



Office of Inspector General
United States Department of State

AUD-SI-24-20

Office of Audits

August 2024

Audit of the Department of State's Program Design Plan Related to the Creating Helpful Incentives To Produce Semiconductors Act of 2022

SECURITY AND INTELLIGENCE DIVISION



HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-SI-24-20

What OIG Audited

The Creating Helpful Incentives To Produce Semiconductors Act (CHIPS Act) provided \$500 million (\$100 million per year over 5 years, starting in FY 2023) to the Secretary of State for international information and communications technology security and semiconductor supply chain activities. According to the CHIPS Act, these activities include supporting the development and adoption of secure and trusted telecommunications technologies, secure semiconductors, secure semiconductors supply chains, and other emerging technologies.

The Office of Inspector General conducted this audit to determine whether the Department of State (Department) applied program design principles as described in the Foreign Affairs Manual (FAM), 18 FAM 301.4, "Department of State Program and Project Design, Monitoring, and Evaluation," to implement CHIPS Act-related activities.

What OIG Recommends

OIG made three recommendations to address the limitations identified in this report. On the basis of the Department's response to a draft of this report, OIG considers the three recommendations unresolved. A synopsis of management's response to the recommendation offered and OIG's reply follow each recommendation in the Audit Results section of this report. The joint response received from the Bureau of Budget and Planning (BP) and the Office of Foreign Assistance is included in its entirety in Appendix B. OIG's reply to general comments provided by BP and the Office of Foreign Assistance is presented in Appendix C.

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What OIG Found

The Department generally applied four of the six program design principles described in 18 FAM 301.4-2 to plan CHIPS Act-related activities. Specifically, the five bureaus and offices involved in the CHIPS Act implementation did the following: (1) assessed the Act's alignment to higher level strategies, (2) conducted a situational analysis, (3) developed goals and objectives, and (4) constructed a collaborative Department-level logic model. However, OIG identified two program design principles that, if applied, would assist the Department in better implementing CHIPS Act-related activities. First, the Department prepared logic models in lieu of a charter, as allowed by the FAM, to execute CHIPS Act-related activities. Although the FAM provides an option for a logic model or a project charter, OIG believes that the Department should include elements such as justification, scope, stakeholders, and key deliverables in the document, regardless of which option is used. Second, the Department had not established a detailed project schedule for CHIPS Act implementation.

One reason for the identified program design limitations is that the Department had not developed guidance on how to design and manage complex, globally focused programs across multiple bureaus, such as the CHIPS Act. In addition, Department officials stated that they believed that some components of 18 FAM 301 were not applicable, such as charters and schedules. Nonetheless, fully implementing program design principles prescribed in the FAM would be beneficial for project execution among the bureaus involved. Furthermore, although not required, the Department had not assigned a formal lead and management structure to orchestrate the Department's implementation of CHIPS Act-related activities. Formally establishing a lead and structure would help promote efficiencies and coordination and further the Department's ability to advance the goals of boosting American semiconductor research, development, and production, and supporting secure and trusted telecommunications technology.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) applied program design principles as described in the Foreign Affairs Manual, 18 FAM 301.4, “Department of State Program and Project Design, Monitoring, and Evaluation,” to implement the Creating Helpful Incentives To Produce Semiconductors Act of 2022)¹ related activities.

BACKGROUND

CHIPS Act and International Technology Security and Innovation Fund

The CHIPS Act was signed into law on August 9, 2022.² It established the Creating Helpful Incentives to Produce Semiconductors (CHIPS) for America International Technology Security and Innovation Fund (ITSI) and provided \$500 million (\$100 million per year for 5 years, starting in FY 2023) to the Department for that fund.³ The Act stated that the funds are provided for international information and communications technology (ICT) security and semiconductor supply chain activities, including support for the development and adoption of secure and trusted telecommunications technologies, secure semiconductors, secure semiconductor supply chains, and other emerging technologies.⁴ The Act also stated that up to \$5 million per year could be used for salaries, expenses, and administration and \$500,000 per year for oversight by OIG.⁵ The Act authorizes the Secretary of State to transfer funds to accounts used by the Department, the U.S. Agency for International Development, the Export-Import Bank, and the U.S. International Development Finance Corporation as appropriate.⁶

According to a Department report to Congress on the FY 2023 ITSI Fund allocations,⁷ there are two different sectors that the Department is focused on—semiconductor production and telecommunications networks.⁸ Semiconductor production requires large-scale, concentrated investments, and relatively few nations are involved in the supply chain. Telecommunications networks are everywhere and require international engagement to build capacity in other

¹ Public Law 117-167, “Division A.”

² Ibid.

³ Public Law 117-167, § 102(c)(2)(A).

⁴ Public Law 117-167, § 102(c)(1).

⁵ Public Law 117-167, § 102(c)(2)(B).

⁶ Public Law 117-167, § 102(c)(1).

⁷ Department, “Report to Congress on FY 2023 Allocations for CHIPS Act International Technology Security and Innovation Fund” (November 2022).

⁸ The term “telecommunications” is used interchangeably with ICT. These terms encompass the integration of telecommunications (telephone lines and wireless signals) and computers and other software that enables users to access, store, transmit, understand, and manipulate information.

countries. According to the report, the People's Republic of China leads the world in these two sectors.⁹

Semiconductors

According to the Department's FY 2023 report to Congress,¹⁰ high end chips depend on critical materials that the People's Republic of China dominates. To counter this imbalance, the Department must identify nations with untapped critical mineral mining and/or refining capacity and provide the capacity building needed to bring those opportunities to market.¹¹ The Department plans to use FY 2024 ITSI funds to develop the international environment that U.S. semiconductor manufacturing facilities need to succeed.¹² The Under Secretary for Economic Growth, Energy, and the Environment, and the Under Secretary for Arms Control and International Security share the lead in this effort.

According to the Department, there are three critical nodes in the semiconductor supply chain—generating upstream inputs, fabricating chips, and processing downstream.¹³ The Department's aim is to meet essential needs at each node. The Bureau of Energy Resources leads the upstream component to identify untapped critical mining and refining capacity of partner nations and bring those opportunities to market. The Bureau of Economic and Business Affairs and the Bureau of International Security and Nonproliferation share responsibility for growing and securing downstream capacity of partner nations to conduct assembly, testing, and packaging of chips. Specifically, the Bureau of Economic and Business Affairs leads the effort to coordinate with partner economies to support more resilient and diversified semiconductor supply chains, and the Bureau of International Security and Nonproliferation leads the effort for semiconductor protection, including enhancing partner nations' capacities to safeguard chips as well as maintaining a U.S. government-organized platform to maximize the timely exchange of select unclassified, nonproprietary export licensing data amongst a select group of semiconductor technology suppliers. The Bureau of Economic and Business Affairs and the Bureau of International Security and Nonproliferation also share responsibility for the downstream processing component. The Bureau of Economic and Business Affairs works to bolster assembly, testing, and packaging operations of partner nations and the Bureau of International Security and Nonproliferation assists foreign partners in key regions to strengthen their regulatory environments, implementation practices, and enforcement measures. Lastly, the Office of the Chief Economist leads the information gathering process to understand the

⁹ Department, "Report to Congress on FY 2023 Allocations for CHIPS Act International Technology Security and Innovation Fund," pages 3-4.

¹⁰ Ibid., page 3.

¹¹ Ibid.

¹² Department, "Fiscal Year 2024 Congressional Budget Justification: Department of State, Foreign Operations, and Related Programs," page 46.

¹³ Department, "Report to Congress on FY 2023 Allocations for CHIPS Act Information Technology Security and Innovation Fund," pages 2-3.

semiconductor supply chain and is responsible for mapping supply and demand linkages and identifying potential bottlenecks and problematic market concentrations.

Telecommunications

According to the Department, the objective of the secure ICT networks and services sector is to help partners use the benefits of a digital economy that is supported by secure and trustworthy ICT infrastructure and services.¹⁴ Because of market practices, the People’s Republic of China-based companies dominate telecommunications infrastructure networks in many countries. In addition to security challenges, the People’s Republic of China’s market position increases opportunities for the People’s Republic of China to export strict internet governance¹⁵ along with ICT infrastructure and services. The lack of low-cost alternatives is an obstacle to partners’ reliance on secure and trustworthy ICT network equipment and services.

To achieve the objective of secure and trustworthy ICT infrastructure and services, the Department plans to use ITSI funding to support programs across three categories—developing investments in open and secure ICT in priority countries, deploying secure ICT networks, and defending these networks against malicious cyber activities.¹⁶ The Bureau of Cyberspace and Digital Policy leads the Department’s efforts across these three categories.

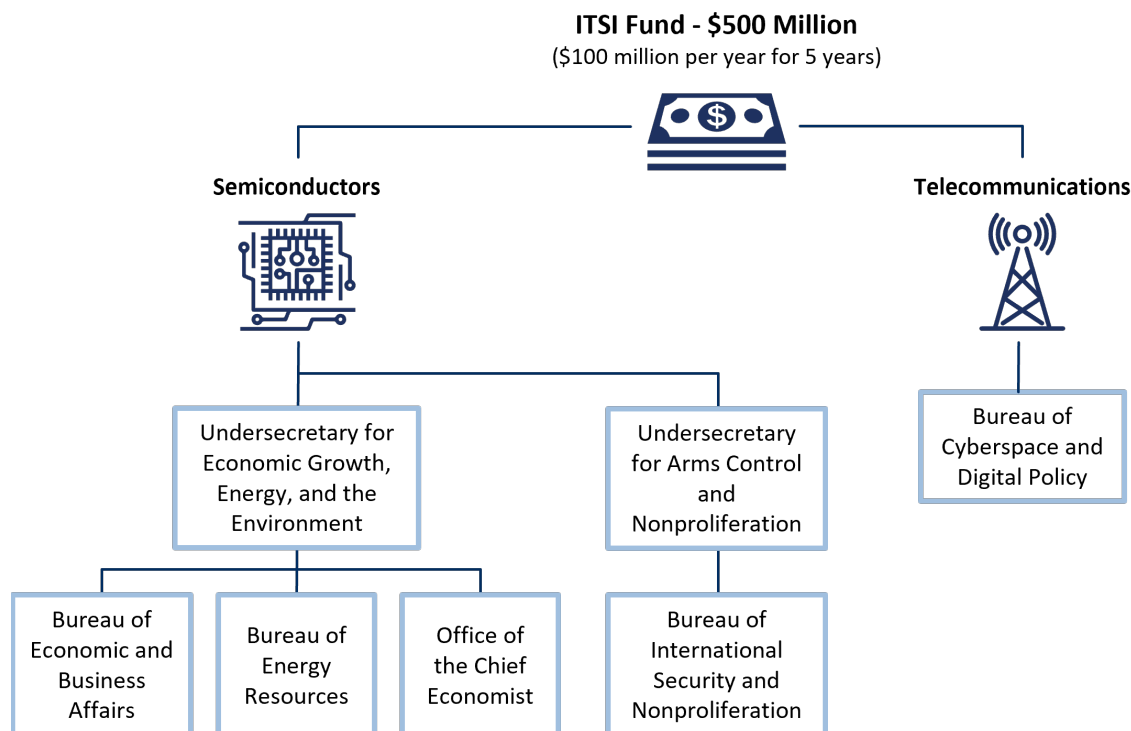
Figure 1 provides an overview of CHIPS Act ITSI Fund activities.

¹⁴ Ibid., page 4.

¹⁵ Internet governance refers to the rules, policies, standards, and practices that coordinate and shape global cyberspace.

¹⁶ Department, “Report to Congress on FY 2023 Allocations for CHIPS Act Information Technology Security and Innovation Fund,” page 5.

Figure 1: Illustration of CHIPS Act ITSI Fund Activities



Source: OIG developed based upon review of the CHIPS Act and interviews with Department personnel.

Table 1 shows how the Department allocated funding from the ITSI Fund across its bureaus and offices for FYs 2023 and 2024.

Table 1: Allocation of ITSI Funds to Bureaus and Offices

Bureau/Office	FY 2023 ^a	FY 2024 ^b
Bureau of Economic and Business Affairs	\$24,500,000	\$24,500,000
Bureau of Energy Resources	\$6,000,000	\$6,000,000
Office of the Chief Economist	\$300,000	\$300,000
Bureau of International Security and Nonproliferation	\$26,250,000	\$26,250,000
Bureau of Cyberspace and Digital Policy	\$42,450,000	\$42,450,000
OIG	\$500,000	\$500,000
Total	\$100,000,000	\$100,000,000

^a Authorized amounts.

^b Requested amounts, pending congressional authorization.

Source: Department memorandum, “Submission of CHIPS Act [Congressional Budget Justification] Chapter,” February 21, 2023.

Support for the Department's CHIPS Act Implementation

The Office of Foreign Assistance and the Bureau of Budget and Planning provide support to the Department components that are responsible for implementing the CHIPS Act. The Office of Foreign Assistance leads the coordination of U.S. foreign assistance resources and supports the work of the Department by coordinating policy, planning, and performance management efforts; promoting evidence-informed decision making; and providing strategic direction.¹⁷ BP carries out the principal responsibilities of preparing budget requests and performance information for consideration by the Office of Management and Budget and Congress, and assures consistency with Presidential priorities and legislative mandates through resource allocations and use and through execution of the Department's budget.¹⁸

Application of Program/Project Design Principles in 18 FAM 301.4-2

The policy outlined in 18 FAM 301.4-2 identifies best practices and establishes requirements to enable the Department to more fully characterize and account for the various ways bureaus and offices use their resources to achieve goals and objectives. To implement this policy, bureaus and offices are instructed to first identify major programs and/or projects that they undertake to achieve the broader outcomes specified in the objectives or sub-objectives of their strategic plan in consultation with the Office of Foreign Assistance and BP.¹⁹ According to 18 FAM 301.4-2(a), program/project design involves constructing the logic of how and why a program or project is intended to work.

AUDIT RESULTS

Finding A: Department Generally Applied Four of Six Program Design Principles During CHIPS Act Implementation but Could Benefit From Applying the Other Two Principles

The Department generally applied four of the six program design principles described in 18 FAM 301.4-2 to plan CHIPS Act-related activities.²⁰ However, OIG identified two program design principles from the FAM that, if applied, would assist the Department in better implementing CHIPS Act-related activities. First, the Department prepared logic models in lieu of a charter, as allowed by the FAM, to execute CHIPS Act-related activities. However, the Department did not include elements that would be beneficial in advancing each project. Although the FAM provides an option for a logic model or a project charter, OIG believes that the Department should include elements such as justification, scope, stakeholders, and key deliverables in the

¹⁷ 1 FAM 033.1, "Responsibilities."

¹⁸ 1 FAM 621.1, "Director Responsibilities."

¹⁹ 18 FAM 301.4-1(C), "Identifying and Defining Programs and Projects Within a Bureau or Independent Office."

²⁰ The CHIPS Act uses the term "activities" to refer to implementing provisions of the law. OIG uses the term CHIPS Act-related activities where appropriate, but also uses program(s) and project(s) to refer to implementation of the CHIPS Act.

document, regardless of which option is used. Second, the Department had not established a detailed project schedule for CHIPS Act implementation.

One reason for the identified program design limitations was that the Department had not developed guidance on how bureaus and offices should design and manage globally focused programs across multiple bureaus, such as the CHIPS Act. In addition, Department officials stated that they believed that some components of 18 FAM 301 were not applicable, such as charters and schedules. Nonetheless, fully implementing program design principles prescribed in the FAM and establishing a task plan for each CHIPS Act project would be beneficial in monitoring project execution among the bureaus involved. Furthermore, although not required, the Department had not assigned a formal lead and management structure to orchestrate the Department's implementation of CHIPS Act-related activities. Formally establishing a lead and structure to orchestrate implementation of CHIPS Act-related activities would help promote efficiencies and coordination and further the Department's ability to advance the goals of boosting American semiconductor research, development, and production and supporting secure and trusted telecommunications technology development.

Department Applied Four of Six Principles From 18 FAM 301.4-2

OIG found that the Department generally applied four program design principles described in 18 FAM 301.4-2 to plan CHIPS Act-related activities. Specifically, the five bureaus and offices involved in the CHIPS Act implementation, with the support of BP and the Office of Foreign Assistance, applied the following four program design principles:

- Assessed how the program or project “can best align with and advance existing strategies or other high-level directives.”²¹
- “Conduct[ed] a review of the current state or conditions surrounding the program or project idea that could affect its design, implementation, or outcome.”²²
- Developed “clearly stated goals and objectives that reflect[ed] an understanding of the problem, need, or issue to be addressed”.²³
- Constructed a “logic model (or equivalent) [that] articulates how and why the program or project is expected to contribute to achieving the program/project goals and objectives.”²⁴

According to the FAM, when initiating a program or project, bureaus and offices must assess how they can best align with and advance existing strategies or other high-level directives.²⁵ OIG found that bureaus and offices assessed the alignment of their planned CHIPS Act projects with internal Department- and bureau-level strategies, interagency strategies, and other initiatives. For example, one bureau noted that its CHIPS Act projects would fit into its work

²¹ 18 FAM 301.4-2(b)(1).

²² 18 FAM 301.4-2(b)(2).

²³ 18 FAM 301.4-2(b)(3).

²⁴ 18 FAM 301.4-2(b)(4).

²⁵ 18 FAM 301.4-2(b)(1).

related to the Digital Connectivity and Cybersecurity Partnership.²⁶ Other strategies that bureaus and offices determined were aligned with the CHIPS Act included the Minerals Security Partnership²⁷ and the White House National Security Strategy.²⁸ Finally, the Department determined that its efforts to implement the CHIPS Act aligned with the current Administration's initiatives, including the Indo-Pacific Economic Framework for Prosperity,²⁹ Digital Transformation with Africa;³⁰ and the Americas Partnership for Economic Prosperity.³¹ OIG performed a limited review of these strategies and plans and confirmed their alignment with the Department's CHIPS Act-related activities.

According to the FAM, a situational analysis assists in determining the current state or conditions surrounding the program or project idea that could affect its design, implementation, or outcome.³² A situational analysis provides an organization with an opportunity to identify problems or conflicts to determine if the program or project idea is feasible. OIG found that the Department conducted a situational analysis that included research, reviews of documents, and meetings to understand relevant conditions and factors related to the CHIPS Act. For example, one bureau conducted a supply chain mapping effort to understand semiconductors, related supply chains, and potential "choke points" to help target future investments. Additionally, bureaus held weekly internal meetings to coordinate efforts related to the semiconductor sector, delivered briefings in an interagency working group, and held sessions to understand external U.S. stakeholders' views.

According to the FAM, programs and projects must have clearly stated goals and objectives that reflect an understanding of the problem, need, or issue to be addressed.³³ OIG found that the Department listed CHIPS Act goals and objectives in various documents. The overarching goal listed in the Department's collaborative logic model is "to support the development and adoption of secure and trustworthy [telecommunication] networks and ensure semiconductor supply chain security and diversification." The Department's FY 2023 report to Congress on the

²⁶ The Digital Connectivity and Cybersecurity Partnership is an initiative to support a reliable and secure digital economy. As digital technology advances across the world, it works with partners to ensure and promote growth, resiliency, and democratic societies.

²⁷ The Minerals Security Partnership strives to promote responsible growth across the critical minerals sector using a shared commitment to environmental, social, and governance standards; sustainability; and shared prosperity.

²⁸ The National Security Strategy outlines the Administration's plans to achieve a better future for a free, open, secure, and prosperous world.

²⁹ The Indo-Pacific Partnership, which consists of 12 countries, has a goal to create a stronger, fairer, and more resilient economy for families, workers, and businesses in the United States and in the Indo-Pacific region.

³⁰ The Digital Transformation with Africa is an initiative to expand digital access in Africa and increase commercial engagement between U.S. and African companies, support increased digital literacy, and strengthen digital enabling environments across Africa.

³¹ The Americas Partnership for Economic Prosperity, consisting of 12 countries, has a goal to increase opportunity and decrease inequity, harness the incredible economic potential of the Americas, and make the Western Hemisphere the most economically competitive region in the world.

³² 18 FAM 301.4-2(b)(2).

³³ 18 FAM 301.4-2(b)(3).

CHIPS Act identifies objectives for the semiconductor and telecommunications sectors.³⁴ According to the report, for the semiconductor sector, the Department's long-term objective is to "re-wire the global supply chain." For the telecommunications sector, the Department's long-term objective is "to help partners harness the benefits of a vibrant digital economy that is underpinned by secure and trustworthy ICT infrastructure and services."

According to the FAM, the core of program/project design is constructing the logic detailing how and why a program or project is intended to work.³⁵ The logic model articulates how and why the program or project is expected to contribute to achieving the program/project goals and objectives; it also documents expected linkages between program/project inputs, activities, outputs and outcomes, and sets the foundation against which progress can be monitored and evaluated.³⁶ OIG found that the Department had developed a collaborative logic model³⁷ that outlined the three components of the Department's implementation of the CHIPS Act— promote semiconductor manufacturing, promote semiconductor technology and trade, and develop secure and trustworthy ICT infrastructure and services. The logic model also includes corresponding priority lines of efforts and medium- and long-term outcomes for each of the identified components. Each line of effort or outcome tasks a bureau or office to help accomplish the promotion, protection, and development objectives for semiconductors and information and communications technology. Additionally, each of the bureaus and offices developed their own logic models with required components.

Department Would Benefit From Applying Two of Six Principles in 18 FAM 301.4-2

OIG identified two program design principles from the FAM that, if applied, would improve the Department's efforts to implement CHIPS Act-related activities. First, according to the FAM, "Projects must have either a logic model or a project charter that defines the project goal(s), justification, scope, stakeholders, and key deliverables."³⁸ OIG found that the Department prepared an overall ITSI logic model and bureau- and office-specific logic models for its CHIPS Act-related activities. Although the FAM provides options for a logic model or a project charter, OIG suggests that the Department include elements such as justification, scope, stakeholders, and key deliverables in the document, regardless of which option is used. Department officials stated that they believed that they did not need to include the elements described by the FAM if they used the logic model option instead of a project charter. Given the complexity of the CHIPS Act and the breadth of stakeholders involved in fulfilling responsibilities under the Act, the Department would benefit from having a clear understanding of each of the projects' purpose and scope parameters, the stakeholders involved, and key deliverables.

³⁴ Department, "Report to Congress on FY 2023 Allocations for CHIPS Act Information Technology Security and Innovation Fund," (November 2022).

³⁵ 18 FAM 301.4-2(a).

³⁶ 18 FAM 301.4-2(b)(4).

³⁷ Additional information on logic models is included in the "Department Did Not Apply Two of Six Principles in 18 FAM 301.4-2" section of the report.

³⁸ 18 FAM 301.4-2(b)(5).

Second, according to the FAM, “Projects must have a milestone schedule or Gantt chart with appropriate amount of detail for the complexity of the project.”³⁹ OIG found that the Department’s schedules for implementing the CHIPS Act did not have sufficient detail considering the act’s complexity. For example, although the Department maintained a list of retrospective accomplishments and tentative upcoming milestones that it periodically submitted to the White House, it provided vague dates, such as “Fall 2022 – Spring 2023,” and did not detail tasks or activities associated with the identified deliverables and milestones. Additionally, OIG identified inconsistencies in the timelines and milestones maintained by bureaus and offices. For example, one office provided its high-level Project Milestones document that included an activity title with tentative dates (i.e., “October-December 2023”) without a breakdown of specific tasks or actions within each activity. This level of specificity may be appropriate for reporting progress; however, it is not sufficient for program and project management and oversight. Department officials stated that they plan to provide more detailed schedules as they proceed with CHIPS Act implementation.

Inadequate Department Guidance and Oversight

The limitations identified occurred primarily because of inadequate Department guidance. Specifically, the Department had not developed guidance on how to design and manage complex, globally focused programs across multiple bureaus, such as the implementation of requirements included in the CHIPS Act. Instead, the Department relied on a decentralized support structure, with bureaus and offices maintaining control over their respective areas of expertise.

Additionally, officials from several bureaus and offices stated that they believed that the FAM requirements only apply at the bureau/office level, not at the Department level. However, Department officials could not provide formal documentation supporting that the FAM requirements were not applicable to the CHIPS Act effort. Moreover, management practices emphasized the benefits of developing a detailed project plan or schedule to fit the complexity of the project. OIG concluded that the Department would benefit from establishing a more detailed project schedule with specific milestones to outline its planned CHIPS Act-related efforts.

Furthermore, although not required by 18 FAM 301.4-2, the Department had not assigned a formal lead and management structure to orchestrate the Department’s implementation of CHIPS Act-related activities. According to Department officials, the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources led informal groups that planned CHIPS Act-related activities. For example, the Department provided documentation to show leadership participation in initial meetings in 2022 and 2023 to set policy priorities, discuss funding allocations, and facilitate internal collaboration. However, there was no formally designated lead to guide and monitor CHIPS Act-related activities. According to the Government Accountability Office, management should establish an organizational structure,

³⁹ 18 FAM 301.4-2(b)(6).

assign responsibility, and delegate authority to achieve the entity's objectives.⁴⁰ Having a designated lead individual or group would help to ensure the continuity of CHIPS Act-related activities. Ensuring continuity is particularly important considering the frequent rotation of many Department personnel. OIG observed that only the Under Secretary for Economic Growth, Energy, and the Environment designated a specific point of contact for CHIPS Act-related activities. Without a clear Department lead to guide and monitor CHIPS Act-related activities, opportunities to realize efficiencies and foster coordination may be missed and adversely impact the Department's ability to implement its responsibilities related to the CHIPS Act.

As the U.S. government mobilizes a range of tools to secure U.S. competitiveness in the semiconductors and telecommunications sectors, the Department's role as the lead in using diplomacy and foreign assistance to shape the international environment in ways that support U.S. leadership, national and economic security, and prosperity in these sectors is significant.⁴¹ Given the importance of the CHIPS Act and the breadth and complexity of its implementation across the Department's bureaus and offices, program design is essential. Applying the full array of program design principles outlined in 18 FAM 301.4-2 would enable the Department to more fully characterize the ways that involved bureaus and offices used their resources to ultimately achieve the goals and objectives of the Act. Accordingly, OIG is offering the following recommendations.

Recommendation 1: OIG recommends that the Bureau of Budget and Planning, in coordination with the Office of Foreign Assistance, develop and distribute guidance related to designing and managing complex, globally focused programs and projects that are to be coordinated and implemented among multiple bureaus and offices within the Department of State.

Management Response: The Department did not concur with this recommendation, stating that the CHIPS Act is not a single program or project, but rather new legislative authority with dedicated funding that enabled the creation of several programs. The Department stated that 18 FAM 301.4 only applies at the bureau or office level; however, the Department has used the guidance to "inform broader, more complex programming." For example, the Department stated that when it began to implement funding authorized under the CHIPS Act, it applied 18 FAM 301.4 "at the appropriate level." The Department believes that developing new guidance may be detrimental because it would require programs to adhere to two levels of guidance, which would complicate program design and management.

OIG Reply: On the basis of the Department's response, OIG considers this recommendation unresolved. OIG's position is that significant initiatives, such as the CHIPS Act, warrant a set

⁴⁰ Government Accountability, *Standards for Internal Control in the Federal Government*, page 21 (GAO-14-704G, September 2014).

⁴¹ Department, "Report to Congress on FY 2023 Allocations for CHIPS Act Information Technology Security and Innovation Fund," page 2.

of design principles that account for their complexities, such as the multiple programs and projects within the initiative, as well as the cross-cutting nature of these initiatives that involve multiple bureaus and offices within the Department. OIG does not agree that developing such guidance for larger, more complex initiatives would be detrimental. The guidance in 18 FAM 301.4-2 is a good starting point; however, more can be done to ensure that future initiatives benefit from a suitable program design methodology. OIG believes that it is important for the Department to have an overarching defined process to implement complex global programs to ensure that funds are used efficiently and effectively and to reduce duplication of effort.

This recommendation will be considered resolved when BP provides a plan of action for addressing the recommendation or provides an acceptable alternative that fulfills the intent of the recommendation. This recommendation will be closed when OIG receives documentation demonstrating that BP, in coordination with the Office of Foreign Assistance, developed and distributed guidance related to designing and managing complex, globally focused programs and projects that are to be coordinated and implemented among multiple bureaus and offices within the Department.

Recommendation 2: OIG recommends that the Bureau of Budget and Planning, in coordination with the Office of Foreign Assistance, develop and implement a mechanism that bureaus and offices can use to document a justification supporting a decision not to fully implement requirements included in the Foreign Affairs Manual, 18 FAM 301.4-2, for a program or a project (e.g., project justification, scope, stakeholder information, key deliverables, and project schedule).

Management Response: The Department did not concur with this recommendation and requested that it be removed from the final report or modified as a more specific recommendation to the implementing bureaus and offices. BP and the Office of Foreign Assistance also stated that this recommendation was derived from OIG's erroneous finding that the Department did not apply two of six principles from 18 FAM 301.4-2. According to the Department, when applying program design requirements, bureaus have the flexibility to apply a logic model or a project charter and schedule. In this instance, relevant bureaus chose to create a logic model. The Department also stated that asking BP or the Office of Foreign Assistance to review and approve "waivers" for all future programs is excessive and would create an untenable workload.

OIG Reply: On the basis of the Department's response, OIG considers this recommendation unresolved. OIG acknowledges that bureaus and offices may need flexibility to implement 18 FAM 301.4-2 requirements. The recommendation offered by OIG does not explicitly recommend a requirement for a "waiver." Nor does OIG intend to create an unsustainable workload. However, developing a mechanism for bureaus and offices to document their departure from the project management principles in the FAM would help bureaus and offices maintain documentation on decisions made and steps taken to implement programs and projects. OIG understands that not all projects and programs throughout the

Department may be of the size and scope appropriate to necessitate BP review and approval; therefore, OIG modified the recommendation that was in a draft of this report to remove a requirement for BP to review and concur with justifications to not fully implement program design requirements.

This recommendation will be considered resolved when BP provides a plan of action for addressing the recommendation or provides an acceptable alternative that fulfills the intent of the recommendation. This recommendation will be closed when OIG receives documentation demonstrating that BP, in coordination with the Office of Foreign Assistance, has developed and implemented a mechanism that bureaus and offices can use to document a justification supporting a decision not to fully implement requirements included in 18 FAM 301.4-2 for a program or a project.

Recommendation 3: OIG recommends that the Deputy Secretary of State designate a formal lead and management structure to orchestrate the Department's implementation of the Creating Helpful Incentives To Produce Semiconductors Act of 2022 for the purpose of promoting efficiencies and coordination; furthering the timely advancement of the goal of boosting American semiconductor research, development, and production; and supporting secure and trusted telecommunications technology development.

Management Response: The Department concurred with the intent of this recommendation, stating that it had already been accomplished. The Department stated that the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources provided "consistent" attention to CHIPS Act implementation. For example, the Department stated that the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources provided strategic direction to implementing bureaus. The Department stated that the Deputy Secretary of State and Deputy Secretary of State for Management and Resources will continue to provide senior leadership and oversight going forward as co-leads.

OIG Reply: On the basis of the Department's response, OIG considers this recommendation unresolved. In the Audit Results section of the report, OIG recognized the role that the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources played in the implementation of the CHIPS Act requirements. For example, the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources participated in informal groups that planned CHIPS Act-related activities. OIG is not suggesting that the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources will not continue to have a role in the development of CHIPS Act-related programs and projects. Although having the involvement of high-level officials when developing this type of program is essential, complex programs that span multiple bureaus should have a formally designated lead and a documented management oversight structure to help ensure funds are used efficiently and effectively and to avoid duplication of effort between the bureaus and offices that are implementing CHIPS Act-related projects. Furthermore, establishing a formal management oversight structure would ensure the

continuity of CHIPS Act-related activities. Ensuring continuity is particularly important within the Department considering the frequent rotation of many Department personnel.

This recommendation will be considered resolved when the Deputy Secretary of State provides a plan of action for addressing the recommendation or provides an acceptable alternative that fulfills the intent of the recommendation. This recommendation will be closed when OIG receives documentation demonstrating that the Deputy Secretary of State designated a formal lead and management structure to orchestrate the Department's implementation of the CHIPS Act for the purpose of promoting efficiencies and coordination; furthering the timely advancement of the goal of boosting American semiconductor research, development, and production; and supporting secure and trusted telecommunications technology development.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Budget and Planning, in coordination with the Office of Foreign Assistance, develop and distribute guidance related to designing and managing complex, globally focused programs and projects that are to be coordinated and implemented among multiple bureaus and offices within the Department of State.

Recommendation 2: OIG recommends that the Bureau of Budget and Planning, in coordination with the Office of Foreign Assistance, develop and implement a mechanism that bureaus and offices can use to document a justification supporting a decision not to fully implement requirements included in the Foreign Affairs Manual, 18 FAM 301.4-2, for a program or a project (e.g., project justification, scope, stakeholder information, key deliverables, and project schedule).

Recommendation 3: OIG recommends that the Deputy Secretary of State designate a formal lead and management structure to orchestrate the Department's implementation of the Creating Helpful Incentives To Produce Semiconductors Act of 2022 for the purpose of promoting efficiencies and coordination; furthering the timely advancement of the goal of boosting American semiconductor research, development, and production; and supporting secure and trusted telecommunications technology development.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) applied program design principles as described in the Foreign Affairs Manual (FAM), 18 FAM 301.4, “Department of State Program and Project Design, Monitoring, and Evaluation,” to implement the Creating Helpful Incentives To Produce Semiconductors Act of 2022 (CHIPS Act) related activities.

OIG conducted this audit from August 2023 to January 2024 in the Washington, D.C., metropolitan area. The scope of this audit was the Department’s program design efforts during FY 2023, the first year that the Department established its plans to implement requirements from the CHIPS Act. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To perform the audit, OIG obtained background information by reviewing the FY 2024 Congressional Budget Justification; a Department cable related to the CHIPS Act, “Implementing the Department’s CHIPS and Science Act International Technology Security and Innovation (ITSI) Fund” (March 2023); the Department’s “Digital Connectivity and Cybersecurity Partnership Fact Sheet”; the Department’s Program Design and Performance Management Toolkit; and documentation related to CHIPS Act briefings. In addition, OIG reviewed the program design responsibilities defined in the Department’s FAM—18 FAM 301.4, “Department of State Program and Project Design, Monitoring, and Evaluation.” OIG also reviewed other sections of the FAM, including 1 FAM 420, “Bureau of Economic and Business Affairs (EB),” 1 FAM 450 “Bureau of International Security and Nonproliferation (ISN),” 1 FAM 460, “Bureau of Energy Resources (ENR),” and 1 FAM 620, “Bureau of Budget and Planning (BP).”

To understand the program design efforts related to and limitations that impact the implementation of the CHIPS Act of 2022, OIG also interviewed personnel from the Bureau of Economic and Business Affairs, the Bureau of International Security and Nonproliferation, the Bureau of Energy Resources, the Bureau of Budget and Planning, the Bureau of Cyberspace and Digital Policy, the Office of the Chief Economist, the Office of Foreign Assistance, the Under Secretary for Economic Growth, Energy, and Environment, and the Under Secretary for Arms Control and International Security.

Data Reliability

OIG did not use computer-processed data for this audit.

Work Related to Internal Control

During the audit, OIG considered several factors, including the subject matter of the project, to determine whether internal control was significant to the audit objective. Based on its consideration, OIG determined that internal control was significant for this audit. OIG then

considered the components of internal control and the underlying principles included in the *Standards for Internal Control in the Federal Government*¹ to identify internal controls that were significant to the audit objective. Considering internal control in the context of a comprehensive internal control framework can help auditors to determine whether underlying internal control deficiencies exist.

For this audit, OIG concluded that three of five internal control components from the *Standards for Internal Control in the Federal Government* – Control Environment, Control Activities, and Information and Communication – were significant to the audit objective. The Control Environment component is the foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives. The Control Activities component includes the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system. The Information and Communication component relates to the quality information that management and personnel communicate and use to support the internal control system. OIG also concluded that three principles related to the selected components were significant to the audit objective, as described in Table A.1.

Table A.1: Internal Control Components and Principles Identified as Significant

Components	Principles
Control Environment	Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.
Control Activities	Management should implement control activities through policies.
Information and Communication	Management should internally communicate the necessary quality information to achieve the entity’s objectives.

Source: OIG generated from an analysis of internal control components and principles from the Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

OIG then interviewed Department officials and reviewed documents to obtain an understanding of the internal controls related to the components and principles identified as significant for this audit. OIG assessed the design and implementation of key internal controls. Specifically, OIG did the following:

- Assessed the Department’s control environment by interviewing personnel across all relevant bureaus and offices to understand the organizational structures and lines of responsibility established to carry out design and implementation of the CHIPS Act.
- Examined the Department’s control activities by reviewing documentation, including logic models, milestones, and project schedules.
- Examined the Department’s goals and objectives by interviewing personnel and reviewing documentation, including an FY 2023 report to Congress and a Department cable outlining the Department’s funding priorities.

¹ Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

- Assessed the types and quality of information communicated through review and analysis of the Department's communication methods and processes, including internal meeting agendas and notes; project and program correspondence; and briefing materials to external parties, such as the White House and Congress.

Internal control deficiencies identified during the audit that are significant within the context of the audit objective are presented in the Audit Results section of this report.

APPENDIX B: BUREAU OF BUDGET AND PLANNING AND OFFICE OF
FOREIGN ASSISTANCE JOINT RESPONSE



United States Department of State

Washington, D.C. 20520

May 29, 2024

TO: Office of the Inspector General (OIG)
Regina Meade and Gitanjali Borkar

FROM: BP – Douglas Pitkin *DP*
F – Tracy Carson *TC*

SUBJECT: Department of State Comments on OIG’s Draft Report:
Audit of the Department of State’s Program Design Plan
Related to the Creating Helpful Incentives to Produce
Semiconductors Act of 2022

The Department of State appreciates the opportunity to provide comments to the OIG’s report on the subject above. The Department points of contact for this draft report are Sandra Cimino, (b) (6) @state.gov; Miranda Longstreth, (b) (6) @state.gov; and Anne Pham, (b) (6) @state.gov.

BP and F have deep concerns with how the OIG came to its findings. We believe that as it currently stands, the draft report is fundamentally flawed and will result in unintended counterproductive consequences, particularly the imposition of complex, burdensome pre-approval requirements for every program in the Department that are not justified by the report’s findings. Among other factors, the draft report misapplies the intent and standing interpretation of the 18 FAM 301.4 and devises an interpretation inconsistent with BP and F’s annual training for OIG personnel on this section. Specifically, the Department has not defined newly authorized CHIPS Act activities as a single unitary “program,” rather it has enabled

creation of several targeted programs to carry out congressional intent. Though the findings point to minor deviations by several program offices in their use of the 18 FAM, it surprisingly directs no recommendations at the implementing bureaus. Instead, it recommends that BP and F establish Department-wide guidance and pre-approval process changes that will impede implementation of new programs and prove challenging for us to enforce. Finally, it erroneously asserts a lack of Department leadership and guidance on establishing CHIPS-funded programs, ignoring the well-documented role of the Deputy Secretary and Deputy Secretary for Management and Resources in marshalling the Department's fulfillment of these unique opportunities. A detailed list of their actions is provided below, and in supporting files. We urge the OIG to consider these views before publishing its final Audit report.

Recommendation 1: *OIG recommends that the Bureau of Budget and Planning, in coordination with the Office of Foreign Assistance, develop and distribute guidance related to designing and managing complex, globally focused programs and projects that are to be coordinated and implemented among multiple bureaus and offices within the Department of State.*

Department Response: The Department of State does not concur with this recommendation and requests that it be removed from the final report. We do not believe the report's findings indicate a structural deficiency, the CHIPS Act is not itself a single "program" or project, but rather new legislative authority with dedicated funding that in turn enabled creation of several specific programs for international information and communications technology security and semiconductor supply chain activities. The CHIPS Act required that new ITSI funds to be transferred to existing accounts for these purposes.

As stated in the 18 FAM 301.4 Purpose statement, "This policy applies to new and ongoing bureau and independent office efforts..." It has long been applied for use within a bureau or independent office level. BP and F have long used 18 FAM 301.4 guidance and principles to inform broader, more complex programming – but that does equate to creating multiple layers of

such guidance at both the Department and bureau level. When the Department began to implement the funding authorized under CHIPS Act, it applied 18 FAM 301.4 at the appropriate level – to the new program and projects managed at the bureau level (for example, semiconductors and telecommunications). BP and F will continue to provide technical assistance to bureaus implementing program and projects as well as provide support for large complex cross-bureau initiatives. The Department does not believe the findings in this report warrant developing new standardized guidance or policy for globally focused appropriations. Such guidance may be detrimental, as requiring covered programs to adhere to two levels of 18 FAM 300 guidance will further complicate program design and management.

Recommendation 2: *OIG recommends that the Bureau of Budget and Planning, in coordination with the Office of Foreign Assistance, develop and implement a mechanism to require bureaus and offices to document a justification supporting a decision not to fully implement requirements included in the Foreign Affairs Manual, 18 FAM 301.4-2, for a program or a project (e.g., project justification, scope, stakeholder information, key deliverables, and project schedule). As part of the mechanism, the Bureau of Budget and Planning should review the justification and either concur with the decision or take action to have the bureau or office comply with 18 FAM 301.4-2.*

Department Response: BP and F do not concur with this recommendation and request that it be removed from the final report, or modified as a more specific recommendation that the implementing bureaus should create additional program documents. This recommendation is derived from the erroneous finding that the Department did not apply two of six principles in 18 FAM 301.4-2. When applying program design requirements of 18 FAM 301.4, Bureaus have the choice of applying a logic model or a project charter and schedule. Such flexibility is clearly and intentionally provided in the FAM.

In this instance, CDP and EB chose to create a logic model because it was the first year implementing their respective programs and a logic model would be more flexible to adapt. The OIG report incorrectly asserts that these

Bureaus were required to create a charter as well, a standard that exceeds our FAM policy. If the OIG believes that charter would also have been constructive, the finding and recommendations should be redirected to the program bureaus as a program management recommendation beyond the FAM standard.

Further, beyond the findings in this specific audit, the OIG's recommendation that BP and/or F should review and approve 18 FAM "waivers" for all future programs is excessive. It is not warranted by the audit findings and creates an untenable BP and F workload if applied to the Department's 400+ individual programs. We believe 18 FAM 301.4 must remain flexible and adaptive to bureaus' specific missions and not prescribe every step within program design.

Recommendation 3: *OIG recommends that the Deputy Secretary of State designate a formal lead and management structure to orchestrate the Department's implementation of the Creating Helpful Incentives to Produce Semiconductors Act of 2022 for the purpose of: promoting efficiencies and coordination; furthering the timely advancement of the goal of boosting American semiconductor research, development, and production; and supporting secure and trusted telecommunications technology development.*

Department Response: The Department of State concurs with the intent of this recommendation and notes it has already been accomplished. We are puzzled that the draft audit omitted mention of D and D-MR's consistent attention to CHIPS Act implementation. We believe the documentary record clearly establishes that the Deputy Secretary (D) and the Deputy Secretary for Management and Resources (D-MR) have provided strategic direction to implementing bureaus since the CHIPS Act was first enacted. At the onset last fall, as well as when OIG was finalizing this audit, we urged OIG to meet with D and D-MR staff to discuss their work, but that meeting did not take place until May 14 – two weeks after the OIG had released its draft report. We hope these engagements have affirmed D and D-MR will continue to provide senior leadership and oversight going forward as co-leads.

Further, it is essential to consider the timing specified in the CHIPS Act itself. The CHIPS Act authorized ITSI funding in August 2022, but specified that funds would not be available for obligation until after the FY 2023 appropriations act was enacted, which turned out to be March 2023, an interval of 7 months. During this interval, D and D-MR co-led the effort to identify how the Department would use the funding once available and to meet Congressional reporting requirements. The following timeline affirms this leadership role which the audit otherwise omits from the record.

- D and D-MR co-chaired discussions with bureau principals at meetings on August 19 and August 23, 2022, to set policy priorities and provide guidance for the mandated report to Congress on planned funding allocations.
- D and D-MR approved an Information Memorandum to the Secretary on CHIPS Act implementation that was submitted on September 22, 2022, advising that the Under Secretary for Economic Growth, Energy, and Environment (E), the Under Secretary for Arms Control and International Security (T), and Cyberspace and Digital Policy (CDP) would collaborate to develop a single, cohesive proposal for the first two years of funding, for D and D-MR review and input.
- In response, E, T, and CDP sent an October 13, 2022, Action Memorandum to D and D-MR for their approval of the proposed allocation of CHIPS Act funds before seeking approval from the Secretary.
- D and D-MR reconvened stakeholders on October 17, 2023, to review the draft report, which was subsequently approved by Secretary Blinken on November 2, 2023. Both Deputy Secretary Sherman and then Deputy Secretary for Management and Resources McKeon cleared this Action Memo, which outlined their leadership of a strategic, collaborative decision process.
- Once the FY 2023 appropriations act was enacted and Congress had raised no objections to our planned allocations of CHIPS Act funding, Bureaus began to move forward with planning, which were again approved by both D and D-MR. The Deputy Secretary and Deputy

Secretary for Management and Resources both also attended the White House's meetings on CHIPS implementation.

In addition to another Principals-level meeting on February 15, 2024, D and D-MR staff held weekly meetings with relevant stakeholders to lead bureaus to:

- Establish working groups to develop funding proposals.
- Engage stakeholders (across the Department, interagency, industry) to share program priorities, solicit and vet ideas, and develop funding proposals.
- Conduct consultations and briefings with Congress.
- Provide necessary updates to the Secretary of State.
- Create and submit congressional budget justifications for FY 2023, FY 2024, and FY 2025.

Copies of the D and D-MR invitations to the August 19, August 23, October 17, and February 15 meetings referenced above are attached to this memo. Our first preference is that the final findings and recommendation better reflect this track record. Otherwise, we would request that OIG close this recommendation.

Additional Department of State Recommended Changes to OIG's Final Report: The Department requests that OIG consider these comments regarding the report's text when finalizing its report:

What OIG Found (Highlights page 2): *"Furthermore, although not required, the Department had not assigned a senior Department official or group to lead, coordinate, and monitor implementation of CHIPS Act-related activities. Formally establishing a lead and structure to orchestrate implementation of CHIPS Act-related activities would help promote efficiencies and coordination and further the Department's ability to advance the goal of boosting American semiconductor research, development, and production, and*

supporting secure and trusted telecommunications technology in a timely manner.”

Department of State Comments: The Department requests that final audit fully recognize the D and D-MR leadership roles noted above, including the Secretary’s specific approval of their plans, which is otherwise omitted from the record. It appears the inspection team believes a specific sentence designating D and D-MR as the leads would have been required within documentation above, which seems redundant. Further, the documentation shows that S, D, and D-MR had confidence in both Under-Secretary and bureau-level leadership of these new programs. Interposing an intermediate layer of management and oversight is unnecessary, and risks diluting program accountability.

Application of Program/Project Design Principles in 18 FAM 301.4-2 (Page 5): *“The policy outlined in 18 FAM 301.4-2 identifies best practices and establishes requirements to enable the Department to more fully characterize and account for the various ways bureaus and offices use their resources to achieve goals and objectives. To implement this policy, bureaus and offices are instructed to first identify major programs and/or projects that they undertake to achieve the broader outcomes specified in the objectives or sub-objectives of their strategic plan in consultation with the Office of Foreign Assistance and the Bureau of Budget and Planning.”*

Department of State Response: While this paragraph is factually correct, it inaccurately implies that the policy outlined in 18 FAM 301.4-2 applies to the CHIPS Act as a whole, rather than its constituent programs. The report should note that 18 FAM 301.4-2 identifies best practices and requirements at the bureau or independent office level for managed programs and projects. Nothing in the 18 FAM or CHIPS Act itself requires treating it as a separate Department-level program.

Audit Results/Finding A (Page 9): *“In addition, Department officials stated that they believed that some components of 18 FAM 301 were not applicable, such as charters and schedules.”*

Department of State Response: We believe initial discussions of this audit may have led to a misunderstanding of how BP and F applied 18 FAM 301 in this instance. This section of the FAM clearly applies to individual programs established or expanded from CHIPS authorities or funding. When designing a program, bureaus should develop a logic model and when designing a project, they should develop a project charter and schedule or a logic model. Bureaus implementing the CHIPS Act developed a logic model to guide their work. Having made this determination, an additional charter was not necessary under the FAM. Should OIG believe that additional charters would have been useful, it should recommend those as an additional measure beyond the FAM.

Regarding the project schedules, OIG conducted this review largely while the bureaus were still planning implementation. Implementing bureaus repeatedly highlighted this status during OIG interviews, advising that the first year of implementation was centered around developing plans and logic models. They were not yet at the stage of developing detailed project schedules. Bureaus and offices noted that the OIG's requests for additional schedule documentation as part of this audit were premature. They noted that the audit 'discovery' process itself was diverting scarce human resources from building out programs/schedules and executing ITSI procurement actions; in effect, hampering the very program management this audit seeks to enhance.

BP and F respectfully request that OIG note in its report that per 18 FAM, that only when developing project charters are bureaus required to develop project schedules and subsequently maintain program monitoring documentation.

Audit Results/Finding A/ Department Did Not Apply Two of Six Principles in 18 FAM 301.4-2 (Page 11/12): *"OIG identified two program design principles from the FAM that, if applied, would improve the Department's efforts to implement CHIPS Act-related activities.....OIG believes that the Department should include elements such as justification, scope,*

stakeholders, and key deliverables in the document, regardless of which option is used. Given the complexity of the CHIPS Act and the breadth of stakeholders involved in fulfilling responsibilities under the Act, the Department would benefit from having a clear understanding of each of the projects' purpose and scope parameters, the stakeholders involved, and key deliverables."

Department of State Response: We acknowledge the OIG perspective that additional project charter and schedules would have been useful but reiterated that they are **not** required under 18 FAM 301. The program or project has a logic model developed.

Audit Results/Finding A/Inadequate Department Guidance and Oversight:
OIG quote (Page 12/13): *"Furthermore, although not required by 18 FAM 301.4-2, the Department had not assigned a senior Department official or group to lead, coordinate, and monitor implementation of the CHIPS Act projects. According to Department officials, the Deputy Secretary and the Deputy Secretary for Management and Resources led informal groups that planned CHIPS Act-related activities. However, there was no formally designated lead to guide and monitor current and future CHIPS Act-related activities. According to the Government Accountability Office, management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. Having a designated lead individual or group would help to ensure the continuity of CHIPS Act-related activities. Ensuring continuity is particularly important considering the frequent rotation of many Department personnel. OIG observed that only the Under Secretary for Economic Growth, Energy, and the Environment designated a specific point of contact for CHIPS Act-related activities. Without a clear Department lead to guide and monitor CHIPS Act-related activities, opportunities to realize efficiencies and foster coordination may be missed and adversely impact the Department's ability to implement its responsibilities related to the CHIPS Act."*

Department of State Response: Please refer to our response above to recommendation 3. We request this section be updated to state D and D-MR are co-leads for the CHIPS ITSI Fund process. Further the Department regularly implements authorizing legislation that has a unique set of circumstances that touch multiple bureaus. We do not believe the draft audit has found a persistent, structural deficiency managing multi-bureau initiatives that requires prospective guidance applicable to all such efforts in the future.

APPENDIX C: OIG REPLIES TO GENERAL COMMENTS FROM THE BUREAU OF BUDGET AND PLANNING AND OFFICE OF FOREIGN ASSISTANCE

In addition to responding to recommendations offered in a draft of this audit report, the Bureau of Budget and Planning (BP) and the Office of Foreign Assistance jointly provided general comments regarding the audit findings (see Appendix B). BP and the Office of Foreign Assistance's comments and the Office of Inspector General's (OIG) replies are summarized and presented below.

Department Comment: BP and the Office of Foreign Assistance stated that they had "deep concerns with how the OIG came to its findings." They also stated their belief that "the draft report is fundamentally flawed and will result in unintended counterproductive consequences, particularly the imposition of complex, burdensome pre-approval requirements for every program in the Department [of State (Department)] that are not justified by the report's findings."

OIG Reply: OIG performed this audit in accordance with professional auditing standards. OIG's work is supported by documentation and OIG's findings were reviewed during OIG's quality control review process. The methodology used by OIG to perform its work is summarized in Appendix A of this report. In the report, OIG gave the Department credit for its efforts to define projects it planned to use to carry out the congressional intent of the Creating Helpful Incentives To Produce Semiconductors Act of 2022 (CHIPS Act). In addition, OIG offered recommendations on how the Department could refine its processes to implement the important mission outlined in the CHIPS Act, such as assigning a person or a group the responsibility for ensuring that projects meet their goals and that bureaus or offices do not duplicate efforts.

In addition, OIG does not believe that its recommendations to strengthen the Department's controls over CHIPS Act projects will create an undue burden to the Department. In fact, enhancing controls and oversight will facilitate the Department's execution of program design best practices and guidelines to achieve the most effective CHIPS Act-related policy outcomes and ultimately ensure accountability to the government's primary stakeholders, the American taxpayers. OIG recognizes the significance of the CHIPS Act and the Department's role in implementing foreign policy tools to support U.S. leadership, national and economic security, and prosperity in the semiconductors and telecommunications sectors. Accordingly, OIG was proactive in its oversight approach because the initial years of CHIPS Act program and project design are critical to establishing the path forward for these programs.

Department Comment: Several of BP and the Office of Foreign Assistance's comments relate to the Department's opinion that 18 [Foreign Affairs Manual (FAM)] 301.4 should not be applied to the CHIPS Act implementation as a whole. For example, BP and the Office of Foreign Assistance stated that OIG "inaccurately implies that the policy outlined in 18 FAM 301.4-2 applies to the CHIPS Act as a whole, rather than its constituent programs." The Department also stated that "the report should note that 18 FAM 301.4-2 identifies best practices and requirements at the bureau or independent office level for managed programs and projects."

BP and the Office of Foreign Assistance also stated that “nothing in the 18 FAM or CHIPS Act itself requires treating [CHIPS Act implementation] as a separate Department-level program.” In addition, the response states that the Department has not defined newly authorized CHIPS Act activities as a single unitary “program.” Rather, it has enabled creation of several targeted programs to carry out congressional intent. Furthermore, BP and the Office of Foreign Assistance stated that 18 FAM 301.4 “clearly applies to individual programs established or expanded from CHIPS [Act] authorities or funding.”

OIG Reply: OIG acknowledges that the Department has not formally identified the CHIPS Act as a separate Department-level program. OIG was also very careful to use language that did not indicate that 18 FAM 301.4 was required but instead explained how it provided guidance that could be beneficial to such a large initiative. Furthermore, although 18 FAM 301.4 states it “applies to new and ongoing bureau and independent office efforts,” even the Department recognizes the practices outlined in the policy can help the Department be more accountable and effective at the agency level. For example, 18 FAM 301.4-1 states that the policy “identifies best practices and establishes requirements to enable the Department to more fully characterize and account for the various ways bureaus and independent offices utilize their resources to achieve bureau, office, and Department-level goals and objectives.” The FAM also states that the “purpose of the policy is to establish a clear line of sight from what the Department wants to achieve as documented in its strategic plans, to how the Department intends to achieve it through key programs and projects.”

In addition, as of July 2024, the Department lacks guidance on how to design and manage complex, globally focused programs across multiple bureaus. Specifically, OIG believes that significant initiatives, such as the CHIPS Act, warrant a set of design principles that account for their complexities, such as the multiple programs and projects within the initiative, as well as the cross-cutting nature of these initiatives that involve multiple bureaus and offices within the Department. The guidance in 18 FAM 301.4-2 is a good starting point; however, more can be done to ensure that future initiatives benefit from a suitable program design methodology. OIG believes that it is important for the Department to define an overarching process to implement complex global programs to ensure that funds are used efficiently and effectively and to reduce duplication of effort. The audit finding and associated recommendations are meant to help the Department improve its implementation of the CHIPS Act and future critical, high-dollar initiatives and legislative mandates. OIG maintains that developing and distributing guidance for designing and managing complex, globally focused programs and projects coordinated and implemented among multiple Department bureaus and offices would be beneficial.

Department Comment: BP and the Office of Foreign Assistance stated that the Department regularly implements authorizing legislation that has a unique set of circumstances that touch multiple bureaus. BP and the Office of Foreign Assistance do not believe the audit identified a persistent, structural deficiency related to managing multi-bureau initiatives that requires guidance applicable to all such efforts in the future.

OIG Reply: The CHIPS Act provides the Department with \$500 million a year for 5 years. The Department has an important role in carrying out this initiative. Although the Department may

have implemented other authorizing legislation in the past, it should strive to improve controls over implementing important initiatives, such as the CHIPS Act, to ensure that the Department is well positioned to carry out broad and complex initiatives across its bureaus and offices in an efficient and effective manner. This is especially important when an initiative, such as the CHIPS Act, is part of a larger, government-wide effort.

Department Comment: BP and the Office of Foreign Assistance stated that “Though the findings point to minor deviations by several program offices in their use of the 18 FAM, it surprisingly directs no recommendations at the implementing bureaus. Instead, it recommends that BP and [the Office of Foreign Assistance] establish Department-wide guidance and pre-approval process changes that will impede implementation of new programs and prove challenging for us to enforce.”

OIG Reply: According to professional auditing standards, “[i]dentifying the root causes of internal control deficiencies may strengthen the quality of auditors’ recommendations for corrective actions.”² During the audit, OIG determined that the root causes of the identified deviations from requirements were the lack of overarching policies and procedures and the lack of consolidated oversight, as described in the Audit Results section of this report. For this reason, OIG did not make recommendations to program offices and instead focused its recommendations on opportunities to address issues at the agency level.

Department Comment: BP and the Office of Foreign Assistance stated that “when designing a program, bureaus should develop a logic model and when designing a project, they should develop a project charter and schedule or a logic model. Bureaus implementing the CHIPS Act developed a logic model to guide their work. Having made this determination, an additional charter was not necessary under the FAM.”

OIG Reply: In the Audit Results section of this report, OIG acknowledged that the FAM provides options for the use of a logic model or a project charter. The FAM (18 FAM 301.4-2) states that “projects must have either a logic model or a project charter that defines the project goal(s), justification, scope, stakeholders, and key deliverables.” In the Audit Results section of this report, OIG noted that the CHIPS Act-related logic models that it reviewed did not include goals, justifications, scopes, stakeholders, and key deliverables. OIG concluded that if the Department applied the FAM principle related to project charters, the Department would improve its efforts to implement the CHIPS Act requirements. This is especially important given the complexity of the CHIPS Act and the breadth of stakeholders involved in fulfilling responsibilities under the act. OIG maintains that the Department would benefit from having a clear understanding of each project’s purpose and scope parameters, the stakeholders involved, and key deliverables.

Department Comment: BP and the Office of Foreign Assistance stated that bureaus were still planning implementation during the audit and that OIG’s request for detailed project schedules was premature.

² Government Accountability Office, *Government Auditing Standards*, 2018 Revision, § 8.57 (GAO-21-368G, April 2021).

OIG Reply: OIG acknowledges that bureaus and offices were continuing to plan the implementation of CHIPS Act activities during the audit. However, this audit was designed to be proactive, offering recommendations concurrent with the Department’s implementation of the requirements. Because the initial years of the CHIPS Act program are critical, it is imperative that the Department develop and implement a well-defined and successful program. Therefore, OIG’s recommendations are intended to help the Department improve controls during the planning phase.

Department Comment: Several of BP and the Office of Foreign Assistance’s comments relate to the Department’s opinion that the report does not recognize the role that the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources played in planning for the implementation of CHIPS Act-related activities. For example, BP and the Office of Foreign Assistance stated that the draft report “erroneously asserts a lack of Department leadership and guidance on establishing CHIPS-funded programs, ignoring the well documented role of the Deputy Secretary and Deputy Secretary for Management and Resources in marshalling the Department’s fulfillment of these unique opportunities.” BP and the Office of Foreign Assistance requested that “the final audit fully recognize the [Deputy Secretary of State] and [Deputy Secretary for Management and Resources] leadership roles . . . including the Secretary’s specific approval of their plans, which is otherwise omitted from the record.”

Additionally, BP and the Office of Foreign Assistance stated that including a specific sentence in documentation provided during the audit that designated the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources as the leads seemed redundant. Furthermore, BP and the Office of Foreign Assistance asserted that “the documentation shows that [the Secretary], [Deputy Secretary of State], and [Deputy Secretary of State for Management and Resources] had confidence in both Under-Secretary and bureau-level leadership of these new programs. Interposing an intermediate layer of management and oversight is unnecessary, and risks diluting program accountability.”

OIG Reply: In the Audit Results section of the report, OIG recognized the role that the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources played in the implementation of the CHIPS Act requirements. For example, the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources participated in informal groups that planned CHIPS Act-related activities. OIG also reviewed the supporting documentation³ provided with the Department’s formal response to a draft of this report and confirmed the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources led working groups to plan CHIPS Act-related activities. However, the designation, structure, and set of responsibilities for CHIPS Act-related activities were not formalized in a policy document to promote continuity. Specifically, while having the involvement of the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources when planning for the implementation of CHIPS Act-related activities is beneficial, establishing a formal lead and management structure would help ensure

³ The documentation provided by the Department in response to a draft of this audit report indicated that the Deputy Secretary of State and the Deputy Secretary of State for Management and Resources chaired meetings in 2022 and 2023 to discuss the CHIPS Act and related policy priorities.

the continuity of CHIPS Act-related activities. Ensuring continuity is particularly important within the Department considering the frequent rotation of many Department personnel. Moreover, complex programs that span multiple bureaus, such as those related to the CHIPS Act, should have a formally designated lead and a documented management oversight structure to help to ensure funds are used efficiently and effectively and to avoid duplication of efforts between the different bureaus and offices that are implementing CHIPS Act-related projects. Without a clear Department lead to guide and monitor CHIPS Act-related activities, the Department may miss opportunities to realize efficiencies and foster coordination and its ability to implement its responsibilities related to the CHIPS Act may be adversely impacted.

ABBREVIATIONS

BP	Bureau of Budget and Planning
CHIPS Act	Creating Helpful Incentives To Produce Semiconductors Act of 2022
FAM	Foreign Affairs Manual
ICT	information and communication technology
ITSI	International Technology Security and Innovation Fund
OIG	Office of Inspector General

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Office of Audits

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