and regulatory reporting requirements.⁴ For example, the Department cannot readily analyze its foreign assistance by country or programmatic sector or determine what particular funds remain unspent. This lack of data hinders Department leadership from strategically managing foreign assistance resources, identifying whether programs are achieving their objectives, and determining how well bureaus and offices implement foreign assistance programs.

OIG inspections and Government Accountability Office (GAO) evaluations have consistently cited the Department's inability to provide authoritative foreign assistance financial information as a program management challenge. For example, OIG's inspection of Embassy Cairo, Egypt⁵ found that information on the post's foreign assistance programs resided in more than 50 separate documents and systems,⁶ hampering the embassy's ability to oversee funding. Similarly, GAO evaluations of the Central America Regional Security Initiative⁷ and the Trans-Sahara Counterterrorism Partnership⁸ found that the Department was unable to produce reliable data on its foreign assistance activities.

In its 2015 Management Assistance Report, OIG recommended that the Department develop a comprehensive solution with target completion dates to address shortcomings in foreign assistance tracking and reporting. OIG conducted this compliance follow-up review to evaluate the Department's progress in implementing the recommendation. OIG concluded that, as of January 2017, the Department had not yet developed a means to address shortcomings in foreign assistance tracking and reporting.

LIMITED PROGRESS IN DEVELOPING A COMPREHENSIVE PLAN

In 2014, the Department constituted a working group, the Foreign Assistance Data Review (FADR), to improve the Department's foreign assistance data tracking and reporting. The Office

⁴ Consistent with the Office of Management and Budget's *Open Government Directive* (M-10-06) and *Bulletin No. 12-01—Guidance on Collection of U.S. Foreign Assistance Data*, the Department is required to make data on its foreign assistance activities available to the public. The Department's requirement to publish foreign assistance data was codified in the *Foreign Aid Transparency and Accountability Act of 2016*.

⁵ Inspection of Embassy Cairo, Egypt (ISP-I-16-15A), April 2016.

⁶ The inspection was completed prior to Embassy Cairo, Egypt's full deployment of the State Award Management System Overseas.

⁷ U.S. Agencies Considered Various Factors in Funding Security Initiatives, but Need to Assess Progress in Achieving Interagency Objectives, GAO-13-771. September 25, 2013.

⁸ U.S. Effects in Northwest Africa Would Be Strengthened by Enhanced Program Management, GAO-14-518. June 24, 2014.

of Management Policy, Rightsizing, and Innovation, along with the Office of U.S. Foreign Assistance Resources, coordinate the FADR working group.⁹ Owners of the Department's financial and procurement IT systems, including the Bureau of Administration and the Bureau of the Comptroller and Global Financial Services (CGFS), also participated. Although USAID and the Department jointly request their foreign assistance budgets, USAID participation in the working group was limited to USAID employees on detail assignment to the Office of U.S. Foreign Assistance Resources. USAID has managed its foreign assistance activities through an integrated system known as Phoenix since 2006. Also, FADR did not have regular participation from senior Department officials with the position and authority to pull together the many disparate constituencies represented in the working group.

Although the working group was not established for the purpose of addressing the 2015 OIG report, it ultimately assumed responsibility for addressing the issues identified in that report and in the related recommendation. Accordingly, OIG addressed the working group's efforts during this follow-up review. In doing so, OIG determined that the FADR process added value by bringing together diverse Department stakeholders with responsibilities related to managing foreign assistance to discuss possible solutions. One significant outcome was the creation of a "data dictionary" that establishes a standard set of 57 data elements and definitions for Department-wide reference and incorporation into systems, which represents progress towards greater standardization. The Deputy Secretary for Management and Resources approved the data dictionary in September 2016.

However, OIG determined that FADR had made limited progress in meeting its goal of developing a comprehensive plan to improve the Department's foreign assistance data tracking and reporting. For example, FADR could not agree on how to define, measure, and track the foreign assistance "pipeline," or unspent program funds. The ability to monitor pipeline funds is necessary to allow the Department to identify resources that are not being fully used and diagnose possible program management challenges.

FADR also lacked adequate senior-level guidance and oversight needed for a well-defined outcome. For example, FADR was unable to agree on how to collect key data elements using existing financial and procurement IT systems, and no participant in the working group had the authority to engineer a solution. Bureaus were reluctant to abandon their individual internal procedures and IT solutions for tracking and managing foreign assistance programs. Data-entry and training requirements associated with system changes also limited the willingness of bureaus to implement the tracking options under consideration. Meanwhile, the Bureau of Administration and CGFS were unable to modify their IT systems to accommodate the bureau and office's divergent business processes.

⁹ FADR participants include representatives from the regional bureaus (the Bureaus of African Affairs; East Asian and Pacific Affairs; European and Eurasian Affairs; Near Eastern Affairs; South and Central Asian Affairs; and Western Hemisphere Affairs); the Bureaus of Administration; Arms Control, Verification, and Compliance; Budget and Planning; Comptroller and Global Financial Services; Counterterrorism; International Narcotics and Law Enforcement Affairs; Information Resource Management; International Security and Nonproliferation; and Population, Refugees, and Migration; the Office to Monitor and Combat Trafficking in Persons; and Office of the U.S. Global AIDS Coordinator.

MORE ROBUST PLANNING AND DIRECTION NEEDED

As of January 2017, FADR was exploring limited changes to financial and procurement IT systems to capture single-country or single-program sector data for foreign assistance grants.¹⁰ For example, the system would capture information on a grant to support civil society in a single country. The working group determined that developing limited central reporting capability would be an important step because it would give the Department some central tracking capability for the first time. The Department estimated that this initial step would cost at least \$1 million and require a year to modify the Department's grants management system (the State Assistance Management System) to implement the changes envisioned by FADR.¹¹ Working group leaders did not have an estimate of the percentage of foreign assistance grants that could be reported accurately through this approach.

OIG's analysis of Department data concluded that the limited changes the FADR working group envisioned would not produce representative data for multi-country and multi-sector grants.¹² Multi-country and multi-sector awards constitute a substantial portion of the Department's foreign assistance activity. For example, an OIG review of 10 FY 2016 grants with a total value of \$91.3 million issued by the Bureau of Near Eastern Affairs and the Bureau of Democracy, Human Rights, and Labor found that 49 percent of funds obligated could be attributed to either multiple countries or multiple sectors, or both.¹³ Representatives of other bureaus told OIG that they also manage foreign assistance awards that encompass multiple countries and sectors.

Moreover, FADR's proposal would not capture data on contracts, interagency agreements, or miscellaneous transactions, which OIG estimated represented \$381 million in annual foreign assistance obligations and more than 20,000 discrete accounting transactions in FY 2015.¹⁴ These figures amount to 11.2 percent of total obligations and 75.4 percent of all accounting transactions reported in FY 2015.

In sum, the consensus-driven, working-level FADR process has been unable to produce and implement a comprehensive plan to resolve shortcomings in the Department's tracking,

¹⁰ The proposed solution would capture foreign assistance funds obligated as grants, cooperative agreements, assessed contributions, voluntary contributions, and grants to individuals; it would also capture property and letter grants.

¹¹ Notably, this estimate did not include the cost for CGFS to develop a method to integrate grants system data with financial system information in a separate Global Business Intelligence platform that CGFS is in the process of developing.

¹² For example, the Bureau of Near Eastern Affairs (NEA) issued a \$4.8 million cooperative agreement in FY 2016 to fund college scholarships for economically disadvantaged students from eight countries. Similarly, the Bureau of Democracy, Human Rights, and Labor (DRL) manages a \$9.8 million cooperative agreement that contributes to three sectors (conflict mitigation and stabilization; civil society; and human rights). The recipient's most recent quarterly report describes activities benefitting more than 18 countries.

¹³ Due to a lack of central data on Department foreign assistance activities and variations in the types of programs implemented by each bureau, OIG was unable to determine whether the sample of DRL and NEA awards is representative of the Department's overall foreign assistance obligations. For example, the Department reported on foreignassistance.gov that out of \$3 billion in reported obligations, it issued no new single-country grants in FY 2015.

¹⁴ For example, the Bureau of African Affairs programs most of its counterterrorism and peacekeeping assistance on contracts.

reporting and program management of foreign assistance funds. The process needs senior-level commitment and oversight. Accordingly, OIG has directed its updated recommendations to the Deputy Secretary, who is responsible for giving general supervision and direction to all elements of the Department and thus is in a position to address this Department-wide management challenge.

Recommendation 1: The Deputy Secretary should issue clear requirements for the data needs of senior Department policymakers and prioritize efforts to create the capability for the Department of State to address foreign assistance management and legal and regulatory oversight needs as well as external reporting requirements. (Action: D)

Recommendation 2: The Deputy Secretary should assign a senior Department official to oversee the process of developing and executing a plan with clear milestones and target completion dates to address foreign assistance tracking and reporting requirements. (Action: D)

RECOMMENDATIONS

OIG provided a draft of this report to Department stakeholders for their review and comment on the findings and recommendations. The Department's complete response can be found in Appendix D.

Recommendation 1: The Deputy Secretary should issue clear requirements for the data needs of senior Department policymakers and prioritize efforts to create the capability for the Department of State to address foreign assistance management and legal and regulatory oversight needs as well as external reporting requirements. (Action: D)

Management Response: In its June 8, 2017, response, the Department concurred with this recommendation. The Department noted that it will submit a report setting a timeline for the collection of requirements and prioritizing these efforts to acquire the data and integrate the multiple systems involved.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation of the Department's new requirements for foreign assistance management and legal and regulatory oversight needs as well as external reporting requirements.

Recommendation 2: The Deputy Secretary should assign a senior Department official to oversee the process of developing and executing a plan with clear milestones and target completion dates to address foreign assistance tracking and reporting requirements. (Action: D)

Management Response: In its June 8, 2017, response, the Department concurred with this recommendation. The Department noted that it would assign a senior Department official to oversee the process.

OIG Reply: OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation of the assignment of a senior official to oversee the process.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

This compliance follow-up review was conducted in accordance with the Quality Standards for Inspection and Evaluation, as issued in 2012 by the Council of the Inspectors General on Integrity and Efficiency, and the Inspector's Handbook, as issued by OIG for the Department of State and the Broadcasting Board of Governors.

The Office of Inspections provides the Secretary of State, the Chairman of the Broadcasting Board of Governors, and the Congress with systematic and independent evaluations of the operations of the Department and the Broadcasting Board of Governors. Consistent with Section 209 of the Foreign Service Act of 1980, this inspection focused on the Department's resource management—whether resources are being used and managed with maximum efficiency, effectiveness, and economy and whether financial transactions and accounts are properly conducted, maintained, and reported.

OIG's specific inspection objective was to determine whether the Department had implemented the recommendation in the 2015 OIG Management Assistance Report (ISP-I-15-14, dated February 2015) and, if not, what further steps the Department must take to meet the recommendation, including revision or reissuance of the original recommendation.

In conducting this compliance follow-up review, OIG reviewed the recommendation issued in the original inspection report and the Department's reported corrective actions; collected and reviewed documentation and conducted interviews necessary to substantiate reported corrective actions; and reviewed the substance of the this Compliance Follow-up Report and its findings and recommendation with offices, individuals, and activities affected by this review.

Robert Silberstein and Jonathon Walz conducted this inspection.

APPENDIX B: STATUS OF 2015 INSPECTION RECOMMENDATION

Recommendation 1: The Deputy Secretary for Management and Resources, in coordination with the Offices of U.S. Foreign Assistance Resources and Management, Policy, Rightsizing and Innovation; and the Bureaus of Information Resource Management and the Comptroller and Global Financial Services, should develop a list of bureaus' requirements related to tracking and reporting foreign assistance funds by program, project, country, regional and purpose (sector) and implement a comprehensive plan with target completion dates to address foreign assistance tracking and reporting requirements. (Action: D-MR, in coordination with F, M/PRI, IRM, and CGFS)

Pre-CFR Status: Open

CFR Status: Revised and Reissued

APPENDIX C: INSPECTION TERMS AND DEFINITIONS

Compliance Response: A written response from the action office to which a recommendation has been assigned for action, informing OIG of agreement or disagreement with the recommendation. Comments indicating agreement shall include planned corrective actions and, where appropriate, the actual or proposed target dates for achieving these actions. The reasons for any disagreement with a recommendation must be explained fully. Where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not take action, the response must include the legal basis.

Final Action: The completion of all actions that the management of an action office, in its management decision, has concluded is necessary to address the findings and recommendations in OIG reports.

Finding: A conclusion drawn from facts and information about the propriety, efficiency, effectiveness, or economy of operation of a post, unit, or activity.

Management Decision: When the management of an action office for an OIG recommendation informs OIG of its intended course of action in response to a recommendation. If OIG accepts the management decision, the recommendation is considered resolved. If OIG does not accept the management decision and the issue cannot be resolved after a reasonable effort to achieve agreement, the Inspector General may choose to take it to impasse.

Open Recommendation: An open recommendation is either resolved or unresolved (see definitions of recommendation status below).

Recommendation: A statement in an OIG report requiring action by the addressee organizations or officials to correct a deficiency or need for change or improvement identified in the report.

Recommendation Status:

- **Resolved:** Resolution of a recommendation occurs when:
 - The action office concurs with the recommendation (a management decision has been accepted by OIG), but the action office has not presented satisfactory evidence that it has implemented the recommendation or some alternative course of action acceptable to OIG;
 - The action office informs OIG that it disagrees with all or part of the recommendation, and OIG agrees to accept partial compliance or noncompliance; or
 - Impasse procedures have led to a positive or negative final management decision.

- **Unresolved:** An unresolved recommendation occurs when the action office:

- Has not responded to OIG;
 - Has failed to address the recommendation in a manner satisfactory to OIG;
 - Disagrees with the recommendation and did not suggest an alternative acceptable to OIG; or
 - Requests OIG refer the matter to impasse, and the impasse official has not yet issued a decision.
- **Closed:** A recommendation is closed when one of the following situations applies:
 - OIG formally notifies the action office that satisfactory evidence of final action (i.e., information provided by the action office that confirms or attests to implementation) on an OIG recommendation has been accepted. The closing of a recommendation from an OIG report does not relieve the responsible manager of the obligation to report to OIG any changed circumstances substantially affecting the problem areas addressed in the recommendation or report and the effectiveness of agreed actions to correct these problems;
 - OIG acknowledges to the action office that an alternative course of action to the action proposed in the recommendation will satisfy the intent of the recommendation and satisfactory evidence showing that the alternative action has been completed is provided to OIG;
 - OIG agrees partial implementation is acceptable and has been completed; or
 - OIG agrees that noncompliance is acceptable.

APPENDIX D: MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

June 8, 2017

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TO: OIG – Sandra Lewis, Assistant Inspector General for Inspections

FROM: D – John J. Sullivan

SUBJECT: Response to Draft OIG Report – Compliance Follow-up Review: Department of State is Still Unable to Accurately Track and Report on Foreign Assistance Funds (ISP-C-17-27)

The Department has reviewed the draft OIG Inspection report. We provide the following comments in response to the recommendations provided by OIG:

OIG Recommendation 1: The Deputy Secretary should issue clear requirements for the data needs of senior Department policymakers and prioritize efforts to create the capability for the Department of State to address foreign assistance management and legal and regulatory oversight needs as well as external reporting requirements. (Action: D)

Management Response: D accepts this recommendation, which is consistent with the requirements of the Consolidated Appropriations Act, 2017 (P.L. 115-31). The Department will submit a report to Congress in June that sets a timeline for the collection of requirements and reflects the prioritization of these efforts given the complexity involved in acquiring the data and integrating and aligning multiple systems.

OIG Recommendation 2: The Deputy Secretary should assign a senior Department official to oversee the process of developing and executing a plan with clear milestones and target completion dates to address foreign assistance tracking and reporting requirements. (Action: D)

Management Response: D accepts this recommendation and will assign a senior Department official to oversee this process.

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