



OIG

Office of Inspector General

U.S. Department of State • Broadcasting Board of Governors

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Office of Audits

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Audit of the Process To Approve, Disburse, and Report Rewards for Justice Payments

SECURITY AND INTELLIGENCE DIVISION

July 2017

OFFICE OF AUDITS

Security and Intelligence Division



OIG HIGHLIGHTS

AUD-SI-17-48

What OIG Audited

Since its inception in 1984, the Rewards for Justice (RFJ) program has disbursed more than \$125 million in reward payments to more than 80 people who provided actionable information that led to the arrest of terrorists or prevented acts of international terrorism worldwide. The Bureau of Diplomatic Security (DS) administers the RFJ program, and an RFJ lead coordinator leads the program.

The objective of this audit was to determine whether the Department of State (Department) approved, disbursed, and accurately reported to Congress RFJ program reward payments in accordance with Federal requirements and Department guidance.

OIG reviewed reward payments made between FY 2013 and FY 2015 and reviewed the RFJ case files supporting the 19 reward payments selected for this audit.

What OIG Recommends

OIG made three recommendations to DS to address control weaknesses identified with the RFJ program that pertain to congressional reporting requirements.

DS concurred with the three recommendations, and on the basis of the responses, OIG considers all three recommendations resolved, pending further action.

A synopsis of each response and OIG's reply is presented in the Audit Results section of this report. DS's comments to the draft of this report are reprinted in Appendix B.

Audit of the Process To Approve, Disburse, and Report Rewards for Justice Payments

What OIG Found

OIG found that between FY 2013 and FY 2015 the Department had approved and disbursed 19 RFJ reward payments totaling almost \$22.7 million in accordance with Federal requirements and Department guidance.

However, OIG also found that DS did not always report RFJ reward payments to Congress as required. For example, DS failed to submit reports to Congress on 13 of 19 (68 percent) reward payments made between FY 2013 and FY 2015. In addition, for 6 of the 19 (32 percent) reward payments that were reported to Congress, the reports were submitted beyond the 30-day requirement; these submissions ranged from 40 days to 74 days late. These reporting deficiencies occurred, in part, because of internal control weaknesses within DS and the Bureau of Legislative Affairs that prevented the timely review, clearance, and tracking of these time-sensitive reports to Congress. In addition, interagency partners involved with disbursing the reward payments were often late in providing information needed to complete the reports.

Further, Federal regulations require DS to submit an annual report to Congress on the total amounts expended to operate the RFJ program. OIG found no evidence that any of the required annual reports had ever been prepared and submitted. According to RFJ program officials, they believed the quarterly reports submitted by the Office of the Under Secretary for Management, Emergencies in the Diplomatic and Consular Service (M/EDCS), which included key aspects of the RFJ program, fulfilled this reporting requirement. However, although the M/EDCS reports included information on total expenditures for reward payments and costs associated with publicizing the program, they did not include other operating expenditures such as payroll and travel. These other expenditures make up approximately 10 percent of total program expenditures. Because DS has not submitted the required annual reports to Congress, members of Congress have not had the opportunity to review the total annual operating costs of the RFJ program.

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OBJECTIVE

The objective of this audit was to determine whether the Department of State (Department) approved, disbursed, and accurately reported to Congress Rewards for Justice (RFJ) program reward payments in accordance with Federal requirements and Department guidance.

BACKGROUND

RFJ was established by the 1984 Act to Combat International Terrorism.¹ The law allows the Department to offer and pay rewards for information that does the following:

- Leads to the arrest or conviction of anyone who plans, commits, or attempts international terrorist acts against U.S. persons or property.
- Prevents such acts from occurring in the first place.
- Leads to the location of a key terrorist leader.
- Disrupts terrorism financing.

According to RFJ's website, since the inception of the program in 1984, the RFJ program has paid more than \$125 million to more than 80 people who provided actionable information that led to the arrest of terrorists or prevented acts of international terrorism worldwide. For example, the program played a role in the arrest of Ramzi Yousef, who was convicted in the 1993 bombing of the World Trade Center.

RFJ Program Administration and Roles and Responsibilities of Other Offices

The Bureau of Diplomatic Security (DS) Threat Investigations and Analysis Directorate, Office of Protective Intelligence Investigations, administers the RFJ program.² The RFJ program is made up of six full-time Civil Service employees. The RFJ program office is headed by the RFJ lead coordinator and is assisted by the RFJ deputy coordinator. The other four RFJ employees review information coming from various geographic areas and coordinate with interagency partners. During the 3-year audit scope (FYs 2013–2015), OIG estimates that the RFJ program spent approximately \$2.7 million to support and administer \$22.7 million of reward payments.

¹ Pub. L. No. 98-533, October 1984. The Department's rewards program was later amended to authorize other rewards for information leading to arrests or convictions with respect to international narcotics trafficking, serious violations of international humanitarian law, transnational organized crime, and other related criminal acts. Rewards for these offenses are administered separately from DS's Rewards for Justice program and are not addressed herein.

² 12 Foreign Affairs Manual 226.3c, "Rewards Program for Information on Terrorism." This section of the FAM and the RFJ Standard Operating Procedures were updated subsequent to OIG's audit fieldwork. The only substantive change to the criteria relates to new legislation that requires RFJ to submit a report to Congress within 15 days after a reward has been authorized. The changes do not affect the audit results because OIG's audit work was limited to the criteria in effect during the audit scope (that is, FYs 2013 – 2015). OIG did not assess compliance with the new reporting requirements during this audit.

According to the Foreign Affairs Manual (FAM),³ the Office of the Under Secretary for Management, Office of Emergencies in the Diplomatic and Consular Service (M/EDCS), is accounts for funds appropriated to carry out the RFJ program. In addition, M/EDCS is responsible for instituting appropriate financial controls, including controls to maintain the confidentiality of payments to rewards recipients.

The Bureau of Legislative Affairs coordinates legislative activity for the Department.⁴ The Bureau of Legislative Affairs also facilitates communication between Department officials and members of Congress and their respective staffs. It does so by conveying congressional inquiries to the RFJ program and providing guidance in formulating a reply, if necessary. In addition, the Bureau of Legislative Affairs facilitates the delivery of required RFJ reports to appropriate congressional committees.

Other Department bureaus and offices involved with the RFJ process include the Bureau of Counterterrorism and Countering Violent Extremism and the Office of the Legal Adviser. The Bureau of Counterterrorism and Countering Violent Extremism provides assistance to the RFJ program by sharing information on terrorists and terrorist organizations. The Office of the Legal Adviser provides the RFJ program legal counsel regarding potential reward payments.

Rewards for Justice Reward Payment Approval, Disbursement, and Reporting Process

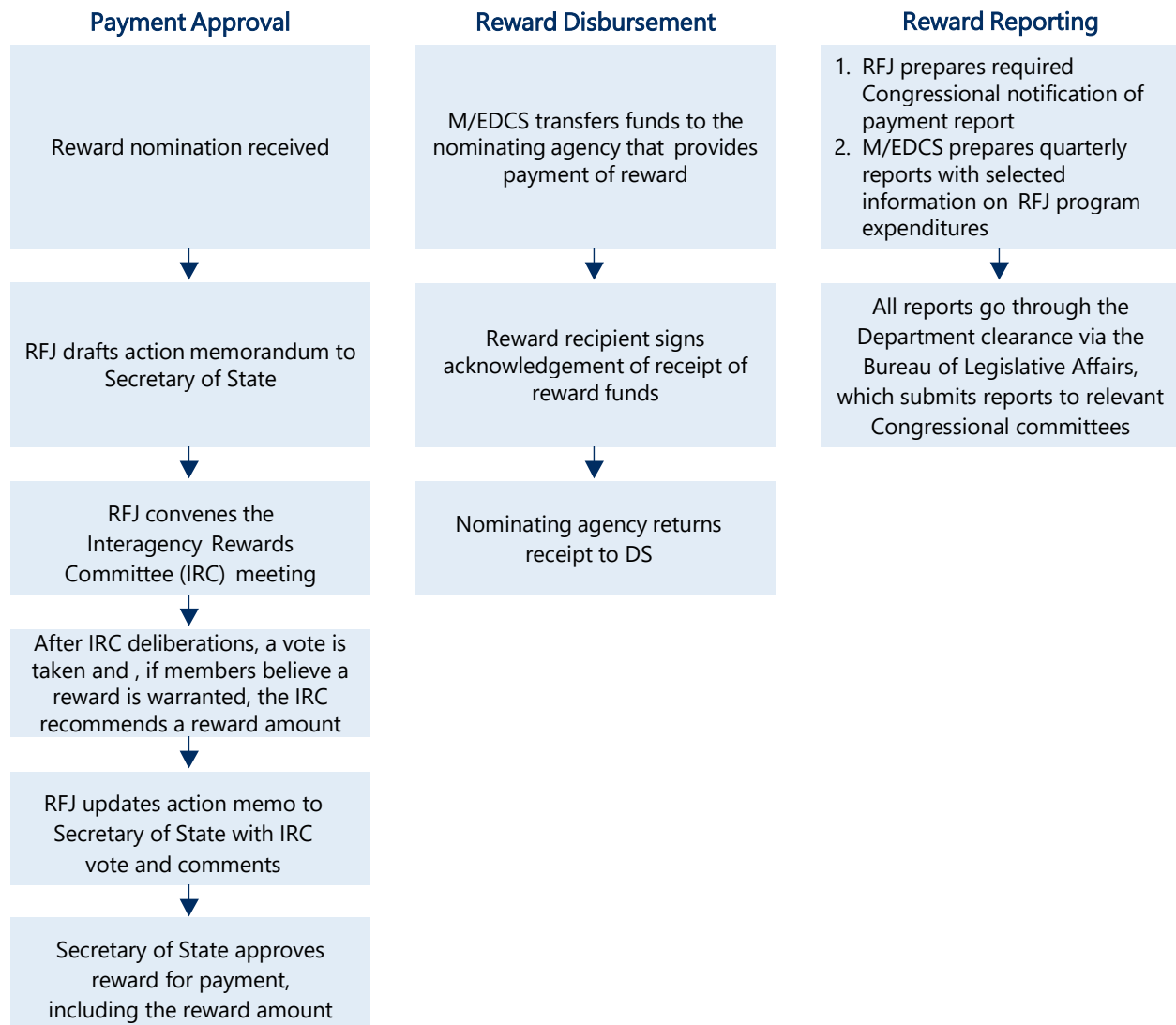
The RFJ program developed and issued standard operating procedures for approving and disbursing reward payments and for reporting to Congress on reward payments made. Figure 1 outlines the process flow in RFJ reward payments pursuant to the program's operating procedures.⁵

³ 12 FAM 226.5-5, "Accounting for Funds."

⁴ 1 FAM 311.1b, "Responsibilities."

⁵ Rewards for Justice Standard Operating Procedure, February 2016.

Figure 1: Rewards for Justice Payment Approval, Reward Disbursement, and Reward Reporting Processes



Source: OIG generated on the basis of RFJ Standard Operating Procedures, February 2016.

RFJ Payment Approval

The RFJ reward payment approval process begins with a nomination, which is a request that a reward be paid to a potential recipient who has provided actionable information that led to, among other things, the location of terrorist leaders or that prevented an act of terrorism. A nomination can originate at an overseas post, at the Department, or at other U.S. Government agencies.⁶ Advertised rewards for information regarding specified terrorists range from less than \$1 million up to \$25 million, although most reward offers are up to \$5 million. Before beginning the approval process, the RFJ program staff confers on nominations with the Office of the Legal

⁶ According to RFJ, almost all nominations originate at other U.S. Government agencies.

Adviser and DS management. The RFJ staff also consults with a Department of Justice representative to ensure the nomination will not interfere with any ongoing investigations, judicial proceedings, or both.

An interagency committee, known as the Interagency Rewards Committee (IRC) on Terrorism Information, considers proposals for reward payments.⁷ According to the FAM,⁸ the IRC comprises 13 members and is chaired by the DS Director of the Diplomatic Security Service or designee. The other 12 members are M/EDCS, the Bureau of Counterterrorism and Countering Violent Extremism, the Office of the Legal Adviser, the Central Intelligence Agency, the Department of Defense, the Department of Homeland Security, the Department of Justice, the Department of the Treasury, the Federal Bureau of Investigation, the National Counterterrorism Center, the National Security Agency, and the National Security Council. Officials or representatives from other departments or agencies may confer with the IRC when necessary.

The FAM⁹ outlines items that the IRC should consider when reviewing the nominations. For example, if the nomination relates to information that led to the arrest or conviction of someone who planned or implemented an international terror attack, the IRC is required to consider a number of factors, including the seriousness of the injury or potential injury to U.S. persons or property, the likelihood that the information provided has materially aided in bringing the perpetrators to justice, the degree of risk faced by a potential reward recipient and the recipient's family in providing the information, and the degree to which the arrest or conviction would seriously impede the functions of a terrorist organization. If the nomination relates to information that could prevent or frustrate a planned act of international terrorism, the dismantling of a terrorist organization, or the identification or location of a key leader of a terrorist organization, the IRC is required to consider other factors. These factors include the credibility and specificity of available information, the seriousness of the danger to U.S. persons or property, the likelihood that—and the degree to which—the information provided has materially aided in successfully avoiding or countering the threat, and the degree of risk faced by a potential reward recipient and members of the recipient's family in providing the information.¹⁰

After the IRC discusses the nomination, the IRC members vote on recommending a reward payment. If a majority of the IRC members decide to recommend such a payment,¹¹ the IRC deliberates and votes on the amount of the reward payment to recommend. After the IRC meeting, the Assistant Secretary of Diplomatic Security sends an action memorandum to the Secretary of State when a recommended reward payment is equal to or greater than \$100,000. When a recommended reward payment is less than \$100,000, the action memorandum goes to

⁷ 12 FAM 226.3-2a, "The Interagency Rewards Committee on Terrorism Information."

⁸ Ibid.

⁹ 12 FAM 226.6-5(c), "Reviewing Rewards Proposals."

¹⁰ 12 FAM 226.6-5(d).

¹¹ 12 FAM 226.3-2d.

the Under Secretary for Management for approval.¹² Key information that the action memorandum must include follows:

- A summary of the indictment or incident and an analysis of the proposal.
- A recommendation as to the amount of the reward.
- A recommendation about necessary measures to protect the identity of the recipient or members of the recipient's family.
- The IRC vote tally, and as appropriate, any dissenting opinion(s) of the IRC members.

RFJ Reward Disbursement

The Secretary of State may authorize reward payments up to \$25 million, or higher, if he or she determines that an offer or payment of an award of a larger amount is necessary to combat terrorism or defend the nation against terrorist acts. Before paying a reward related to a matter over which there is Federal criminal jurisdiction, the Secretary of State "shall obtain the concurrence of the Attorney General."¹³ When a reward is approved by the Secretary of State or the Under Secretary for Management (for rewards of less than \$100,000), RFJ and M/EDCS make arrangements to pay the reward to the informant.¹⁴ RFJ sends to M/EDCS the approved action memorandum, as well as the letter of concurrence from the Attorney General, if applicable, requesting that M/EDCS transfer the funds to the nominating agency in cash or via wire transfer. In most cases, RFJ requests a funds transfer to the nominating agency. RFJ provides a blank receipt to the nominating agency for the reward recipient to sign upon delivery of the reward payment. The nominating agency then provides the reward funds to the reward recipient.¹⁵ When the reward payment reaches the recipient, the recipient must sign a receipt of payment. The nominating agency then returns the signed receipt to DS to serve as a record that the reward payment has been made.

RFJ Reward Reporting

The law authorizing the RFJ program requires that the Department provide two types of reports to Congressional committees:¹⁶

- Reports on payment of rewards - Not later than 30 days after the payment of any reward, the Secretary of State is required to submit a report to the appropriate congressional committees with respect to the reward. The report shall specify the amount of the reward paid, to whom the reward was paid, and the acts with respect to which the reward was paid. The report shall also discuss the significance of the information for which the reward was paid in dealing with those acts.

¹² The Secretary has delegated to the Under Secretary for Management the approval of rewards of less than \$100,000, subject to the concurrence of the Under Secretary for Political Affairs.

¹³ 22 U.S.C. §2708(c), Department of State rewards program, January 2012.

¹⁴ 12 FAM 226.6-7, "Reward Payment."

¹⁵ Rewards for Justice Standard Operating Procedure, February 2016.

¹⁶ 22 U.S.C. §2708, Department of State rewards program, January 2012.

- Annual reports - Not later than 60 days after the end of each fiscal year, the Secretary [of State] is required to submit a report to the appropriate congressional committees with respect to the operation of the rewards program. The report shall provide information on the total amount expended during the fiscal year, including amounts expended to publicize the availability of rewards.

The reports are submitted to Congress via the Department's document clearance process, which for these reports begins with DS and ends with the Bureau of Legislative Affairs.

AUDIT RESULTS

Finding A: DS Approved and Disbursed Reward Payments in Accordance With Federal Requirements and Department Guidance

OIG found that between FY 2013 and FY 2015, DS had approved and disbursed 19 RFJ reward payments totaling \$22.7 million in accordance with Federal requirements and Department guidance.

Title 22 of the United States Code¹⁷ provides criteria that must be considered to assess an RFJ reward nomination. The FAM¹⁸ also provides details on how the nomination review and approval process should be performed. As described previously, the IRC must recommend the reward and the amount to be paid, and the Secretary of State must approve the reward and the amount to be paid when the reward is a \$100,000 or more. As also noted previously, before paying a reward in a matter over which there is Federal criminal jurisdiction, the Secretary of State "shall obtain the concurrence of the Attorney General."¹⁹

OIG examined the RFJ case files for the 19 reward payments²⁰ made between FY 2013 and FY 2015 to determine whether approval requirements had been met. OIG tested the following attributes for compliance:

- Was the reward properly made on the basis of the criteria listed in 22 U.S.C. §2708(b)²¹?
- Did the IRC recommend the reward to the Secretary?
- Did the Secretary approve the reward and amount to be paid?
- Where applicable, did the Attorney General concur with the reward?

OIG reviewed the following documentation in each of the 19 RFJ case files:

¹⁷ 22 U.S.C. §2708(b), Department of State Rewards Program, January 2012.

¹⁸ 12 FAM 226.3, "Rewards Program for Information on Terrorism."

¹⁹ 22 U.S.C. §2708(c), Department of State rewards program, January 2012.

²⁰ See Appendix A: Purpose, Scope, and Methodology for details on testing.

²¹ 22 USC §2708, Department of State Rewards Program, January 2012.

- The action memorandum prepared for the Secretary to determine if the reward was made in accordance with the criteria detailed in 22 U.S.C. §2708(b).
- The IRC meeting decision to determine whether a majority of the IRC members voted in favor of recommending that the Secretary approve an award and, if so, in what amount.
- The action memorandum to the Secretary to determine whether to authorize the payment of an award and the amount thereof.
- If applicable, the memorandum from the Secretary seeking the Attorney General's concurrence with the Department's proposed reward payment to each designated recipient.
- If applicable, the Attorney General's letter of concurrence.

OIG found that the Department complied with the designated requirements for all 19 (100 percent) rewards reviewed. To verify that disbursements were made as authorized, OIG compared the amount of the reward payments recorded in the Department's accounting system with the reward amounts approved by the Secretary of State. OIG concluded that each of the 19 reward payments tested was disbursed through the applicable interagency partner in the amounts authorized. The program complied with Federal requirements and Department guidance because the RFJ program had implemented effective standard operating procedures to approve and disburse reward payments through interagency partners and maintained sufficient and adequate documentation that recorded the reward payment decisions and disbursements made.²²

Finding B: Reports to Congress Regarding Reward for Justice Program Activities Were Not Submitted in Accordance With Federal Requirements

OIG found that DS did not always report RFJ reward payments to Congress as required. Federal regulations²³ require that the Secretary of State submit a report to Congress no later than 30 days after a reward payment has been made. OIG found that DS failed to submit reports to Congress on 13 of 19 (68 percent) reward payments made between FY 2013 and FY 2015. In addition, for the 6 of 19 reward payments that were reported to Congress, the reports were submitted beyond the 30-day requirement, and the submissions ranged from 40 days to 74 days late. These reporting deficiencies occurred, in part, because of internal control weaknesses within DS and the Bureau of Legislative Affairs that prevented the timely review, clearance, and tracking of these time-sensitive reports to Congress. In addition, interagency partners involved with disbursing the rewards payment were often late in providing information needed to complete the reports. As a result, Congress did not always receive, or did not receive in a timely manner, information on sensitive RFJ reward payments.

²² OIG did not review the processes or documentation of the RFJ program interagency partners. However, representatives of interagency partners provided and validated signed payment receipts.

²³ 22 U.S.C. §2708(g)(1), Reports on payment of rewards.

Further, Federal regulations require that the Secretary of State submit an annual report to Congress on RFJ program activities, including the total operational costs of the program.²⁴ OIG found no evidence to suggest that the Department had ever prepared or submitted any such annual report regarding the RFJ program. According to RFJ program officials, they believed the quarterly reports submitted by M/EDCS, which included key aspects of the RFJ program, fulfilled this reporting requirement. However, although the quarterly M/EDCS reports included information on total expenditures for reward payments and costs associated with publicizing the program, these reports did not include other operating expenditures such as payroll and travel. OIG estimates that these constitute approximately 10 percent^{25, 26} of total program expenditures. Because the Department has not submitted the required annual report to Congress, members of Congress have not had the opportunity to review the total annual operating costs of the RFJ program.

Reports on Payment of Rewards

The RFJ program's authorizing legislation²⁷ states: "Not later than 30 days after the payment of any reward under this section, the Secretary shall submit a report to the appropriate congressional committees²⁸ with respect to such reward. The report ... shall specify the amount of the reward paid, to whom the reward was paid, and the acts with respect to which the reward was paid. The report shall also discuss the significance of the information for which the reward was paid, in dealing with those acts." OIG found that of the 19 reward payments made between FY 2013 and FY 2015, the Department did not provide required reports to Congress for 13 payments (68 percent).²⁹ Of the 19 reward payments made during these three fiscal years, 6 were reported to Congress, but none of the reports were provided to Congress within 30 days, as required. On average, the reports to Congress regarding the 6 rewards were submitted approximately 60 days late. The report submissions ranged from 40 days to 74 days late.

OIG determined that one reason the reports were not provided to Congress, or were not provided in a timely manner, was internal control weaknesses within DS and the Bureau of Legislative Affairs that prevented the timely review, clearance, tracking, and submission of time-

²⁴ 22 U.S.C. §2708(g)(2), Annual reports.

²⁵ To obtain this number, OIG aggregated the estimated salaries and RFJ operating expenditures for the audit scope period, FYs 2013 through 2015, on the basis of estimates provided by the RFJ lead coordinator. OIG then added this total, which had not been reported to Congress, to the amount of RFJ reward payments and advertising expenses paid during the scope period—FYs 2013 through 2015. All RFJ reward payments and advertising expenses were reported to Congress through the K Fund quarterly reports. The total of these two figures—the amount that had been reported to Congress and the amount that had not—became the estimate of RFJ's total expenditures. OIG then divided the total not reported (salaries and other operating expenditures) by the estimate of RFJ's total expenditures.

²⁶ Congress provides the Department of State funding through the Emergencies in the Diplomatic and Consular Service appropriation, which is called the K Fund.

²⁷ 22 U.S.C. §2708(g)(1), Reports on payment of rewards.

²⁸ The House Committee on International Relations and the Senate Committee on Foreign Relations.

²⁹ After OIG notified DS about the 13 reward payments that had not been reported to Congress, DS and the Bureau of Legislative Affairs took prompt steps to finalize and submit the outstanding reports.

sensitive RFJ reports for Congress. Specifically, OIG found that a complex clearance process hindered the timely submission of these reports. For example, the RFJ standard operating procedure identifies four offices within DS—the Office of Protective Intelligence Investigation, the Threat Investigations and Analysis Directorate, the Office of Diplomatic Security Service, and the DS Front Office—and six additional bureaus and offices outside DS—the Office of the Legal Adviser, the Office of the Under Secretary for Management, M/EDCS, the Bureau of Counterterrorism and Countering Violent Extremism, the Bureau of Public Affairs, and the Bureau of Legislative Affairs—that must review and approve the reports before they can be transmitted to Congress. OIG noted several instances in which reports were misplaced or overlooked by bureaus or offices during the clearance process. DS officials stated that DS has an internal SharePoint “due date tracker” that it uses to track certain requests. However, this tool was not used to track the status of required RFJ reports to Congress until December 2016.³⁰ Without effective internal controls to review, clear, track, and submit time-sensitive RFJ reports for Congress, RFJ reports intended to inform Congress of RFJ reward payments as well as the significance of the information obtained pertaining to the RFJ reward may be overlooked or not provided in a timely manner.

In addition, nominating agencies involved with disbursing the reward payments were often late in providing information needed to complete the reports. When nominating agencies disburse funds to a reward recipient, the RFJ program requires that a representative of the nominating agency obtain the recipient’s signature on a receipt. After obtaining the reward recipient’s signature on the receipt, the nominating agency is responsible for providing the signed receipt to the RFJ program. Because of the circumstances surrounding these payments, it can take a considerable amount of time before a receipt is provided to RFJ. RFJ has no control over these delays. Nevertheless, RFJ officials acknowledged that they have not implemented a process to follow up with the partner agency on the status of the receipts.

Recommendation 1: OIG recommends that the Bureau of Diplomatic Security, in conjunction with the Bureau of Legislative Affairs, (a) identify the detailed steps and action entities needed to prepare and submit reports on reward payments made within 30 days of the payment of such rewards; (b) determine the amount of time for each step, including the amount of time the Bureau of Legislative Affairs needs to finalize and send each report to Congress; and (c) redesign the flow and processes to meet the 30-day reporting requirement.

Management Response: DS concurred with this recommendation, stating that DS and the RFJ program had reached an agreement that RFJ will draft reports to Congress regarding reward payment nominations prior to approval by the Secretary of State. “These reports will be cleared using DS’s standard clearance process, receive all appropriate clearances up to and including the DS Front Office, and will be held by the DS Congressional Affairs section.” Once the Secretary approves the reward (and the Attorney General concurs, where appropriate), a transfer of funds to the nominating

³⁰ A DS official stated that DS began using an internal SharePoint repository for routing and approving the RFJ reports in late 2016.

agency will be made, and finally the signed payment receipt will be delivered to the RFJ Program indicating that the reward recipient has been paid. The RFJ Reward Payment report will then be forwarded by the DS Congressional Affairs section to the Bureau of Legislative Affairs for final review and submission to the appropriate committees of Congress.

OIG Reply: OIG considers this recommendation resolved, pending further action. However, although DS concurred with the recommendation and has identified certain actions it will be implementing to address the intent of the recommendation—developing and implementing a process that meets the 30-day reporting requirement—it gives no indication of expected milestones or estimates of how long the various steps will take. This information is necessary to show that these actions are likely to help meet the 30-day requirement. For example, there is no information explaining how much time will be provided for the Secretary of State and Attorney General to approve/concur on each proposal, as appropriate, and, most significantly, there is no information explaining how long it will take to obtain the recipient's signed receipt back from the nominating agency. This recommendation will be closed when OIG receives and accepts documentation demonstrating that DS has (a) identified the detailed steps and action entities needed to prepare and submit reports on reward payments made within 30 days of the payment of such rewards; (b) determined the amount of time for each step, including the amount of time the Bureau of Legislative Affairs needs to finalize and send each report to Congress; and (c) redesigned the flow and processes to meet the 30-day reporting requirement. If the recommendation is not implemented by the time of DS' response to the final report, OIG requests that the response include a detailed corrective action plan, including milestones, for meeting the intent of the recommendation.

Recommendation 2: OIG recommends that the Bureau of Diplomatic Security (a) develop and implement a process to follow up with the nominating agencies on the status of the reward payment receipts to help expedite the submittal of Reward Payment Reports within the mandated 30-day reporting timeline and (b) consider entering into formal agreements (that is, Letters of Agreement) with the nominating agencies to strengthen the joint commitments toward timely submissions of reports to Congress.

Management Response: DS concurred with this recommendation, stating that RFJ routinely follows up with the nominating agency regarding the status of payments to sources as well as verifying that the agency will ensure the mandatory receipt will be signed at the time of payment and returned to the RFJ program for its records. Additionally, DS stated that RFJ has begun internal discussions to identify potential ways to expedite the submission of signed receipts by the nominating agency. RFJ will meet with the M/EDCS K Fund Manager as well as the managers of the Department's other three rewards programs (the Narcotics Rewards Program, the Transnational Organized Crime Rewards Program, and the War Crimes Rewards Program) to discuss best practices.

OIG Reply: On the basis of DS's concurrence with the recommendation and actions planned, OIG considers this recommendation resolved, pending further action. OIG notes, however, that although DS states that RFJ "routinely follows up with the nominating agency" regarding both the status of payments to sources and to verify that the agency will ensure return of the receipt, OIG found no evidence during the audit that RFJ actually had followed up with nominating agencies on the status of reward payment receipts. Moreover, as reported in the Audit Results section of this report, if follow-up with the nominating agencies had occurred, it was not successful in expediting the submittal of Reward Payment Reports within the mandated 30-day reporting timeline. OIG believes that if DS developed a process, as recommended, it would assist in DS's follow-up efforts.

This recommendation will be closed when OIG receives and accepts documentation demonstrating that DS has (a) developed and implemented a process to follow up with the nominating agencies on the status of the reward payment receipts to help expedite the submittal of Reward Payment Reports within the mandated 30-day reporting timeline and (b) considered entering into formal agreements (that is, Letters of Agreement) with the nominating agencies to strengthen the joint commitments toward timely submissions of reports to Congress.

Annual Reports

The law authorizing the RFJ program³¹ states that "[n]ot later than 60 days after the end of each fiscal year, the Secretary shall submit a report to the appropriate congressional committees with respect to the operation of the rewards program. The report shall provide information on the total amounts expended during the fiscal year ending in that year to carry out this section, including amounts expended to publicize the availability of rewards." OIG found no evidence that any of the required annual reports had ever been prepared or submitted. According to RFJ program officials, they believed the quarterly reports submitted by M/EDCS on the costs related to the Emergencies in the Diplomatic and Consular Service appropriation³² (which included RFJ reward payments and advertising costs) fulfilled this reporting requirement. However, although the M/EDCS quarterly reports included information on reward payments and expenditures for advertising, they did not include other operating expenditures such as payroll and travel.³³ OIG estimates that these other operating expenditures constitute approximately 10 percent of the total program operating expenditures. OIG also estimates that during the 3-year audit scope (FYs 2013–2015) the RFJ program spent approximately \$2.7 million to support and administer \$22.7 million of reward payments.

One reason that the required annual reports regarding the RFJ program have not been submitted to Congress is because RFJ officials misunderstood the reporting requirements. According to the RFJ lead coordinator, when the RFJ program was created in 1984, it did not

³¹ 22 U.S.C. §2708(g)(2), Annual reports.

³² The funds used to provide the RFJ rewards come from this appropriation.

³³ These costs are not paid from the Emergencies in the Diplomatic and Consular Service appropriation.

have a dedicated office or staff and operated largely on an ad hoc basis. At that time, the only expenses clearly identifiable for the RFJ program were the reward payments and the advertising expenses, both of which were paid for—and reported quarterly to Congress—by M/EDCS. In 2004, the RFJ lead coordinator was hired, and a staff was later brought in to support the RFJ program. Despite these operational changes and new expenditures, M/EDCS continued to report the same information. Consequently, the RFJ program was not reporting to Congress the additional expenditures that it incurred—payroll, travel, and other miscellaneous operating expenses.

Possible Duplicative Reporting Requirements

In May 2012, in response to a law that requested that the Department identify congressionally mandated reports that were candidates for consolidation because they substantially duplicated other reports,³⁴ the Bureau of Legislative Affairs submitted a report to Congress stating that it viewed the RFJ-related portions of the M/EDCS quarterly reports as being duplicative of the required annual rewards program report. OIG discussed this matter with M/EDCS officials and was told that the quarterly reports generated by M/EDCS are not, in fact, entirely duplicative, as the quarterly reports are confined to Emergencies in the Diplomatic and Consular Service appropriation activities and that consequently, the other expenditures made by the RFJ Program office would not be included. When OIG shared this information with the RFJ lead coordinator, she acknowledged that if, expenses such as payroll, travel, and other miscellaneous operating expenses must be included in the annual report, the RFJ program would also develop the required annual reports and submit them to Congress in coordination with M/EDCS. Because the Department did not provide annual reports to Congress containing complete information on the costs of the RFJ program, members of Congress have not had the opportunity to review the total annual operational expenditures for the program.

Recommendation 3: OIG recommends that the Bureau of Diplomatic Security, in coordination with the Bureau of Legislative Affairs, establish and implement a process to (a) identify the expenses necessary to operate the Rewards for Justice Program, (b) compile and accumulate data on operating expenses annually, (c) prepare the annual report, and (d) submit the report to the Bureau of Legislative Affairs within timeframes as agreed to by the Bureau of Legislative Affairs to meet the requirement to submit the annual report no later than 60 days after the end of each fiscal year.

Management Response: DS concurred with this recommendation, stating that RFJ will work with both M/EDCS and the Directorate for Threat Investigations and Analysis to create an annual report to capture reward payments, advertising costs, and operational expenses, including payroll and travel. “This report will be drafted by the RFJ Coordinator, cleared through DS, and sent to the Bureau of Legislative Affairs for

³⁴ Public Law 112-74, Consolidated Appropriations Act, §7034(g), Consolidation of Reports.

submission to the appropriate Congressional committees no later than 60 days following the end of each fiscal year.”

OIG Reply: Based on DS’s concurrence with the recommendation and actions planned, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that DS has established and implemented a process to (a) identify the expenses necessary to operate the RFJ Program, (b) compile and accumulate data on operating expenses annually, (c) prepare the annual report, and (d) submit the report to the Bureau of Legislative Affairs within timeframes as agreed to by the Bureau of Legislative Affairs to meet the requirement to submit the annual report no later than 60 days after the end of each fiscal year.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Diplomatic Security, in conjunction with the Bureau of Legislative Affairs, (a) identify the detailed steps and action entities needed to prepare and submit reports on reward payments made within 30 days of the payment of such rewards, (b) determine the amount of time for each step, including the amount of time the Bureau of Legislative Affairs needs to finalize and send each report to Congress, and (c) redesign the flow and processes to meet the 30-day reporting requirement.

Recommendation 2: OIG recommends that the Bureau of Diplomatic Security (a) develop and implement a process to follow up with the nominating agencies on the status of the reward payment receipts to help expedite the submittal of Reward Payment Reports within the mandated 30-day reporting timeline and (b) consider entering into formal agreements (i.e., Letters of Agreement) with the nominating agencies to strengthen the joint commitments toward timely submissions of reports to Congress.

Recommendation 3: OIG recommends that the Bureau of Diplomatic Security, in coordination with the Bureau of Legislative Affairs, establish and implement a process to (a) identify the expenses necessary to operate the Rewards for Justice Program, (b) compile and accumulate data on operating expenses annually, (c) prepare the annual report, and (d) submit the report to the Bureau of Legislative Affairs within timeframes as agreed to by the Bureau of Legislative Affairs to meet the requirement to submit the annual report no later than 60 days after the end of each fiscal year.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) approved, disbursed, and accurately reported to Congress Rewards for Justice (RFJ) program reward payments in accordance with Federal requirements and Department guidance. The scope period for this audit was FYs 2013 through 2015.

OIG conducted this audit from November 2016 to March 2017 in the Washington, DC, metropolitan area. 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 objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

OIG researched and reviewed Federal laws and regulations relating to the RFJ program, such as the Foreign Affairs Manual (FAM) and the Foreign Affairs Handbook. OIG also interviewed individuals from various bureaus and offices, including the Bureau of Diplomatic Security, the Bureau of Legislative Affairs, and the Office of Emergencies in the Diplomatic and Consular Service within the Office of the Under Secretary for Management. To obtain information regarding the activities of the Interagency Rewards Committee on Terrorism Information, OIG interviewed individuals from the Office of the Legal Adviser, the Department of Defense, the Department of Homeland Security, the National Counterterrorism Center, and the National Security Agency.

Prior Reports

In a 2011 audit report,¹ OIG reported that, in general, expenditures from the Office of Emergencies in the Diplomatic and Consular Service were made in accordance with authorizing legislation. Specifically, OIG found that rewards program expenditures tested, of which the RFJ reward payments and advertising expenses are a part, were all appropriately approved and that documentation supporting the expenditures was sufficient.

Use of Computer-Processed Data

During this audit, OIG received a list of RFJ reward payments from the RFJ lead coordinator. To verify the completeness and accuracy of this list, OIG used electronically processed data from the Global Financial Management System (GFMS) and traced the data from the source documents maintained in the RFJ program office's files to the list. OIG found no discrepancies between the GFMS data and the RFJ records reviewed. OIG determined that the GFMS data were sufficiently reliable for the purposes of this report.

¹ OIG, *Audit of Expenditures from the Department of State Emergencies in the Diplomatic and Consular Service Appropriation* (AUD-FM-11-29, August 2011).

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited by first gaining an understanding of the control processes and control activities used to support the program. For example, OIG reviewed the RFJ standard operating procedures and FAM guidance relating to the RFJ program. Further, OIG met with RFJ program officials to obtain information. OIG used this information to develop procedures to test selected controls over the RFJ program. Specifically, OIG tested reward approval, reward disbursement,² and reporting processes for the RFJ program. The purpose of these tests was to verify that controls existed, were being used, and were effective. OIG's conclusions regarding internal controls are presented in the Audit Results section of this report.

RFJ Reward Payments Selected for Review

To achieve the audit objective and determine whether Department officials accurately approved and disbursed reward payments in accordance with Federal requirements and Department guidance, OIG selected and reviewed reward payments made during FY 2013 through FY 2015.³ The universe was identified as 19 reward payments made during the audit scope period. The universe was examined at 100 percent. OIG reviewed the RFJ case files supporting the 19 reward payments. Table A.1 lists the RFJ reward payments reviewed and the associated reward amounts.

Table A.1: RFJ Reward Payments Reviewed

Reward Payment(s) Per Date*	Number of Reward Payments	Total Amount of Reward Payment(s) Per Date
Payments 1-5	5	\$5,000,000
Payment 6	1	\$10,000
Payment 7	1	\$1,000,000
Payments 8-10	3	\$3,000,000
Payments 11-13	3	\$3,000,000
Payments 14-15	2	\$2,000,000
Payments 16-17	2	\$6,000,000
Payment 18	1	\$700,000
Payment 19	1	\$2,000,000
Total	19	\$22,710,000

*Because of classification, the actual dates are not listed.

Source: OIG generated on the basis of information from case files provided by RFJ Program officials and disbursement information from the Global Financial Management System.

² With respect to reward disbursement, OIG limited its review of reward disbursements to confirming reward payments had been made to the nominating agency, but it did not review of the nominating agency's payment process to the individual reward recipient.

³ OIG selected this period in order to ensure that it reviewed the entire payment approval process for each reward. Though an award may be approved during a certain fiscal year, it may take months or years before the money is actually paid to the reward recipient because of safeguards to ensure the identity of the recipient is not compromised.

APPENDIX B: BUREAU OF DIPLOMATIC SECURITY MANAGEMENT RESPONSE



United States Department of State

Washington, D.C. 20520

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June 30, 2017

INFORMATION MEMO TO INSPECTOR GENERAL LINICK - OIG

FROM: DS – Bill A. Miller, Acting  JUN 30 2017

SUBJECT: Bureau of Diplomatic Security response to the Office of Inspector General (OIG) Audit of the Process to Approve, Disburse, and Report Rewards for Justice Payments (AUD-SI-17-XX), June 2017

Below is the Bureau of Diplomatic Security's response to recommendations 1-3 of the subject report.

Recommendation 1: OIG recommends that the Bureau of Diplomatic Security, in conjunction with the Bureau of Legislative Affairs, (a) identify the detailed steps and action entities needed to prepare and submit reports on reward payments made within 30 days of the payment of such rewards, (b) determine the amount of time for each step, including the amount of time the Bureau of Legislative Affairs needs to finalize and send each report to Congress, and (c) redesign the flow and processes to meet the 30-day reporting requirement.

DS Response (6/30/2017): DS concurs with Recommendation 1. The Congressional Affairs section of the Bureau of Diplomatic Security (DS) and the Rewards for Justice (RFJ) program have reached an agreement as follows: RFJ will draft Reports to Congress prior to approval by the Secretary of State of reward payment nominations. These reports will be cleared using DS's standard clearance processes, receive all appropriate clearances up to and including the DS Front Office, and will be held by the DS Congressional Affairs section. DS Congressional Affairs will forward RFJ's Report to Congress to the Bureau of Legislative Affairs for review and submission to the appropriate Congressional committees once the following three steps have occurred:

1. Approval by the Secretary of State (and Attorney General concurrence when appropriate);
2. Transfer of the funds from the Office of Emergencies in the Diplomatic and Consular Service (M/EDCS) to the nominating agency; and

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3. Delivery to the RFJ Program of a signed receipt indicating the source has been paid.

Recommendation 2: OIG recommends that the Bureau of Diplomatic Security (a) develop and implement a process to follow up with the nominating agencies on the status of the reward payment receipts to help expedite the submittal of Reward Payment Reports within the mandated 30-day reporting timeline and (b) consider entering into formal agreements (i.e., Letters of Agreement) with the nominating agencies to strengthen the joint commitments toward timely submissions of reports to Congress.

DS Response (6/30/2017): DS concurs with Recommendation 2 (a). Note that RFJ routinely follows up with the nominating agency by e-mail and phone regarding the status of payment to sources, verifying that the agency will ensure the mandatory receipt will be signed at the time of payment and returned to the RFJ program for its records. As a follow-up to the OIG audit report, RFJ has begun internal discussions to identify potential ways to expedite the submission of signed receipts by the nominating agency to the RFJ program. RFJ will meet with M/EDCS K Fund Manager as well as the managers of the other three rewards programs at the Department of State (Narcotics Rewards Program, Transnational Organized Crime Rewards Program, and the War Crimes Rewards Program) to discuss best practices. With regard to Recommendation 2 (b), RFJ will consider the OIG's recommendation and discuss with the above offices and programs.

Recommendation 3: OIG recommends that the Bureau of Diplomatic Security, in coordination with the Bureau of Legislative Affairs, establish and implement a process to (a) identify the expenses necessary to operate the Rewards for Justice program, (b) compile and accumulate data on operating expenses annually, (c) prepare the annual report, and (d) submit the report to the Bureau of Legislative Affairs within timeframes as agreed to by the Bureau of Legislative Affairs to meet the requirement to submit the annual report no later than 60 days after the end of each fiscal year.

DS Response (6/30/2017): DS concurs with Recommendation 3. RFJ will work with both M/EDCS and with the Directorate for Threat Investigations and Analysis (DS/TIA) to create an annual report to capture reward payments, advertising costs, and operational expenses, to include payroll and travel. This report will be drafted by the RFJ Coordinator, cleared through DS, and sent to the Bureau of Legislative Affairs for submission to the appropriate Congressional committees no later than 60 days following the end of each fiscal year.

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Approved: DS – Bill A Miller

Analyst: DS/MGT/PPD – **Nicole Owens, 5-9933**

Drafted: DS/TIA/PII/ILD/RFJ – **Rachel Schindel Gombis, 5-2952**

Cleared: DS/DSS – C. Schurman (ok)
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DS/MGT/PPD – M. Scherger (ok)
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DS/TIA – K.Rice (ok)
DS/TIA/PII – M.Sullo (ok)
DS/TIA/PII/ILD – S.Banker (ok)
M – DWinters (ok)
M/EDCS – FGidez (ok)
H – KHom (ok)

ABBREVIATIONS

DS	Bureau of Diplomatic Security
FAM	Foreign Affairs Manual
GFMS	Global Financial Management System
IRC	Interagency Rewards Committee on Terrorism Information
M/EDCS	Office of the Under Secretary for Management, Office of Emergencies in the Diplomatic and Consular Service
RFJ	Rewards for Justice

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