



Inspector General Statement on the Broadcasting Board of Governors' Major Management and Performance Challenges

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2017

Office of Inspector General
United States Department of State
Broadcasting Board of Governors

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INTRODUCTION

Each year, as required by law,¹ the Office of Inspector General (OIG) for the Broadcasting Board of Governors (BBG) identifies the most serious management and performance challenges facing BBG and briefly assesses BBG's progress in addressing those challenges. The resulting report is included in BBG's annual performance and accountability report.

Based on our oversight work performed this year and in the past, research, and independent judgment, OIG concludes, as it did last year, that the following were the most important challenges that BBG faced in FY 2017:

- Information security and management
- Financial and property management
- Grants management

These issues go to the core of BBG's programs and operations, and it is likely that they will be crucial challenges for the foreseeable future. Continued attention to these concerns will improve BBG's operations and, accordingly, its ability to fulfill its underlying mission. We hope that this report, read together with the work OIG produces throughout the year, assists BBG in its efforts.

INFORMATION SECURITY AND MANAGEMENT

BBG depends on information systems and electronic data to carry out essential mission-related functions. These information systems are subject to serious threats that may exploit vulnerabilities to compromise the information those systems process, store, and transmit. This, in turn, can lead to adverse effects on operations, organizational assets, and personnel. Though BBG has taken steps to improve its information security program in recent years, OIG continues to find deficiencies.²

In particular, during FY 2017, an external auditor performing the audit on OIG's behalf and under OIG's direction found that BBG did not have an effective information security program.³ Specifically, BBG lacked a fully developed and implemented organization-wide risk management strategy. Additionally, the auditor identified security weaknesses in all key metric domains that are required to be assessed, including risk management, configuration

¹ The Reports Consolidation Act of 2000, § 3, Pub. L. 106-531 (amending 31 U.S.C. § 3516).

² In two FY 2017 inspection reports, OIG identified information security and management deficiencies specific to two BBG grantees. Those findings are discussed in the "Grants Management" section.

³ OIG, *Audit of the Broadcasting Board of Governors Information Security Program* (AUD-IT-IB-17-18, November 2016).

management, identity and access management, information security continuous monitoring, incident response, and contingency planning. To begin addressing the IT weaknesses identified, OIG recommended that BBG devote resources to develop and implement an information security risk management strategy and develop a risk management office.

FINANCIAL AND PROPERTY MANAGEMENT

Financial management continues to be a challenge for BBG. During the FY 2016 audit of BBG's consolidated financial statements, an external auditor performing the audit on OIG's behalf and under OIG's direction identified a material weakness related to the validity of unliquidated obligations (ULOs).⁴ ULOs represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services that were ordered have not been received or the goods and services have been received but for which payment has not yet been made. The external auditor identified a significant number of invalid ULOs that had not been identified by BBG's review process. This occurred because not all personnel responsible for review were effectively monitoring the validity of obligations and because BBG's policies were not sufficient.

OIG also noted various deficiencies related to property management.⁵ BBG owns significant physical assets, including equipment, buildings, vehicles, and land. In the audit of BBG's FY 2016 consolidated financial statements, the external auditor performed various procedures to determine whether BBG's property inventory was complete and accurately recorded.⁶ The auditor found that BBG's processes to ensure that personal property was recorded in a complete, timely, and accurate manner were ineffective. Specifically, property management officials did not consistently follow BBG's procedures and, moreover, did not receive training to ensure that they understood and implemented relevant procedures. The lack of effective controls decreases accountability over assets, which, in turn, could lead to undetected theft or waste. In addition, the untimely and inaccurate processing of property transactions resulted in misstatements to BBG's financial statements. Although BBG corrected these errors, additional errors are likely unless BBG implements effective property management procedures.

⁴ OIG, *Independent Auditor's Report on the Broadcasting Board of Governors 2016 and 2015 Financial Statements* (AUD-FM-IB-17-14, November 2016).

⁵ In addition, in one FY 2017 inspection report, OIG identified property management deficiencies specific to a BBG grantee. Those findings are discussed in the "Grants Management" section.

⁶ OIG, *Management Letter Related to the Audit of the Broadcasting Board of Governors 2016 Financial Statements* (AUD-FM-IB-17-15, February 2017).

GRANTS MANAGEMENT

Grants management presents an ongoing challenge for BBG. Because BBG uses grantees to perform significant operational activities, weaknesses in this area have a substantial effect on BBG's overall operations. Without effective oversight of grantees, the risk of waste, fraud, and abuse of Federal funds increases.

BBG's Administration of Grants

In the audit of BBG's financial statements, an external auditor performing the audit on OIG's behalf and under OIG's direction found that BBG had not effectively implemented monitoring of grantees, even though grant payments consumed approximately one-third of BBG's total funding. For example, the external auditor found that BBG had not performed risk assessments to finalize the scope and frequency of site visits, issued site visit reports to communicate findings and needed improvements, or obtained performance reports from grantees.

In two FY 2017 inspection reports, OIG noted improper close-out procedures related to two BBG grantees—the Middle East Broadcasting Network (MBN) and Radio Free Europe/Radio Liberty (RFE/RL). BBG had not closed out expired MBN grants since MBN's inception in 2003, although governing regulations required that it do so.⁷ Additionally, BBG did not formally close out RFE/RL's annual grants at their expiration; instead, BBG improperly accepted RFE/RL's final monthly financial report for the fiscal year.⁸ Although BBG had compiled a draft grantee handbook that included close-out provisions, BBG had not approved or adopted the handbook at the time of the inspection.⁹

Addressing these issues is important to ensure compliance with Federal grant oversight regulations and to account appropriately for U.S. Government funds (and to determine if the funds were spent in accordance with the grant agreement in the first place). Without close-outs of expired grants, BBG increases the risk that ineligible or unsupported grant award funds will not be returned to BBG to be put to better use or returned to the U.S. Treasury. To address these issues, OIG recommended that BBG finalize its draft grantee handbook and implement the grant close-out provisions.

⁷ OIG, *Inspection of the Broadcasting Board of Governors' Middle East Broadcasting Networks* (ISP-IB-17-09, February 2017).

⁸ OIG, *Inspection of Radio Free Europe/Radio Liberty* (ISP-IB-17-21, May 2017).

⁹ *Ibid.*

OIG's inspection of RFE/RL also identified problems with its contract management practices. Of the 45 RFE/RL contracts reviewed by OIG, 11 lacked required documentation. Additionally, eleven contracts—including contracts for food service, travel, and security—lacked written approval by BBG. Eight of those 11 contract renewals also lacked the vendor's signature. OIG concluded that the absence of senior management oversight caused the deficiencies.¹⁰ As noted in the inspection, this issue is important to address, as failure to document financial transactions risks unauthorized expenditure of Federal funds and could invalidate the contracts. OIG recommended that BBG direct RFE/RL to document contract approvals in accordance with the grant agreement.

Grantee Management of Information Security Issues

Additionally, OIG found deficiencies related to information security and management in its inspections of MBN and RFE/RL. OIG's review of MBN's IT operating procedures showed they did not contain standards or establish responsibility for any IT operations, nor did they include version control or any evidence that senior management had approved the procedures.¹¹ RFE/RL also lacked formal policy governance for its IT Division.¹² Without policy documents establishing standards for IT operations, MBN and RFE/RL effectively had no criteria for measuring success, which creates risks of waste, mismanagement, and inefficiencies in IT operations.

Furthermore, MBN did not have formal, written policies regarding information security. It also had no system security plan, and no specific employee was assigned responsibility for information systems security.¹³ Likewise, RFE/RL did not have an effective information security program. It lacked information security policies and procedures that addressed internal controls standards, including a risk management process to safeguard its systems and information.¹⁴ Without a formal and effective information security program, MBN and RFE/RL face increased risks of compromise to the availability, confidentiality, and integrity of their information and IT systems.

To begin addressing these vulnerabilities, OIG recommended that BBG revise its grant agreements with MBN and RFE/RL to require formal policies with standards to govern IT operations and information systems security. BBG should also include internal controls standards for its information security program in the grant agreement with RFE/RL.

¹⁰ *Ibid.*

¹¹ ISP-IB-17-09, February 2017.

¹² ISP-IB-17-21, May 2017.

¹³ ISP-IB-17-09, February 2017.

¹⁴ ISP-IB-17-21, May 2017.

Grantee Financial and Property Management

Finally, OIG found deficiencies related to financial and property management in its inspection of MBN. OIG noted that BBG did not fully review MBN's approximately \$6.2 million in ULOs between FYs 2009 and 2012 because no one was responsible for monitoring grantees at that time.¹⁵ Monitoring programs are essential to ensure that the grantee meets its programmatic or fiscal responsibilities. Moreover, ULOs increase the risk of over-budgeting Federal funds and non-compliance with the grant agreement. Reviewing and deobligating MBN's ULOs would allow BBG to recover these funds and put them to better use.

Regarding property management, OIG found that inventory standard operating procedures did not include a control system and safeguards to prevent loss, damage, or theft of equipment.¹⁶ More robust standard operating procedures and a property control system would decrease these risks. MBN also did not have robust disposal processes and internal controls for excess property. Specifically, MBN disposal records, completed as part of the established disposition, did not document property cost and the market value method for disposal (including sale, donations to charity, or destruction), and they did not contain receipts from the party receiving the disposed items. Without effective procedures and internal controls over property disposal, MBN increases the risk of mismanagement and lack of accountability.

¹⁵ ISP-IB-17-09, February 2017.

¹⁶ *Ibid.*

APPENDIX A: RESPONSE FROM BROADCASTING BOARD OF GOVERNORS



Broadcasting Board of Governors
United States of America

October 18, 2017

Mr. Steve A. Linick
Inspector General
Office of Inspector General
U.S. Department of State

Dear Mr. Linick:

The BBG has reviewed the Office of Inspector General's Fiscal Year 2017 Statement on the Agency's Major Management and Performance Challenges. We greatly appreciate the OIG's work as reflected in this summary, and its recommendations during FY 2017 to support BBG operational improvements. The Inspector General's work this year and in the past has contributed to the Agency's internal oversight, and prompted greater operational efficiencies at the BBG and its BBG-sponsored grantees.

The Agency has implemented a number of OIG recommendations related to information security and property and grant management that are cited in the Management and Performance Challenges letter. Other recommendations, some requiring further investment of resources to implement, will require sustained buildout beyond this fiscal year. However, the BBG is committed to both requesting these investment resources, and refining its administrative programs and processes as resources permit.

Information Security and Management

The BBG continues to take steps to improve its information technology and security program. OIG's risk management assessment accurately reflects BBG's current Cybersecurity Risk Management posture for those very few applications remaining in-house. To implement its risk management mitigation plan, the Agency has aggressively migrated applications and content distribution to the cloud, transferring risk to cloud service providers. In addition, BBG has consolidated applications and co-located data centers within the Agency, reducing system administration risk.

The Agency's will work to implement a program that fulfills the NIST standards. To advance its cybersecurity program, the Agency has adopted the NIST Cybersecurity Framework and integrated the core principles in its draft IT-Enterprise Risk Management Strategy and is acquiring the appropriate software to support this effort.



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Financial and Property Management

Improvements to the Agency's financial and property management continued in Fiscal Year 2017, with strengthened processes for financial management, financial audits, budgetary transactions, procurement transactions, and internal control systems.

The BBG has updated its Standard Operating Procedures for Property, Plant and Equipment, and an additional property specialist has been engaged to assist in the review of expenditures and recording of assets in a timely manner. The Property Management Team is implementing an initiative to replace its current property management system with a modern, automated system. New software has been acquired to support the system, called Real Asset Management (RAM), which will be introduced to all Agency Accountable Officers and their Property Control Officers. Training will be provided to facilitate the updating of relevant Agency records and inventories.

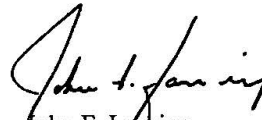
Grants Management

BBG continues to refine its policies and procedures related to grantee monitoring and grant close-outs. The Agency has informed OIG that it expects to adopt and publish a Grants Management Standard Operating Procedure (SOP) for government guidelines, in lieu of its legacy Grantee Handbook, which we expect to be completed by December 2017. This SOP will support more uniform and timely monitoring of grants by the Agency.

In the interim, the Agency continues to work with its BBG-sponsored grantees to ensure compliance with its grant agreements. Specific to OIG's recent findings on RFE/RL contract management practices, RFE/RL worked with the BBG to close OIG's recommendation related to contract notifications. In a similar vein, in response to OIG findings on MBN's information security policies, MBN adopted formal, written policies that placed it in compliance with OIG's recommendation.

Finally, I would like to thank you and your team for your professionalism and willingness to work with the Agency to address its unique challenges. I look forward to working with you to resolve these and other management issues raised by the Office of Inspector General.

Sincerely,



John F. Lansing
Chief Executive Officer and Director



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