



OIG Office of Inspector General
U.S. Department of State • Broadcasting Board of Governors

**STATEMENT BY
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**BEFORE THE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON STATE, FOREIGN OPERATIONS,
AND RELATED PROGRAMS
UNITED STATES SENATE**

FIRST SESSION, 114TH CONGRESS

**FY 2016 FUNDING REQUEST AND BUDGET JUSTIFICATION FOR THE
U.S. DEPARTMENT OF STATE**

FEBRUARY 24, 2015

Chairman Graham, Ranking Member Leahy, and Members of the Subcommittee, thank you for the opportunity to highlight some of the mission-critical work performed by the Office of Inspector General (OIG) for the Department of State and Broadcasting Board of Governors (BBG). First, I want to express my appreciation for the support you have shown to my office. I am grateful for the overall budget increase that OIG received in FY 2015. Notwithstanding the FY 2015 increase, along with the increase included in the President's FY 2016 request, we still face significant challenges, given the growth of Department funding compared to our own. Still, we have a substantial and positive impact on the operations of the Department and BBG.

With that premise in mind, I would like to outline some of our notable work and new initiatives, including our most recent responsibility—joint oversight of Operation Inherent Resolve (OIR), the overseas contingency operation directed against the Islamic State of Iraq and the Levant (ISIL). In the last section of my testimony, I discuss OIG's resource challenges.

I. STATE OIG'S MISSION AND OVERSIGHT EFFORTS

It is my honor to have led the State OIG for the past 17 months—since the end of September 2013. OIG's mandate is broad and comprehensive, involving oversight of the full scope of Department and BBG programs and operations, including more than 72,000 employees and 280 overseas missions and domestic entities, as well as the U.S. Section of the International Boundary and Water Commission. These agencies are funded through combined annual appropriations of approximately \$15 billion and nearly \$7 billion in consular fees and other earned income. OIG also is responsible for full or partial oversight of an additional \$17 billion in Department-managed foreign assistance.

State OIG differs from most OIGs in that it has a mandated inspection function. We are statutorily required to periodically audit and inspect every domestic and overseas operating unit around the world once every 5 years.¹ Additionally, since the beginning of my tenure, we have redoubled our efforts to address some of the top challenges of the Department, including the protection of people and facilities, the management of contracts and grants, and the security of sensitive information around the world. I will elaborate on each of these:

Improving Security

Protecting the people who work for the Department is a top priority for the Department and for OIG. OIG has inspected physical security at overseas posts for years; however, since the September 2012 attacks on U.S. diplomatic facilities and personnel in Benghazi, Libya, OIG has significantly stepped up its oversight efforts related to security, including targeted audits and evaluations. We help safeguard the lives of people who work in or visit our posts abroad by performing independent oversight to help the Department improve its security posture. Unlike many of our other oversight activities, as well as more traditional Government-wide work conducted by the

¹ This timeframe requirement is routinely waived by Congress each year.

Inspector General (IG) community, we cannot attach a dollar-value metric to our efforts related to physical security. Achievement in this area is not reflected in our “return on investment” statistics. However, our oversight successes are a source of great satisfaction, and to the degree that unreasonable risk persists, OIG will vigorously continue to highlight any deficiencies to the Department and to Congress.

Although the Department has made improvements to overseas security, challenges remain. Through our inspection and audit work, OIG continues to find security deficiencies that put our people at risk. Those deficiencies include failing to observe set-back and perimeter requirements and to identify and neutralize weapons of opportunity. Our teams also uncover posts that use warehouse space and other sub-standard facilities for offices, another security deficiency.² Under the Department’s security rules, office space must meet more stringent physical security standards than warehouse space. Our audit³ of the Local Guard Program found that firms providing security services for embassy compounds were not fully vetting local guards they hired abroad, placing at risk our posts and their personnel. In other reports, we found that the Bureau of Diplomatic Security (responsible for setting standards) and the Bureau of Overseas Buildings Operations (responsible for constructing facilities to meet those standards) often do not coordinate adequately to timely address important security needs.⁴ Based on our recommendations, those bureaus have taken steps to improve their communication and coordination. OIG will closely monitor whether these steps actually sustain improved joint performance to mitigate security vulnerabilities.

OIG has also examined the Department’s handling of significant security breaches that resulted in the deaths of U.S. Government personnel. For example, in September 2013, OIG published a report⁵ on its Special Review of the Accountability Review Board (ARB). As you know, the Secretary of State convenes an ARB when serious injury, loss of life, or significant destruction of property at or related to a U.S. Government Mission abroad has occurred. The most recent ARB was convened following the 2012 attacks and tragic events in Benghazi. OIG’s Special Review examined the process by which the Department’s ARBs are established, staffed, supported, and conducted, as well as the manner in which the Department tracks the implementation of ARB recommendations. We examined the Department’s follow-through on long-term security program improvements involving physical security, training, and intelligence-sharing over four administrations (since 1998) and found that it lacked sustained oversight by Department principals. Over time, the implementation of recommended improvements slows. The lack of follow-through explains, in part, why a number of Benghazi ARB recommendations mirror previous ARB recommendations. This underscores the need for a sustained commitment by Department principals to ensure that

² *Review of Overseas Security Policy Board Exceptions and Secure Embassy Construction and Counterterrorism Act of 1999 Waivers* (ISP-I-13-06, January 2013).

³ *Audit of Contractor Compliance With and Department of State Oversight of the Process Required for Vetting Local Guards* (AUD-HCI-14-24, June 2014).

⁴ *Inspection of the Bureau of Diplomatic Security, High Threat Programs Directorate* (ISP-I-14-23, September 2014); *Compliance Follow-up Review of the Bureau of Overseas Buildings Operations* (ISP-C-11-26, May 2011); *Audit of the Process to Request and Prioritize Physical Security-Related Activities at Overseas Posts* (AUD-FM-14-17, Mar. 2014).

⁵ *Special Review of the Accountability Review Board Process* (ISP-I-13-44A, September 2013).

ARB recommendations are timely and effectively carried out.

OIG also continues to increase its focus on security issues. OIG is currently involved in reviewing the Department's reported compliance with recommendations made by the ARB convened in the aftermath of the 2012 attacks at U.S. diplomatic locations in Benghazi. In addition, planned FY 2015 security audits include an audit of the approval and certification process used to determine employment suitability for locally employed staff and contracted employees, an audit of emergency action plans for U.S. Missions in the Sahel region of Africa, and an audit of the Vital Presence Validation Process (VP2) implementation. VP2 is the Department's formal process for assessing the costs and benefits of maintaining its presence in dangerous locations around the world. Finally, we will continue to emphasize security concerns as we inspect the International Programs Directorate of the Bureau of Diplomatic Security.

Improving Oversight of Contracts and Grants

Contracts and grants are critical to the Department's mission. The Department's obligations in FY 2014 equaled approximately \$9 billion in contractual services and \$1.5 billion in grants, totaling approximately \$10.5 billion.⁶ However, the Department faces challenges managing its contracts, grants, and cooperative agreements, which have been addressed repeatedly in OIG audits, inspections, and investigations over the years. These challenges were highlighted in two recent OIG Management Alerts that I provided to senior Department officials.

In FY 2014, more than 50 percent of post or bureau inspections contained formal recommendations to strengthen controls and improve administration of grants. In our March 2014 Management Alert⁷ focusing on contract management deficiencies, we reported that over the past 6 years, files relating to Department contracts with a total value of more than \$6 billion were either incomplete or could not be located at all. In a September 2014 Management Alert⁸ on grant management deficiencies, we highlighted weaknesses in oversight, insufficient training of grant officials, and inadequate documentation and closeout of grant activities. In FY 2012 alone, the Department obligated more than \$1.6 billion for approximately 14,000 grants and cooperative agreements worldwide.⁹ This is a significant outlay of American taxpayer funds, which makes oversight and accountability even more critical. Grants present special oversight challenges because, unlike contracts, they do not generally require the recipient to deliver specific goods or services that can be measured. The Department has agreed to adopt most of OIG's recommendations in these Management Alerts. OIG will continue to monitor the Department's efforts and seek additional improvements in this important area.

In FY 2015, OIG plans on issuing, among others, audits involving non-lethal aid and humanitarian assistance in response to the Syrian crisis, the Iraq Medical Services Contract, and the Bureau of

⁶ USASpending, <www.usaspending.gov>, accessed on February 19, 2015.

⁷ *Management Alert: Contract File Management Deficiencies* (MA-A-0002, March 20, 2014).

⁸ *Management Alert: Grants Management Deficiencies* (MA-14-03, September 26, 2014).

⁹ *U.S. Government Accountability Office, Implementation of Grants Policies Needs Better Oversight* (GAO-14-635, July 2014).

International Narcotics and Law Enforcement Affairs Embassy Air Wing Contract in Iraq.

Enhancing Information Security

Another top management challenge concerns information security. The Department is entrusted to safeguard sensitive information, which is often targeted by multiple sources, including terrorist and criminal organizations. The Department is responsible for preserving and protecting classified and other sensitive information vital to the preservation of national security in high-risk environments across the globe. OIG assessments of the Department's efforts to secure its information technology (IT) infrastructure have uncovered recurring weaknesses in unclassified systems and instances of noncompliance with Federal Information Security Management Act (FISMA) requirements. For example, we found that unclassified IT systems lacked adequate controls, allowing unauthorized individuals to enter and manipulate systems; ineffective security scanning; and weaknesses in cybersecurity management (including absence of a strategic plan). In a November 2013 Management Alert,¹⁰ I raised these concerns with senior Department officials, recommending, among other things, that independent penetration testing be conducted to assess the system's vulnerabilities to cyber attack.¹¹ This effort is currently underway.

II. NEW OIG INITIATIVES

Since joining OIG, I have implemented a number of new initiatives to enhance the effectiveness and efficiency of OIG's independent oversight of the Department's programs and operations:

Management Alerts and Management Assistance Reports

Soon after my arrival, we began to issue Management Alerts¹² and Management Assistance Reports.¹³ They are intended to alert Department leadership to significant issues that require immediate corrective action. For example, we issued two Management Assistance Reports recommending that the Department take immediate action (for example, termination) against certain grantees for misuse of grant funds. In addition, and as mentioned above, we issued

¹⁰ *Management Alert: OIG Findings of Significant, Recurring Weaknesses in Department of State Information System Security Program* (MA-A-0001, November 12, 2013).

¹¹ Vulnerabilities in the Department's unclassified network also affect OIG's IT infrastructure, which is part of the same network. We noted in our November 2013 information security Management Alert that there are literally thousands of administrators who have access to Department databases. That access runs freely to OIG's IT infrastructure and creates risk to OIG operations. Although OIG has no evidence that its IT systems have been compromised, the potential exists and places our independence at risk.

¹² *Management Alert: OIG Findings of Significant, Recurring Weaknesses in Department of State Information System Security Program*, (MA-A-0001, January 2014); *Management Alert: Contract File Management Deficiencies* (MA-A-0002, March 2014); *Management Alert: Grants Management Deficiencies* (MA-14-03, September 2014).

¹³ *Management Assistance Report: Concerns with the Oversight of Medical Support Service Iraq Contract No. SAQMMA11D0073* (AUD-MERO-15-20, December 23, 2014); *Management Assistance Report: Grant Improprieties by Nour International Relief Aid* (AUD-CG-15-19, January 15, 2015); *Management Assistance Report: Termination of Construction Grants to Omran Holding Group* (AUD-CG-14-37, September 18, 2014).

Management Alerts¹⁴ relating to serious problems in the areas of grant and contract management and information security. The response from the Department to these products has been favorable, as they have concurred with most of our recommendations.

Moreover, we greatly appreciate that this Committee has also recognized their value. The explanatory statement to the FY 2015 Omnibus Appropriations bill included language directing the Secretary of State to submit to Congress a report detailing the status of each of the recommendations included in OIG's FY 2014 Management Alerts.

Office of Evaluations and Special Projects

The Office of Evaluations and Special Projects (ESP) was established in 2014 to enhance OIG's oversight of the Department and BBG. In particular, ESP undertakes special evaluations and projects and complements the work of OIG's other offices by further developing the capacity to focus on broader, systemic issues. For example, in October 2013, ESP published a Review of Selected Internal Investigations by DS,¹⁵ which addressed allegations of undue influence by Department management. Currently, ESP is undertaking a joint review with the Department of Justice OIG of a number of shooting incidents in Honduras in 2012, which involved Drug Enforcement Administration (DEA) and Department of State personnel.

Increased Emphasis on Whistleblower Protections

OIG is also using ESP to improve OIG's capabilities to meet statutory requirements of the Whistleblower Protection Enhancement Act of 2012 and other whistleblower initiatives. Department employees, employees of contractors and grantees, and others have been encouraged to report fraud, waste, abuse, and misconduct. Such reporting must take place without fear of retaliation. We have designated an ombudsman (a senior ESP attorney) for these purposes. We also produced an educational video and published a guide regarding whistleblower protections on our website.¹⁶

¹⁴ *Management Alert: Contract File Management Deficiencies* (MA-A-0002, March 20, 2014); *Management Alert: Grants Management Deficiencies* (MA-14-03, September 26, 2014); *Management Alert: OIG Findings of Significant and Recurring Weaknesses in the Department of State Information System Security Program* (MA-A-0001, November 12, 2013).

¹⁵ *Review of Selected Internal Investigations Conducted by the Bureau of Diplomatic Security* (October 2014, ESP-15-01).

¹⁶ OIG, Whistleblower Protection, <<http://oig.state.gov/hotline/whistleblower>>.

Oversight of Overseas Contingency Operations

The IG community was recently tasked, through an amendment to the Inspector General Act of 1978 (IG Act), with additional responsibility for overseeing current and future overseas contingency operations. Approximately 8 weeks ago, Jon T. Rymer, the Inspector General for the Department of Defense (DoD), was appointed Lead Inspector General for Operation Inherent Resolve (OIR)—the U.S.-led overseas contingency operation directed against the Islamic State of Iraq and the Levant (ISIL). Mr. Rymer subsequently appointed me as Associate Inspector General in charge of oversight. Three OIGs (State, DoD, and U.S. Agency for International Development) have dedicated staff to this important project. We are working jointly on: (1) strategic planning, to provide comprehensive oversight of all programs and operations in support of OIR; (2) program management, to track, monitor, and update information provided by our agencies in support of OIR; and (3) communications, to collect information and prepare periodic reports for Congress on projects related to OIR. Relatedly, we are in the process of establishing a hotline dedicated to the contingency operation and developing joint investigative capabilities for OIR oversight.

Data and Technology

OIG is developing an automated evidence tracking system to enhance evidence processing accuracy and efficiency, and employee computer forensic and data processing procedures in order to significantly reduce agents' time and investigative hours. Further, we are building the capacity of our new data analytics group and developing a fusion cell consisting of special agents, forensic auditors, criminal analysts, and computer specialists. This group of specialists will enable all of our divisions to proactively analyze financial data to identify potential vulnerabilities in Department programs and processes and perform fraud risk assessments.

Suspension and Debarment

We have enhanced our efforts to identify and refer appropriate cases to the Department for suspension and debarment. Our Offices of Investigations and Audits prepare detailed suspension and debarment recommendation packages, in consultation with our Office of General Counsel, including referral memoranda summarizing all relevant facts and setting forth the specific grounds for suspension or debarment. They then submit their packages to the Department's Suspension and Debarment Officials (SDOs) for action. Between 2011 and 2014, OIG referred 128 cases to the Department for action.

New Locations

For reasons of oversight efficiency and to have "boots on the ground" at key financial locations, OIG intends, in the near term, to locate staff in Charleston, South Carolina, where one of the Department's Global Financial Services Centers resides, and in Frankfurt, Germany, the site of one of the Department's Regional Procurement Support Offices. Both locations are responsible for billions of taxpayer dollars. These moves will allow OIG to more efficiently and economically access pertinent information and pursue targeted reviews.

Prosecution of Cases

OIG has initiated a program to place one or more Special Assistant U.S. Attorneys (SAUSAs) in appropriate positions in the Department of Justice in order to prosecute more quickly and effectively cases involving fraud against the Department of State. For example, an OIG attorney-investigator now works as a full-time SAUSA in the U.S. Attorney Office for the Eastern District of Virginia.

III. IMPACT OF OIG WORK

Through our independent audits, evaluations, inspections, and investigations, OIG returns significant value to American taxpayers and the Department and BBG. In FY 2014, we issued 77 reports, which included hundreds of recommendations to improve the efficiency and effectiveness of the Department and BBG. During this period, we identified \$43.3 million in taxpayer funds that could be put to better use. Additionally, our criminal, civil, and administrative investigations resulted in the imposition or identification of \$75 million in fines, restitution, recoveries, and other monetary results last fiscal year. This was in addition to the \$1 billion in financial results from audit- or inspection-related findings and more than \$40 million in investigative-related financial results that OIG identified in the previous five fiscal years.

However, these financial statistics do not adequately take into account some of our most significant impacts, which cannot be quantified monetarily—namely, the physical safety and security of people and facilities, and the integrity of the Department’s operations and reputation. Indeed, the work of our dedicated and talented staff in reviewing security and leadership at our overseas and domestic posts has significant effects on the lives and well-being of employees throughout the Department. This impact is what motivates our employees, many of whom sacrifice precious and long periods of time with their families, often at high-threat posts.

IV. OIG RESOURCES

I am very grateful for your support and the additional financial resources that OIG has received over the past 2 years, and I would like to express my thanks to this Subcommittee, the Committees on Appropriations, and both Houses of Congress. Our budget requests have been substantially supported by the Administration, and we are grateful for its support as well. These additional financial resources have enabled OIG to better fulfill its mission.

Although our appropriation has increased in recent years, we still face significant challenges, given the growth of Department funding compared to our own. In 1996, when our mission was expanded to absorb the United States Information Agency, OIG's budget represented 0.70 percent of the Department's appropriation. Over the following decade, OIG’s budget was largely flat.

Through the support of Congress and the Administration, OIG's funding has more than doubled in the last few years. By comparison, however, the Department's funding nearly quadrupled (more than 380 percent) between 1996 and 2014 accompanied by significant increases in foreign assistance for which OIG also provides oversight. As a result, even with the increase included in the 2015 budget and the President's FY 2016 request, OIG still represents less than one-third of one percent of the Department's operating budget. This percentage drops to less than one-quarter of one percent when Department-managed foreign assistance is included.

In addition to the substantial number of programs and dollars for which we have oversight, another challenge that we face now is the new requirement that OIG conduct joint oversight of OIR to defeat ISIL. Since we are still in the process of defining the scope of our OIR oversight commitments, long-term impacts on mission priorities are difficult to predict. Presently, we are funding these responsibilities out of existing resources, a situation that necessarily reduces oversight resources for our other mission-critical priorities and operational needs.¹⁷ Challenges we face include, among others, the following:

- OIG is statutorily required to inspect and audit every bureau and post once every 5 years.¹⁸ However, due to budgetary and staffing limitations, more than 50 percent of domestic entities and 100 overseas posts, representing billions of dollars and tens of thousands of employees, have not been inspected in the last 5 years. At current staffing levels, OIG estimates that it will take approximately 8 years to inspect each overseas post and 11 years to inspect each domestic operating unit. One of the most important functions of our inspection work is ensuring the safety and security of personnel and facilities overseas.
- In the past decade, there has been a substantial growth in Department grants and contracts, particularly in high-risk, high-cost programs and operations, such as Afghanistan. For example, in the last 5 years, Department procurements have more than tripled, to approximately \$12 billion annually.
- As described above, we remain concerned about the vulnerabilities of our own IT network. Additional resources may be required to increase our independence and reduce the risk of OIG systems being vulnerable to unfettered and undetectable access by the Department.

In conclusion, Chairman Graham, Ranking Member Leahy, and Members of the Committee, thank you for opportunity to highlight some of our significant oversight work and for your continued strong support. We take seriously our statutory requirement to identify instances of fraud, waste, abuse, and mismanagement and to notify Congress, agency leadership, and the public of these deficiencies. My staff and I remain committed to promoting the economy, efficiency, and

¹⁷ OIG's FY 2015 budget does not include funds for OIR. Approximately two-thirds of the President's requested FY 2016 increase—\$6.27 million—will be directed toward funding 16 positions to meet our oversight responsibilities for OIR to degrade and defeat ISIL. The remaining \$2.73 million will fund 11 direct-hire positions needed to strengthen security oversight, particularly in the context of increased terrorist threats abroad, and to fulfill OIG's other statutory responsibilities.

¹⁸ This timeframe requirement is routinely waived by Congress each year.

effectiveness of the Department and BBG, as well as to protecting the safety and security of its employees and facilities and sensitive information around the world. As always, I would be happy to answer your questions and provide more information on any of our past, present, or future work.

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