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Office of Audits

June 2022

Audit of Department of State FY 2021 Compliance With Payment Integrity Requirements

FINANCIAL MANAGEMENT DIVISION

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HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-22-30

What OIG Audited

In FY 2021, improper and unknown federal payments government-wide totaled approximately \$281 billion. The Payment Integrity Information Act of 2019 (PIIA) requires Inspectors General to annually determine whether agencies complied with the Act and established requirements for agencies that were deemed noncompliant.

Kearney & Company, P.C. (Kearney), acting on the Office of Inspector General's (OIG) behalf, conducted this audit to determine whether the Department of State (Department) complied with PIIA for FY 2021. As part of this objective, Kearney also evaluated the Department's efforts to prevent and reduce improper and unknown payments.

What OIG Recommends

The Department complied with PIIA requirements for FY 2021. However, OIG made one recommendation to improve the Department's risk assessment process by considering subsequent events that may impact its risk assessment conclusions. On the basis of the Bureau of the Comptroller and Global Financial Services' (CGFS) response to a draft of this report, OIG considers the recommendation resolved, pending further action. A synopsis of management's response to the recommendation and OIG's reply follow the recommendation in the Audit Results section of this report. CGFS' response to a draft of this report is reprinted in its entirety in Appendix B.

June 2022

OFFICE OF AUDITS

FINANCIAL MANAGEMENT DIVISION

Audit of Department of State FY 2021 Compliance With Payment Integrity Requirements

What OIG Found

For the FY 2021 reporting period, Kearney found that the Department complied with payment integrity requirements, as presented in Table 1.

Table 1: Compliance With PIIA Criteria

Payment Integrity Criteria	Compliance
Published payment integrity information with the annual financial statement and in accompanying materials	Yes
Posted the annual financial statement and accompanying materials on the agency website	Yes
Conducted risk assessments	Yes
Concluded whether each program is likely to make improper and unknown payments above or below the statutory threshold	Yes
Published improper and unknown payment estimates*	N/A
Published corrective action plans*	N/A
Published reduction targets*	N/A
Demonstrated improvements to payment integrity or reached a tolerable rate*	N/A
Developed a plan to meet reduction target*	N/A
Reported estimate less than 10 percent for each program with a published estimate*	N/A

*Criteria did not apply because no program was identified as high-risk.

Source: Prepared by Kearney using criteria from Office of Management and Budget Circular A-123, Appendix C.

Specifically, Kearney found that the Department published the FY 2021 financial statements and accompanying material, which included all applicable payment integrity information, on its website. In addition, the Department conducted program-specific risk assessments and made appropriate conclusions related to the risk assessments. The programs subject to risk assessments during FY 2021 are listed in Table A.1. Although in compliance, the Department could improve its risk assessment process by assessing significant subsequent events that may occur after an assessment has been completed. With respect to the Department's efforts to prevent and reduce improper and unknown payments, Kearney did not identify any needed improvements (including improper and unknown payments determination and estimation methodology, as well as actions to improve prevention and reduction).



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Audit of Department of State FY 2021 Compliance With Payment Integrity 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 2021 compliance with payment integrity requirements. This performance audit, performed under Contract No. 19AQMM20A0536, was designed to meet the objective 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 December 2021 through April 2022 in accordance with the Government Auditing Standards, 2018 Revision, issued by the Comptroller General of the United States. 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 objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. The purpose of this report is to communicate the results of Kearney's performance audit and its related findings.

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

A handwritten signature in blue ink that reads "Kearney & Company".

Kearney & Company, P.C.
Alexandria, Virginia
June 7, 2022

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OBJECTIVE

Kearney & Company, P.C (Kearney), acting on the Office of Inspector General's (OIG) behalf, conducted this audit to determine whether the Department of State (Department) complied with the Payment Integrity Information Act of 2019¹ (PIIA) for FY 2021. As part of this objective, Kearney also evaluated the Department's efforts to prevent and reduce improper and unknown payments.

BACKGROUND

According to the Department of the Treasury, improper and unknown federal payments government-wide totaled approximately \$281 billion in FY 2021.² Improper payments are payments that were made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term "improper payments" includes:

- Payments to an ineligible recipient.
- Payments for an ineligible good or service.
- Duplicate payments.
- Payments for goods or services not received (except for such payments authorized by law).
- Payments that do not account for credit for applicable discounts.³

If a program cannot discern whether a payment is proper or improper, the payment is considered an unknown payment. If a program is still conducting research or going through the review of a payment at the time that the program must finish its sampling and report its the results, the payment will be considered an unknown payment for reporting purposes that year. This is done so that the program does not unintentionally over- or underreport the payment type results.⁴

The federal government has taken steps to identify and reduce improper payments. For example, on March 2, 2020, Congress enacted PIIA, which sets forth improper payment reporting requirements, including an annual compliance report from Inspectors General,⁵ that

¹ PIIA, Public Law 116-117, March 2, 2020, codified at 31 United States Code Chapter 33, Subchapter IV, "Improper Payments."

² PaymentAccuracy.gov, Resources, "Annual Improper Payment Datasets," Payment Accuracy 2021 Dataset, <https://www.paymentaccuracy.gov/payment-accuracy-the-numbers/>.

³ Office of Management and Budget Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," Appendix C, "Requirements for Payment Integrity Improvement," page 64 (March 5, 2021).

⁴ Ibid., page 12.

⁵ PIIA, § 3353.

are similar to earlier laws.⁶ For example, PIIA requires agencies to publish improper and unknown payments information with the agency's financial statements and in the accompanying materials and post the information on the agency's website.⁷

On March 5, 2021, the Office of Management and Budget (OMB) updated guidance for agencies to implement improper payment legislation in Appendix C, "Requirements for Payment Integrity Improvement," of OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," in an effort to transform the payment integrity compliance framework and create a more comprehensive and meaningful set of requirements to allow agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments.⁸

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 2021, the Department made payments totaling approximately \$37.8 billion, of which \$29.8 billion was subject to improper and unknown payment requirements,⁹ including payments to vendors and contractors; payments to employees; and federal financial assistance payments, including grants, assessed contributions,¹⁰ and voluntary contributions.¹¹ Several factors increase the Department's risk for improper payments: the amount and volume of payments made by the

⁶ PIIA repealed earlier improper payments laws, including the Improper Payments Information Act of 2002, Public Law 107-300, November 26, 2002; the Improper Payments Elimination and Recovery Act of 2010, Public Law 111-204, July 22, 2010; and the Improper Payments Elimination and Recovery Improvement Act of 2012, Public Law 112-248, January 10, 2013.

⁷ PIIA, § 3351(2)(A)(i)-(ii).

⁸ OMB Memorandum M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvements" (March 5, 2021).

⁹ OMB Circular A-123, Appendix C, page 68, defines "payment" as any transfer of federal funds (including a commitment for future transfer, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-federal person or entity or a federal employee, that is made by a federal agency, a federal contractor, a federal grantee, or a governmental or other organization administering a federal program or activity.

¹⁰ 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.

¹¹ Voluntary contributions represent discretionary financial assistance provided to foreign countries, international societies, commissions, proceedings, or projects.

Department, the Department's emphasis on expediting certain payments (e.g., payments for necessary foreign financial assistance), and the decentralized nature of the Department's operations.

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 procedures, analyzing and reporting financial information, managing financial information systems, and establishing management 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 (MC) is responsible for overseeing the Department's management control program and other financial management functions, such as administering compliance with payment integrity requirements. The Office of Management Analysis within CGFS conducts secondary reviews of most of the Department's eligible transactions and performs payment recapture activities.

AUDIT RESULTS

Finding A: The Department Complied With PIIA Requirements

Kearney found that the Department complied with all applicable PIIA requirements for FY 2021. Specifically, the Department:

- Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement.
- Posted the annual financial statement, including a link to accompanying materials, on the agency website.
- Conducted improper payment risk assessments for required programs.
- Adequately concluded whether each program is likely to make improper and unknown payments above or below statutory thresholds.

The Department was not required to perform additional procedures or make other disclosures because it did not identify any programs at significant risk for improper and unknown payments. Although CGFS performed risk assessments in accordance with its documented process and complied with PIIA for the FY 2021 reporting period, the Department's risk assessment procedures could be improved if the Department considered significant subsequent events that may occur after an assessment has been completed. Table 1 details whether selected programs were compliant with required criteria.

Table 1: PIIA Compliance Reporting Table for Selected Programs

Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
American Compensation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Voluntary Contributions	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Assessed Contributions	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic and Consular Programs, Diplomatic Policy and Support	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic and Consular Programs – Other Operations	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of International Narcotics and Law Enforcement Affairs, Embassy Operations Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of Overseas Buildings Operations, Construction	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

- ^a Published payment integrity information with the annual financial statement and in accompanying materials to the annual financial statement.
- ^b Posted the annual financial statement and accompanying materials on the agency website.
- ^c Conducted improper payment risk assessments for each program with annual outlays greater than \$10,000,000 at least once in the last 3 years.
- ^d Adequately concluded whether the program is likely to make improper and unknown payments above or below the statutory threshold.
- ^e Published improper and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statements.
- ^f Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.
- ^g Published an improper and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.
- ^h Demonstrated improvements to payment integrity or reached a tolerable improper and unknown payment rate
- ⁱ Developed a plan to meet the improper and unknown payment reduction target.
- ^j Reported an improper and unknown payment estimate of less than 10 percent for each program for which an estimate was published in accompanying materials to the annual financial statement.

Source: OMB Circular A-123, Appendix C, pages 43-49.

During its evaluation of the Department's efforts to prevent and reduce improper and unknown payments (including the Department's improper and unknown payments determination and estimation methodology, as well as actions to improve prevention and reduction), Kearney did not identify any needed improvements.

The Department Published Annual Financial Statement and Accompanying Materials

PIIA requires agencies to "publish payment integrity information with the annual financial statement" and post the annual financial statement and any accompanying materials on the agency website.¹² OMB Circular A-123, Appendix C, states that agencies should consult OMB Circular A-136 annually to determine which of the payment integrity reporting requirements apply to their agency.¹³ At a minimum, all agencies with programs in Phase 1¹⁴ or Phase 2¹⁵ are required to provide a link to www.paymentaccuracy.gov in their Agency Financial Report or Performance and Accountability Report so the reader can access information about agency improper payment risk assessments, recoveries, and other agency-wide reporting requirements.¹⁶

¹² PIIA, § 3351(2)(A)(i)-(ii).

¹³ OMB Circular A-123, Appendix C, "Reporting Requirements for All agencies," page 56 and OMB Circular A-136, "Financial Reporting Requirements" § II.4.5, "Payment Integrity Information Act Reporting" (August 10, 2021).

¹⁴ According to OMB Circular A-123, Appendix C, page 69, Phase 1 is the first of two stages in the process of review for improper payments and unknown payments. During this stage, an improper payment risk assessment is conducted at least once every 3 years to determine whether a program is likely to be susceptible to significant improper payments and unknown payments.

¹⁵ According to OMB Circular A-123, Appendix C, page 69, Phase 2 is the second of two stages in the process of review for improper payments and unknown payments. During this stage, a program will use a statistically valid sampling and estimation methodology to report an annual improper payment and unknown payment estimate. Phase 2 is not required if the results of Phase 1 indicate that the program is not likely to be susceptible to significant improper payments and unknown payments.

¹⁶ Ibid., page 56.

The Department published its FY 2021 financial statements and accompanying materials containing the required improper payments information and posted the financial statement, which included a link to the accompanying material, on its agency website.¹⁷ Specifically, in the financial statement, the Department included detailed information on its risk assessment process and a statement that it has not identified any programs deemed susceptible to significant improper payments. In the financial statements, the Department also included a link to www.paymentaccuracy.gov, which contains additional information related to improper payments, including the amounts of recaptured overpayments and “Do Not Pay” initiative activities.¹⁸ Because the Department did not identify any programs that were deemed susceptible to significant improper payments, additional reporting requirements were not applicable.

The Department Performed Program Risk Assessments

PIIA requires agencies to periodically review all programs and identify those with outlays exceeding a certain amount that may be susceptible to significant improper payments.¹⁹ OMB Circular A-123, Appendix C, defines significant improper payments as annual improper and unknown payments in a program exceeding either (1) both 1.5 percent of program outlays and \$10 million of all program payments made during the fiscal year or (2) \$100 million.²⁰ Agencies should perform a risk assessment, which can be either quantitative or qualitative.²¹ Quantitative risk assessments focus on measurable and often pre-defined data.²² When conducting a qualitative risk assessment, the agency should ensure that proper consideration is given to relevant factors that would help prove that the program is likely to be above or below the statutory threshold.²³ Risks are scored based on their likelihood of occurring and their potential impact.²⁴

For programs with annual outlays above \$10 million, an agency must conduct an improper payment risk assessment at least once every 3 years unless the program moves to Phase 2 and is reporting improper and unknown payments above the statutory threshold. If a program that is on a 3-year risk assessment cycle experiences a significant change in legislation or significant increases in funding, agencies may need to reassess the program’s risk susceptibility during the annual cycle, even if it is less than 3 years from the previous risk assessment.²⁵

¹⁷ “Agency Financial Reports,” <https://www.state.gov/plans-performance-budget/agency-financial-reports/>.

¹⁸ “Do Not Pay” is a government initiative that allows agencies to use a secure online interface to check various data sources to verify the eligibility of a vendor, grantee, loan recipient, or beneficiary to receive federal payments.
³¹ United States Code §- 3354 – Do Not Pay Initiative

¹⁹ PIIA, § 3352.a.1.

²⁰ OMB Circular A-123, Appendix C, pages 73-74.

²¹ Ibid., page 14.

²² Ibid., page 71.

²³ Ibid., pages 14-15.

²⁴ Ibid., page 71.

²⁵ Ibid., page 15.

During FY 2019, the Department performed a full risk assessment for each of its programs that was subject to payments integrity requirements to identify programs that may be susceptible to significant improper payments. Therefore, during FY 2021, the Department only needed to perform risk assessments for programs for which significant changes to either legislation or funding could affect the program's risk susceptibility. In FY 2021, of the 35 programs that the Department identified as being subject to payment integrity requirements, MC identified 7 programs requiring updated improper payment risk assessments. MC determined that the risk assessments were required because these programs experienced an increase in expenditures from the prior year of greater than \$85 million and 50 percent or an increase in expenditures from the prior year of \$100 million or greater.

The Department applies a five-phase risk assessment approach to determine a program's susceptibility to improper payments. The approach includes qualitative and quantitative phases, as follows:

- **Phase I:** Identification of Department programs that require risk assessments.
- **Phase II:** MC evaluation of 8 of 11 examples²⁶ of risk factors provided by OMB²⁷ and 2 risk factors developed by the Department²⁸ for each program. MC assigns a numerical rating of 1 (low risk), 3 (moderate risk), or 5 (high risk) for each risk factor. MC averages the ratings to determine the program's overall risk level.²⁹
 - The assessment is complete for programs that are identified as low risk.
 - The assessment continues to Phase III for programs that are identified as moderate or high risk.
- **Phase III:** MC evaluation of three additional risk factors developed by the Department, which are combined with Phase II risk scores for each program.
 - The assessment is complete for programs that are identified as low risk.
 - The assessment continues to Phase IV for programs that are identified as moderate or high risk.
- **Phase IV:** Responsible program officials complete a questionnaire developed by MC, which uses the same scoring techniques as Phases II and III, for nine risk factors. Phase IV scores are combined with Phase III scores.

²⁶ The Department elected not to use three of the OMB risk factors that were not applicable to the Department. Specifically, two of the risk factors related to improper and unknown payment estimates are not applicable because the Department does not have a history of programs deemed to be susceptible to significant improper payments. The third risk factor related to the risk of fraud as assessed. However, agencies are not required to evaluate the risk of fraud at the program level, so this risk factor was not applicable.

²⁷ OMB Circular A-123, Appendix C, page 15.

²⁸ One of the additional risk factors used by the Department was required by OMB Circular A-123, Appendix C, before it was revised on June 26, 2018. Specifically, MC has elected to continue considering "results from prior improper payment work," which MC splits into two factors: number of improper payments and amount of improper payments. Furthermore, MC considers one additional risk factor: percentage increase in funding. Although OMB includes a risk factor related to major changes in program funding, MC includes this additional factor so that it can consider changes in amounts and changes in a percentage of the program's funding.

²⁹ MC defines an average overall risk level between 1.0 to 2.2 as low, 2.3 to 3.4 as moderate, and 3.5 or greater as high.

- The assessment is complete for programs that are identified as low risk.
- The assessment continues to Phase V for programs that are identified as moderate or high risk.
- **Phase V:** MC evaluates a statistical sample of program payments and determines whether the error rate of improper payments exceeds the OMB threshold for programs identified as susceptible to significant improper payments.³⁰

MC obtained information for its evaluation by reviewing the Department's FY 2021 Congressional Budget Justification; information on internal and external websites; and information contained in internal and external reports. Additionally, MC obtained information by having discussions with officials from the responsible bureaus and offices. The overall ratings calculated by MC showed that all seven programs were at low risk for incurring significant improper payments. Kearney reviewed risk assessment documentation for each of the seven programs identified by the Department as requiring a risk assessment in FY 2021 to evaluate MC's risk assessment processes. Kearney found that MC performed the risk assessments in accordance with its processes and procedures and that MC's conclusions were supportable.

Although CGFS performed risk assessments in accordance with its documented process, which complied with PIIA for the FY 2021 reporting period, the Department's risk assessment procedures do not consider significant subsequent events that may occur after an assessment has been completed. For example, the Department conducted a risk assessment of its American Compensation program during FY 2021. In line with its policies and procedures, risk assessments are performed using prior year data (i.e., the FY 2021 risk assessments considered information from FY 2020).³¹ However, the Department's payroll system for American employees (including American employees of other agencies supporting overseas diplomatic missions) was replaced during FY 2021.³²

After implementation, CGFS identified errors in employee pay and leave. Upon this discovery, the Department took action to resolve the issues; however, as of April 2022, some corrective actions were ongoing. Errors identified by CGFS during FY 2021 that were the result of the rollout of the new payroll system were not considered for the FY 2021 risk assessment. MC officials stated that FY 2021 data and events would be considered during the FY 2022 risk assessment process. Several of the risk factors may have been scored differently had the FY 2021 system conversion errors been considered and it is possible that the program may have been identified to be at a moderate- or high-risk level. Therefore, a supplemental consideration

³⁰ The Department's conclusion on a program's susceptibility to significant improper payments would be based on the thresholds for significant improper payments defined in OMB Circular A-123, Appendix C, pages 73-74.

³¹ According to OMB Circular A-123, to the extent possible, data used for conducting an improper payment risk assessment in a given program should coincide with the fiscal year being reported. The Department does not use current year data when performing its risk assessments. However, because the use of current year data is not required, Kearney concluded that the Department's risk assessment processes and procedures complied with requirements. Appendix C, page 15.

³² The Department's Consolidated American Payroll Processing System was replaced by the Global Foreign Affairs Compensation System – American during pay period 5 of FY 2021 (February 28, 2021 – March 13, 2021).

of significant subsequent events could have improved the risk assessment process and better ensured that risk assessment conclusions reflected recent factors impacting Department programs. OIG is therefore offering the following recommendation.

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement procedures to consider significant events occurring after the assessment period if those events could impact risk assessment conclusions regarding improper and unknown payments.

CGFS Response: CGFS accepted the recommendation, stating that it will incorporate the consideration of subsequent events into its standard operating procedures for future risk assessments.

OIG Reply: On the basis of CGFS acceptance of the recommendation and planned actions, OIG considers the recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that CGFS has developed and implemented procedures to consider significant events occurring after the assessment period if those events could impact risk assessment conclusions regarding improper and unknown payments.

The Department's Efforts to Prevent and Reduce Improper and Unknown Payments

Kearney assessed the Department's efforts to prevent and reduce improper and unknown payments. Through inquiries with MC staff and review of Department policies and procedures and responses to OMB data calls, Kearney found that the Department is performing procedures to detect and recover improper payments. Specifically, MC's policies and procedures include an established process for the Office of Management Analysis to identify and recapture (collect) erroneous vendor payments and to track erroneous payments that were identified and returned by vendors. Furthermore, the Department will use the Department of the Treasury Offset Program to collect overpayments if the Office of Claims is unsuccessful in its efforts recapture an improper payment.

In addition, the Department uses resources such as the Department of the Treasury's Do Not Pay Initiative and the General Services Administration's System for Award Management³³ to reduce improper payments prior to making a payment or award. CGFS employees are required to review pre-payment and pre-award procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs before the release of any federal funds, to the extent permitted by law.

Furthermore, annually, the Department conducts its assessment of risk and internal control in accordance with OMB Circular A-123. The Department employs a risk-based approach to evaluate internal controls over reporting on a multi-year rotating basis. The Department has

³³ The System for Award Management is operated by the General Services Administration. Entities must have an active registration in the system to do business with the federal government.

controls in place to address identified risks related to payroll, grants, large procurements, information technology and security, assets, and purchase and travel cards. Additionally, the Department continues to advance its enterprise risk management program by developing risk profiles.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement procedures to consider significant events occurring after the assessment period if those events could impact risk assessment conclusions regarding improper and unknown payments.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Payment Integrity Information Act of 2019¹ (PIIA) requires the Office of Inspector General (OIG) to provide an annual report of Department of State (Department) compliance with improper payments requirements.² In accordance with the PIIA requirement, an external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of OIG, conducted an audit to determine whether the Department complied with PIIA for FY 2021. As part of this objective, Kearney also evaluated the Department's efforts to prevent and reduce improper and unknown payments.

Kearney conducted this audit from December 2021 to April 2022 in the Washington, DC, metropolitan area. The scope of this audit was the Department's FY 2021 improper payment reporting process. Kearney conducted this performance audit in accordance with generally accepted government auditing standards. These 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.

To obtain background information, Kearney researched and reviewed legislative requirements related to improper payments, Office of Management and Budget (OMB) guidance, and prior OIG and Government Accountability Office audit reports. Kearney designed the audit to obtain insight into the Department's processes, procedures, and organizational structure regarding compliance with improper payment requirements. To expedite the audit process, Kearney leveraged the results of its FY 2021 audit of the Department's financial statements and audits of the Department's FY 2011-2020 compliance with improper payment requirements to confirm its understanding of the nature and profile of Department operation, regulatory requirements, and supporting information systems and controls.

Kearney conducted virtual 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 process of reporting improper payment 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 2021 risk assessments and annual financial statement and accompanying materials. The criteria determined in the planning phase served as a basis for assessing the Department's compliance with improper payment requirements. The testing phase included

¹ PIIA, Public Law 116-117, March 2, 2020, codified at 31 United States Code Chapter 33, Subchapter IV, "Improper Payments."

² Ibid., § 3353.

procedures to assess the Department's reporting process and the financial statements disclosure. Specifically, Kearney performed procedures to ensure the completeness of the Department's listing of programs and activities subject to improper and unknown payment requirements. Kearney also evaluated the Department's risk assessment process for compliance with improper payment requirements as well as reasonableness and objectivity. Finally, Kearney evaluated the Department's FY 2021 annual financial statement and accompanying materials disclosures against improper payment requirements³ to determine whether all required disclosures were made.

Data Reliability

Kearney obtained computer-processed data from the Bureau of the Comptroller and Global Financial Services, Office of Management Controls, to aid in determining whether the Department complied with PIIA. More specifically, the data provided evidence that the Department took steps to comply with PIIA. Kearney did not perform tests to validate the data because such testing was not necessary to accomplish the audit objective. However, Kearney assessed the data provided as sufficiently reliable on the basis of its understanding of the financial information gained during the audit of the Department's FY 2020 financial statements. Kearney's assessment was also based on a comparison of the programs and activities that the Department used as its baseline for performing risk assessments with a universe of FY 2020 expenditure transactions that Kearney obtained from the Global Financial Management System, the Department's core financial system.

Work Related to Internal Control

During the audit, Kearney considered a number of factors, including the subject matter of the project, to determine whether internal control was significant to the audit objective. Kearney determined that internal control was not significant for this audit. Although internal control was not significant to the audit objective, Kearney performed procedures to gain an understanding of internal controls related to the Department's improper payment reporting processes. Specifically, Kearney obtained and reviewed the Department's policies and procedures for making payments, performing risk assessments, and reporting improper payments information.

Sampling Methodology

The Department tracks payments and other transactions related to its programs using various accounting codes in its financial management systems. The Department identified seven programs that required improper payment risk assessments in FY 2021.⁴ Kearney tested the Department's risk assessment process for all seven programs, as shown in Table A.1.

³ OMB Circular A-136, § II.4.5, "Payment Integrity Information Act Reporting" (August 27, 2020).

⁴ Because of the timing of FY 2021 risk assessments, the programs are grouped on the basis of FY 2020 financial data.

Table A.1: Programs Selected for Testing

Program Name	FY 2020 Dollar Value
American Compensation	\$4,643,468,094
Voluntary Contributions	\$3,712,540,016
Assessed Contributions	\$4,574,310,309
Diplomatic and Consular Programs – Diplomatic Policy and Support	\$582,094,789
Diplomatic and Consular Programs – Other Operations	\$531,999,264
Bureau of International Narcotics and Law Enforcement Affairs, Embassy Operations Programs	\$682,002,084
Bureau of Overseas Buildings Operations, Construction	\$1,202,222,047
Total	\$15,928,636,603

Source: Generated by Kearney from data provided by the Department.

Prior Office of Inspector General Report

In May 2021, OIG reported⁵ that the Department complied with improper payment requirements. Specifically, the Department published on its website the FY 2020 Agency Financial Report, which included all applicable payment integrity disclosures, as required by Office of Management and Budget Circular A-136, “Financial Reporting Requirements.” In addition, the Department complied with the requirement to perform program-specific risk assessments. During the evaluation of the Department’s efforts to prevent and reduce improper payments, Kearney did not identify any needed improvements.

⁵ OIG, *Audit of Department of State FY 2020 Compliance With Improper Payment Requirements* (AUD-FM-21-30, May 2021).

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



*United States Department of State
Comptroller
Washington, DC 20520*

June 6, 2022

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TO: OIG – Diana Shaw, Acting

FROM: CGFS – William Davisson, Acting Comptroller

SUBJECT: Response to Draft OIG Report – Audit of Department of State FY 2021 Compliance with Payment Integrity Requirements (AUD-FM-22-XX, May 2022)

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Report titled Audit of Department of State FY 2020 Compliance with Payment Integrity Requirements (AUD-FM-22-XX, May 2022).

The Department, and the Bureau of the Comptroller of Global Financial Services' Office of Management Controls (CGFS/MC) in particular, has made significant efforts to comply with all requirements and guidance for the Payment Integrity Information Act (PIIA). As reflected in the report, we are pleased that our program is "compliant" with PIIA.

We acknowledge and accept the one recommendation to improve the Department's risk assessment process and will incorporate the consideration of subsequent events into our standard operating procedures for future risk assessments.

We recognize that the PIIA and related guidance has raised the bar on transparently accounting for and preventing improper payments for all Agencies, including the Department. 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, please contact Carole Clay, Director of Management Controls at (202) 663-2084.

ABBREVIATIONS

CGFS	Bureau of the Comptroller and Global Financial Services
MC	Office of Management Controls
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019

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