



Office of Inspector General

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**United States Department of State  
and the Broadcasting Board of Governors  
Office of Inspector General**

**Office of Audits**

**Audit of Bureau of Oceans and International  
Environmental and Scientific Affairs  
Administration and Oversight of Funds  
Dedicated to Address Global Climate Change**

Report Number AUD/CG-12-40, July 2012

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PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. Geisel", with a large, sweeping flourish at the end.

Harold W. Geisel  
Deputy Inspector General

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**Acronyms**

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
APP	Asia Pacific Partnership on Clean Development and Climate
A/OPE	Bureau of Administration, Office of the Procurement Executive
COR	contracting officer's representative
Department	Department of State
DOE	Department of Energy
DOSAR	Department of State Acquisition Regulations
DQA	Data Quality Assessment
FAH	<i>Foreign Affairs Handbook</i>
FAR	<i>Federal Acquisition Regulation</i>
GCCI	Global Climate Change Initiative
GO	Grants Officer
GOR	Grants Officer Representative
GPD	Grants Policy Directive
OES/EGC	Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change
OIG	Office of Inspector General
OMB	Office of Management and Budget
PPR	Performance Plan and Report
USAID	U.S. Agency for International Development

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## **Executive Summary**

The Department of State (Department) plays a significant role in implementing the Global Climate Change Initiative (GCCCI), which is part of the U.S. foreign assistance strategy to foster a low-carbon future and promote sustainable and resilient societies. The majority of the Department's foreign assistance for global climate change is administered through the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change (OES/EGC). From FYs 2006–2010, OES/EGC programmed approximately \$214 million for global climate change programs.

The Office of Inspector General (OIG) performed an audit of OES's administration and oversight of funds dedicated to address global climate change to be responsive to global developments and the priorities of the Department. The primary objective of this audit was to determine whether the administration and oversight by OES were sufficient to ensure that contributions toward international climate change efforts were expended in accordance with Department policy and were contributing to the U.S. Government's global climate change goals.

OIG found a number of areas that require greater management attention in order to improve OES administration and oversight of climate change programs. Specifically, OIG found that OES did not always follow guidance on how to execute Data Quality Assessments (DQA) to ensure that data used to report and support programmatic results were accurate. In addition, OIG found that policy guidance relating to managing and monitoring climate change grants and interagency acquisition agreements was not always followed by OES. Without greater attention to the comprehensive administration and monitoring of grants and interagency acquisition agreements, OES may not always have reasonable assurance that funds for climate change have been expended in accordance with Department policies; that the recipient performed program activities as stipulated in the awards or agreements; and that the program's indicators, goals, and objectives were achieved. Finally, OIG determined that OES did not always administer interagency acquisition agreements in accordance with Department policies and Federal regulations. As a result, interagency acquisition agreements emanating from OES, and, according to Department officials, possibly other Department bureaus, were not always being efficiently and effectively administered and managed in the areas of policy application, review and approval, and overall program management.

OIG made 18 recommendations to improve the administration and oversight of climate change programs. Specifically, OIG recommended that OES conduct DQAs to ensure that the data used in reporting programmatic results are as complete, accurate, consistent, and supportable as possible; ensure that \$600,000 in Economic Support Funds awarded to the U.S. Agency for International Development (USAID) is properly accounted for; and improve the overall administration and monitoring of grants and interagency agreements. OIG also recommended that the Bureau of Administration, Office of the Procurement Executive (A/OPE), develop and issue standardized Department policies and procedures for the administration, review, and approval of interagency acquisition agreements and interagency agreements and that it revise the State First Policy to establish that the policy also applies to interagency agreements.

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OIG provided OES/EGC and A/OPE a draft of this report on May 25, 2012. In OES's June 18, 2012, response to the draft report (see Appendix D), OES concurred with Recommendations 1–16. In A/OPE's May 30, 2012, response to the draft report (see Appendix E), A/OPE concurred with Recommendations 17 and 18, stating that a working group had been convened to carry out preparing the guidance recommended. Based on the bureaus' responses, OIG considers all 18 of the report's recommendations resolved. However, each recommendation will remain open until documentation is provided showing that the recommendations have been fully implemented. (A summary of management's responses to the recommendations and OIG's replies are presented after each recommendation.)

## **Background**

### **The United States Climate Change Strategy**

On September 22, 2010, President Obama signed the Presidential Policy Directive on Global Development. The Directive recognized that global development is vital to U.S. national security and is a strategic, economic, and moral imperative for the United States. One main outcome of the Directive, GCCI, aims to integrate climate change into the U.S. foreign assistance strategy to foster a low-carbon future and promote sustainable and resilient societies in coming decades. Three agencies—the Department of State (Department), USAID, and the Department of the Treasury—form the core of the GCCI.

In December 2010, the Secretary of State released the First Quadrennial Diplomacy and Development Review, which reaffirmed the goals of the GCCI to address climate change threats. Within the Department, the Office of the Special Envoy for Climate Change plays a central role in developing U.S. international policy on climate by representing the United States internationally at the Ministerial level in all bilateral and multilateral negotiations regarding climate change. OES/EGC contributes to the U.S. Government's engagement in international climate negotiations through a range of bilateral and regional partnerships related to clean energy and climate change and is responsible for administering the majority of the Department's global climate change foreign assistance contributions and programs.

OES/EGC plays a part in coordinating U.S. policy development and activities related to international climate change. In 2006, OES/EGC began receiving additional programmatic funding to carry out climate change programs—most notably under the Asia-Pacific Partnership on Clean Development and Climate (APP). The APP programs were carried out in seven countries<sup>1</sup> and were focused on meeting goals for energy security, national air pollution reduction, and climate change in ways that promote sustainable economic growth and poverty reduction. However, the U.S. climate change strategy evolved into a more global approach in 2010 with the introduction of the GCCI under the following three pillars: Promoting Clean Energy, Conserving Forests and Promoting Sustainable Land Use, and Building Resilience to Climate-Related Disasters and Damages (Adaptation). Since the strategic shift, the

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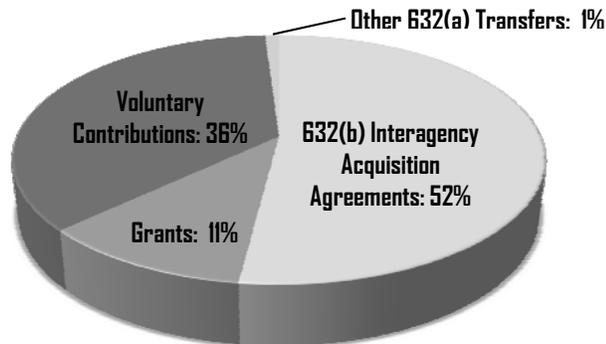
<sup>1</sup> The seven partner countries of the APP were Australia, Canada, China, India, Japan, South Korea, and the United States.

programmatic focus of OES/EGC turned to administering programs that address all three pillars in multiple countries worldwide.

### **OES/EGC Climate Change Funding**

From FYs 2006–2010, OES/EGC received approximately \$214 million in appropriations and funded approximately 96 climate change programs through multilateral, bilateral, and plurilateral<sup>2</sup> assistance. Multilateral assistance is provided through contributions to public international organizations,<sup>3</sup> while bilateral and plurilateral assistance is provided through interagency acquisition agreements and grants. The mechanisms used to fund OES/EGC climate change programs that were active as of September 2011 are shown in Figure 1.

**Figure 1. Funding Mechanisms for Office of Global Change Programs Active as of September 2011**



### **Mechanisms Used by OES To Fund Climate Change Programs**

As shown in Figure 1, OES/EGC used both interagency acquisition agreements and grants to fund the climate change programs.

The Department’s Federal Assistance Policy Handbook, dated March 2011, states that an interagency acquisition agreement “represents a contractual agreement between agencies for the acquisition of goods or services.” Sections 632(a) and 632(b) of the Foreign Assistance Act of 1961, as amended,<sup>4</sup> provide the authority for the Department to transfer foreign assistance funds to other U.S. agencies within certain parameters. OES/EGC uses primarily 632(b) transfers, which allow the requesting agency to acquire, on a reimbursable basis, the services or supplies of the servicing agency. OES/EGC entered into 51 interagency acquisition agreements, totaling

<sup>2</sup> Plurilateral is defined as follows: “Among several countries—more than two, which would be bilateral, but not a great many, which would be multilateral.” Source: Encyclo Online Encyclopedia, <<http://www.encyclo.co.uk/define>>, accessed on Apr. 26, 2012.

<sup>3</sup> OIG did not review contributions made to public international organizations because the use of funds generally is not subject to audit or to reporting requirements by the U.S. Government. Examples of OES/EGC-funded contributions are the Least Developed Countries Fund, the Special Climate Change Fund, and the Forest Carbon Partnership Facility.

<sup>4</sup> Pub. L. No. 87-195 (codified at 22 U.S.C. § 2392).

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approximately \$115 million, from FYs 2006–2010. Of the 51 agreements, two are 632(a) transfers and 49 are 632(b) transfers.

The Federal Assistance Policy Handbook also defines a grant as “an assistance instrument used when the principal purpose is the transfer of money, property, or services to accomplish a public purpose of support or stimulation authorized by federal statute when it is anticipated that there will be no substantial involvement between the agency and the recipient during performance.” OES/EGC uses sole source and competitive grants to carry out climate change programs, and from FYs 2006–2010, it administered 42 grants,<sup>5</sup> totaling approximately \$34 million.

**Objective**

The primary objective of this audit was to determine whether the OES administration and oversight were sufficient to ensure that contributions toward international climate change efforts were expended in accordance with Department policy and were contributing to the U.S. Government’s global climate change goals. (The scope and methodology of the audit are detailed in Appendix A.)

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<sup>5</sup> These 42 grants included nine cooperative agreements, which require greater U.S. Government participation as “substantial involvement” than do grant awards. Cooperative agreements are managed using grants-related policies.

## **Audit Results**

### **Finding A. Greater Management Attention to Data Quality Needed To Report Climate Change Program Results Accurately**

Of the 19<sup>6</sup> climate change programs, totaling \$34 million, selected as part of the original sample, OIG determined that for four programs<sup>7</sup> (21 percent), OES/EGC did not always ensure the quality and supportability of data used to report programmatic results in the FY 2010 Foreign Assistance Performance Plan and Report (PPR).<sup>8</sup> This occurred because OES/EGC did not fully implement the guidance for conducting DQAs<sup>9</sup> to help ensure that the data used to report results in the PPR were complete, accurate, consistent, and supportable. For example, OES/EGC did not always implement the six-step sample methodology provided by the Office of U.S. Foreign Assistance Resources to include step 3, which required a review of data collection methodologies used by recipients and verification of what recipients provided against raw data sources. As a result, the programmatic results reported by OES may not always be reliable for the purpose of gauging whether climate change indicators are being met.

#### **Annual Performance Planning and Reporting**

Reporting a program's performance to ensure transparency is an important part of foreign assistance. Data from the PPRs fulfill the requirements of the Government Performance and Results Act of 1993,<sup>10</sup> which emphasizes accountability and transparency in agency and program performance. In addition, information captured in the PPR supports the heightened interest in performance, performance management, and evidence-based reporting by interested parties such as the administration, the Congress, and public groups. The Office of U.S. Foreign Assistance Resources provides guidance on the collection and reporting of PPR data and uses PPR data and narratives to help inform current and out-year budget decisions, respond to Congressional inquiries, prepare speeches and testimonies for Department of State and USAID principals, and develop the Annual Performance Report/Annual Performance Plan.

For the PPR submission, OES/EGC provided narratives that summarized how EGC programs addressed OES mission objectives and provided information on key issues that described how relevant results were achieved. OES/EGC also provided numerical data for PPR

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<sup>6</sup> OIG's original sample of 19 climate change programs consisted of 11 interagency acquisition agreements and eight grants, five of which were cooperative agreements. OIG conducted an independent verification and validation of 12 of the 19 programs, to include five interagency acquisition agreements and seven grants, four of which were cooperative agreements.

<sup>7</sup> Two of the four programs reported results under multiple indicators. Specifically, S-OES-07-IAA-0018 reported results under Indicators #1, #2, and #3, and S-OES-07-IAA-0023/0015 reported results under Indicators #1 and #2.

<sup>8</sup> The PPR presents the results that the Department Operating Unit achieved during the fiscal year and sets targets for results projected in out-years.

<sup>9</sup> DQAs are systematic reviews of data reported for each indicator based on the five data quality standards of Validity, Reliability, Timeliness, Precision, and Integrity.

<sup>10</sup> The Guidance for the FY 2011 Performance Plan and Report states that the Government Performance and Results Act of 1993 (Pub. L. No. 103-62) has been superseded by the Government Performance and Results Act Modernization Act of 2010 (Pub. L. No. 111-352).

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results, which, for FY 2010, were captured for the following four indicators:<sup>11</sup>

- Indicator #1: Number of people receiving U.S. Government supported training in global climate change including framework convention on climate change, greenhouse gas inventories, mitigation, and adaptation analysis;
- Indicator #2: Number of people receiving U.S. Government supported training in environmental law, enforcement, public participation, and cleaner production policies, strategies, skills, and techniques;
- Indicator #3: Number of improved laws/policies/regulations/agreements related to pollution and urban environment drafted with U.S. Government assistance; and
- Indicator #4: Quantity of greenhouse gas emissions, measured in metric tons of carbon dioxide equivalent, reduced or sequestered as a result of U.S. Government assistance.<sup>12</sup>

### **Quality and Supportability of Data Used To Report Climate Change Program Results**

OES/EGC did not always ensure the quality and supportability of data used to report programmatic results in the FY 2010 Foreign Assistance PPR for four of the 19 climate change programs selected as part of OIG's original sample. In response to questions on how data were gathered and reported, OES/EGC explained:

Per F [Office of U.S. Foreign Assistance Resources] guidance for the PPR, both primary and secondary data sources are acceptable for PPR reporting.

EGC's PPR reporting relies predominantly on primary data sources as obtained via IAA [interagency acquisition agreement] and grant reporting. Whenever EGC counts data from a "secondary" data source or inference from a primary data source, the resulting/reported numbers are extremely conservative estimates and represent such a small fraction of the total numbers achieved as to have a de minimis [minimal] effect on total PPR results annually. Case studies, booklets, educational materials, etc. are, by design, considered educational and training materials.

Using this interpretation of the Office of U.S. Foreign Assistance Resources guidance, OES/EGC program officials applied two methods to construct the results for the FY 2010 PPR. First, officials obtained information from performance reports received from interagency acquisition agreement and grant recipients, which were considered primary sources. Second, OES/EGC program officials made inferences or developed "extremely conservative estimates" from primary data sources, which OES/EGC considered secondary data sources.

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<sup>11</sup> An OES/EGC program official stated that not all program recipients are required to report against these four indicators and that some of the program recipients reported against multiple indicators for FY 2010.

<sup>12</sup> An OES/EGC program official stated that OES/EGC was not required to report against this indicator for FY 2010 but will be required to report results against this indicator for FY 2011.

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OIG reviewed performance reports submitted by grant and interagency acquisition agreement recipients to determine whether the results reported in the PPR could be supported by the information in the recipient performance reports. OIG could validate the reported numbers in the PPR against data submitted by recipients for three climate change programs<sup>13</sup> within OIG’s original sample. However, examples shown of unsupported results for FY 2010 Indicators #1, #2, and #3, which are from four of OIG’s original 19 programs selected as part of OIG’s sample, are presented in Table 1. The unsupported results are based on OIG’s review and validation of the reported numbers and/or performance reports submitted by grant and interagency acquisition agreement recipients.

**Table 1. Assessment of Climate Change Program Results Reported for FY 2010**

**FY 2010 Indicator #1** - Number of people receiving U.S. Government supported training in global climate change including framework convention on climate change, greenhouse gas inventories, mitigation, and adaptation analysis

<b>Program Number</b>	<b>Number Reported by OES/EGC</b>	<b>Source and Description of Training</b>
S-OES-08-IAA-0018	117	The September 30, 2010, performance report stated that <b>“assuming [emphasis added]”</b> that an average of three engineers and technical staff members received training for each of the 39 remaining sites, then 117 additional staff members were trained. OES/EGC officials could not provide additional documentation to support this assumption but noted that they relied on this information because recipient reporting <b>“has been consistent over time [emphasis added].”</b>
S-OES-07-IAA-0023/0015	600	The June 30, 2010, final performance report listed all training programs held throughout the life of this program, all of which occurred between December 2007 and September 2009, prior to FY 2010. Additionally, the number of individuals trained totals only approximately 370 participants in the final report, not 600. OES/EGC officials stated that they received an e-mail from the recipient indicating that it combined two interagency acquisition agreements to support the numbers reported for this training; however, OES/EGC did not provide a copy of this e-mail, and OIG could not locate it in the program files.
S-OES-07-IAA-0018	50	The February 25, 2010, performance report for one of the sub-projects of this agreement stated that the recipient published a book in the local language and distributed 50,000 copies during an international book fair. The performance report did not discuss the training of 50 individuals. OES/EGC officials stated that they used the 50,000 copies of the published book and an <b>“extremely conservative estimate [emphasis added]”</b> of 1/10 of 1 percent (50,000 x .001 = 50) to ascertain the number of people who could have been trained by reading this book.

<sup>13</sup> For one of the three programs, No. S-OES-07-IAA-0018, an acceptable source was validated for one of the sub-projects reported under this program.

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S-LMAQM-08-CA-012	15	The OES/EGC description to support this entry stated that 15 case studies on conventional buildings, solar passive buildings, and compliant buildings were prepared and developed for integration on the Web site. OIG asked OES/EGC officials to explain how it could consider “15 case studies” as reportable against this indicator. The officials responded that case studies are considered training materials and that they used a “ <b>conservative estimate [emphasis added]</b> ” of one individual trained per case study.
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**FY 2010 Indicator #2** - Number of people receiving U.S. Government supported training in environmental law, enforcement, public participation, and cleaner production policies, strategies, skills, and techniques

Program Number	Number Reported by OES/EGC	Source and Description of Training
S-OES-07-IAA-0018	466	The June 2010 performance report for one of the sub-projects of this agreement stated that 450 professionals had been trained since the last project update. The July 12, 2010, performance report for another of the sub-projects of this agreement stated that a workshop had been organized in October 2009 to help inform, support, and improve regional understanding of existing and ongoing activities and processes but did not note that 16 people attended the workshop. When requested, OES/EGC officials stated that this secondary source was based on prior experience regarding representation at such training and used eight countries with two representatives from each country (8 x 2 = 16) as their source.
S-OES-07-IAA-0023/0015	135	The OES/EGC description to support this entry provided dates and the number of people trained on each date as follows: March 2009 (45), June 2009 (40), September 2009 (35, 25, and 15 at three separate events). <sup>a</sup> OIG asked OES/EGC officials to explain how they could consider these sources as reportable against FY 2010 numbers, since all of the training occurred during FY 2009. OES/EGC did not provide a response.
S-LMAQM-07-CA-337 <sup>b</sup>	15	OES/EGC’s description to support this entry stated that 15 case studies on conventional buildings, solar passive buildings, and compliant buildings were prepared and developed for integration on the Web site. OIG asked OES/EGC officials to explain how it could consider “15 case studies” as reportable against this indicator and whether the entry was a duplicate entry to Grant S-LMAQM-08-CA-012, as reported under Indicator #1. OES/EGC officials did not state whether this was a duplicate entry but again responded that case studies are considered to be training materials and that they had used a “ <b>conservative estimate [emphasis added]</b> ” of one individual trained per case study.

<sup>a</sup> OIG noted that OES/EGC’s addition of the training numbers under this agreement was underreported by 25 individuals.

<sup>b</sup> This program was not one of the 19 programs selected as part of OIG’s sample, but it was included to determine whether the reporting was duplicative of Grant S-LMAQM-08-CA-012, which was part of OIG’s sample.

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**FY 2010 Indicator #3** - Number of improved laws/policies/regulations/agreements related to pollution and urban environment drafted with U.S. Government assistance

<b>Program Number</b>	<b>Number Reported by OES/EGC</b>	<b>Source and Description of Laws, Policies, Regulations, and Agreements</b>
S-OES-07-IAA-0018	1	OES/EGC’s description to support this entry stated that one of the sub-projects of this agreement accomplished an “Asia Lighting Compact” Web site in FY 2010. OIG asked OES/EGC officials to explain how they could consider a Web site to be a law, policy, regulation, or agreement, but the officials did not provide a response.

Source: OIG generated based on analysis of OES/EGC FY 2010 PPR Performance Indicator Results.

**The Importance of Conducting Data Quality Assessments**

OES/EGC did not fully implement the guidance for conducting DQAs to help ensure that the data used in reporting programmatic results were complete, accurate, consistent, and supportable. Annex 9 to the Guidance for the FY 2010 Performance Plan and Report, issued by the Office of U.S. Foreign Assistance Resources, states that DQAs are important so that managers know if they can trust the data for use in making programmatic decisions and that performance data should be as complete, accurate, and consistent as management needs and resources permit. The FY 2010 guidance states that DQAs are systematic reviews of data reported for each indicator based on the following five data quality standards:

- Validity – Do data clearly and directly measure what is intended?
- Reliability – Using the same measurement procedures, can the same results be obtained repeatedly?
- Timeliness – Are data sufficiently current and available frequently enough to inform management decision-making at the appropriate levels?
- Precision – What is the acceptable margin of error given the likely management decisions to be affected?
- Integrity – Are mechanisms in place to reduce the possibility that data are manipulated for any reason?

While the FY 2010 guidance notes that a DQA does not require each of these data quality standards to be 100 percent met, it does provide a sample methodology by step for undertaking a DQA:

Step 1: Sort indicators by data source—primary data (funded by and/or collected by the U.S. Government or one of its contractors/grantees) or secondary data (collected by a government or another source not funded by the U.S. Government).

Step 2: For each secondary source indicator, identify the source of the data: national institutions, international organizations, academic institutions in the host country, etc. If possible, identify the methodology used to collect and validate the information being used from this source.

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- Step 3: For all primary data sources, ask the relevant U.S. Government contractors/grantees to send a written description of their data collection methodology. To verify what they have provided, meet with them and ask to see proof of the process steps they say they have taken. Ask to see the raw data sources (for example, training sign-in sheets, expert reviewer checklists, or completed surveys). Complete a form for each indicator reviewed in this manner.
- Step 4: Attach these dated reviews and the documentation for these indicators in your files in case an audit occurs. A good practice is to photocopy the cover of the report from which the information is taken, the page on which the data are found, and staple this to the page containing the indicator.
- Step 5: Once the DQA for each indicator is completed, note this on the table and pull the requisite information on data limitations into the file.
- Step 6: Repeat this process every 3 years for every indicator reported.

As noted in step 1, the Office of U.S. Foreign Assistance Resources defines a primary data source as one funded by and/or collected by the U.S. Government or one of its contractors/grantees and a secondary data source as one collected by a government or another source not funded by the U.S. Government. OES/EGC's interpretation of primary data sources as obtained via interagency acquisition agreement and grant reporting aligns with that definition. However, OIG determined that OES/EGC's interpretation of secondary data sources as inferences or extremely conservative estimates from primary data sources is contrary to the definition of a secondary data source. For example, in the sample that OIG reviewed, OES/EGC did not rely on a government or other source not funded by the U.S. Government as a secondary source for the number of individuals reported as trained against Indicator #1 for Program S-LMAQM-08-CA-012. Instead, OES/EGC decided that the 15 case studies prepared and reported by the grant recipient were considered to be training materials and developed a "conservative estimate" of one individual trained per case study and applied this as a secondary data source.

OIG also reviewed DQAs completed by OES/EGC during 2008 and 2011 for multiple indicators. While the DQAs addressed the five data quality standards of Validity, Reliability, Timeliness, Precision, and Integrity, they did not follow the recommended methodology for undertaking a DQA as provided in the PPR guidance. Specifically, the DQAs did not implement step 2 (identifying sources of data for secondary data sources and, if possible, identifying the methodology used to collect and validate the information being used from these sources), step 3 (asking primary data sources to send a written description of their data collection methodology and verifying what they provided with proof of process steps or raw data sources), and step 4 (maintaining the dated reviews and documentation for the indicators in their files).

### **Conclusion**

Without fully implementing DQAs that consider appropriate sources of data, that review methodologies used by those sources to collect and validate data, and that verify what recipients have provided with proof of processes and raw data sources, the data used by OES/EGC to report programmatic results for climate change programs cannot be consistently relied upon by

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decision-makers. OIG recognizes that additional information is often provided in narrative sections of the PPR to further report climate change program accomplishments. However, all data must be complete, accurate, consistent, and fully supportable to ensure that program results can provide a direct link to climate change indicators and goals and can be used to accurately influence current and out-year budget decisions, responses to Congressional inquiries, and speeches and testimonies for Department of State and USAID principals.

**Recommendation 1.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, conduct Data Quality Assessments in accordance with the six-step methodology from the annual guidance provided by the Office of U.S. Foreign Assistance Resources to ensure that the data used in reporting results are as complete, accurate, consistent, and supportable as possible.

**Management Response:** OES concurred with the recommendation, stating that it will “conduct Data Quality Assessments” as specified in the recommendation and “will continue to consult with” the Office of U.S. Foreign Assistance Resources staff “in the implementation of DQA [Data Quality Assessments] guidance.”

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that DQAs will be conducted in accordance with the six-step methodology from the annual guidance provided by the Office of U.S. Foreign Assistance Resources.

**Finding B. Improvements Needed for Comprehensive Monitoring of Climate Change Program Grants**

OIG identified five areas in which climate change grants monitoring needs to be improved. Specifically, OES/EGC should (1) ensure that a Grants Officer Representative (GOR) is assigned throughout the life cycle of all grant awards, (2) develop grants monitoring plans, (3) adequately document the reviews of quarterly performance and financial reports, (4) require the timely submission of all required reports from the recipient prior to making payments, and (5) perform site visits to validate recipient performance. These grants monitoring requirements were lacking because relevant Department policies and procedures were not consistently implemented by OES/EGC’s GORs. For example, none of the seven grant awards OIG reviewed had monitoring plans implemented to assist in the reporting of the grants’ performance. Without comprehensive monitoring of grants, the Department may not always have reasonable assurance that Federal funds were spent in accordance with the grant award; that the grant recipient performed program activities as dictated in the grant award; and that the program’s indicators, goals, and objectives were achieved.

## **Designation of Grants Officer Representatives**

OIG selected and reviewed seven<sup>14</sup> climate change grants as part of its sample and found that all seven had an original GOR designation memorandum. However, the three designated GORs for all seven grants vacated their positions at some point during the execution of those grants. Only one grant file contained a new designation memorandum for a replacement GOR to assume the original GOR's responsibilities. In lieu of a newly designated GOR for the other grants, OES/EGC representatives stated that two project management officials "tag teamed" in overseeing climate change grants and conducting GOR responsibilities.

The Department's Grants Policy Directive (GPD) 16, "Designation of Grants Officer Representative," Revision 2, dated September 21, 2010, states that the Grants Officer (GO) must designate, in writing, a GOR to assist in the grants management administration of every domestic Federal assistance award. The GPD further states that the GOR is responsible for ensuring that the Department exercises prudent management and oversight of the award through monitoring and evaluating the recipient's performance and that the authorities given to the GOR are not re-delegable other than as specified in the GO's designation letter.

GORs are extremely important to the management and oversight of Federal grants as the "eyes and ears" of the GOs. Some of the GORs' duties include, but are not limited to, ensuring compliance with all the terms and conditions of the award, notifying the GO promptly of any developments that could have a significant impact on the recipient's performance, and evaluating the recipient's program effectiveness at the end of the program and submitting a final report to the GO. Because it is important to have a designated GOR from the commencement to the close-out of each award, GPD 16 states, "If the GOR is replaced during the period of the assistance award, the Grants Officer shall prepare a new designation memorandum for the replacement GOR and ensure that the Federal assistance recipient receives a copy as well."

A Standard Operating Procedures manual<sup>15</sup> developed by OES/EGC states that monitoring is the responsibility of the EGC Technical Lead assigned to each program, which is contrary to GPD 16. The manual further states that some essential ways an EGC Technical Lead can monitor a project include studying the time lines in the agreement and determining whether implementation is on course and supporting the rationale for any no-cost extensions, as necessary, for the attainment of project outcomes. The manual also states that if Technical Leads are engaged in monitoring, whether via a physical site visit or direct engagement in activities or outcomes, they should see a member of the Program Team for guidance on completing a report form. While these are all important monitoring activities, they should be executed by the assigned GOR and not re-delegated to the Technical Lead assigned to each climate change program.

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<sup>14</sup> These seven grants included four cooperative agreements. For the purposes of the audit, all cooperative agreements were reviewed for compliance with applicable Department grants-related policies and procedures.

<sup>15</sup> OES/EGC provided OIG a PowerPoint of its standard operating procedures, referred to as the Standard Operating Procedures manual throughout this report.

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Having a designated GOR during the life cycle of a grant is important to ensure that OES/EGC has an authorized representative to exercise prudent management and oversight of the award through monitoring and evaluating the recipient's performance. Further, while additional support by Technical Leads of certain program aspects is likely to strengthen a program's overall impact, responsibilities designated to a GOR should not be re-delegated to other program officials to ensure prudent and continuous management and oversight of grant recipients' performance.

**Recommendation 2.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change (OES/EGC), implement Grants Policy Directive 16, "Designation of Grants Officer Representative," by ensuring that the Grants Officer completes current Grants Officer Representative (GOR) designation memorandums throughout the life cycles of all grants. OES/EGC should also update its Standard Operating Procedures manual by aligning all monitoring and evaluation responsibilities under the designated GOR as directed by Grants Policy Directive 16 and not allowing the re-delegation of responsibilities to other program officials unless specified in the designation memorandum.

**Management Response:** OES concurred with the recommendation, stating that it "will support the implementation of Grants Policy Directive 16 by forwarding changes in GOR [Grants Officer Representative] designations to the Grants Officer in a timely way throughout the life cycle of all grants."

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that GPD 16 has been implemented as described and documentation showing that the Standard Operating Procedures manual as it pertains to alignment of all monitoring and evaluation responsibilities under the designated GOR has been updated.

### **Developing Grants Monitoring Plans**

OIG did not find evidence that OES/EGC had developed monitoring plans for any of the seven grants reviewed as part of OIG's sample. The Department's GPD 42, "Monitoring Assistance Awards," dated September 2, 2010, states that it is the responsibility of the GOR, in consultation with the GO, to develop a monitoring plan that is appropriate for the program. The GPD further states that the monitoring plan should include the frequency and types of monitoring mechanisms to be employed and document the types of monitoring activities to be performed, the frequency of these activities, and the individuals responsible for each activity. A monitoring plan is important to proper grants management, as it will assist the GOR in measuring the progress of the award and help ensure that goals and objectives are achieved. In addition, GPD 42 includes multiple templates for monitoring plans, such as the "Monitoring Plan Worksheet" and the "Sample Narrative Monitoring Plans," both of which include sections for documenting the goals and objectives of the award and the results of recipient performance.

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Without documented monitoring plans, OIG was unable to determine what monitoring activities OES/EGC's GORs used to ensure that the goals and objectives of the grant award were achieved and funds were spent accordingly.

**Recommendation 3.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, ensure that the Grants Officer Representatives, in consultation with the Grants Officer, develop monitoring plans for all future grant awards using the suggested Department of State templates included in Grants Policy Directive 42, "Monitoring Assistance Awards."

**Management Response:** OES concurred with the recommendation, stating that it "will develop grants monitoring plans for all future awards" through guidance obtained from the Grants Officer and A/LM/AQM.

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that the GORs, in consultation with the GO, have developed the monitoring plans specified in the recommendation.

### **Documenting Reviews of Performance and Financial Reports**

OIG did not find evidence that reviews of quarterly performance reports were documented by the GORs. For example, during its review of the seven grants chosen to be sampled, OIG found that several of the performance reports did not include the required elements as dictated by the grant agreement, such as the progress toward meeting project goals, problems in implementing the program, corrective action plans, updates on expenditures, or supporting documentation or products related to project activities. OIG also did not find evidence that the GORs had provided a written evaluation of their respective reviews and analyses of quarterly performance reports.

Further, OIG did not find evidence that reviews of quarterly financial reports were documented by the GORs. In particular, Grant S-LMAQM-GR-08-132 had incorrect figures and calculations within its financial reports on multiple occasions. Specifically, the September 2009 quarterly financial report documented the amount of funds received from the Department for that quarter instead of reporting the cumulative amount of funds received to date, as documented in previous reports. The difference in the reported amounts was approximately \$296,000; however, this discrepancy was not identified or documented by OES/EGC. Under the same grant, for the quarter ended June 30, 2010, the quarterly financial report showed on one page an unobligated balance of \$0.00 and another page showed an unobligated balance of approximately \$363,000. While a grant recipient official stated that discrepancies in the reports reflected errors that should have been caught by the grantee, it is again unclear as to whether these financial reports were reviewed, analyzed, and documented by OES/EGC's GORs to verify timely and adequate performance.

OES/EGC requires grantees to submit quarterly performance and financial reports, as dictated in each grant agreement. GPD 16 states that the GOR has the responsibility to review,

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analyze, and provide written evaluation of required recipient performance and financial status reports to verify timely and adequate performance. In addition, GPD 42 provides a template titled “Discretionary Grants Monitoring Instrument” for documenting the review of quarterly reports. This template includes the following areas as suggestions for reviewing and documenting each grant:

- Project Status – A brief description of the project and the accomplishments of project goals to date.
- Problems/Successes – Description of any problems or successes that have been encountered or could be shared as “best practices.”
- Goals – An update on the status of the completion of project goals and, if not yet accomplished, a plan for accomplishing the goals.
- Participants and Expenditures – A table for recording participants and expenditures to date, including planned versus actual.

Without appropriate review, analysis, and written evaluation of grantees’ performance and financial reports, OES/EGC may not always have reasonable assurance that program goals and objectives are being achieved throughout the project or that the grantee is performing program activities as dictated in the grant agreement. By documenting reviews of quarterly reports, OES/EGC could support the reported progress made in accomplishing each assistance award task, including progress by fiscal year, on meeting goals, objectives, and indicators. The documented review would also support that all expenditures were made in accordance with the approved budget and that the amount of funds expended was commensurate with the level of activity that had occurred.

**Recommendation 4.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the requirement in Grants Policy Directive 16, “Designation of Grants Officer Representative,” for the Grants Officer Representatives (GOR) to review, analyze, and provide written evaluation of required recipient Program Performance and Financial Status Reports to verify timely and adequate performance and require the GORs’ written evaluation to be documented using the template included in Grants Policy Directive 42, “Monitoring Assistance Awards.”

**Management Response:** OES concurred with the recommendation, stating that it would “seek clarification and guidance” from the GO and/or A/LM/AQM “to appropriately document the reviews of written programmatic and financial reports.”

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that the requirement in GPD 16 pertaining to the GOR having to review, analyze, and provide written evaluations of Program Performance and Financial Status Reports has been implemented and that the GORs’ written evaluations have been documented using the template included in GPD 42.

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**Timeliness of Reports by the Climate Change Grant Recipient**

OIG found evidence that quarterly performance and/or financial reports had been submitted late for all seven grants reviewed, often with no followup procedures having been performed by the program office. Delinquent reports ranged from minor, with one grantee submitting one quarterly financial report 18 days late, to egregious, with one recipient that had been awarded two grants not submitting any of the required quarterly financial reports for the entire length of time of both awards.

OES/EGC requires grantees to submit quarterly performance and financial reports in accordance with the terms of the agreement. For example, the language in Grant S-LMAQM-08-GR-132, which is similar to the language contained in all seven grants included in OIG's sample, states that the grantee is required to submit financial and performance reports on a quarterly basis no more than 30 days following the end of each calendar year quarter (March 31, June 30, September 30, and December 31).

Regarding delinquency of reports, the *Foreign Affairs Handbook* (FAH)<sup>16</sup> states:

When a financial assistance recipient has been determined to be delinquent in filing reports, the program office shall send a letter reminding the recipient of delinquent reports. After 30 days, if the recipient has not responded, the bureau will send a second notice letter. If after an additional 30 days the recipient has not responded, the bureau will send a third and final notice letter. After the third notice has been sent, the bureau will suspend all payments until such time as the overdue reports are filed.

For Grants S-LMAQM-08-CA-017 and S-LMAQM-08-CA-033, both executed by the same grant recipient, OIG did not find evidence that any of the required quarterly Financial Status Reports (Standard Form-269) had been submitted by the grant recipient for the length of either award.<sup>17</sup> However, the grant recipient received funds on an incremental basis throughout the life cycle of the awards, even though the recipient failed to submit the required financial reports.

OIG reviewed multiple e-mails regarding the late reporting for both grants, including an e-mail dated March 11, 2009, in which the delinquency of Financial Status Reports was mentioned to the GOR but for which the GOR still recommended financial payments for both grant recipients. In an e-mail dated December 22, 2009, an OES/EGC official again noted that the award recipient had not submitted any quarterly Financial Status Reports in 2008 and 2009 for either grant award. However, both grants ended on December 31, 2009, and all funds were provided to the grant recipient as of that date, for a total amount of \$1.1 million for both grants.

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<sup>16</sup> 4 FAH-3 H-674, "Monitoring – Delinquent Reports."

<sup>17</sup> The period of performance for the award ending -017 was February 25, 2008, to December 31, 2009, and for the award ending -033 was March 10, 2008, to December 31, 2009.

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Without the submission of timely performance and financial reports, proper followup by OES/EGC on delinquent reports, or suspension of all payments until the overdue reports are filed, OES/EGC did not always have reasonable assurance that Federal funds were spent in an appropriate manner or that program activities were performed as dictated in the grant award.

**Recommendation 5.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, take appropriate actions in accordance with the *Foreign Affairs Handbook* (4 FAH-3 H-674) when program performance reports and financial reports are not submitted in a timely manner.

**Management Response:** OES concurred with the recommendation, stating that it would use the FAH, 4 FAH-3 H-674, “to take action when program performance and financial reports are not submitted in a timely manner.”

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES has procedures to take appropriate actions in accordance with the FAH when program performance reports and financial reports are not submitted in a timely manner.

### **Performance and Documentation of Site Visits**

OIG found that OES/EGC had conducted two site visits for climate change programs funded via grants in September 2008 and April 2010. The site visits were formally documented in trip reports, and many grantees were reviewed during each visit. During the September 2008 site visit, the GOR reviewed five grants in India, including three of the awards in OIG’s sample. During the April 2010 site visit, the GOR reviewed four grants in India, including two of the awards in OIG’s sample. However, OIG noted that OES/EGC’s GORs did not complete the in-depth reviews as prescribed in the Department’s GPD 16 and GPD 42 during their site visits. For example, the reports typically summarized meetings held with grantee officials where only the statuses of the programs were discussed. These site visits by the GOR did not include a review of grantee documentation that supported quarterly reports submitted to OES/EGC and served as evidence that activities occurred, accounting records that ensured that adequate documentation was maintained to support award expenditures, and documentation that provided evidence that the recipient was monitoring its own sub-recipients to comply with the terms and conditions of the Federal assistance agreement.

GPD 16 describes the responsibility of the GOR to maintain contact, including site visits and liaison, with the award recipient. The GPD further states that after visiting the recipient’s location of performance, the GOR should promptly submit findings to the GO through a trip report that might include, as appropriate, (a) actual performance versus scheduled performance; (b) action needed, if any, to restore assistance award schedule; and (c) costs incurred versus projections.

GPD 42 also states:

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On-site visits substantiate sound financial management, program progress, and compliance with laws, regulations, and policies. On-site visits also provide an opportunity to look at the recipient's accounting records to ensure that adequate documentation is being maintained to support award expenditures. In addition, visits permit the opportunity to ensure the recipient is monitoring its own sub-recipients to comply with the terms and conditions of the Federal assistance agreement.

GPD 42 includes templates for documenting site visits titled "Monitoring Site Visit Worksheet" (this form may be sent to the recipient for completion and notes that verification of submitted documentation may be conducted by Department officials) and "Monitoring Assistance Review Guide Worksheet" (this form is to be used during site visits by the monitoring team).

Without active monitoring through regular site visits and data verification and thoroughly documented reviews of those site visits, OES/EGC did not have reasonable assurance that data used for performance-based decision-making and for reporting were valid and reliable. A program to monitor data quality with regular site visits, especially for those grant recipients considered "high-risk," may identify and prevent data from being unreliable.

**Recommendation 6.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the guidance provided in Grants Policy Directive (GPD) 16, "Designation of Grants Officer Representative," and GPD 42, "Monitoring Assistance Awards," and require Grants Officer Representatives to perform site visits for each grant recipient at least once during the life of the agreement or once per year for those recipients identified as "high risk." These visits should then be documented on templates similar to the Monitoring Assistance Review Guide Worksheet template included in GPD 42.

**Management Response:** OES concurred with the recommendation, stating that it would document site visits "on forms similar to the templates contained in GPD [Grants Policy Directive] 42."

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES has procedures in place pertaining to site visits and documentation showing that the visits have been documented on the templates similar to the template in GPD 42.

### **Finding C. Improvements Needed for the Effective and Efficient Administration of Climate Change Program Grants**

Based on its review of a sample of grants administered by OES for selected climate change programs, review of pertinent Department policies, and discussions with officials from A/LM/AQM, OIG determined the following:

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- OES/EGC awards did not include language in the seven grants OIG reviewed that required recipients to submit performance reports that described achievements in terms of progress toward meeting indicators as well as goals and objectives.
- OES/EGC's GORs did not notify the GO about changes to the terms and conditions of the grant agreement, which required an amendment to be executed for two of the seven grants OIG reviewed.
- OES/EGC's GORs did not always obtain the final performance and financial reports from the respective recipients to ensure that final deliverables were achieved, funds were reconciled, and proper close-out of the project was completed for two of the seven grants OIG reviewed.

The grants administration issues identified by OIG occurred for three primary reasons. First, OES/EGC's proposal submission instructions for grants "mention[ed]" the OES/EGC indicators but did not include clear instructions for grantees to link their proposed activities to indicators or report progress against indicators in their performance reports. Second, OES/EGC's GORs did not consistently follow relevant Department policies and procedures to notify the GO of the need to amend an award. Third, OES/EGC's GORs did not follow up to ensure that recipients submitted all the required reports. As a result, OES/EGC's climate change program grants were not always efficiently and effectively administered to ensure the prudent management of grantee performance, to ensure compliance with the terms of the grant agreement, and to ensure that the goals and objectives of each grant award were achieved.

### **Language in Awards To Report by Indicator**

OES/EGC awards did not include language in the seven grants OIG reviewed that required recipients to submit performance reports that described achievements in terms of progress toward meeting indicators as well as goals and objectives. OES/EGC program officials drafted a Standard Operating Procedures manual that detailed the eight phases of the program's life cycle<sup>18</sup> and the key personnel responsible for or related to each phase. Phase four, the procurement phase, consists of the OES/EGC program team's sending a formal letter to the intended recipient<sup>19</sup> that includes grant proposal submission instructions. In these instructions, OES/EGC requests that the intended recipients provide information in their proposals on how their program will achieve its expected outcomes, and EGC indicators are listed; however, there is no guidance regarding how to link and report program outcomes against these indicators.

Further, OIG reviewed seven grants selected as part of the sample to determine what language was included in the signed awards. Specifically, all seven awards included the following, or similar, language, which states:

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<sup>18</sup> As defined by OES/EGC, the eight phases of the program life cycle are Pre-Planning (Annual Budget Request); Initial Program Planning (Budget Allocation); Program Notification and Development; Procurements; Implementation, Monitoring, and Oversight; Formative Outcomes; Project Close-outs; and Summative Outcomes and Evaluation.

<sup>19</sup> An OES/EGC official stated that current EGC grants are almost exclusively sole source and that these instructions are for sole source solicitations and/or organizations with exclusive capability.

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[Performance] reports should be compiled according to the goals and objectives of the project as outlined in the proposal and statement of work provided in the grant. For each objective/goal, reports shall include:

- Significant activities of the period and how activities reflect progress toward achieving goals;
- Evaluation of progress on goals/objectives with quantitative and qualitative data, as appropriate;
- Any problems/challenges in implementing the program and a corrective action plan;
- Evaluation of accomplishments with quantitative information on goals to date as available;
- An update on expenditures during the quarter; and
- Supporting documentation or products related to project activities (such as articles, meeting lists and agendas, manuals, etc.).

Since neither the grant proposal submission instructions nor the seven grant awards themselves required the recipients to report their progress by indicator, OIG was unable to directly link a recipient's performance to the EGC indicators. For example, the recipient of Grant S-LMAQM-08-GR-136 was not required to report by indicator but instead reported by task. Therefore, no direct mention was made in the program status reports regarding whether the indicators were met, and OIG therefore was unable to link completion of "tasks" to achievement of "indicators." In another example, for Grant S-LMAQM-08-GR-131, OIG determined that as of the completion of the program and the submission of the final program summary report, the grant recipient showed progress toward meeting goals and objectives by noting "Project Milestones and Key Successes" and "Program Impact and Achievements." However, OIG could not verify or validate whether all nine indicators for this grant were fully accomplished because the grant recipient did not report by indicator.

By not requiring a recipient's performance reports to report a program's progress by indicator, as well as by project outcomes and milestone achievements, OES/EGC program officials may not be able to readily discern whether climate change indicators are being achieved. OES/EGC will be able to better track how each program's activities and outcomes link to climate change indicators and ultimately how each program meets goals and objectives by including language in its formal grant solicitation guidelines, as well as in all grant awards, that requires recipients to submit performance reports that describe achievements in terms of progress toward meeting indicators, as well as goals and objectives.

**Recommendation 7.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for grant awards, as well as the language in all formal grant awards, to include the requirement for all recipients to provide timely performance reports that describe achievements in terms of progress toward meeting indicators, as well as goals and objectives.

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**Management Response:** OES concurred with the recommendation “to include language in the formal solicitation letters for timely performance reporting that describes achievements in terms of progress toward meeting the indicators, as well as goals and objectives.”

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that the language in OES’s formal solicitation letters for grant awards and in all formal grant awards has been updated to include the requirement specified in the recommendation.

### **Securing Amendments for Grants**

OES/EGC’s GORs did not consistently notify the GO about changes to the terms and conditions of the grant agreement, which required an amendment to be executed for two of the grants reviewed as part of OIG’s sample. The Department’s GPD 28, “Roles and Responsibilities for the Award and Administration of Federal Assistance,” Revision 1, dated September 21, 2010, states that the GOR is to administer certain aspects of a specific assistance agreement from the award through close-out. According to GPD 28, some of the GOR’s duties include, but are not limited to, the following:

- Ensures compliance with all of the terms and conditions of the award.
- Notifies the GO promptly of any developments that could have a significant impact on the recipient’s performance.
- Prepares internal documents to support amendments to the award for the GO’s evaluation.
- Performs other duties as requested or delegated by the GO to ensure prudent management of recipients of assistance awards.

Further, the Department’s publications regarding the Standard Terms and Conditions for Assistance Awards<sup>20</sup> state that written prior approval, by way of amendment, from the Department’s GO is required for the following:

- Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval).
- Change in a key personnel specified in the application or award document.
- **Extension of the period of performance** [emphasis added].
- The transfer of funds among direct cost categories or programs, functions and activities for awards in which the Federal share of the project exceeds \$100,000 and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget.

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<sup>20</sup> Standard Terms and Conditions for Domestic Federal Assistance Awards, Oct. 1, 2009, and Standard Terms and Conditions for Overseas Federal Assistance Awards, Oct. 1, 2009.

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- **Unless described in the application and funded in the approved award, the sub-award, transfer, or contracting out of any work under an award** [emphasis added].

In accordance with the standard terms and conditions, a recipient must submit all requests in writing to the GOR before the project period end date indicated in the original award. If an amendment is needed, the GOR brings this to the attention of the GO, and final approval of the proposed change is subject to review and acceptance by the GO.

During the review of the seven climate change grants in the sample, OIG found amendments to the original agreement that were properly executed. For example, the recipient for Grant S-LMAQM-08-GR-132 was unable to engage with a subcontractor to assist with the workshop as originally proposed and requested that the funds allocated to the subcontractor be reallocated to support other work. The GO agreed and signed Amendment 1 to recognize the change in scope of work and reallocate the funds. However, OIG found two other instances in which the GOR should have brought changes in scope of certain agreements to the attention of the GO for proper modification. For example, 11 days before the original period of performance was set to retire, the grantee for Grant S-LMAQM-08-CA-032 requested an extension to the original period of performance. The OES/EGC GOR drafted a memorandum that recommended that the GO approve a no-cost extension for 5 months, but there was no evidence that the GOR had forwarded the request to the GO for approval and no evidence that the GO had signed an amendment to the grant. However, the grantee continued to execute program tasks beyond the end of the original grant date.

In another instance, OIG reviewed Grant S-LMAQM-08-GR-136 for \$963,572, which did not identify that subcontractors would execute any part of the award activities in either the award language or the original budget. However, in reviewing this grant's performance, OIG found payments made to subcontractors totaling approximately \$209,000, or almost 22 percent of the total award. Because the transfer of funds among direct cost categories and the contracting out of any work under an award require the prior written approval of the GO, an amendment to the original grant award should have been executed by the GO once the GOR determined that the grantee was to engage with subcontractors. However, OIG found no amendment to this award. This lack of an amendment occurred because OES/EGC did not have procedures to ensure the implementation of GPD 28, which requires the GOR to notify the GO of the changes to the terms and conditions of the award and prepare internal documents to support amendments to the award for the GO's evaluation. OIG confirmed this requirement with the GO in A/LM/AQM, who stated that the recipient should have been required to submit a revised budget and a copy of the sub-agreement for review and to wait for an amendment to be issued before continuing with a subcontractor who was not accounted for in the original grant agreement.

The GOR is extremely important to the management and oversight of Federal grants by ensuring the recipients' compliance with all the terms and conditions of the award and notifying the GO of any changes. It is imperative that the GOR promptly notify the GO of any changes to the award to ensure compliance with the terms and conditions dictated in the award. Without

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prompt notification, OES/EGC cannot ensure that recipients of assistance awards are managed prudently.

**Recommendation 8.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, utilize Grants Policy Directive 28, “Roles and Responsibilities for the Award and Administration of Federal Assistance” and the Standard Terms and Conditions for Domestic and Overseas Federal Assistance Awards to develop standard operating procedures that document responsibilities of the Grants Officer Representative for monitoring the terms and conditions of all grant awards and promptly notifying the Grants Officer (GO) of all changes that require the GO’s attention.

**Management Response:** OES concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES/EGC has included, in its standard operating procedures, the responsibilities of the GOR for monitoring the terms and conditions of all grant awards and promptly notifying the GO of all changes that require the GO’s attention.

### **Proper Close-out of Grants**

OES/EGC’s GORs did not obtain, for two of the seven grants OIG reviewed, the final performance and financial reports from the recipient to ensure that final deliverables were achieved, funds were reconciled, and proper close-out of the project was completed. According to the Department’s GPD 41, “Close-Out of Federal Assistance Awards,” Revision 1, dated September 19, 2011, some of the close-out procedures include submission by the grant recipient of final financial and program reports within 90 calendar days after the program period end date and the de-obligation of excess funds. GPD 41 further states that the GOR should review the final program report to ensure that the program was conducted and completed in accordance with the objectives and goals of the award and provide the GO with a brief written evaluation of the recipient’s performance before any close-out procedures are completed.

While reviewing its sample of seven climate change program grants, OIG noted two projects that may not have been closed out properly. For Grant S-LMAQM-08-GR-136, the period of performance ended on September 30, 2010, and the program status report dated that same day stated that there were three “final reports pending” for the award. However, the grantee was provided its final payment, which posted on September 17, 2010, for this award. Further, OIG was unable to determine whether these three pending reports had been submitted to the Department, and an e-mail dated March 10, 2011, confirmed that final programmatic and financial reporting, which was due on December 31, 2010, had not yet been submitted by the grantee. OIG was unable to locate a final program report for this award in the grant files.

In addition to obtaining the final reports from the recipient, the de-obligation of excess funds is also a critical step at the end of the close-out process. OIG reviewed documentation for

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Grant S-LMAQM-08-CA-012, which showed that the program had been completed in August 2010 and that final program reports had been submitted in November 2010. Those reports showed that the recipient did not use all of its funds, specifically \$38,128. On February 28, 2011, the GOR was told via e-mail by another OES official that the grantee would need to submit a new, final Federal Financial Report for the balance to be de-obligated. However, as of April 15, 2011, it was unclear as to whether this additional report had been obtained by the GOR. OIG was also unable to determine whether the GOR had provided the appropriate information to the GO to properly close out this award.

Without OES/EGC's GORs obtaining the final performance and financial reports for review and submission to the GO for proper close-out, the question of whether the program was conducted and completed in accordance with the objectives and goals of the award may not be able to be answered. The close-out procedure is the critical final step in the award's life cycle, and when all actions of a proper close-out are taken in a timely manner, the Department's overall financial management is positively affected, to include the de-obligation and potential re-use of excess, unexpired funds, and OES/EGC can better ensure that the funds have been spent accordingly and the goals and objectives of the grant award have been achieved.

**Recommendation 9.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, develop procedures to ensure that the final reports of a recipient are obtained and reviewed by the Grants Officer Representative for proper close-out of the project and that these documents are submitted in a timely manner to the Grants Officer for final review and close-out.

**Management Response:** OES concurred with the recommendation, stating that it will "formally include a summary of the timely process and expectations for closeout in EGC's standard operating procedures."

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES has formally included, in its standard operating procedures, information showing that the final reports of a recipient have been obtained and reviewed by the GOR for proper close-out of the project and that these documents have been submitted in a timely manner to the GO for final review and close-out.

## **Finding D. Improvements Needed for Comprehensive Monitoring of Climate Change Interagency Acquisition Agreements**

OIG identified four areas in which the monitoring of interagency agreements should be strengthened. Specifically, OES/EGC should (1) assign qualified CORs for all interagency acquisition agreements, (2) require the adequate review and substantiation of performance and financial reports, (3) require the timely submission of required reports from the recipient, and (4) perform site visits to validate recipient performance. These monitoring requirements were lacking because relevant Department policies and procedures were not consistently implemented by OES/EGC program officials. For example, none of the recipients of the five interagency acquisition agreements OIG reviewed submitted the required performance and financial reports

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necessary for effective program monitoring in a timely manner. Without comprehensive monitoring of interagency agreements, OES/EGC might not have reasonable assurance that Federal funds were spent in accordance with the agreement, that the recipient performed project activities as dictated in the agreement, and that program goals and objectives were achieved.

### **Designation of Contracting Officer's Representatives**

OIG reviewed five interagency acquisition agreements as part of its sample and found no evidence that OES/EGC had designated a COR for four of the agreements that began after April 14, 2008, as required by the State First Policy.<sup>21</sup> The Department's State First Policy states that all 632(b) interagency acquisition agreements entered into subsequent to April 14, 2008, should have a COR designated by the requesting bureau. Further, the Department's FAH (14 FAH-2) contains the "Contracting Officer's Representative Handbook," which clearly details the COR's responsibilities for contract administration and monitoring of contractor performance.

Specifically, according to the Handbook, the COR is responsible for ensuring that the contractor accomplishes the technical and financial aspects of the contract because unsatisfactory performance may jeopardize a project or even an entire program. The Handbook describes specific contract monitoring duties that include, but are not limited to, the following:

- The COR must ensure that the contractor complies with reporting provisions that are in the contract.
- If a contract is large and complex, the COR should conduct site visits to check contractor performance.
- If the contract requires review of vouchers or invoices, the COR should review them to determine the validity of costs claimed and relate total expenditures to the physical progress of the contract.
- The COR is responsible for developing quality assurance procedures, verifying whether the supplies or services conform to contract quality requirements, and maintaining quality assurance records.
- The COR is responsible for determining that the work is complete and conforms to the technical requirements of the contract and must ensure that the work performed under the contract is measured against the performance work statement.

Department of State Acquisition Regulations (DOSAR)<sup>22</sup> establish Department policy and procedures on the appointment of CORs and state that when a COR is nominated, the CO "shall prepare an appointment memorandum to outline the scope of the COR's authority, including duties, responsibilities, and prohibitions." In addition, the *Federal Acquisition Regulation* (FAR)<sup>23</sup> states that a COR must be a Government employee, unless otherwise

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<sup>21</sup> The Department's State First Policy was issued in 2002 to ensure that bureaus made sound business decisions on how to acquire needed goods and services and was updated on April 14, 2008, to also apply to transfers under sec. 632(b) of the Foreign Assistance Act of 1961, as amended.

<sup>22</sup> DOSAR §§ 642.270(a) and 642.270(f)(2).

<sup>23</sup> FAR § 1.602-2(d)(1).

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authorized in agency regulations. In turn, the DOSAR<sup>24</sup> states that only Department employees—defined as direct-hire employees, those hired under personal services agreements, and those serving under personal services contracts—who have completed adequate training and have the necessary experience and judgment can be appointed as CORs. The formal training requirement<sup>25</sup> includes 40 hours of Foreign Service Institute-approved COR training courses prior to appointment as a COR.

Without trained CORs who are designated to ensure comprehensive monitoring of interagency agreements, OES/EGC might not have reasonable assurance that the monitoring duties that would normally be carried out by a COR are, in fact, being performed. Specifically, OES/EGC might not be able to support whether Federal funds were spent in accordance with the agreement, that the recipient performed project activities as dictated in the agreement, and that program goals and objectives were achieved.

**Recommendation 10.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs formally designate qualified and trained contracting officer's representatives for all interagency acquisition agreements in accordance with the Department's State First Policy and Department of State Acquisition Regulations, Part 642, who are knowledgeable of the monitoring and oversight duties established in the Department's Contracting Officer's Representative Handbook.

**Management Response:** OES concurred with the recommendation, stating that it had designated a COR in response to an AQM "request made as part of the State First Waiver requirement in August 2011."

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES has procedures to formally designate qualified and trained CORs for all interagency acquisition agreements in accordance with the Department's State First Policy and the DOSAR. The CORs should also be knowledgeable of the monitoring and oversight duties established in the Contracting Officer's Representative Handbook.

### **Substantiation of Performance and Financial Reports**

OIG was unable to fully substantiate the performance and financial reports for the five climate change interagency acquisition agreements sampled and could only verify expenditures related to travel costs. OIG was not provided any supporting documentation that could be substantiated for the majority of the recipients' expenditures.

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<sup>24</sup> DOSAR §§ 642.270(b) and 642.270(c).

<sup>25</sup> DOSAR § 642.270(d).

## **Performance Reports**

The Federal Assistance Policy Handbook addresses the importance of reviewing performance and financial reports and advises that the failure to read the reports in a timely manner can diminish or destroy their value. It also addresses, as does the Contracting Officer's Representative Handbook, the importance of periodically taking steps to verify the information contained in the reports by requesting copies of drafts, texts, designs, or other data that should be in existence if work is proceeding according to plan, and it states that doing so can guard against accepting and approving reports that show more progress than has actually been achieved.

OIG found limited evidence that OES/EGC officials, during their reviews of recipient performance reports for the five interagency acquisition agreements in OIG's sample, had requested or reviewed supporting documentation to substantiate assertions made in the reports. For example, for Agreement S-OES-07-IAA-0018, OIG noted discrepancies in results reported by the recipient for one of the sub-projects under this agreement. Specifically, the performance reports submitted in June 2010 and September 2010 had overstated the number of trained individuals by including participants who had already been accounted for in prior performance reports. Additionally, the recipient stated that the targets of 400 and 600 trained individuals were met, respectively, during FY 2008 and FY 2009; however, based on OIG's review of supporting documentation received from the recipient, OIG determined that the training targets were not actually met until FY 2010.

In a review of another agreement, No. S-OES-09-IAA-0016, dated August 11, 2009, OIG noted that a target to train 250 individuals had been established. This program was completed as of September 30, 2011, and the performance report submitted by the recipient on August 5, 2011, stated that two training events had been held. After OIG reviewed the documentation provided in support of those results, OIG was able to identify 85 participants who had been trained vice the target of 250. OIG did not find evidence to support that information regarding the actual number of participants had been conveyed to or reconciled by OES/EGC to the target established in the agreement.

## **Financial Reports**

The Contracting Officer's Representative Handbook states that financial status reports provide a means of monitoring expenditures and comparing costs incurred with technical progress. The Federal Assistance Policy Handbook also advises that checking receipts or other documentation for expenditures is an effective way to ensure that only items authorized under the award terms have been purchased and charged to the project.

OIG's analysis of Agreement S-OES-07-IAA-0018 found that the recipient recorded more than \$2.5 million in expenditures to five major subcontractors between October 2008 and December 2011. However, when asked to provide supporting documentation to validate the expenditures, the recipient was able to provide OIG only payment requests from the subcontractors. OIG received no documentation to verify the expenses claimed or ensure that only authorized expenditures were charged to the project. A second interagency acquisition

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agreement, No. S-OES-09-IAA-0016, also recorded expenditures of nearly \$896,000, primarily for subcontractor labor for one sub-project of the agreement. Again, OIG was not provided any supporting documentation, such as timesheets or payroll records, to validate the expenses. Additionally, another sub-project was completed under this agreement for a total of \$250,000; however, the recipient did not document any of the expenditures related to this sub-project in the financial records provided to the audit team.

OIG determined that OES/EGC's ability to verify and validate the use of its funds by interagency acquisition agreement recipients was limited. Without appropriate review and documentation of performance and financial reports submitted by the funds recipients, OES/EGC did not always have reasonable assurance that program goals and objectives were met or that activities were performed as dictated in the agreement. By more systematically reviewing performance reports and requesting substantiating documentation as appropriate to verify the information contained in the reports, OES/EGC could better ensure that progress was made in accomplishing agreed-upon tasks, including progress by fiscal year toward meeting goals, objectives, and indicators. OES/EGC could also guard against accepting and approving reports that indicated more progress than had actually been achieved. Further, reviewing financial reports and supporting documentation would ensure that only items authorized under the award terms and conditions had been purchased and charged to the agreement.

**Recommendation 11.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, request and review performance and financial supporting documentation as advised by the Federal Assistance Policy Handbook to substantiate the information contained in the required reports received from interagency acquisition agreement recipients and that it maintain appropriate documentation of those reviews.

**Management Response:** OES concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES has procedures to request, review, and maintain performance and financial supporting documentation as advised by the Federal Assistance Policy Handbook to substantiate the information contained in the required reports received from interagency acquisition agreement recipients.

### **Timeliness of Reports by the Recipient**

Of the five interagency acquisition agreements selected for review, OIG found that none of the recipients of the agreements had been timely in filing the required reports and found no evidence that OES/EGC had any procedures in place documenting the steps to be taken in the event of noncompliance with reporting requirements.

The Federal Assistance Policy Handbook states that, similar to an acquisition contract, "the servicing agency reports to the requesting agency as specified in the IAA [interagency agreement]." As such, the agreements entered into by OES/EGC obligated recipients to meet

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certain reporting requirements, both performance and financial. In general, the reporting requirements in each of the five interagency acquisition agreements OIG reviewed stated that the servicing agency would, at a minimum, provide OES/EGC the following:

- Performance Reports – These reports are due on a semiannual basis and should include a performance analysis that describes activities undertaken and achievements in terms of progress toward the program objective and compliance with the schedule of performance and milestones presented in the statement of work.
- Financial Reports – These reports are due annually (in one agreement OIG reviewed, the reports were due on a semiannual basis) and should include actual costs incurred by budget category.

Under Agreement S-OES-07-IAA-0018, OES/EGC and the recipient had different records of reports submitted for four of the sub-projects under this agreement. OES/EGC officials acknowledged the delays in receiving required reports from the recipient and stated that they had addressed the issue with the recipient. However, OIG found no evidence that OES/EGC had had any repercussions because of the noncompliance.

In another example, Agreement S-OES-09-IAA-0016, OIG found that the recipient had divided the total funding among three sub-projects. At the time of OIG's review, OIG found that two of the sub-projects had been completed; however, the recipient had submitted only performance and financial reports for one of the two completed projects, which was completed on September 30, 2011. OIG did not find any evidence that OES/EGC had received any progress or financial updates for the second completed project, even though the project was complete and all the funds had been expended. There was no evidence that OES/EGC had followed up on the matter or whether there were any repercussions because of the noncompliance.

In yet a third example, OIG found that one of the sub-projects under Agreement S-OES-07-IAA-0018 had transferred \$600,000 in Economic Support Funds to USAID in order to provide loan guarantees to local financial institutions via USAID's Development Credit Authority program. To that end, two Transfer Apportionment Requests were processed through and approved by the Office of Management and Budget (OMB) in July 2009 and August 2010, respectively, to allow USAID to transfer the \$600,000 in Economic Support Funds to its Development Credit Authority program. However, OIG determined that the Transfer Apportionment Requests had, in fact, transferred Development Assistance funds and not Economic Support Funds to Development Credit Authority funds.

OIG determined that there were no financial reports submitted over the life of this sub-project and that the last performance report submitted, on September 30, 2009, did not mention the reapportionment of funds. The first record OIG found of USAID's conveying this information to OES/EGC was via e-mail in February 2011. OIG, along with OES/EGC, attempted to contact relevant USAID and Department personnel on numerous occasions to find out why Development Assistance funds were transferred instead of Economic Support Funds and

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the ultimate disposition of the \$600,000 in Economic Support Funds awarded to USAID by OES/EGC. As of March 2012, neither OIG nor OES/EGC had received a satisfactory response from USAID resolving this issue.

In not ensuring the timely submission of performance and financial reports by interagency acquisition agreement recipients or by not having standard operating procedures for followup and repercussions because of noncompliance, OES/EGC did not have reasonable assurance that program activities were being performed as dictated in the agreement or that Federal funds were being spent in an appropriate manner. Specifically, without the timely submission of performance reports from USAID or appropriate followup by OES/EGC, OES/EGC was unable to address the Development Credit Authority funds transfer promptly and was not able to account for \$600,000 in Department funds.

**Recommendation 12.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change (OES/EGC), develop appropriate standard operating procedures to ensure that reporting requirements are met by interagency acquisition agreement recipients and, if they are not, that appropriate steps are taken to address delinquent reporting. Also, OES should coordinate with the Office of U.S. Foreign Assistance Resources to properly account for the \$600,000 in Economic Support Funds transferred to the U.S. Agency for International Development and, if determined appropriate, work to return the funds to the Department of State for appropriate use or de-obligation.

**Management Response:** OES concurred with the recommendation, stating that it “will illuminate in standard operating procedures the process for encouraging IAA [interagency acquisition agreement] reporting compliance by recipients and indicate subsequent steps to address delinquent reporting.” OES also stated that it will coordinate with the Office of U.S. Foreign Assistance Resources “to discern the ultimate disposition of the \$600,000 in Economic Support Funds transferred” to USAID and “bring this matter to a close.”

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES has procedures to ensure that reporting requirements are met by interagency acquisition agreement recipients and, if they are not, that appropriate steps are taken to address delinquent reporting.

Also, OES should coordinate with the Office of U.S. Foreign Assistance Resources to properly account for the \$600,000 in Economic Support Funds transferred to USAID and, if determined appropriate, work to return the funds to the Department for appropriate use or de-obligation.

### **Performance and Documentation of Site Visits**

OIG determined that OES/EGC had conducted only one site visit for climate change programs administered via interagency acquisition agreements and that the site visit had been conducted in September 2008. During the visit, an OES/EGC project official visited personnel

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associated with two agreements, one of which contained six sub-projects, and documented the results of the review in a trip report. OIG reviewed three of the sub-projects within one of those agreements as part of its sample and noted that OES/EGC had not completed the in-depth review as prescribed in the Department's Contracting Officer's Representative and Federal Assistance Policy Handbook during the site visit. For example, the report typically summarized meetings held with agency officials; contractors implementing projects for USAID; and, in some cases, the Indian partners associated with USAID projects. The site visit, however, did not include a review of receipts or other documentation for expenditures to substantiate financial progress or a review of documentation that supported performance reports submitted to OES/EGC and that served as evidence that activities had occurred.

In addition to substantiating program performance information provided by interagency acquisition agreement recipients, adequate monitoring should also include site visits by OES/EGC. The Contracting Officer's Representative Handbook states that site visits can be used to check actual against reported performance, inspect facilities and working conditions, and verify that personnel are actually performing work under the agreement. The Federal Assistance Policy Handbook also states that site visits are an important method for effective Federal assistance management, providing the Department an opportunity to provide technical assistance and substantiate financial progress and compliance with laws, regulations, and policies, and that the visits should be documented in a file memorandum.

Since the site visit in September 2008, OES/EGC had not, as of March 2012, conducted any other site visits of recipients that received funds through interagency acquisition agreements for the sample of agreements reviewed. In fact, one program official for one recipient in OIG's sample stated that, in general, OES/EGC staff was very "hands off" when it came to their involvement in program activities. Without active monitoring through site visits, especially for those recipients considered "high-risk," OES/EGC may not have reasonable assurance that actual performance and results are consistent with stated goals and objectives.

**Recommendation 13.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the guidance provided in the Department of State's *Foreign Affairs Handbook* and the Contracting Officer's Representative Handbook and require contracting officer's representatives to perform site visits for each interagency agreement recipient at least once during the life of the agreement or once a year for those recipients identified as "high risk."

**Management Response:** OES concurred with the recommendation "to perform site visits with recipients at least once during the life of an interagency agreement or once a year for high risk recipients."

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that OES has implemented procedures requiring the COR to perform site visits for each interagency agreement recipient at least once during the life of the agreement or once a year for those recipients identified as "high risk."

## **Finding E. Improvements Needed for the Effective and Efficient Administration of Climate Change Interagency Acquisition Agreements**

Based on its review of five interagency acquisition agreements administered by OES/EGC for selected climate change programs and review of pertinent Department policies, OIG found the following:

- OES/EGC did not obtain waivers in advance to ensure that an interagency acquisition agreement was the best procurement approach for OES and the Department.
- OES/EGC agreements did not include language that required recipients to submit performance reports that described achievements in terms of progress toward meeting indicators, as well as goals and objectives.
- OES/EGC agreements did not include language that required recipients to maintain supporting documentation for financial expenditures and all pertinent achievements for purposes of substantiation.

The administration issues identified by OIG occurred for three primary reasons. First, OES/EGC did not follow the conditions of the State First Policy to obtain waivers before paying another agency to conduct an acquisition on behalf of the Department. Second, OES/EGC guidelines for the submission of technical scopes of work for interagency acquisition agreements “mention[ed]” the OES/EGC indicators but did not include clear instructions for recipients to link their proposed activities to indicators or report progress against indicators in their performance reports. Third, OES/EGC did not implement requirements of the Federal Assistance Policy Handbook and the Contracting Officer’s Representative to periodically verify information contained in recipient reports by requesting supporting documentation. As a result, interagency acquisition agreements within OES/EGC might not be efficiently and effectively administered to ensure that recipients’ performance was prudently managed and that the goals and objectives of the agreements were achieved.

### **Implementation of State First Policy**

OIG determined that OES/EGC did not obtain waivers in advance to ensure that an interagency acquisition agreement was the best procurement approach for OES and the Department as required by the State First Policy as of April 14, 2008. The policy requires domestic offices to first request the services of A/LM/AQM for their contracting needs or receive a State First Waiver from A/LM/AQM before paying another agency to conduct an acquisition on behalf of the Department. The policy further states that reviewers of the waiver request will determine whether Department resources can best provide the services needed or whether the other agency offers better contract pricing, unique agency expertise, or other advantages.

Part of the information provided in the waiver request for consideration by the reviewers would be the amount of the surcharge applied by the proposed servicing agency. For instance, as of November 8, 2008, USAID has been charging a General and Administrative Support Overhead Rate of 23.7 percent for all interagency agreements, including those agreements administered under Section 632(b) of the Foreign Assistance Act of 1961, as amended. It would

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be the reviewer's responsibility to determine whether a fee or surcharge, at any rate, would be reasonable and whether executing the agreement would represent the best value and interests of the Department.

Of the five interagency acquisition agreements reviewed, OIG determined that four were executed 5 months or more after the State First Policy had been updated. OIG did not find any evidence that OES/EGC had obtained State First Waivers for any of those four agreements. One particularly significant example was Agreement S-OES-10-IAA-0016, which was signed by the OES Executive Director on August 13, 2010, and the USAID/India Mission Director on August 19, 2010, more than 2 years after the updated State First Policy had been issued. The total amount of the agreement, after two modifications, totaled \$10.5 million. Of the \$10.5 million, approximately \$2.0 million was the USAID General and Administrative Support Overhead Fee, calculated at 23.7 percent of the total project budget. As a result, only approximately \$8.5 million of the total was budgeted toward the execution of the program, and there was no waiver for this agreement to indicate that the appropriate review and approval process had been conducted to determine that this approach provided the best value for the Government.

OIG concluded, based on its review of the agreements within its sample, that if State First Waivers were not obtained as required, neither OES nor the Department could have reasonable assurance that utilizing an interagency acquisition agreement provided the best overall approach to executing climate change programs and was in the best interest of the Department.

**Recommendation 14.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs obtain State First Waivers for all future interagency agreements and maintain approved waivers in its files, as required by State First Policy.

**Management Response:** OES concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that the procedures specified in the recommendation have been implemented and the approved waivers are being maintained in OES's files.

**Language in Agreements to Report by Indicator**

OES interagency acquisition agreements did not include language that required recipients to submit performance reports that described achievements in terms of progress toward meeting indicators, as well as goals and objectives. OES/EGC program officials drafted a Standard Operating Procedures manual that detailed the eight phases of the program life cycle (see section "Language in Awards to Report by Indicator" in Finding C) and the key personnel responsible for or related to each phase.

Phase four, the procurement phase, consists of the OES/EGC program team's sending a formal letter to the intended recipient that includes EGC guidelines for the submission of technical scopes of work for interagency acquisition agreements. In this letter, OES/EGC

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requests that servicing agencies provide information in their scopes of work for how the project will link to one or more of the EGC indicators, as well as additional outcomes for the project. The instructions also note that servicing agencies will be required to report “project outcomes and milestone achievements” in the semiannual and final programmatic performance reports required under the agreements.

The five interagency acquisition agreements OIG reviewed revealed that all five agreements included, in their scopes of work, information on how their particular projects linked to applicable indicators, as well as language to denote the recipients’ reporting requirements. Specifically, all five agreements included the following, or similar, language with regard to reporting:

The servicing agency, as a minimum, shall provide the Department of State with . . . performance reports . . . that shall include a performance analysis that describes activities undertaken and achievements in terms of progress toward the program objective and compliance with the schedule of performance and milestones presented in [the scope of work]. The Department of State may request that the servicing agency use a specific reporting template. This report will be due semi-annually (every six months) on April 30 and October 31, until completion of the period of performance.

While each agreement’s scope of work included the information requested by OES/EGC in its formal solicitation letter, OIG determined that by not requiring a recipient’s performance reports to report a program’s progress by indicator, as well as by project outcomes and milestone achievements, OES/EGC program officials may not be able to readily discern whether climate change indicators are met. OES/EGC will be able to better track how each program’s activities and outcomes link to climate change indicators and ultimately how they meet goals and objectives by including language in its formal solicitation guidelines, as well as in all agreements, that requires recipients to submit performance reports that describe achievements in terms of progress toward meeting indicators, as well as goals and objectives.

**Recommendation 15.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for interagency agreements, as well as the language in all formal interagency agreements, to include the requirement for all recipients to provide timely performance reports that describe achievements in terms of progress toward meeting indicators, as well as goals and objectives.

**Management Response:** OES concurred with the recommendation, stating that it will “include [the updated language] in the formal solicitation letters for interagency agreements.”

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that updated language has been included in OES’s formal solicitation letters for interagency agreements and in all formal interagency agreements,

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including the requirement for all recipients to provide timely performance reports that describe achievements in terms of progress toward meeting indicators and goals and objectives.

### **Language in Agreements To Maintain Supporting Documentation**

OES interagency acquisition agreements did not include language that required recipients to maintain supporting documentation for financial expenditures and all pertinent achievements for purposes of substantiation. OIG was unable to verify the information in the recipients' performance and financial reports because supporting documentation maintained by the recipients was either inconsistent or incomplete. Recipients were not required by the terms and conditions of the interagency acquisition agreement to maintain supporting documentation because OES/EGC did not implement requirements in the Federal Assistance Policy Handbook and the Contracting Officer's Representative Handbook to periodically verify information contained in recipient reports. Examples of supporting documentation or products related to project activities to substantiate information submitted in performance reports would include articles, meeting lists and agendas, manuals, drafts, texts, designs, or other data. Examples of supporting documentation to substantiate financial expenditures noted in financial reports would include invoices, receipts, time and attendance reports, travel costs, or other financial support.

The monitoring of interagency acquisition agreements is important to ensure compliance with the terms and conditions of the agreement, financial and program reporting requirements, and timely implementation of project activities. Equally important, the full implementation of Department policies to periodically verify the information contained in the recipients' performance and financial reports safeguards against acceptance and approval of reports that indicate more progress than was actually achieved and ensures that only items authorized under the agreement have been purchased and charged to the program.

While other Federal agencies should not need to be reminded of the importance of maintaining supporting documentation, OES/EGC's CORs will be better prepared to properly monitor the financial progress and programmatic performance of the agreements if specific language is included in all interagency agreements that requires recipients to maintain supporting documentation for financial expenditures and all pertinent achievements for purposes of substantiation. This should ultimately enable OES/EGC to ensure that Department funds are being spent judiciously and that program indicators, goals, and objectives are being achieved.

**Recommendation 16.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for interagency agreements, as well as the language in all formal interagency agreements, to include, for purposes of substantiation, the requirement for all recipients to maintain supporting documentation for all financial expenditures and all project activities and pertinent achievements as reported in the recipients' performance and financial reports.

**Management Response:** OES concurred with the recommendation.

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**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that language in OES's formal solicitation letters for interagency agreements and in all formal interagency agreements has been updated, including, for purposes of substantiation, the requirement for all recipients to maintain supporting documentation for all financial expenditures, project activities, and pertinent achievements as reported in the recipients' performance and financial reports.

### **Finding F. Greater Management Attention Needed for the Application and Administration of Interagency Transfers**

OIG determined, based on its review of a sample of interagency acquisition agreements administered by OES/EGC for climate change programs, review of pertinent Federal regulations and Department policies, and discussions with officials from A/OPE and A/LM/AQM, that OES did not consistently administer interagency acquisition agreements in accordance with pertinent Federal policies. A/LM/AQM officials stated that this issue occurred because there were no standardized policies and procedures governing the execution of agreements by OES and other Department bureaus to ensure compliance with Federal policies. Also, A/LM/AQM officials stated that the Department lacks standardized policies and procedures for reviewing and approving agreements to ensure compliance with Federal and Department requirements. As a result, interagency agreements executed by OES—and possibly other Department bureaus—may not be efficiently and effectively administered and managed in the areas of policy application, review and approval, and overall program management.

#### **Interagency Acquisition Agreements Versus Interagency Agreements**

Federal regulations state that there are distinct differences between interagency acquisition agreements and interagency agreements and policies governing their use. Specifically, the Federal Register, FAR Case 2008-032, "Preventing Abuse of Interagency Contracts," effective February 2, 2012, stated: "[While] interagency acquisitions may be a product of interagency agreements; the two are not the same. An interagency agreement whereby a servicing agency performs work using its own resources is not considered an interagency acquisition under the FAR." In contrast, OMB guidance,<sup>26</sup> the memorandum entitled "Improving the Management and Use of Interagency Acquisitions," states that an "[i]nteragency acquisition is the term used to describe the process by which one agency (requesting agency), uses the contracts and/or contracting services of other agencies (servicing agencies) to obtain supplies and services." (Information on Federal policies governing interagency acquisition agreements and interagency agreements is in Appendix B.)

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<sup>26</sup> Memorandum for Chief Acquisition Officers, Senior Procurement Executives, "Improving the Management and Use of Interagency Acquisitions," OMB, June 6, 2008, p.1.

## **Compliance of OES Interagency Acquisition Agreements With Pertinent Policies**

OIG determined that OES did not consistently administer interagency acquisition agreements in accordance with pertinent Federal policies. Specifically, all five interagency acquisition agreements OIG reviewed declared the implementers of the agreements and project activities to be the servicing agency. For example, Agreement S-OES-10-IAA-0016 with USAID contained the following language in the agreement and statement of work:

The Servicing Agency will use funds provided by means of this Agreement to carry out the activities described in the Statement of Work. Through this agreement, the Servicing Agency will implement several project components . . . This agreement [also] permits expenditures of funds through grants, sub-grants, contracts, or subcontracts for purposes set forth in the Statement of Work.

Under [this agreement], USAID will partner at the Federal level with the Ministry of Power (MOP) on the Energy Efficiency Technology Commercialization and Innovation (EE/TC&I) Project, and with the Ministry of New and Renewable Energy (MNRE) on the New and Renewable Energy Technology Commercialization and Innovation Project (RE/TC&I), to support implementation of national programs.

By directing the implementers of the agreements and project activities to be the servicing agency, OES essentially declared that the servicing agency (in this case, USAID) will perform the work under the agreement using its own resources vice transferring the work via contract. Further, although there was language in the agreement that stated it permitted “expenditures of funds through grants, sub-grants, contracts, or subcontracts for purposes set forth in the Statement of Work,” there was no clear indication in the statement of work (or the proposed budget) that the sole purpose of the agreement was for USAID to utilize existing contracts or contracting services to carry out the program objectives. The agreement and statement of work, as written, did not reflect an interagency acquisition agreement as defined by Federal regulations and therefore should have been treated as an interagency agreement.

## **Department Policies and Procedures for Interagency Acquisition Agreements**

OIG reviewed applicable Department policies governing interagency acquisition agreements. Specifically, the State First Policy states the following:

- Domestic offices will first request the services of A/LM/AQM for their **contracting needs** or receive a waiver from AQM before paying another agency to **conduct an acquisition** on behalf of the Department [emphasis added].
- **If acquisition by another agency is approved**, A/LM/AQM will work with the requester to prepare an **interagency acquisition agreement** to transfer funding and requirements [emphasis added].

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The State First Policy is clearly written to apply to interagency acquisition agreements, which the OMB June 2008 memorandum defines as the process by which one agency (requesting agency) uses the contracts and/or contracting services of other agencies (servicing agencies) to obtain supplies and services. OIG has no issue with how the State First Policy is written for applicability to interagency acquisition agreements, but OIG believes that the State First Policy represents sound business practices for any interagency agreement and therefore should be clarified to establish that the requirements in the State First Policy also apply to interagency agreements.

### **Discussions With Department Officials About Standardized Policies and Procedures**

During OIG discussions with A/LM/AQM and A/OPE officials in February and March 2012, A/LM/AQM officials stated that there were no standardized policies and procedures governing the execution of agreements by OES and other Department bureaus to ensure compliance with Federal policies and no standardized policies and procedures for reviewing and approving agreements to ensure compliance with Federal and Department requirements. Specifically, during multiple meetings with officials from A/OPE and A/LM/AQM to determine the appropriate Department policies and procedures for administering interagency acquisition agreements versus interagency agreements, A/LM/AQM officials brought the following information to OIG's attention:

- Department bureaus execute interagency acquisition agreements and interagency agreements differently. One A/LM/AQM official stated that even OES and the Bureau of Democracy, Human Rights and Labor (both of which share the same Executive Director) execute interagency acquisition agreements in a different manner. However, another A/LM/AQM official stated that the Bureau of Diplomatic Security was appropriately using the standardized form for the reimbursable types of interagency agreements. (Policies governing interagency agreements are in Appendix B.)
- There is no standardized process for how A/LM/AQM officials should review and approve any type of interagency agreement. For example, an A/LM/AQM official stated that A/LM/AQM officials do not review budgets for interagency agreements and that most agreements come through A/LM/AQM with no budget breakdown of overhead costs/fees. Therefore, according to the official, A/LM/AQM has no insight into whether the agreements are in the best interests of the Department.

The A/LM/AQM official stated that it would be beneficial for A/OPE to provide clear policy and guidance for the entire interagency agreement process to ensure that the Department complies with applicable Federal and Department policies. The Procurement Executive, A/OPE, stated that if future discussions between OIG representatives and A/LM/AQM officials generated concerns for the overall administration of interagency agreements, he would ensure that those concerns were addressed properly.

## **Conclusion**

Based on its review of agreements within its sample and discussions with A/LM/AQM officials, OIG concluded that the concerns generated by its reviews of OES interagency acquisition agreements may signify a Department-wide shortcoming, as interagency agreements may not be efficiently and effectively administered and managed in the areas of policy application, review and approval, and overall program management. Although OIG did not have an opportunity to review the implementation of interagency acquisition agreements or interagency agreements by other Department bureaus, OIG determined that interagency transactions are a significant part of the Department's expenditures, as the Department transferred approximately \$2.3 billion to other agencies during both FY 2010 and FY 2011, for a total of approximately \$4.6 billion. (Department intra-Governmental expenses transferred in FY 2010 and FY 2011 are listed in Appendix C.) Because of the significant amount of dollars transferred to other agencies annually, OIG decided to expand the recommendations in this report to include solutions that may potentially impact policies and procedures Department-wide and ensure that all Department officials are aware of the requirements for both types of agreements.

**Recommendation 17.** OIG recommends that the Procurement Executive develop and issue standardized policies and procedures for Department of State-wide use for the administration of interagency acquisition agreements and interagency agreements in accordance with pertinent Federal regulations and revise the State First Policy to establish that the policy also applies to interagency agreements, since the policy as written represents sound business practices.

**Management Response:** A/OPE concurred with the recommendation, stating that a "working group," consisting of DCFO [Deputy Chief Financial Officer], A/LM/AQM, L/BA [Office of the Legal Adviser, Buildings and Acquisitions], and A/OPE, "has been convened . . . to prepare guidance."

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that A/OPE has developed and issued standardized policies and procedures for Department of State-wide use for administration of interagency acquisition agreements and interagency agreements and has revised the State First Policy to establish that the policy also applies to interagency agreements.

**Recommendation 18.** OIG recommends that the Procurement Executive, in coordination with the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and issue standardized policies and procedures for the review and approval of all types of interagency agreements that will ensure compliance with applicable Federal regulations and Department of State policies governing each type of agreement.

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**Management Response:** A/OPE stated that it and A/LM/AQM “concur[red] with the recommendation.” A/OPE further stated, “A working group” consisting of DCFO, A/LM/AQM, L/BA, and A/OPE, “has been convened . . . to prepare guidance.”

**OIG Reply:** OIG considers the recommendation resolved, pending review and approval of documentation showing that A/OPE and A/LM/AQM have developed and issued standardized policies and procedures for reviewing and approving all types of interagency agreements that will ensure compliance with applicable Federal regulations and Department policies governing each type of agreement.

## List of Recommendations

**Recommendation 1.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, conduct Data Quality Assessments in accordance with the six-step methodology from the annual guidance provided by the Office of U.S. Foreign Assistance Resources to ensure that the data used in reporting results are as complete, accurate, consistent, and supportable as possible.

**Recommendation 2.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change (OES/EGC), implement Grants Policy Directive 16, “Designation of Grants Officer Representative,” by ensuring that the Grants Officer completes current Grants Officer Representative (GOR) designation memorandums throughout the life cycles of all grants. OES/EGC should also update its Standard Operating Procedures manual by aligning all monitoring and evaluation responsibilities under the designated GOR as directed by Grants Policy Directive 16 and not allowing the re-delegation of responsibilities to other program officials unless specified in the designation memorandum.

**Recommendation 3.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, ensure that the Grants Officer Representatives, in consultation with the Grants Officer, develop monitoring plans for all future grant awards using the suggested Department of State templates included in Grants Policy Directive 42, “Monitoring Assistance Awards.”

**Recommendation 4.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the requirement in Grants Policy Directive 16, “Designation of Grants Officer Representative,” for the Grants Officer Representatives (GOR) to review, analyze, and provide written evaluation of required recipient Program Performance and Financial Status Reports to verify timely and adequate performance and require the GORs’ written evaluation to be documented using the template included in Grants Policy Directive 42, “Monitoring Assistance Awards.”

**Recommendation 5.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, take appropriate actions in accordance with the *Foreign Affairs Handbook* (4 FAH-3 H-674) when program performance reports and financial reports are not submitted in a timely manner.

**Recommendation 6.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the guidance provided in Grants Policy Directive (GPD) 16, “Designation of Grants Officer Representative,” and GPD 42, “Monitoring Assistance Awards,” and require Grants Officer Representatives to perform site visits for each grant recipient at least once during the life of the agreement or once per year for those recipients identified as “high risk.” These visits should then be documented on templates similar to the Monitoring Assistance Review Guide Worksheet template included in GPD 42.

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**Recommendation 7.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for grant awards, as well as the language in all formal grant awards, to include the requirement for all recipients to provide timely performance reports that describe achievements in terms of progress toward meeting indicators, as well as goals and objectives.

**Recommendation 8.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, utilize Grants Policy Directive 28, “Roles and Responsibilities for the Award and Administration of Federal Assistance” and the Standard Terms and Conditions for Domestic and Overseas Federal Assistance Awards to develop standard operating procedures that document responsibilities of the Grants Officer Representative for monitoring the terms and conditions of all grant awards and promptly notifying the Grants Officer (GO) of all changes that require the GO’s attention.

**Recommendation 9.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, develop procedures to ensure that the final reports of a recipient are obtained and reviewed by the Grants Officer Representative for proper close-out of the project and that these documents are submitted in a timely manner to the Grants Officer for final review and close-out.

**Recommendation 10.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs formally designate qualified and trained contracting officer’s representatives for all interagency acquisition agreements in accordance with the Department’s State First Policy and Department of State Acquisition Regulations, Part 642, who are knowledgeable of the monitoring and oversight duties established in the Department’s Contracting Officer’s Representative Handbook.

**Recommendation 11.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, request and review performance and financial supporting documentation as advised by the Federal Assistance Policy Handbook to substantiate the information contained in the required reports received from interagency acquisition agreement recipients and that it maintain appropriate documentation of those reviews.

**Recommendation 12.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change (OES/EGC), develop appropriate standard operating procedures to ensure that reporting requirements are met by interagency acquisition agreement recipients and, if they are not, that appropriate steps are taken to address delinquent reporting. Also, OES should coordinate with the Office of U.S. Foreign Assistance Resources to properly account for the \$600,000 in Economic Support Funds transferred to the U.S. Agency for International Development and, if determined appropriate, work to return the funds to the Department of State for appropriate use or de-obligation.

**Recommendation 13.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the guidance provided in the Department of State’s *Foreign Affairs Handbook* and the Contracting Officer’s

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Representative Handbook and require contracting officer's representatives to perform site visits for each interagency agreement recipient at least once during the life of the agreement or once a year for those recipients identified as "high risk."

**Recommendation 14.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs obtain State First Waivers for all future interagency agreements and maintain approved waivers in its files, as required by State First Policy.

**Recommendation 15.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for interagency agreements, as well as the language in all formal interagency agreements, to include the requirement for all recipients to provide timely performance reports that describe achievements in terms of progress toward meeting indicators, as well as goals and objectives.

**Recommendation 16.** OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for interagency agreements, as well as the language in all formal interagency agreements, to include, for purposes of substantiation, the requirement for all recipients to maintain supporting documentation for all financial expenditures and all project activities and pertinent achievements as reported in the recipients' performance and financial reports.

**Recommendation 17.** OIG recommends that the Procurement Executive develop and issue standardized policies and procedures for Department of State-wide use for the administration of interagency acquisition agreements and interagency agreements in accordance with pertinent Federal regulations and revise the State First Policy to establish that the policy also applies to interagency agreements, since the policy as written represents sound business practices.

**Recommendation 18.** OIG recommends that the Procurement Executive, in coordination with the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and issue standardized policies and procedures for the review and approval of all types of interagency agreements that will ensure compliance with applicable Federal regulations and Department of State policies governing each type of agreement.

## **Scope and Methodology**

The Department of State (Department), Office of Inspector General (OIG), Office of Audits, conducted this performance audit to determine whether the administration and the oversight by the Bureau of Oceans and International Environmental and Scientific Affairs (OES) were sufficient to ensure that contributions made toward international climate change efforts were expended in accordance with Department policy and were contributing to the U.S. Government's global climate change goals.

OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. Although OIG did perform tests and other auditing procedures to conduct all audit steps for 12 of the programs included in its sample, OIG was not able to conduct all audit steps for six Department of Energy (DOE) interagency acquisition agreements and one non-DOE grant. If OIG had completed audit steps for all 19 programs as planned, other matters, in addition to the findings and recommendations in this report, may have come to OIG's attention and been reported.

To obtain background for this audit, OIG researched and reviewed Federal laws and regulations related to the administration and oversight of Federal foreign assistance awards, to include the Foreign Assistance Act of 1961, as amended, and the *Federal Acquisition Regulation*. OIG also reviewed the Department's Congressional Budget Justifications reflecting global climate change budget requests and information on prior and ongoing international agreements on climate change for historical context. OIG also reviewed Department policies and additional guidance related to grants and interagency acquisition agreements, including the Federal Assistance Policy Handbook, the *Foreign Affairs Handbook*, and multiple Grants Policy Directives.

OIG conducted fieldwork for this audit from October 2011 to March 2012. Specifically, to gain an understanding of climate change initiatives and guidance on the administration, oversight, and reporting requirements for Federal assistance awards, OIG interviewed officials from OES's Office of Global Change (OES/EGC); the Office of the Special Envoy for Climate Change; the Office of U.S. Foreign Assistance Resources; and the Bureau of Administration's Office of the Procurement Executive (A/OPE) and its Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM).

OIG also conducted site visits for a sample of 12 climate change programs in New Delhi, India; Hyderabad, India; Washington, DC; and Mississauga, Canada. (The criteria used to select the 12 sample programs are in the section "Detailed Sampling Methodology" in this appendix). Of these 12 programs, nine were executed under the Asia-Pacific Partnership on Clean Development and Climate (APP), an international, voluntary, public-private partnership among the partner countries of Australia, Canada, India, Japan, the People's Republic of China, South Korea, and the United States. OES/EGC created programming from FYs 2006–2008 within the

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themes of the following government and/or business taskforces established by the APP:

- Cleaner fossil energy
- Renewable energy and distributed generation
- Power generation and transmission
- Buildings and appliances
- Aluminum
- Cement
- Coal mining
- Steel

During site visits, OIG spoke with program personnel regarding their roles and responsibilities, examined deliverables executed by each recipient, and reviewed supporting documentation for a selection of program reports to verify reported information. OIG also reviewed a selection of financial reports to determine whether there was adequate and accurate supporting documentation for the program expenditures (for example, timesheets, receipts, and invoices) to ensure that Department funds were spent in accordance with each award or agreement.

OIG provided a draft of this report to OES, A/OPE, and A/LM/AQM. A/OPE coordinated its response with AQM. (OES's response is in Appendix D, and A/OPE's response is in Appendix E.)

### **Prior Reports**

Between 2007 and 2011, the Government Accountability Office issued 11 reports and testimonies related to climate change initiatives. Of the 11 reports, the report most directly applicable to OIG's audit was issued in 2011<sup>1</sup> and presented concerns regarding the degree to which Federal funding was aligned with strategic priorities. The report stated that methods for defining and reporting climate change funding were not interpreted consistently across the Federal Government and that Federal officials do not have a shared understanding of strategic priorities. Although not the sole focus of OIG's audit, alignment of OES/EGC climate change funds with climate change goals and objectives played a role in answering OIG's overall audit objective.

### **Use of Computer-Processed Data**

To assess the reliability of computer-processed data, OIG interviewed officials knowledgeable about the data, reviewed existing documentation related to the data sources, and performed some tracing to source documents. More specifically, OIG obtained interagency acquisition agreements and grants data from the 12 fund recipients selected as part of its sample and traced these data from computerized documentation to the source documents. From these efforts, OIG determined that the data were sufficiently reliable to support the conclusions and recommendations in this report.

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<sup>1</sup> *Climate Change: Improvements Needed To Clarify National Priorities and Better Align Them With Federal Funding Decisions* (GAO-11-317, May 2011).

## **Work Related to Internal Controls**

OIG performed steps to assess the adequacy of internal controls related to expenditures for grants and interagency acquisition agreements, as well as the mechanisms used to capture reporting results, for a sampling of OES/EGC programs related to climate change. Specifically, OIG gained an understanding of the Department's processes for reporting climate change results for the annual Foreign Assistance Performance Plan and Report. The OIG audit team discussed issues identified from its testing with Department officials to better understand the reasons for the exceptions. In addition, OIG gained an understanding of the Department's policies and procedures related to the expenditures of Federal funds dedicated to climate change and determined how the Department monitors these expenditures. OIG identified internal control deficiencies during its audit of climate change programs, as detailed in the section "Audit Results" of the report.

## **Detailed Sampling Methodology**

OIG's sampling objective was to determine whether OES/EGC's monitoring and oversight of climate change programs were sufficient to ensure that the goals and objectives were achieved, that funds were spent accordingly, and that all programmatic and financial reporting could be substantiated.

### **Population**

OIG obtained two listings of climate change programs funded from 2006–2010 from OES/EGC and performed a reconciliation of both lists to determine that OES/EGC had funded 96 climate change programs during this timeframe, for a total of \$214 million. Funding for the programs, which were executed worldwide, ranged from \$45,000 to \$14,000,000. Information from the reconciled list was used to select a sample of 19 programs<sup>2</sup> executed as grants and interagency acquisition agreements, which totaled \$34 million, or 16 percent, of the funding for the 96 programs. However, because of scope limitations, only 12 of the 19 programs were reviewed (see the sections "Sample Selection of Climate Change Programs" and "Scope Limitations" in this appendix for more details).

### **Sample Selection of Climate Change Programs**

OIG used judgment sampling to select 19 OES/EGC climate change programs to conduct an independent verification and validation of performance, deliverables, and expenditures for each program. The primary considerations in selecting these programs included programs that received funding of \$600,000 or more if the programs were located in the Washington, DC, area and \$500,000 or more if the programs were located outside the Washington, DC, area and that

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<sup>2</sup> These 19 programs comprised 11 interagency acquisition agreements and 8 grants, five of which were cooperative agreements. For the purposes of the audit, all cooperative agreements were reviewed for compliance with applicable grants-related policies and procedures.

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were started on or before September 30, 2010.<sup>3</sup> Another factor that OIG considered when developing the sample selection was the geographical location of the program office and/or the country supported. Specifically, OIG considered only those programs when two or more programs per location could be reviewed.<sup>4</sup> The 19 programs selected for review are shown in Table 1.

**Table 1. Sample Selection of OES/EGC Climate Change Programs**

	<b>Program Number</b>	<b>Location of Recipient</b>	<b>Start Date of Program</b>	<b>Amount of Funding From OES/EGC</b>
1	S-LMAQM-08-GR-131	Washington, DC	September 15, 2008	\$975,258
2	S-LMAQM-08-GR-136	Washington, DC	September 23, 2008	\$963,572
3	S-OES-09-IAA-015	Washington, DC	August 31, 2009	\$600,000
4	S-LMAQM-08-GR-132 <sup>a</sup>	Pittsburgh, PA	September 23, 2008	\$1,103,300
5	S-OES-10-IAA-0019 <sup>b</sup>	Pittsburgh, PA	October 1, 2010	\$500,000
6	S-OES-07-IAA-0018	New Delhi, India	September 20, 2007	\$5,400,000
7	S-OES-09-IAA-016	New Delhi, India	October 1, 2009	\$2,000,000
8	S-OES-10-IAA-0016	New Delhi, India	September 30, 2010	\$10,500,000
9	S-LMAQM-08-CA-032	New Delhi, India	February 6, 2008	\$669,870
10	S-LMAQM-08-CA-012	New Delhi, India	January 28, 2008	\$581,932
11	S-LMAQM-08-CA-017	Hyderabad, India	February 25, 2008	\$500,000
12	S-LMAQM-08-CA-033	Hyderabad, India	March 10, 2008	\$600,000
13	S-LMAQM-08-CA-020 <sup>c</sup>	Oakland, CA <sup>d</sup>	January, 29, 2008	\$757,000
14	S-OES-07-IAA-0023	Berkeley, CA <sup>d</sup>	September 30, 2007	\$1,000,000
15	S-OES-08-IAA-0018	Berkeley, CA <sup>d</sup>	October 1, 2008	\$1,897,175
16	S-OES-09-IAA-018	Berkeley, CA <sup>d</sup>	July 31, 2009	\$500,000
17	S-OES-09-IAA-0007	Berkeley, CA <sup>d</sup>	March 15, 2009	\$1,000,000
18	S-OES-09-IAA-0022	Washington, DC <sup>d</sup>	September 1, 2009	\$3,948,750
19	S-OES-10-IAA-0021	Washington, DC <sup>d</sup>	September 1, 2010	\$698,000
<b>TOTAL OES/EGC FUNDING FOR 19 CLIMATE CHANGE PROGRAMS</b>				<b>= \$34,194,857</b>

Source: OIG generated based on data provided by OES/EGC.

<sup>a</sup> OES/EGC originally indicated that the documentation for this program was in Pittsburgh, PA; however, OIG discovered that the documentation was located at the grantee office in Mississauga, Canada, where the site visit was conducted.

<sup>b</sup> OIG did not conduct an on-site visit of this program because expenditures for this agreement were minimal. Instead OIG held a teleconference with officials for this program and reviewed documentation from OIG's home office.

<sup>c</sup> Program S-LMAQM-08-CA-020 was included because Oakland, CA, was less than 10 miles from Berkeley, CA.

<sup>d</sup> Audits for Programs 13-19 were not executed because of the scope limitations described.

<sup>3</sup> Program S-OES-10-IAA-0019 began on October 1, 2010, which was after September 30, 2010, but the program was still included in the 19 programs.

<sup>4</sup> OIG excluded all programs in support of Methane-to-Markets, which did meet OIG's criteria, because OES/EGC had contracted for an independent evaluation of these programs.

## **Scope Limitations**

OIG conducted an independent verification and validation of 12 of the 19 programs selected as part of its sample. The seven programs that were not reviewed consisted of six DOE interagency acquisition agreements<sup>5</sup> and one non-DOE grant.<sup>6</sup> With regard to the DOE programs, on December 15, 2011, OIG's Office of Audits requested that DOE's OIG examine the six DOE agreements and express an opinion as to whether program information had been reported to the Department of State accurately and to also validate that the funds had been used in accordance with the agreements so that this information could be included in OIG's audit report. In response to OIG's request, the DOE Inspector General provided two audit reports<sup>7</sup> that reviewed (1) the contractor's Internal Audit cost allowability audits and (2) questioned costs and internal control weaknesses impacting allowable costs that were identified in prior audits. However, after reviewing these reports, OIG determined that the results contained in the reports were not useful in supporting its overall audit objective.

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<sup>5</sup> OIG conducted a limited review of two of these agreements to determine that OES/EGC did not always ensure the quality and supportability of data used to report the programmatic results of these two programs.

<sup>6</sup> Since OIG did not conduct the site visits for the four DOE agreements in Berkeley, CA, OIG could not justify the travel costs to visit the non-DOE grant recipient in Oakland, CA. Therefore, that site visit was canceled.

<sup>7</sup> *Report on Audit Coverage of Cost Allowability for Lawrence Berkeley National Laboratory for the Period June 1, 2005 thru September 30, 2008 Under Department of Energy Contract No. DE-AC02-05CH11231* (OAS-V-10-10, April 2010) and *Report on Audit Coverage of Cost Allowability for Lawrence Berkeley National Laboratory for the Period October 1, 2008 thru September 30, 2010 Under Department of Energy Contract No. DE-AC02-05CH11231* (OAS-V-12-04, February 2012).

## **Federal Policies Governing Interagency Acquisition Agreements and Interagency Agreements**

There are specific Federal policies governing interagency acquisition agreements and interagency agreements and specific policies governing the use of those agreements.

The Federal policies governing interagency acquisition agreements are as described.

**Office of Management and Budget Guidance.** A June 6, 2008, Office of Management and Budget (OMB) memorandum<sup>1</sup> defines an interagency acquisition as “the term used to describe the process by which one agency (requesting agency), uses the contracts and/or contracting services of other agencies (servicing agencies) to obtain supplies and services.” This memorandum also states that it “does not address all interagency business transactions, only those that are undertaken for the primary purpose of obtaining services or products from contractors. Accordingly, this document does not address. . . reimbursable work performed by federal employees (other than acquisition assistance), or interagency activities where contracting is incidental to the purpose of the transaction.”

**Federal Acquisition Regulation.** The *Federal Acquisition Regulation* (FAR), Subpart 2.1, “Definitions,” defines interagency acquisitions similar to the definition in OMB’s June 6, 2008, memorandum. The FAR states that an “interagency acquisition means a procedure by which an agency needing supplies or services (the requesting agency) obtains them from another agency (the servicing agency), by an assisted acquisition or a direct acquisition.” FAR Subpart 17.5, “Interagency Acquisitions,” expands on this definition and states that this subpart “applies to interagency acquisitions, . . . when—(1) An agency needing supplies or services obtains them using another agency’s contract; or (2) An agency uses another agency to provide acquisition assistance, such as awarding and administering a contract, a task order, or delivery order.” The FAR further states, “This subpart does not apply to—(1) Interagency reimbursable work performed by Federal employees . . . or interagency activities where contracting is incidental to the purpose of the transaction.”

The Federal policies governing interagency agreements are as described.

**Department of the Treasury Interagency Agreement Instructions.** The Department of the Treasury, Bureau of Financial Management Service, issued Interagency Agreement Instructions, dated August 17, 2011, which state that the interagency agreement form is “the standard form to be used Governmentwide for all reimbursable agreements at the trading partner level, including, but not limited to: agreements between agencies, agreements within agencies,

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<sup>1</sup> Memorandum for Chief Acquisition Officers, Senior Procurement Executives, “Improving the Management and Use of Interagency Acquisitions,” OMB, June 6, 2008, p.1.

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grant-related agreements,<sup>2</sup> and assisted acquisitions.<sup>3</sup>” These instructions also direct agencies to two documents for developing standard Government-wide business practices for the agencies’ reimbursable activities.

- **Department of the Treasury Financial Manual.** The Department of the Treasury Financial Manual, Volume I, Bulletin 2007-03, “Intragovernmental Business Rules,” dated November 15, 2006, states, “These Rules apply to all intragovernmental business, specifically, transactions that entail the exchange of goods and services, . . . and transfers between Federal entities.” The bulletin further states, “These Rules provide Federal entities with guidance for recording and reconciling intragovernmental exchange, . . . and for purposes of these Rules, the requesting agency is a ‘Buyer,’ the providing agency is a ‘Seller,’ and, collectively, they are ‘Trading Partners.’”
- **General Services Administration Guidance.** The General Services Administration, Financial Systems Integration Office, issued a publication<sup>4</sup> September 2009 “to standardize common financial business activities and processes to ensure that financial managers assessed programs and made decisions with timely and accurate data.” This publication further notes, “Through standardization, Federal entities are better positioned to implement lower cost, lower risk, and higher performing financial management solutions.”

Within this guidance, Chapter 5.0, “Reimbursables Management Processes,” details best practice business processes for administering and managing interagency transactions. The reimbursables management process spans the full life cycle of an interagency agreement from the establishment and negotiation of an agreement between a buyer (requesting agency) and seller (servicing agency) where there is a bona fide need for an exchange of goods and/or services all the way through the close-out of the agreement. According to this guidance,<sup>5</sup> the benefits of effective reimbursable management include the following:

- Improved checks and balances in the reimbursable process.
- Improved understanding of interagency agreement management process.
- Improved communication between the buyer and seller.
- Improved audit trail through recording and reconciliation activities by the buyer and seller.

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<sup>2</sup> Grant-related interagency agreements are reimbursable agreements where the servicing agency awards or manages grant(s), grant program(s), or otherwise performs grant-type services for public benefit on behalf of the requesting agency.

<sup>3</sup> Assisted Acquisitions are reimbursable agreements, where the Servicing Agency provides acquisition support and awards contracts on behalf of the Requesting Agency’s requirements for products or services.

<sup>4</sup> The General Services Administration, Financial Management Systems Standard Business Processes for U.S. Government Agencies: Standard Business Processes, p. xvii.

<sup>5</sup> Ibid., ch. 5.0, “Reimbursables Management Processes,” p. 5-2.

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- Improved recognition of United States Standard General Ledger accounting transactions in the reimbursable process.
- Improved interagency and government-wide reporting.

The General Services Administration guidance requires the buyer, among many other things, to determine that there is authority to enter into an interagency agreement to fill the need, which can include Section 632(b) of the Foreign Assistance Act of 1961, as amended.

## Intra-Governmental Expenses Transferred From the Department of State to Other U.S. Government Agencies in FYs 2010 and 2011

For purposes of this report, intra-governmental expenses include all expenses transferred from the Department of State to other U.S. Government agencies. The major agencies and total dollar amounts transferred for FYs 2010 and 2011 are shown in Table 1.

**Table 1. Department of State Intra-Governmental Expenses for FYs 2010 and 2011**

U.S. Government Agency	FY 2010 Expenses	FY 2011 Expenses	Total Expenses for FYs 2010 and 2011
Agency for International Development	\$504,191,276	\$464,129,628	\$968,320,904
General Services Administration	\$357,975,569	\$397,399,848	\$755,375,417
Government Printing Office	\$203,111,443	\$201,794,727	\$404,906,170
Central Intelligence Agency	\$53,721,257	\$18,017,344	\$71,738,601
Department of Justice	\$277,558,581	\$281,506,034	\$559,064,615
Department of Defense	\$685,024,199	\$673,273,108	\$1,358,297,307
Department of the Treasury	\$52,413,745	\$8,139,199	\$60,552,944
Department of Energy	\$28,325,037	\$67,673,470	\$95,998,507
Department of Labor	\$8,758,023	\$7,699,270	\$16,457,293
Department of Homeland Security	\$16,731,479	\$17,740,206	\$34,471,685
Department of Transportation	\$7,927,138	\$13,627,999	\$21,555,137
Department of Health And Human Services	\$6,044,732	\$9,790,659	\$15,835,391
Department of Agriculture	\$4,903,576	\$13,731,812	\$18,635,388
Department of Commerce	\$4,793,135	\$5,878,973	\$10,672,108
National Institutes of Health	\$15,985,907	\$18,415,801	\$34,401,708
National Security Agency	\$6,074,085		\$6,074,085
Office of Personnel Management	\$4,767,567		\$4,767,567
United States Postal Service	\$22,330,198		\$22,330,198
Environmental Protection Agency		\$10,519,694	\$10,519,694
Department of the Interior		\$3,832,140	\$3,832,140
Remaining Agencies/Agreements	\$59,822,650	\$66,910,230	\$126,732,880
<b>Total</b>	<b>\$2,320,459,597</b>	<b>\$2,280,080,142</b>	<b>\$4,600,539,739</b>

Source: Prepared by OIG based on information provided by its financial audit contractors.



United States Department of State  
*Assistant Secretary of State for Oceans and  
International Environmental and Scientific Affairs*  
Washington, D.C. 20520

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June 18, 2012

**MEMORANDUM**

TO: OIG – Harold W. Geisel

FROM: OES – Kerri-Ann Jones *KA Jones*

SUBJECT: Response to Audit of OES Administration of Climate Change Funds

OES programs serve a crucial strategic function in U.S. climate change diplomacy. OES program funds have enabled the United States to launch and play leading roles in high profile initiatives to address methane and other short lived climate pollutants, to cooperate globally on development and deployment of key clean energy technologies, to stimulate private sector investments in deforestation and clean energy infrastructure, and to align global efforts to respond to the impacts of extreme weather and climate events. In addition to the direct benefits of these and other OES programs for developing countries, U.S. climate assistance has allowed us to deepen our relationships with international partners and has significantly enhanced U.S. standing as a leader in the effort to achieve real-world results even as we work to negotiate an effective global approach to climate change.

We take the responsibility for sound management and quality control of our programs very seriously. In the five years in which the program has been in place, the Bureau has continuously worked to enhance our operating procedures for financial planning, award development, and monitoring and evaluation. In the last two years, as our program has grown, we have continued to devote significant resources to our operations so as to implement the best practices in the Department, our objective in program management.

We welcome the Office of the Inspector General's recommendations, which will help us further strengthen our program oversight responsibilities. We have already begun to implement a number of the recommendations as a result of improved procedures and systems put into place by the Bureau and the Department since the period of the awards under audit. We have noted these in our response to specific recommendations.

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We adopted a series of procedures and actions to help ensure rigorous managerial oversight. For example, we have instituted a system and template for providing quarterly updates on all active instruments so we can address implementation issues when they arise. We conduct performance reviews of OES grants and Interagency Acquisition Agreements (IAAs) for senior OES management. Standard operating procedures are updated regularly to ensure that grants and IAA monitoring adheres to evolving Department standards and policies and ensures that staff have clear guidance for all phase of the procurement, monitoring, close-out and evaluation process. OES has always consulted closely with the offices responsible for administering Departmental policies so as to be confident that we are applying them appropriately. OES performs Data Quality Assessments on the basis of advice from the Office of the Director of Foreign Assistance Resources (F), which has praised OES' annual Performance Reports on its assistance programming. We are confident that this data can be relied upon by decision makers. We are actively engaged in the Department's process of enhancing evaluation instruments and practice and are leading an effort to work with the Office of Acquisitions Management (AQM) and the Office of the Procurement Executive (OPE) on the development of Department-wide IAA award procedures.

Interagency Acquisition Agreements serve a critical purpose in OES climate change assistance programming, allowing us to draw on the specialized technical expertise of other U.S. government agencies not available at the Department. This approach is consistent with the Secretary's Quadrennial Diplomacy and Development Review (QDDR), which recognizes the value of collaboration with other government agencies in addressing complex foreign policy issues, and encourages a whole of government approach through greater use of other agencies for DOS programming purposes. OES opts to use the version of the IAA instrument in which OES retains oversight (pursuant to section 632b of the Foreign Assistance Act) as opposed to straight fiscal transfers to the recipient agency (pursuant to section 632a). We have chosen this version, despite the additional administrative burden it places on OES, in order to help ensure that recipient agencies implement the IAAs in a manner that meets the Department's objectives and standards, in addition to adhering to their own internal controls.

We welcome the OIG's recommendation that OPE develop and disseminate new Department policies and procedures for developing and monitoring Interagency Acquisition Agreements. Because OES procedures should be in accordance with the to-be-developed policy, per the OIG's recommendations numbered 17 and 18 in this report, we suggest that action on recommendations 10, 11, 13, 14 and 16 take place

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after issuance of these new policies and procedures. Given the importance of IAAs as a funding instrument for OES, as well as other Department bureaus, OES believes it is important that the process of developing these guidelines be a collaborative one, with input from affected bureaus and offices. The ideal outcome would be a policy on IAAs that ensures an effective oversight process appropriate to the structure of federal agencies. We are already discussing with colleagues in the Department which procurement requirements should or can be appropriately applied to agencies which receive appropriated funds to ensure the ultimate programmatic outcome provides improved interagency collaboration while maintaining sound managerial oversight and accountability.

OES will continue to work closely with offices responsible for administering Departmental policies as these policies evolve and are implemented. Specific comments and responses to each of the OIG's recommendations follow below.

**OIG Recommendation #1: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, conduct Data Quality Assessments in accordance with the six-step methodology from the annual guidance provided by the Office of the Director of U.S. Foreign Assistance to ensure that data used in reporting are complete, accurate, consistent, and supportable.**

OES Response: OES concurs with the recommendation to conduct Data Quality Assessments in accordance with the six-step methodology from annual guidance provided by the Office of the Director of U.S. Foreign Assistance Resources (F). We note that the F guidance provides that “[m]anagers should use their professional judgment in deciding the level of quality needed to support different decision-making purposes, and should document the decisions and supporting information.” In this context, we will continue to consult with F staff in the implementation of DQA guidance, and will document information pertaining to data, decisions and supporting information consistent with ongoing F guidance.

However, we do not consider that specific examples cited by the OIG support the finding that “...the programmatic results reported may be unreliable for the purpose of gauging whether climate change [targets] are being met.” DQAs are done every three years to make judgments about the reliability of a recipient's indicator reporting. They are NOT done on each individual data point submitted by a recipient, which is the standard the report appears to say is required. In each of the examples cited, the implementer was carrying out the activity in accordance with its stated

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scope of work and the goals of the activity. OES is confident that the majority of the data is consistent with the DQA methodology and indicators in use at the time the assistance agreements were created. For instance, the example cited for FY10 indicator #3 reflected a situation where the wording of the indicator changed slightly from the time the agreement was concluded. We consider that the result reported was consistent with both the scope of work and the indicator and target in place at the time the agreement was concluded.

**OIG Recommendation #2: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement Grants Policy Directive 16, “Designation of Grants Officer Representative,” by ensuring that the Grants Officer completes current Grants Officer Representative (GOR) designation memorandums throughout the life cycles of all grants.”**

OES Response: OES/EGC concurs and will support the implementation of Grants Policy Directive 16 by forwarding changes in GOR designations to the Grants Officer in a timely way throughout the life cycle of all grants.

**OIG Recommendation #3: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, ensure that the Grants Officer Representatives, in consultation with the Grants Officer, develop monitoring plans for all future grant awards using the suggested Department of State templates included in Grants Policy Directive 42, “Monitoring Assistance Awards (September, 2010).”**

OES Response: OES/EGC concurs and will develop grants monitoring plans for all future awards. Currently, clear Departmental guidance is lacking in respect to proper monitoring of public international organizations (PIOs), a category of recipients that represents a significant percentage of EGC’s active grantees. Therefore, OES/EGC will seek guidance from the Grants Officer and AQM as necessary to ensure that the monitoring plans are consistent with policy as well as appropriate for the monitoring of grant awards to both conventional recipients as well as PIOs.

**OIG Recommendation #4: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the requirements in Grants Policy Directive 16, “Designation of Grants Officer Representative,” for the Grants Officer Representatives (GOR)**

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**to review, analyze, and provide written evaluation of required recipient Program Performance and Financial Status Reports to verify timely and adequate performance and require the GORs' written evaluation to be documented using the template include in Grants Policy Directive 42, "Monitoring Assistance Awards."**

OES Response: OES/EGC concurs with the recommendation to review, analyze and provide written evaluation of required recipient Program Performance and Financial Status Reports in future grants in accordance with Grants Policy Directive #42, including by considering the suggested sample templates. It is noted that the templates suggested in GPD 42 are applicable for site visits. OES will seek clarification and guidance from the Grants Officer (GO) and/or AQM to appropriately document the reviews of written programmatic and financial reports.

We note that OES currently employs a quarterly monitoring template that captures documentation of the GOR analysis of recipient's performance. In addition, OES standard practice requires a GOR evaluation report for all grant amendments as well as a final GOR evaluation report as part of the formal grant close-out process. This is an internal control to ensure that recipients are in compliance with the implementation of goals and objectives as specified in the grant agreement.

**OIG Recommendation #5: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change take appropriate actions in accordance with the Foreign Affairs Handbook (4 FAH-3 H-674) when program performance reports and financial reports are not submitted in a timely manner.**

OES Response: OES/EGC concurs and will utilize 4 FAH-3-H-674 to take action when program performance and financial reports are not submitted in a timely manner. OES notes that current Bureau practice suspends grant payments upon the first instance of reporting delinquency – an internal control significantly more stringent than that found in the Foreign Affairs Handbook. The Bureau is establishing a three-tiered process that engages the Central Programming Unit, the GOR, and the Grants Officer to ensure reporting compliance.

**OIG Recommendation #6: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement guidance provided in Grants Policy Directive 16, "Designation of Grants Officer Representative," and GPD 42, "Monitoring Assistance Awards,"**

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**and require Grants Officer Representatives to perform site visits for each grant recipient at least once during the life of the agreement or once per year for those recipients identified as “high risk.” These visits should then be documented on templates similar to the Monitoring Assistance Review Guide Worksheet template included in GPD 42.**

OES Response: OES/EGC concurs with the timeline proposed for GOR site visits and will document those visits on forms similar to the templates contained in GPD 42. OES/EGC does not have any grant recipients categorized as “high-risk.”

**OIG Recommendation #7: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for grant awards, as well as language in all formal grant awards, to include the requirement for all recipients to provide timely performance reports that describe achievements in terms of progress toward the meeting indicators, as well as goals and objectives.**

OES Response: OES concurs with the recommendation to include language in the formal solicitation letters for timely performance reporting that describes achievements in terms of progress toward meeting the indicators, as well as goals and objectives. OES does not generate nor control the language in grants, but will request that AQM include this language in all formal grant awards.

OES/EGC currently provides a solicitation letter and proposal solicitation scope of work guidelines in one package to intended recipients. The proposal guidelines contained in that package specifically require both the selection of indicators for EGC and the need for periodic reporting. (“Grantee should also identify and include in the proposal those outcomes/indicators below that pertain to the proposed activity. Reporting on the results will be required in periodic and end of grant programmatic reporting.”) We will also include this language in the formal solicitation letter.

**OIG Recommendation #8: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, utilize Grants Policy Directive 28, “Roles and Responsibilities for the Award and Administration of Federal Assistance” and the “Standard Terms and Conditions for Domestic and Overseas Federal Assistance Awards” to develop standard operating procedures that document responsibilities of the Grants Officer Representative for monitoring the terms and conditions of all grant awards and**

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**promptly notifying the Grants Officer (GO) of all changes that require GO's attention.**

OES Response: OES/EGC concurs with the recommendation. OES requests that the report be amended to properly address the information summarized below and as provided to the audit team on June 14, 2012.

Specifically, with respect to grant S-LMAQM-08-GR-136, OES/EGC notified the AQM Grant Specialist of the WADE Foundation's proposed use of a sub-contractor on Thursday, January 14, 2010, 10:40 a.m. EST via an electronic mail correspondence. OES/EGC GORs rely on communication and guidance from Grants Officers who makes the final decision. Relative to grant S-LMAQM-08-CA-032 this grant was still open and operating during the audit. It was properly amended by the GO during the audit (with an amended grant end date of 31 March 2010 with final reporting due 90 days subsequent to the amended grant end date). Final reporting for this grant has since been received, has been forwarded to the grants officer, and is in the process of being closed out by the Grants Officer.

**OIG Recommendation #9: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, develop procedures to ensure that final reports of a recipient are obtained and reviewed by the Grants Officer Representative for proper close-out of the project and that these documents are submitted in a timely manner to the Grants Officer for final review and close-out.**

OES Response: OES/EGC concurs with the recommendation, but notes a discrepancy in the findings. Relative to the grant S-LMAQM-08-GR-136, final reporting had been received from the grantee and was utilized to develop the required GOR evaluation report prior to close out by the Grants Officer. The "final reports pending" noted in the audit report appear to reference project deliverables, not grantee final reporting. The GOR evaluation report, required by the grants officer for closeout, indicates that the deliverables were developed and that EGC and the Grants Officer were satisfied with grantee performance. EGC, as a matter of good practice, will formally include a summary of the timely process and expectations for closeout in EGC's standard operating procedures.

**OIG Recommendation #10: OIG Recommends that the Bureau of Oceans and International Environmental and Scientific Affairs formally designate qualified and trained contracting officer representatives for all interagency acquisition**

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**agreements in accordance with the Department's State First Policy and the Department of State Acquisition Regulations, Part 642, who are knowledgeable of the monitoring and oversight duties established in the Department's "Contracting Officer's Representative Handbook."**

OES Response: The Bureau concurs with the recommendation and has a designated Contracting Officer's Representative (COR) in response to an AQM request made as part of the State First Waiver requirement in August 2011. This recommendation is linked to a broader issue that is addressed in OIG's recommendations 17 and 18 to OPE and AMQ, and relates to the fact that IAAs are not by their nature equivalent to procurement contracts in all instances and may require application of the FAH rather than the COR Handbook. OES Bureau is currently engaged in discussions with AQM to obtain clear guidance on this issue.

**OIG Recommendation #11: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, request and review performance and financial supporting documentation as advised by the Federal Assistance Policy Handbook to substantiate the information contained in the required reports received from interagency acquisition agreement recipients and that it maintain appropriate documentation of those reviews.**

OES Response: The Bureau concurs with the recommendation and will coordinate with the Office of the Procurement Executive (OPE) and the Bureau of Acquisition Management (AQM) (see responses to Recommendations 17 and 18) to incorporate forthcoming OPE and AQM standardized policies for the review and approval of all types of IAAs that will ensure compliance with federal regulations.

**OIG Recommendation #12: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, develop appropriate standard operating procedures to ensure that reporting requirements are met by interagency acquisition agreement recipients and, if they are not, that appropriate steps are taken to address delinquent reporting. Also, OES/EGC should coordinate with the Bureau of Resource Management to ensure that the \$600,000 is Economic Support Funds transferred to the U.S. Agency for International Development is properly accounted for and, if possible, returned to the Department of State for appropriate use or de-obligation.**

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OES Response: OES/EGC concurs with the recommendation and will illuminate in standard operating procedures the process for encouraging IAA reporting compliance by recipients and indicate subsequent steps to address delinquent reporting.

We note, however, that OIG findings are inaccurate with respect to EGC follow-up on the IAAs in question. For example, the statement is made that, "...the OIG found no evidence that OES/EGC has followed up on the funding matter [delayed reporting for IAA- S-OES-07-IAA-0018] or that there were any repercussions because of non compliance." OES sent many emails to the recipient and made program management phone calls to the recipient documented in e-mails, regarding late reporting for this IAA. Nevertheless, OES will seek further guidance regarding potential recourse in instances in which the IAA recipient has already received its funding and has designed procedures to utilize the authority of senior Bureau management in certain cases when necessary.

The OES Bureau will coordinate with F to discern the ultimate disposition of the \$600,000 in Economic Support Funds transferred to the U.S. Agency for International Development. USAID officials have stated that the funds expired prior to its obligation due to delays on the part of project partners, and consequently were returned to the Treasury. OES will work with F to obtain the appropriate documentation and bring this matter to a close in accordance with the recommendation.

**OIG Recommendation #13: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, implement the guidance provided in the Department of State's Foreign Affairs Handbook and the Contracting Officer's Representative Handbook and require contracting officer's representatives to perform site visits for each interagency agreement recipient at least once during the life of the agreement or once a year for those recipients identified as "high risk."**

OES Response: OES concurs with the recommendation to perform site visits with recipients at least once during the life of an interagency agreement or once a year for high risk recipients. Site visits are part of our current standard operating procedures. With regard to the application of the appropriate Handbook relevant to IAAs, this recommendation is linked to a broader issue that is addressed in OIG's recommendations 17 and 18 to OPE and AMQ, and relates to the fact that IAAs are not by their nature equivalent to procurement contracts in all instances and may

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require application of the FAH rather than the COR Handbook. OES Bureau is currently engaged in discussions with AQM to obtain clear guidance on this issue.

**OIG Recommendation #14: OIG Recommends that the Bureau of Oceans and International Environmental and Scientific Affairs obtain State First Waivers for all future interagency agreements and maintain approved waivers in its files, as required by State First Policy.**

OES Response: The Bureau concurs with the recommendation. The Bureau currently obtains State First Waivers for all new interagency agreements and maintains approved waivers in its files in accordance with the State First Policy and procedures required by AQM.

A central purpose of OES's use of IAAs in all instances is to take advantage of the expertise and capabilities of technical and development agencies, which reflects the whole-of-government approach to international cooperation reflected in the QDDR. Prior to August 2011, when AQM began to explicitly apply the State First Policy in a uniform manner, OES obtained clearance on all IAAs from AQM, the Bureau responsible for application of the State First Policy. We will coordinate with the Office of the Procurement Executive (OPE) and the Bureau of Acquisition Management (AQM) (see responses to Recommendations 17 and 18) to incorporate and comply with forthcoming OPE and AQM standardized policies for IAAs as it relates to the application of the State First waiver to IAAs.

**OIG Recommendation #15: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for interagency agreements, as well as the language in all formal interagency agreements, to include the requirement for all recipients to provide timely performance reports that describe achievements in terms of progress toward meeting indicators, as well as goals and objectives.**

OES Response: OES concurs with the recommendation. Presently, OES provides guidance on the need for periodic reporting, selection of indicators and achievement of goals and objectives in the scope of work guidelines for the development of interagency agreements. Per the OIG recommendation, OES will also include this language in the formal solicitation letters for interagency agreements.

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**OIG Recommendation #16: OIG recommends that the Bureau of Oceans and International Environmental and Scientific Affairs, Office of Global Change, update the language in its formal solicitation letters for interagency agreements, as well as language in all formal interagency agreements, to include, for the purposes of substantiation, the requirement for all recipients to maintain supporting documentation for all financial expenditures and all project activities and pertinent achievements as reported in the recipients' performance and financial reports.**

OES Response: OES concurs with the recommendation. Because OES's interagency agreements are with federal agencies, which are not required to perform project related accounting and are not subject to overhead auditing procedures, OES will include this language in its interagency agreements upon the development of the Office of the Procurement Executive's (OPE) and Bureau of Acquisitions Management's (AQM) standardized policies for interagency agreements.

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United States Department of State

Washington, D.C. 20520

May 30, 2012

MEMORANDUM

**TO:** OIGAUD - Evelyn R. Klemstine

**FROM:** A/OPE- Corey M. Rindner *Corey M. Rindner*

**SUBJECT:** Draft Report on Audit of OES Administration and Oversight of Funds Dedicated to Address Global Climate Change dated May 2012

Below is A/OPE's response to Recommendations 17 and 18 of the subject draft report. (b) (6) is the point of contact on these recommendations and can be reached on (b) (6)

**Recommendation 17:** OIG recommends that the Procurement Executive develop and issue standardized policies and procedures for Department of State-wide use for the administration of interagency acquisition agreements and interagency agreements in accordance with pertinent Federal regulations and revise the State First Policy to establish that the policy also applies to interagency agreements, since the policy as written represents sound business practices.

**A/OPE Response:** A/OPE concurs with the recommendation. A working group has been convened consisting of DCFO, A/LM/AQM, L/BA and A/OPE to prepare guidance.

**Recommendation 18:** OIG recommends that the Procurement Executive, in coordination with the Director, Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, develop and issue standardized policies and procedures for the review and approval of all types of interagency agreements that will ensure compliance with applicable Federal regulations and Department of State policies governing each type of agreement.

**A/OPE Response:** A/OPE and A/LM/AQM concur with the recommendation. A working group has been convened consisting of DCFO, A/LM/AQM, L/BA and A/OPE to prepare guidance.

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