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

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Audit of Department of State FY 2015 Compliance With Improper Payments Requirements

FINANCIAL MANAGEMENT DIVISION

May 2016
OFFICE OF AUDITS
Financial Management Division

OIG HIGHLIGHTS

AUD-FM-16-38

Audit of Department of State FY 2015 Compliance With Improper Payments Requirements

What Was Audited

In FY 2015, improper Federal payments Government-wide totaled approximately $137 billion. The Improper Payments Information Act (IPIA), as amended, requires Federal agencies to annually identify programs and activities at high risk of improper payments and estimate the amount of improper payments, among other requirements. In addition, inspectors general are required to annually determine whether an agency is in compliance with improper payments requirements.

Acting on behalf of the Office of Inspector General (OIG), Kearney & Company, P.C. (Kearney), an independent certified public accounting firm, conducted this audit to determine whether the Department of State (Department) was in compliance with IPIA, as amended.

What OIG Recommends

In its May 2015 report *Audit of Department of State FY 2014 Compliance With Improper Payments Requirements* (AUD-FM-15-26), OIG made two recommendations to address the deficiencies identified during the audit. At the conclusion of fieldwork for this audit, both recommendations remained open. Because the recommendations have not been implemented and the findings in this report have not significantly changed, OIG is not making new recommendations but will continue to track the Department's implementation of the recommendations made previously through its audit compliance process.

The Department's comments are included in this report as Appendix B.

What Was Found

Kearney found that the Department was in compliance with improper payments requirements for FY 2015, as presented in Table 1.

Table 1: Compliance with Improper Payment Criteria

Improper Payment Criteria	Compliance
Conducted Risk Assessment	Yes
Published Agency Financial Report	Yes
Published Estimate	Not applicable*
Published Corrective Actions	Not applicable*
Published and Met Reduction Targets	Not applicable*
Published Error Rate Less than 10 percent	Not applicable*

* These requirements apply only to agencies that have identified programs susceptible to significant improper payments.
Source: Kearney prepared using criteria from Office of Management and Budget (OMB) Circular A-123, Appendix C.

Kearney found that the Department performed the required program risk assessments in FY 2015. Specifically, the Bureau of the Comptroller and Global Financial Services (CGFS) evaluated whether or not each program subject to IPIA, as amended, had a significant legislative or funding change and performed a risk assessment, as appropriate, for each program using criteria defined by OMB. Although the Department conducted the required risk assessments for programs that experienced a significant change in funding, it could have improved its process by considering other factors as well, such as percentage change in funding. By not considering additional factors, the Department may not have identified all programs that had increased risks of improper payments because of increased funding.

In addition, the Department published its FY 2015 Agency Financial Report (AFR) on its website and that the AFR included the required improper payments disclosures. Although the AFR included the required disclosures, one disclosure was incomplete. Specifically, CGFS did not disclose the complete amount of improper payments recaptured outside its payment recapture audit activities. By not including complete information in its AFR, the Department was not providing users with complete information about its efforts related to improper payments.

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Audit of Department of State FY 2015 Compliance With Improper Payments Requirements

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney), has performed an audit of the Department of State FY 2015 Compliance With Improper Payments Requirements. This performance audit, performed under Contract No. SAQMMA14A0050, was designed to meet the objectives identified in the report section titled "Objectives" and further defined in Appendix A, "Purpose, Scope, and Methodology," of the report.

Kearney conducted this performance audit from January through March 2016 in accordance with *Government Auditing Standards*, 2011 Revision, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of Kearney's performance audit.

Kearney appreciates the cooperation provided by personnel in Department of State offices during the audit.

Kearney & Company

Kearney & Company, P.C.
Alexandria, Virginia
May 2, 2016

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OBJECTIVE

The objective of this audit was to determine whether the Department of State (Department) was in compliance with the Improper Payments Improvement Act of 2002[1] (IPIA), as amended, for FY 2015. To accomplish this objective, Kearney & Company, P.C. (Kearney), acting on the Office of Inspector General's (OIG) behalf, evaluated whether the Department conducted a program-specific risk assessment for all programs covered by Office of Management and Budget (OMB) requirements and reviewed the Department's FY 2015 Agency Financial Report (AFR) to determine whether the Department complied with improper payments reporting requirements.

BACKGROUND

According to the Department of the Treasury, improper Federal payments Government-wide totaled approximately $137 billion in FY 2015.[2] Improper payments are payments that should not have been made or that were made in an incorrect amount. Improper payments include overpayments and underpayments, duplicate payments, payments made to an ineligible recipient, payments for an ineligible good or service, payments for goods or services not received (except for such payments authorized by law), payments that do not account for credit for applicable discounts, and payments for which an agency cannot determine whether the payments were proper because of insufficient or lack of supporting documentation.

The Federal Government has implemented safeguards to reduce improper payments. In 2002, Congress enacted IPIA, which required Federal agencies to annually identify programs and activities[3] at high risk of improper payments, estimate the amount of improper payments in those programs, perform recovery auditing if program payments exceeded $500 million, and report to Congress on steps taken to reduce improper payments.

In July 2010, the Improper Payments Elimination and Recovery Act[4] (IPERA), which amended IPIA, was signed into law. IPERA strengthened IPIA by increasing requirements for identifying and reporting on improper payments. IPERA clarified the programs to be reviewed and expanded improper payments recapture activities. IPERA also required inspectors general to annually determine whether an agency was in compliance with improper payments requirements and established additional requirements for agencies that were deemed noncompliant.

In January 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012[5] (IPERIA) was enacted. IPERIA further amended IPIA by redefining "payment" to include payments

[1] Pub. L. No. 107-300.

[2] "About Improper Payments" at <https://paymentaccuracy.gov/about-improper-payments>, accessed on March 28, 2016.

[3] The terms "program and activity" are referred to in this report as "program."

[4] Pub. L. No. 111-204.

[5] Pub. L. No. 112-248.

made to employees and requiring that OMB identify high-priority Federal programs for greater levels of oversight and review,[6] provide guidance to agencies for improving estimates of improper payments, and establish a working system for prepayment and pre-award review. In October 2014, OMB issued guidance for agencies implementing IPIA, IPERA, and IPERIA requirements as Appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments," of OMB Circular A-123, "Management's Responsibility for Internal Control." The guidance, among other things, defines the programs and payments that agencies must assess for the risk of improper payments, and it provides requirements for determining whether the risk of improper payments is significant, for developing an estimate of improper payments, for performing recapture audit activities, and for reporting improper payments activities.

Department of State Payments

The Department is the primary agency through which the U.S. Government conducts its diplomacy. The Department operates more than 270 embassies, consulates, and other posts worldwide. The Department provides policy guidance, program management, administrative support, and in-depth expertise in areas such as law enforcement, economics, the environment, intelligence, arms control, human rights, counternarcotics, counterterrorism, public diplomacy, humanitarian assistance, security, nonproliferation, and consular services.

Because of the nature and the extent of its programs, the Department makes significant payments to third-party vendors, contractors, grantees, and employees. During FY 2015, the Department made payments of approximately $33.8 billion, of which payments of $26.5 billion were subject to IPIA[7] requirements.[8] The payments subject to IPIA requirements included payments to vendors and contractors; payments to employees; and Federal Financial Assistance payments, including grants, assessed contributions,[9] and voluntary contributions.[10] The amount and volume of payments made by the Department, the Department's emphasis on expediting certain payments (for example, payments for necessary foreign financial assistance), and the decentralized nature of the Department's operations increase the Department's risk for improper payments.

The Bureau of the Comptroller and Global Financial Services (CGFS) has oversight responsibilities for the Department's financial management program. Financial management program responsibilities include establishing financial policy and procedure, analyzing and reporting financial information, managing financial information systems, and establishing management

[6] The Department of State does not have any high-priority programs, as identified by OMB.

[7] Unless otherwise indicated, the term "IPIA" implies "IPIA as amended by IPERA and IPERIA" in this report.

[8] OMB Circular A-123, Appendix C, states that agencies are not obligated to review intra-governmental transactions for improper payments unless directed to do so by OMB. Of the $33.8 billion in Department payments, payments of approximately $7.3 billion were intra-Governmental and intra-Departmental transactions.

[9] Assessed contributions represent assistance provided to foreign countries, international societies, commissions, or proceedings or to projects that are lump sum, quota of expenses, or fixed by treaty.

[10] Voluntary contributions represent discretionary financial assistance provided to foreign countries, international societies, commissions, proceedings, or projects.

controls. Management controls, also known as "internal controls," are the processes designed and implemented by an organization to help it accomplish its goals or objectives. Important internal control activities include those aimed at ensuring that only proper payments are made. Within CGFS, the Office of Management Controls (CGFS/MC) is responsible for overseeing the Department's management control program and other financial management functions, such as administering compliance with IPIA.

AUDIT RESULTS

Kearney found that the Department complied with improper payments requirements.[11] Specifically, the Department conducted risk assessments on programs that experienced a significant change in funding, which was all that was required for FY 2015. Although the Department conducted the required risk assessments for programs that experienced a significant change in funding, it could have improved its process by considering other factors as well, such as percentage change in funding. In addition, the Department published its AFR[12] for FY 2015 and posted the AFR on the Department's website. The AFR included the disclosures required by OMB. Although the Department included all required disclosures, one disclosure relating to improper payments recovered outside the Department's recapture audit process was incomplete.

Finding A: Required Program Risk Assessments Were Performed, but Methodology Could Be Refined

IPIA requires agencies to periodically review all programs and identify those that may be susceptible to significant improper payments. OMB Circular A-123, Appendix C, requires that agencies perform risk assessments for programs deemed low risk of having significant improper payments at least every 3 years. However, agencies are required annually to consider whether significant changes to either legislation or funding would affect each program's risk susceptibility.

The Department performed the required program risk assessments in FY 2015. Specifically, CGFS/MC evaluated whether each program subject to IPIA had a significant legislative or

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[11] OMB Circular A-123, Appendix C, identifies six requirements that agencies must meet to be compliant with improper payment requirements: (1) conduct a program specific risk assessment for each program; (2) publish an AFR for the most recent fiscal year and post the report and accompanying materials required by OMB to the agency website; (3) publish improper payment estimates for all programs identified as susceptible to improper payments, if required; (4) publish programmatic corrective actions plans in the AFR, if required; (5) publish and meet annual reduction targets for each program at risk for improper payments, if required; and (6) report a gross improper payment rate of less than 10 percent for each program for which an improper payment estimate was obtained and published in the AFR. Requirements 3 through 6 apply to agencies that have identified programs susceptible to significant improper payments in the year after a significant risk program has been identified. The Department has not identified any programs susceptible to significant improper payments. Therefore, only Requirements 1 and 2 apply to the Department.

[12] Federal agencies may publish their financial statements in either an AFR or a Performance Accountability Report. The Department has elected to use the AFR format.

funding change, identified programs requiring improper payments risk assessments, and performed a risk assessment for each program using criteria defined by OMB.[13] However, CGFS did not consider additional factors in determining which programs had significant funding changes, including, at a minimum, the percentage increase of the change. By not considering additional factors, the Department may not have identified all programs that had increased risks of improper payments because of increased funding.

Programs Requiring a Risk Assessment Were Identified

Of the 43 programs subject to IPIA requirements, CGFS/MC identified six programs requiring improper payments risk assessments in FY 2015, which were selected due to significant changes in funding.[14] CGFS/MC defined a significant change in funding as an increase in expenditures of $100 million or more at the program level from the previous year. Programs for which CGFS/MC performed risk assessments are listed in Table 1, along with their FY 2014 and FY 2013 expenditures.

Table 1: Programs With Risk Assessments in FY 2015

Fund Group	Program	FY 2014 Amount[a]	FY 2013 Amount[a]	Change
Multiple[b]	Voluntary Contributions	$3,099,451,788	$2,131,900,710	$967,551,078
	Assessed Contributions	$3,471,990,423	$3,043,761,981	$428,228,442
0113	Machine Readable Visas	$657,103,761	$516,266,174	$140,837,587
0113	Security – Afghanistan, Pakistan	$427,266,608	$155,901,460	$271,365,148
4519	International Cooperative Administrative Support Services	$1,276,663,129	$1,169,163,389	$107,499,740
0535	Unimproved Land	$148,518,489	$10,025,806	$138,492,683

[a] These amounts represent the expenditures subject to IPIA requirements and therefore do not include payments made to other Federal agencies.
[b] Although these activities support several significant programs across multiple funds, CGFS determined that each activity has the same control environment and concluded that it was appropriate to assess the activities as separate programs.
Source: Generated by Kearney based on information contained in the Department's "Definitions of Programs and Activities Memo."

[13] The Department performed risk assessments of all programs in FY 2013. Based on the results of those assessments, the Department identified all of its programs to be at low or moderate risk of significant improper payments. In accordance with requirements in OMB Circular A-123, Appendix C, FY 2014 and FY 2015 were interim years for assessing risk, which require only assessment of significant changes; the Department is required to perform full risk assessments of all of its programs in FY 2016.

[14] CGFS also reviewed the Congressional Budget Justification to identify existing programs that had significant legislative changes, as well as the Secretary of State's statements in the Congressional Budget Justifications, to identify changes in the Department's emphasis or focus that would significantly impact existing programs. Based on its review, CGFS/MC concluded that no programs experienced a change in legislation significant enough to require that an improper payments risk assessment be performed in FY 2015.

Although the process met OMB requirements, the method CGFS/MC used to identify existing programs with significant funding changes could be improved. Specifically, the use of a $100 million expenditure increase threshold did not take into account the relative size of a program and the extent to which an increase in funding of less than $100 million may affect the program's operations. For example, a program that had expenditures of $101 million in year one and experienced an increase in expenditures of $99 million (98 percent) in year two would not meet the $100 million threshold. Therefore, that program would not be identified as a program with significant funding changes, which would require a risk assessment. A program that experiences such a significant percentage increase in spending may not have the resources or control structure in place to adequately handle the increased activity. Thus the program may be at higher risk for making improper payments.

The report on the Department's FY 2014 compliance with IPIA[15] identified a recommendation to address this deficiency; consequently, OIG is not making a new recommendation in this report. The recommendation and the status of the recommendation are as follows:

Recommendation 1 (AUD-FM-15-26). *OIG recommends that the Bureau of the Comptroller and Global Financial Services expand its process to identify programs with significant funding changes to consider additional factors that may increase the risk of significant improper payments, including, at a minimum, the percentage increase of the change.*

Status and OIG Reply (as of March 2016, AUD-FM-15-26). *Unresolved. CGFS stated in its response to AUD-FM-15-26 final report that it concurred with the recommendation. However, it also stated that it may decide not to implement the recommendation. In addition, CGFS has not provided OIG with an alternative solution that meets the intent of the recommendation. This recommendation will be resolved when CGFS completes its evaluation and notifies OIG that it will take action to implement the recommendation and closed when OIG receives and accepts documentation showing that CGFS has expanded its process to identify programs with significant changes to consider additional factors.*

CGFS/MC officials stated during this year's audit that they had not implemented Recommendation 1 from the FY 2014 report because they did not believe the additional consideration added value to their process. Further, CGFS officials stated that there was not a substantial risk that they would fail to identify a high-risk program because all programs would be reassessed in 1 to 2 years (depending on which year of the 3-year cycle they were on) and that all programs are subject to recapture audits every year. However, CGFS/MC officials subsequently stated that they had misinterpreted the recommendation and overestimated the effort required to implement it. Further, CGFS/MC officials stated that beginning in FY 2016, they plan to take into consideration a percentage-based threshold when evaluating significant funding increases.

[15] OIG, *Audit of Department of State FY 2014 Compliance with Improper Payment Requirements* (AUD-FM-15-26, May 2015).

Improper Payments Risk Assessments Were Performed

OMB Circular A-123, Appendix C, requires that agencies perform a risk assessment of all programs for susceptibility for significant improper payments. The Circular defines "significant improper payments" as gross annual improper payments in the program exceeding (1) both 1.5 percent of program outlays and $10 million of all program payments made during the fiscal year or (2) $100 million. Agencies must institute a systematic method of performing the risk assessments. An agency can perform a quantitative evaluation based on a statistical sample, or it can perform a qualitative evaluation by considering risk factors likely to contribute to significant improper payments.

During FY 2015, CGFS/MC performed and documented a qualitative risk assessment of each of the six programs it identified as requiring an assessment. To perform the assessment, CGFS/MC developed a scorecard for each program that included an evaluation of the risk factors specified by OMB. The scorecard considered a total of 10 criteria, including whether or not the program was new, the volume of payments made, and significant deficiencies identified in reports (for example, OIG and Government Accountability Office reports). One criterion considered was "significant funding increase by percentage," which was added to the scorecard by CGFS/MC in FY 2015 in an effort to further improve the risk assessment process and address aspects of Recommendation 1 from OIG's prior year report.[16]

CGFS/MC obtained information for its scorecard evaluation by reviewing the Congressional Budget Justification, information on internal and external websites, information contained in internal and external reports, and discussions with officials from the responsible bureaus and offices. Based on the information obtained, CGFS/MC assigned a numerical rating of 1, 3, or 5 to each program for each of the risk factors, with a rating of 1 representing low risk, 3 representing moderate risk, and 5 representing high risk. CGFS/MC then averaged the risk factor ratings for each program to determine the program's overall risk level. The overall ratings showed that five of the six programs were at low risk for incurring significant improper payments and that the remaining program was at moderate risk.

CGFS/MC performed an additional assessment of the program that was at moderate risk. This second risk assessment considered factors such as the location in which the program's costs were incurred and whether significant deficiencies in the program's internal control had been identified previously. The results of this additional assessment indicated that the program's overall risk remained moderate and that further evaluations were therefore not necessary. CGFS/MC concluded that none of the Department's programs were susceptible to significant improper payments as defined by OMB Circular A-123, Appendix C.

[16] Although this additional consideration added value to the risk assessment process, it did not address the intent of Recommendation 1 from OIG's prior year report because the consideration was applied after the six programs were identified for risk assessment.

Finding B: Agency Financial Report Was Published and Included Required Disclosures, but One Disclosure Was Incomplete

The Department published its FY 2015 AFR on its website, and the AFR included the required improper payments disclosures. For example, CGFS disclosed its improper payments risk assessment process; all programs that were assessed for risk in the year; and recapture audit activities, results, and future targets. Although the Department included all required disclosures, one disclosure was incomplete. Specifically, CGFS did not disclose the complete amount of improper payments recaptured outside of its payment recapture audit activities. By not including complete information in its AFR, the Department was not providing users with complete information about its efforts related to improper payments.

Improper Payments Disclosures Were Made

IPIA states that for an agency to be in compliance with the act, the agency must publish an AFR for the most recent fiscal year and post that report, with the information on improper payments required by OMB, on the agency's website. OMB Circular A-123, Appendix C, requires an agency to disclose specific information relating to improper payments in its annual AFR in the format provided in OMB Circular A-136, Revised, "Financial Reporting Requirements."

The Department published its FY 2015 AFR on its website. The AFR included the required improper payments disclosures. For example, the AFR included summary information on improper payments; a description of the Department's improper payments risk assessment process; a listing of all programs assessed for risk in FY 2015; and a description of the Department's payment recapture audit program, including the results of recapture activities as well as recapture targets for future years.

One Required Disclosure Was Incomplete

Although the Department included all required disclosures in its FY 2015 AFR, one disclosure was incomplete. OMB Circular A-136 requires agencies to report on improper payments identified and recovered through sources other than payment recapture audits. However, CGFS did not include complete information on the payments identified and recovered by all sources in the table "Overpayments Recaptured Outside of Payment Recapture Audits" in the FY 2015 AFR. CGFS included the amounts identified and recovered by CGFS's Office of Claims during post-payment reviews of vendor and employee payments, the amounts identified and recovered by CGFS's Office of the Compensation during post-payment reviews of American and Foreign Service National employee transactions, and amounts identified and recovered as a result of the CGFS Retirement Accounts Division's annuity payment reviews. However, CGFS did not include information on payments identified as improper and recovered by other Department offices and bureaus, such as contract closeout recoveries, management post-payment reviews, and recoveries resulting from grant compliance reviews. By not including complete information in its AFR, the Department did not provide users with all relevant information about its efforts to prevent and then identify and recover improper payments.

The report on the Department's FY 2014 compliance with IPIA[17] made a recommendation to address this deficiency; consequently, OIG is not making a new recommendation in this report. The recommendation and its status follow:

Recommendation 2 (AUD-FM-15-26). OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a method to obtain information on improper payments identified and recovered by other Department of State offices and bureaus to ensure that the Agency Financial Report includes all amounts required by the Office of Management and Budget.

Status and OIG Reply (as of March 2016, AUD-FM-15-26). Unresolved. CGFS stated in its response to AUD-FM-15-26 final report that it concurred with the recommendation. However, it also stated that it may decide not to implement the recommendation. In addition, CGFS has not provided OIG with an alternative solution that meets the intent of the recommendation. This recommendation will be resolved when CGFS completes its evaluation and notifies OIG that it will take action to implement the recommendation and closed when OIG receives and accepts documentation showing that CGFS has developed and implemented a method to obtain information on improper payments identified and recovered by other Department offices and bureaus.

A CGFS/MC official stated during this year's audit that CGFS/MC plans to implement the recommendation but further stated that CGFS/MC has yet to develop an effective and efficient way to compile recovery information from all Department bureaus and offices.

[17] AUD-FM-15-26, May 2015.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Improper Payments Elimination and Recovery Act of 2010[1] (IPERA), which amended the Improper Payments Information Act of 2002[2] (IPIA), requires the Office of Inspector General (OIG) to conduct an annual audit of the Department of State's (Department) compliance with improper payments requirements. In accordance with the IPERA requirement, an independent certified public accounting firm, Kearney & Company, P.C. (Kearney), acting on OIG's behalf, performed this audit to determine whether the Department was in compliance with IPIA, as amended.[3]

Kearney conducted fieldwork for this performance audit from January through March 2016 in the Washington, D.C., metropolitan area. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that Kearney 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. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

Kearney focused the scope of the audit on the following objectives: (1) to evaluate whether the Department conducted a program-specific risk assessment for all programs covered by Office of Management and Budget (OMB) requirements, (2) to determine whether the Department's FY 2015 Agency Financial Report (AFR) complied with improper payments reporting requirements, and (3) to reach a conclusion as to whether the Department was compliant with IPIA according to OMB guidance.

To obtain background information, Kearney researched and reviewed Federal laws and regulations, as well as prior OIG and Government Accountability Office audit reports. Kearney also reviewed the United States Code and OMB Circulars.

Kearney designed the audit to obtain insight into the Department's current processes, procedures, and organizational structure with regard to compliance with IPIA requirements. To expedite the audit process, Kearney leveraged the results of its FY 2015 financial statement audit and audits of the Department's compliance with IPIA during FY 2011–FY 2014 to confirm its understanding of the nature and profile of Department operations, IPIA standards, regulatory requirements, and supporting information systems and controls.

Kearney conducted process walkthroughs and interviews with Department officials to obtain a sufficient understanding of the steps taken by the Department to assess the risk of improper payments, the Department's process of identifying significant improper payments, and the

[1] Pub. L. No. 111-204.

[2] Pub. L. No. 107-300.

[3] Unless otherwise indicated, the term "IPIA" implies "IPIA, as amended by IPERA and the Improper Payments Elimination and Recovery Improvement Act of 2012 (Pub. L. No. 112-248)" in this report.

process of reporting improper payments information. Consistent with the fieldwork standards for performance audits, Kearney established performance criteria and identified sources of audit evidence to complete the testing phase.

During the testing phase, Kearney obtained and reviewed documentation supporting the Department's FY 2015 risk assessments and AFR disclosures. The testing phase provided Kearney with evidence to determine the findings of the report issued for the performance audit. The criteria determined in the planning phase served as the bases for assessing the Department's compliance with IPIA requirements. The testing phase included procedures to assess the Department's IPIA reporting process and the AFR disclosures. Specifically, Kearney performed procedures to ensure the completeness of the Department's listing of programs and activities subject to IPIA requirements. Kearney also evaluated the Department's risk assessment process for compliance with IPIA requirements, as well as reasonableness and objectivity. Finally, Kearney evaluated the Department's 2015 AFR disclosure against OMB Circular A-136[4] requirements to determine whether or not all required disclosures were made.

During the reporting phase, Kearney formally communicated to the Department the conclusions reached and the findings and recommendations for the actions it should take to comply with IPIA requirements.

Prior Reports

In May 2015, OIG reported[5] that the Department was in substantial compliance with IPIA requirements. Specifically, the Bureau of the Comptroller and Global Financial Services (CGFS) conducted a risk assessment for required programs. However, the method used for identifying programs with a significant change in funding may not have identified all programs with increased risks of significant improper payments. In addition, the Department published its AFR for FY 2014 with the disclosures required by OMB and posted the AFR on its website. However, one disclosure relating to improper payments identified and recovered outside the recapture audit process was incomplete. OIG recommended that CGFS expand its process to identify programs with significant funding changes and develop and implement a method to obtain information on improper payments identified and recovered by other Department offices and bureaus.

Work Related to Internal Controls

Kearney performed steps to assess the adequacy of internal controls related to the areas audited. Specifically, Kearney assessed the controls contained in the Department's policies and procedures performing risk assessments and reporting improper payments information. However, Kearney did not perform testing of these controls because it was beyond the scope of this audit.

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[4] OMB Circular A-136, "Financial Reporting Requirements."

[5] OIG, *Audit of Department of State FY 2014 Compliance With Improper Payments Requirements* (AUD-FM-15-26, May 2015).

Use of Computer-Processed Data

Kearney obtained computer-processed data from CGFS to aid in determining whether the Department complied with IPIA. More specifically, this data provided evidence that the Department had taken steps to comply with IPIA. Kearney did not perform tests to validate the spreadsheet amounts because such testing was not necessary to accomplish the audit objective. However, Kearney assessed the data provided as reasonable based on its understanding of the financial information gained during the audit of the Department's FY 2015 financial statements. Kearney's assessment was also based on a comparison of the programs and activities that the Department had used as its baseline for performing risk assessments with a universe of FY 2014 expenditure transactions that Kearney obtained from the Global Financial Management System, the Department's core financial system.[6]

[6] The Global Financial Management System supports the Department's mission by effectively accounting for business activities and recording the associated financial information, including obligations and costs, performance, financial assets, and other data.

APPENDIX B: BUREAU OF THE COMPTROLLER AND GLOBAL FINANCIAL SERVICES RESPONSE

United States Department of State
Comptroller
Washington, DC 20520

APR 2 7 2016

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MEMORANDUM

TO: OIG – Steve A. Linick

FROM: CGFS – Christopher H. Flaggs

SUBJECT: Report on Audit of Department of State FY 2015 Compliance with Improper Payments Requirements (AUD/FM-16-XX, April 2016)

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Report titled Audit of Department of State FY 2015 Compliance with the Improper Payments Requirements (Report).

The Department has made significant efforts to comply with all requirements and guidance for the Improper Payments Information Act of 2002 (IPIA), Improper Payments Elimination and Recovery Act in 2010 (IPERA), and Improper Payments Elimination and Recovery Improvement Act in 2012 (IPERIA). We strive to do so in a manner that also leverages the good stewardship of government funds and ensures our initiatives are cost-effective. We are pleased that our program is "compliant" with IPIA, as amended, but we recognize that improvements can be made and will continue doing so. As such, we concur with the OIG recommendations in the Report. The Department takes the OIG recommendations very seriously, as demonstrated by the accomplishments relative to recommendations made in prior years' reports, including Recommendation 3 in AUD-FM-15-26 covering FY 2014. In regards to Recommendation 1, we have already updated our standard policies and procedures to incorporate the suggestion made in recommendation 1 and will provide a copy of the updated document in separate correspondence. After we have carefully evaluated recommendation 2, we will implement corrective actions as appropriate.

As acknowledged in the Draft Report, the Department employs numerous preventative and identification methods to support the broad array of improper payments requirements. We have dedicated considerable resources to prevent improper payments from occurring and take satisfaction in our track record of

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success based on the low volume of actual improper payments identified and recovered each year. With the implementation of our Global Financial Management System in 2007, we fully integrated acquisitions into the financial system at the line level, significantly enhancing the integrity of our payments. In addition, we have strengthened our payment internal controls through our efforts under OMB's Do Not Pay initiative. Prior IPIA regulatory guidance was geared toward high-risk programs and activities that were deemed susceptible to significant improper payments. And, as part of our risk assessment process, we have identified no high-risk programs.

Notwithstanding, despite having no programs or activities susceptible to significant improper payments, as previously defined, the Department uses risk assessment and recapture initiatives to assist in identifying improper payments and related payment issues. For example, the Department performs broad systemic reviews for duplicate payments. In addition, since we have no identified high risk programs, we have prioritized our recapture audit resources on conducting detailed reviews of programs that have been evaluated as medium risk through our risk assessment process.

We recognize that the IPIA, as amended, and related guidance has raised the bar on transparently accounting for and preventing improper payments for all agencies, including the Department. We are committed to meeting these compliance requirements in a reasonable manner. We look forward to working with both the OIG and the Independent Auditor on further enhancements to our existing programs in the coming year.

If you have any questions concerning this status summary, please contact Carole Clay, Director of Management Controls (CGFS//MC), at (202) 663[redacted].

ABBREVIATIONS

AFR	Agency Financial Report
CGFS	Bureau of the Comptroller and Global Financial Services
CGFS/MC	Bureau of the Comptroller and Global Financial Services, Office of Management Controls
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
OIG	Office of Inspector General
OMB	Office of Management and Budget

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