February 26, 2015

MEMORANDUM

TO: D/MR – Heather Higginbottom

               F – Hari Sastry

               M – Patrick F. Kennedy

               CGFS – Christopher H. Flaggs

FROM: OIG/ISP – Robert B. Peterson, Assistant Inspector General

SUBJECT: Management Assistance Report – Department Financial Systems Are Insufficient
               to Track and Report on Foreign Assistance Funds, ISP-I-15-14

Foreign assistance resources managed by the U.S. Department of State (Department) and the
U.S. Agency for International Development (USAID) under the direction of the Secretary of State
grew from less than $10 billion in FY 2000 to more than $26 billion in FY 2010. The Department's
current core financial systems meet many of the Department's needs; however, they were not
designed to track and report on foreign assistance funds. Department bureaus with
responsibilities for oversight or management of foreign assistance funds have spent millions of
dollars and an inordinate amount of time, with limited success, on alternative systems and
processes to fill this gap.

Background: Since the terrorist attacks of September 11, 2001, the role of foreign assistance as
an instrument of U.S. foreign policy has grown dramatically. The Department has assumed
greater responsibility for implementing foreign assistance programs, particularly in the security
sector, alongside traditional development assistance managed by USAID. The synergy between
development and diplomacy is a core principle of the Quadrennial Diplomacy and Development
Review, which calls on the Department to enhance its capabilities to manage increasingly
complex programs across the globe.

Finding: The Office of Inspector General (OIG), in a number of inspections and audits dating back more than a decade, has found that neither the domestic Global Financial Management System (GFMS) and its data repository (Data Warehouse) nor the overseas Regional Financial Management System (RFMS) and its data repository (Consolidated Overseas Accountability Support Tool or COAST) currently track funding and expenditures by program, project, country, region, or purpose (sector). This is information that bureaus need to track and manage their funds and that the Department needs to respond to external queries.

Bureaus' Ability to Track and Manage Foreign Assistance Funds: Inspections and audits found that the Office of U.S. Foreign Assistance Resources and the Bureaus of International Narcotics and Law Enforcement Affairs (INL),[1] Near Eastern Affairs, South and Central Asian Affairs,[2] and International Security and Nonproliferation (ISN),[3] including the Nonproliferation and Disarmament Fund (NDF),[4] had created their own ad hoc systems and informal records to track and manage foreign assistance funds.

For example, INL developed the Local Financial Management System (LFMS) for use at posts with INL operations. After investing approximately $2.3 million from 2009 to 2013 on LFMS, INL decided to discontinue worldwide use of the system. INL continues to work with the Bureau of the Comptroller and Global Financial Services (CGFS) in order to adapt Department systems to accommodate its needs. Various ISN program offices have created their own ad hoc disparate systems, which do not interface with each other or with GFMS.

In another example, NDF management developed the Financial and Information Management System (FIMS) because GFMS did not provide the information necessary to track funds at the project level and manage projects effectively. FIMS is used only by NDF and does not interface with GFMS or other Department financial management systems.

Additionally, the Bureaus of Near Eastern Affairs and South and Central Asian Affairs spent many hours developing spreadsheets drawn from several systems to determine the status of their funds. Those bureaus were not able, during the 2011 OIG inspection, to produce a report showing the total funds received, obligated, liquidated, and available.

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[1] *Inspection of the Bureau of International Narcotics and Law Enforcement Affairs* (ISP-I-14-24, September 2014); *Inspection of the Bureau of International Narcotics and Law Enforcement Affairs* (ISP-I-05-14, July 2005); *Survey of the Status of Funding for Iraq Programs Allocated to the Department of State's Bureau of International Narcotics and Law Enforcement Affairs as of December 31, 2005*(AUD/IQO-06-30 and SIGIR-06-018, July 2006); *Audit of Narcotics Program Management Issues* (98-CI-004, March 1998); See also United States Senate, Committee on Homeland Security & Governmental Affairs, Subcommittee on Contracting Oversight, *New Information about Counternarcotics Contracts in Latin America,* June 2011.
[2] *Inspections of the Bureaus of Near Eastern Affairs and South and Central Asian Affairs (*ISP-I-11-49A, May 2011, and ISP-I-11-47, June 2011).
[3] *Inspection of the Bureau of International Security and Nonproliferation (ISN)* (ISP-I-14-19, July 2014).
[4] *Audit of Nonproliferation and Disarmament Fund (NDF) Controls Over Contracting and Project Management and Integrity of Financial Data* (AUD-FM-13-17, December 2012).

Developing bureau-specific systems and spreadsheets that perform similar functions is costly and does not provide the enterprisewide benefits of standardization. Manually drawing data from multiple systems that are not integrated is also time consuming and subject to human error, increasing the chances of inaccurate data and mismanagement. Bureaus' difficulty in reconciling field, Washington, and automated records has also affected their ability to track unliquidated obligations monthly, in accordance with 4 *Foreign Affairs Manual* (FAM) 225, to produce timely reports on funds available for reprogramming before they expire. For example, at the end of FY 2013, out of $1.2 billion in centrally managed unliquidated obligations, INL deobligated $503 million, including $58 million that it returned to the U.S. Department of the Treasury. Likewise, more than $2 million in ISN foreign assistance funds expired at the end of FY 2013, $2.2 million at the end of FY 2012, and $3.8 million at the end of FY 2011. OIG's recent Report on Internal Control[5] also highlighted controls over the validity and accuracy of unliquidated obligations as a significant deficiency.

Department's Ability to Report Externally on Foreign Assistance Funds: The difficulty of obtaining data on foreign assistance funds also hinders the Department in meeting the foreign assistance data reporting standards required by Office of Management and Budget Bulletin No. 12-01 for compliance with the Open Government Directive M-10-06, the U.S. National Action Plan of the Open Government Partnership, the International Aid Transparency Initiative, and the Digital Accountability and Transparency Act of 2014, Pub. Law 113-101.

The Office of U.S. Foreign Assistance Resources was established in 2006 to oversee and coordinate Department and USAID foreign assistance funding and provide strategic direction for all U.S. Government foreign assistance. The Office of U.S. Foreign Assistance Resources manages the Foreign Assistance Coordination and Tracking System (FACTS Info) as the central information system for Department and USAID foreign assistance budgeting, operational planning, and performance management, but FACTS Info does not track expenditures.[6] The Office of U.S. Foreign Assistance Resources has been working with CGFS to report foreign assistance data on the public Internet site ForeignAssistance.gov, as required by Office of Management and Budget Bulletin No. 12-01.

In June 2014, for the first time, the Department posted on ForeignAssistance.gov data on foreign assistance obligations and disbursements. The data, drawn from GFMS, have significant gaps. For example, the data do not include overseas transactions, and information on the recipient countries and foreign assistance sectors is incomplete. Although GFMS retrieves data from other financial systems, such as those for grants and overseas transactions, the level of detail provided

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[5] *Independent Auditor's Report on the U.S. Department of State 2014 and 2013 Financial Statements* (AUD-FM-15-07, November 2014).

[6] Although changes to the financial systems would facilitate Office of U.S. Foreign Assistance Resources reporting requirements on expenditures, the office's reporting requirements go beyond data likely to be captured in financial systems, such as performance data.

by GFMS reports is inconsistent. The Office of U.S. Foreign Assistance Resources and CGFS are working to improve the quality and scope of data in updates to ForeignAssistance.gov.

Department Efforts to Address Problems: Since 2012, the Office of Management Policy, Rightsizing, and Innovation has coordinated a working group for the Enterprise Data Quality Initiative to standardize data across all Department applications. In September 2014, a representative from the Office of U.S. Foreign Assistance Resources participated in the working group and a special Foreign Assistance Data Review Project working group was created. This initiative is an important component of improving the quality and reliability of foreign assistance data. CGFS is also currently developing and testing a system enhancement that would assist INL in tracking bilateral agreements. In FY 2015, CGFS plans to implement a change to allow additional grant information to be saved in GFMS. Additional efforts include a virtual merge of GFMS and RFMS and integration of RFMS with the Department's procurement system (the Integrated Logistics Management System).

USAID uses a single worldwide financial management system called Phoenix, which uses the same underlying software platform (CGI's Momentum) as the Department's GFMS and RFMS. Phoenix Viewer is USAID's application for reporting on foreign assistance funds. Although Phoenix Viewer does not meet all USAID's tracking and reporting requirements, many of its features could provide a model for the Department.

Conclusion: The Department's core financial system programs—GFMS and RFMS—meet many of the Department's needs.[7] However, efforts to facilitate tracking and managing of foreign assistance programs and related reporting have been piecemeal. A long-term, comprehensive plan with target completion dates is required to address stakeholders' needs related to tracking assistance funds by program, project, country, region, and purpose (sector). Solutions may involve expanding the capabilities of the Department's core financial systems (such as devoting a system field to "country"); standardizing bureaus' use of fields in those systems; integrating the Department's financial, procurement, and grants systems; making business process changes; migrating to a different software package; and obtaining technical expertise from other agencies. Separate solutions may be required for tracking and reporting requirements.

According to 1 FAM 271.1, the Department's Chief Information Officer is responsible for ensuring that the Department's information resources meet the business requirements of the Department's business practitioners. CGFS is responsible for the Department's financial management platform (1 FAM 611.1). The Office of U.S. Foreign Assistance has authority over all foreign assistance funding and programs (1 FAM 033). The Under Secretary for Management oversees the Department's Chief Information Officer and CGFS (1 FAM 044.1). The Office of

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[7] The Department received an unmodified ("clean") audit opinion on its 2012, 2013, and 2014 financial statements (AUD-FM-14-10 and AUD-FM-15-07). GFMS also serves as the Department's data repository for all financial data so other systems feed data into GFMS.

Management Policy, Rightsizing, and Innovation is the central management analysis organization reporting to the Under Secretary for Management. External sources that offer technical expertise include the General Services Administration's 18F digital services agency and the U.S. Digital Service.

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

You should advise us on actions taken or planned on the recommendations within 30 days of the date of this memorandum. Actions taken or planned are subject to OIG followup and reporting.

I would be happy to meet with you to discuss this matter further, or your staff may contact Kris McMinn, on (703) 284-[Redacted] (b) (6)

Attachment:
Compliance Sheet