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Office of Inspector General
United States Department of State

AUD-FM-19-29

Office of Audits

May 2019

Audit of Department of State FY 2018 Compliance With Improper Payments Requirements

FINANCIAL MANAGEMENT DIVISION

UNCLASSIFIED



HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-19-29

What Was Audited

In FY 2018, improper Federal payments Government-wide totaled approximately \$151 billion. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires agencies to publish improper payments information, conduct a risk assessment, and prepare other disclosures. The Act also requires Federal agency Inspectors General to determine whether the agency complied with the requirements.

Acting on behalf of and under the direction of the Office of Inspector General (OIG), the independent public accountant Kearney & Company, P.C. (Kearney), conducted this audit to determine whether the Department of State (Department) was in compliance with IPERA.

What OIG Recommends

OIG made one recommendation that is intended to improve the Department's internal controls related to performing required risk assessments.

On the basis of the Bureau of the Comptroller and Global Financial Services' (CGFS) response to a draft of this report, OIG considers the one recommendation resolved, pending further action. A synopsis of CGFS's comments to the recommendation and OIG's reply follow the recommendation in the Audit Results section of this report. CGFS's response to the draft report is reprinted in Appendix B.

May 2019

OFFICE OF AUDITS

FINANCIAL MANAGEMENT DIVISION

Audit of Department of State FY 2018 Compliance With Improper Payments Requirements

What Was Found

Kearney found that the Department was in compliance with improper payments requirements for FY 2018, 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 Circular A-123, Appendix C.

The Department published its FY 2018 Agency Financial Report (AFR) on its website, and the AFR included all the required improper payment disclosures.

In addition, the Department performed the required program risk assessments in FY 2018. Specifically, the Department evaluated whether each program subject to IPERA had a significant legislative or funding change, identified programs requiring improper payments risk assessments, and performed risk assessments using required criteria (that is, risk factors) defined by Office of Management and Budget Circular A-123 for all programs requiring evaluation. However, Kearney found that the Department did not consider all pertinent OIG reports during its risk assessment process. Additionally, Kearney identified an error in the Department's risk assessment documentation for one program. Although these items did not impact overall risk conclusions, enhanced quality control procedures may improve the accuracy and completeness of future risk assessments.



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Audit of the Department of State FY 2018 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 2018 compliance with improper payments requirements. This performance audit, performed under Contract No. SAQMMA14A0050, 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 February 2019 through May 2019 in accordance with the *Government Auditing Standards*, 2011 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 and recommendations.

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". The signature is written in a cursive, flowing style.

Kearney & Company, P.C.
Alexandria, Virginia
May 30, 2019

CONTENTS

OBJECTIVE	1
BACKGROUND	1
Department of State Payments.....	2
AUDIT RESULTS	3
Finding A: Agency Financial Report Was Published and Included Required Disclosures	4
Finding B: Required Program Risk Assessments Were Performed, but Quality Control Reviews Could Be Improved.....	5
RECOMMENDATION	9
APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY	10
Prior Reports	11
Work Related to Internal Controls	11
Use of Computer-Processed Data	12
APPENDIX B: BUREAU OF THE COMPTROLLER AND GLOBAL FINANCIAL SERVICES RESPONSE...	13
ABBREVIATIONS	14

OBJECTIVE

The objective of this audit was to determine whether the Department of State (Department) was in compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA).¹ To accomplish this objective, the independent public accountant Kearney & Company, P.C. (Kearney), acting on the Office of Inspector General's (OIG) behalf, reviewed the Department's FY 2018 Agency Financial Report (AFR) to determine whether the Department complied with improper payments reporting requirements and evaluated whether the Department conducted a program-specific risk assessment for all programs covered by Office of Management and Budget (OMB) requirements.

BACKGROUND

According to the Department of the Treasury, improper Federal payments Government-wide totaled approximately \$151 billion in FY 2018.² 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 a lack of or insufficient supporting documentation.

The Federal Government has implemented safeguards to reduce improper payments. In 2002, Congress enacted the Improper Payments Information Act of 2002 (IPIA),³ which required Federal agencies to annually identify programs and activities⁴ 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, 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 agencies were in compliance with improper payments requirements and established additional requirements for agencies that were deemed noncompliant.

¹ Improper Payments Elimination and Recovery Act of 2010, Public Law 111-204, §§ 2 and 3, July 22, 2010.

² Department of the Treasury, "Improper Payment Rates Across the Federal Government," <https://paymentaccuracy.gov/import/archive-spreadsheets/latest.xlsx>, Tab "All Program Results," Column V.

³ Improper Payments Information Act of 2002, Public Law 107-300, November 26, 2002.

⁴ The term "program and activity" is referred to in this report as "program."

In January 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012⁵ was enacted. The Improper Payments Elimination and Recovery Improvement Act of 2012 further amended IPIA by redefining “payment” to include payments that were 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 to implement improper payments legislation in Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments,” of OMB Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control.” On June 26, 2018, OMB released an updated version of Appendix C, “Requirements for Payment Integrity Improvement.” The guidance, among other things, defines the programs and payments that agencies must assess for the risk of improper payments and provides requirements for determining whether the risk of improper payments is significant, developing an estimate of improper payments, performing recapture audit activities, and 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 2018, the Department made payments of approximately \$31.8 billion, of which \$25.3 billion was subject to IPERA requirements.⁷ The payments subject to IPERA included payments to vendors and contractors; payments to employees; and Federal financial assistance payments, including grants, assessed contributions,⁸ and voluntary contributions.⁹ 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

⁵ Improper Payments Elimination and Recovery Improvement Act of 2012, Public Law 112-248, §§ 1 through 5, January 10, 2013.

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

⁷ OMB Circular A-123, Appendix C, at 14, states that agencies are not obligated to review intra-Governmental transactions for improper payments unless directed to do so by OMB. Approximately \$6.5 billion of \$31.8 billion in Department payments were intra-Governmental and intra-Departmental payments.

⁸ 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.

⁹ Voluntary contributions represent discretionary financial assistance provided to foreign countries, international societies, commissions, proceedings, or projects.

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 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 IPERA.

AUDIT RESULTS

Kearney found that the Department complied with all applicable improper payments requirements for FY 2018.¹⁰ The Department published its AFR¹¹ for FY 2018 and posted the AFR on the Department's website. The AFR included the disclosures required by OMB. The Department conducted risk assessments on programs that experienced a significant change in funding, which was all that was required by IPERA in FY 2018. In addition, the Department performed risk assessments on programs that were impacted by the elimination of a threshold used in prior risk assessments. The Department also performed risk assessments using the criteria defined by OMB Circular A-123 for all programs being evaluated. However, Kearney found that the Department did not consider all pertinent OIG reports during its risk assessment process. Additionally, Kearney identified an error in the Department's risk assessment documentation for one program. Although these items did not impact overall risk assessment conclusions, enhanced quality control procedures may improve the accuracy and completeness of future risk assessments.

¹⁰ OMB Circular A-123, Appendix C, at 49, identifies six requirements that agencies must meet to be compliant with improper payment requirements: (1) publish an AFR for the most recent fiscal year and post the report and accompanying materials required by OMB to the agency website; (2) conduct a program-specific risk assessment for each program; (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.

¹¹ 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.

Finding A: Agency Financial Report Was Published and Included Required Disclosures

The Department published on its website its FY 2018 AFR, which included all 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 and results. In addition, in response to recommendations in the FY 2016 improper payments report,¹² the Department disclosed optional information related to improper payment recoveries identified outside the Department's payment recapture audit activities.

Required Improper Payments Disclosures Were Made

IPERA¹³ 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,¹⁴ requires an agency to disclose specific information relating to improper payments in its annual AFR in the format provided in OMB Circular A-136.¹⁵

The Department published its FY 2018 AFR on its website. The AFR included the required improper payments disclosures. For example, the AFR included actions the Department has taken or plans to take to recover improper payments; a description of the Department's payment recapture audit program, including the results of recapture activities; required information on improper payments identified and recovered outside the payment recapture process; a description of the Department's improvement of payment accuracy that is attributable to the Do Not Pay Initiative; a description of the Department's improper payments risk assessment process; and a listing of all programs assessed for risk in FY 2018.

In FY 2018, in response to recommendations in the FY 2016 improper payments report,¹⁶ the Department added some optional information related to the required disclosure of improper payments identified and recovered outside the payment recapture process. Specifically, CGFS included information on amounts that the Department had identified as disallowed in response to monetary findings identified in OIG reports, Single Audit reports,¹⁷ and Defense Contract Audit Agency reports. Adding this optional information improves the usefulness of the AFR.

¹² OIG, *Audit of Department of State FY 2016 Compliance With Improper Payment Requirements* (AUD-FM-17-42, May 2017).

¹³ Public Law 111-204, § 3.

¹⁴ OMB Circular A-123, Appendix C, at 23.

¹⁵ OMB Circular A-136, "Financial Reporting Requirements," revised July 30, 2018, 110–113.

¹⁶ AUD-FM-17-42.

¹⁷ According to the Code of Federal Regulations, Title 2, Subtitle A, Chapter II, Part 200, Subpart F, § 200.501(b), "Audit requirements," a non-Federal entity that expends \$750,000 or more during a fiscal year in Federal awards must have a single audit conducted.

Finding B: Required Program Risk Assessments Were Performed, but Quality Control Reviews Could Be Improved

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,¹⁸ requires that agencies perform risk assessments for programs deemed to be not susceptible to having significant improper payments at least once 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 2018. Specifically, MC evaluated whether each program subject to IPIA had a significant legislative or funding change to identify programs requiring improper payments risk assessments and performed risk assessments using required criteria (that is, risk factors) defined by OMB Circular A-123¹⁹ for all programs requiring evaluation.²⁰ In addition, in FY 2018, MC eliminated an internally developed threshold that excluded certain categories of expenditures that totaled less than \$10 million from its risk assessment process. During FY 2018, MC performed risk assessments of each program that included at least one accounting code that was excluded during the FY 2017 risk assessment process.

Programs Requiring a Risk Assessment Were Identified

Of the 63 programs that the Department identified as being subject to IPIA requirements, MC identified 12 requiring improper payments risk assessments in FY 2018. These programs were identified either because of significant changes in funding (3 programs)²¹ or because the program included one or more accounting codes that were excluded from the FY 2017 risk

¹⁸ OMB Circular A-123, Appendix C, at 11.

¹⁹ Ibid, at 11–12.

²⁰ The Department performed risk assessments of all programs in FY 2016. On the basis of 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 2018 is an interim year for assessing risk, which requires only an assessment of programs with significant changes.

²¹ 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. On the basis of its review, MC concluded that no programs experienced a change in legislation significant enough to require that an improper payments risk assessment be performed in FY 2018.

assessments on the basis of the Department's prior threshold of \$10 million (9 programs).²² MC defined a significant change in funding as either an increase in program expenditures from the previous year of at least \$100 million or an increase in program expenditures from the previous year of at least \$85 million and 50 percent.²³ MC identified all programs requiring a risk assessment for susceptibility to significant improper payments, in accordance with OMB requirements and Department criteria.

Improper Payments Risk Assessments Were Performed

OMB Circular A-123, Appendix C, requires that agencies perform a risk assessment of all programs for susceptibility to significant improper payments.²⁴ The Circular defines "significant improper payments" as gross annual improper payments in the program exceeding both 1.5 percent of program outlays and \$10 million of all program payments made during the fiscal year or \$100 million.²⁵ Agencies must institute a systematic method of performing the risk assessments. An agency can perform a quantitative evaluation on the basis of a statistical sample, or it can perform a qualitative evaluation by considering risk factors likely to contribute to significant improper payments.²⁶

During FY 2018, MC performed and documented a qualitative risk assessment of the 12 programs that it identified as requiring an assessment. To perform the risk assessments, MC

²² The Department identifies programs for risk assessment purposes by grouping related expenditures identified during analyses of accounting data. To determine which expenditures to include in each program, Department officials analyze accounting codes that provide context on how the expenditure supports the Department's mission. Some programs identified by the Department include expenditures from only one accounting code, although other programs represent expenditures from multiple accounting codes. Until FY 2017, the Department chose not to include any accounting code with expenditures of less than \$100 million in a program. The Department did not believe that it would be possible for a group of expenditures that was less than \$100 million to have enough improper payments to meet OMB's threshold for reporting data. During FY 2017, as a result of an audit finding from the Government Accountability Office's report *Improper Payments: Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities* (GAO-18-36, November 2017), the Department reduced its threshold from \$100 million to \$10 million. In FY 2018, the Department eliminated the threshold. Therefore, the Department included all expenditures in one of the programs that it had identified. The Department conducted a risk assessment for each program that contained one or more accounting codes that were excluded in prior years.

²³ For example, if a program had \$190 million in expenditures in the current year and \$100 million in expenditures in the prior year, it would not meet the first criterion for requiring a risk assessment in the current year, because the total program expenditures increased by only \$90 million. However, because the percentage increase in expenditures is 90 percent and the total program expenditures increased by more than \$85 million and 50 percent, it therefore meets the second criterion requiring a risk assessment in the current year.

²⁴ In FY 2018, MC determined that 12 of 63 programs required risk assessments. Of the 12 assessed, 3 (25 percent) had been assessed in the prior year but had significant changes in funding that required a risk assessment in FY 2018 and 9 (75 percent) were assessed because they included 1 or more accounting codes that were excluded in FY 2017 on the basis of the prior threshold of \$10 million. During FY 2018, the Department elected to no longer have a minimum threshold for risk assessment consideration. The remaining 51 programs were assessed in FY 2016 or FY 2017.

²⁵ OMB Circular A-123, Appendix C, at 10.

²⁶ *Ibid.*, at 11–12.

developed a scorecard for each program, which included an evaluation of the seven risk factors specified by OMB.²⁷ The scorecard comprised 11 risk factors,²⁸ such as whether the program was new, the volume of payments made, and significant deficiencies identified in audit reports (for example, OIG and Government Accountability Office reports).

MC obtained information for its scorecard evaluation by reviewing the Department's FY 2018 Congressional Budget Justification, information on internal and external websites, and information contained in internal and external reports and having discussions with officials from the responsible bureaus and offices. On the basis of information obtained, MC assigned a numerical rating of 1, 3, or 5 to each program for each scorecard criterion, with a rating of 1 representing low risk, 3 representing moderate risk, and 5 representing high risk. MC then averaged the ratings for each program to determine the program's overall risk level. The overall ratings showed that all 12 programs were at low risk for incurring significant improper payments. Therefore, MC concluded that none of the Department's programs was susceptible to significant improper payments as defined by OMB Circular A-123, Appendix C.²⁹

Quality Control Procedures Could Be Improved

MC considered and documented its assessed risk for each risk factor. Kearney found that the overall implementation of the risk assessment process was effective. However, during its review of supporting documentation, Kearney identified some deficiencies that may have been identified and corrected if MC had improved its quality control review process. Although MC officials stated that supervisory reviews of risk assessments were performed, these reviews did not effectively identify the deficiencies noted during the audit.

One factor that OMB Circular A-123, Appendix C, requires be considered during the risk assessment is "significant deficiencies in the audit reports of the agency," including OIG reports. For FY 2018, Kearney found that MC considered most OIG reports during its risk assessments. However, MC lacked a process to ensure that all pertinent OIG reports were considered during the risk assessment process. For example, Kearney identified two Management Assistance Reports issued by OIG during FY 2018 that identified monetary benefits and that were not considered by MC during its risk assessments. Specifically, MC did not consider an OIG Management Assistance Report³⁰ that identified \$45 million in questioned costs and another

²⁷ Ibid.

²⁸ The Department includes four risk factors that are not required by the revised version of OMB A-123, Appendix C. Three of the additional risk factors used by the Department relate to two risk factors that OMB A-123, Appendix C, required before it was revised on June 26, 2018. Specifically, MC has elected to continue considering "[r]esults from prior improper payment work," which MC splits into two factors—number of improper payments and amount of improper payments—and "[i]nherent risks of improper payments due to the nature of agency programs or operations." Furthermore, MC considers one additional risk factor—percentage increase of 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 also changes as a percentage of the program's funding.

²⁹ OMB Circular A-123, Appendix C, at 10.

³⁰ OIG, *Management Assistance Report: Cost Controls for Food Services Supporting Department of State Operations in Iraq Require Attention* (AUD-MERO-18-31, March 2018).

OIG Management Assistance Report³¹ that identified \$5 million in questioned costs. MC officials indicated that its staff review reports for each full-scope audit performed by OIG, such as performance audit reports. MC officials indicated that it would be resource intensive for its staff to review every type of report issued annually by OIG, such as Management Assistance Reports and Inspection reports. Although the amount identified in the two OIG Management Assistance Reports would not have impacted MC's determination of risk levels during FY 2018, OIG could identify monetary savings in future years that would have an effect on MC's risk assessments. Without quality control procedures to confirm that all relevant OIG reports are reviewed, MC may be unaware of data that would impact its determination of risk levels.

During its review of the risk assessments, Kearney identified one error. Specifically, MC provided supporting documentation that included transposed risk ratings for two risk assessment categories related to one program. MC assessed the risk rating for the "significant deficiencies in audit reports" as "Moderate" and the "results from prior improper payment work" as "High." These two risk ratings should have been reversed. MC officials stated that a supervisory review of risk assessment documentation was conducted. However, the review did not detect the error. Although the overall risk rating for this program did not change as a result of the error, supervisory reviews that confirm that overall risk assessment ratings and risk assessment ratings for each category are sufficiently supported by documentation are necessary to ensure that MC's risk assessment scorecards are populated accurately.

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement additional quality control procedures to ensure that each pertinent OIG report that could impact the annual risk assessment process is identified and reviewed and to verify consistency between risk assessment conclusions and supporting documentation.

Management Response: CGFS concurred with the recommendation, stating that it recognizes that process improvements can be made and will continue to do so.

OIG Reply: On the basis of CGFS's concurrence with the recommendation, OIG considers the recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that CGFS developed and implemented additional quality control procedures to ensure that each pertinent OIG report that could impact the annual risk assessment process is identified and reviewed and to verify consistency between risk assessment conclusions and supporting documentation.

³¹ OIG, *Management Assistance Report: Contract Terms and Guidance for Approving Student Training Expenses Relating to the Justice and Corrections Programs in Afghanistan Require Attention* (AUD-MERO-18-14, October 2017).

RECOMMENDATION

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement additional quality control procedures to ensure that each pertinent OIG report that could impact the annual risk assessment process is identified and reviewed and to verify consistency between risk assessment conclusions and supporting documentation.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Improper Payments Elimination and Recovery Act of 2010¹ (IPERA), which amended the Improper Payments Information Act of 2002² (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 public accountant, Kearney & Company, P.C. (Kearney), acting on OIG's behalf, performed this audit to determine whether the Department was in compliance with IPERA.

Kearney conducted fieldwork for this performance audit from February through April 2019 in the Washington, DC, metropolitan area. This work was delayed because of the lapse in OIG's appropriations that occurred from 11:59 p.m. December 21, 2018, through January 25, 2019. 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 determine whether the Department's FY 2018 Agency Financial Report (AFR) complied with improper payments reporting requirements, (2) to evaluate whether the Department conducted a program-specific risk assessment for all programs covered by Office of Management and Budget (OMB) requirements, and (3) to reach a conclusion as to whether the Department was compliant with IPERA according to OMB guidance.³

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 regarding compliance with IPERA requirements. To expedite the audit process, Kearney leveraged the results of its FY 2018 audit of the Department's financial statement and audits of the Department's FYs 2011–2017 compliance with improper payment requirements to confirm its understanding of the nature and profile of Department operations, 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 Improper Payments Elimination and Recovery Act of 2010, Public Law 111-204, §§ 2 and 3, July 22, 2010.

² Improper Payments Information Act of 2002, Public Law 107-300, §§ 1 and 2, November 26, 2002.

³ OMB Circular A-123, Appendix C, "Requirements for Payment Integrity Improvement," June 26, 2018, 49.

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 2018 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 IPERA requirements. The testing phase included procedures to assess the Department's IPERA 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 IPERA requirements. Kearney also evaluated the Department's risk assessment process for compliance with IPERA requirements as well as reasonableness and objectivity. Finally, Kearney evaluated the Department's FY 2018 AFR disclosure against OMB Circular A-136⁴ requirements to determine whether 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 IPERA requirements.

Prior Reports

In May 2018, OIG reported⁵ that the Department was in compliance with IPERA requirements. Specifically, the Department performed required risk assessments. In addition, the Department published its AFR for FY 2017 with the disclosures required by OMB and posted the AFR on its website. However, information relating to improper payments identified and recovered outside the recapture audit process was not included.

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 for performing risk assessments and reporting improper payments information. Kearney tested relevant controls, such as the compilation of improper payments information in the AFR and the supervisory review of risk assessments, by re-performing the processes and ensuring that the results were consistent with those of the Department and were in compliance with IPERA requirements. As reported in the Audit Results section of this report, the Department published an AFR and included required disclosures. Kearney also found that the CGFS Office of Management Controls' risk assessment procedures were adequate but could be improved by implementing additional quality control review procedures.

⁴ OMB Circular A-136, "Financial Reporting Requirements," July 30, 2018, at 110–113.

⁵ OIG, *Audit of Department of State FY 2017 Compliance With Improper Payments Requirements* (AUD-FM-18-40, May 2018).

Use of Computer-Processed Data

Kearney obtained computer-processed data from the CGFS Office of Management Controls to aid in determining whether the Department complied with IPERA. More specifically, the data provided evidence that the Department had taken steps to comply with IPERA. 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 2018 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 2017 expenditure transactions that Kearney obtained from the Global Financial Management System, the Department's core financial system.

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



United States Department of State
Comptroller
Washington, DC 20520
MAY 22 2019

UNCLASSIFIED

MEMORANDUM

TO: OIG – Steve A. Linick

FROM: CGFS – Jeffrey C. Mounts, Acting *Jeffrey C. Mounts*

SUBJECT: Report on Audit of Department of State FY 2018 Compliance with Improper Payments Requirements

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Report titled Audit of Department of State FY 2018 Compliance with the Improper Payments Requirements AUD-FM-19-XX.

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 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). As reflected in the Report, we are pleased that our program is "compliant" with IPIA, as amended.

The Department accepts the recommendation provided in the Draft Report. We recognize that process improvements can be made and will continue to do so, as demonstrated by our IPIA program accomplishments over the past several years.

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 look forward to working with both the OIG and the Independent Auditor on further enhancements to our program in the coming year. If you have any questions, please contact Carole Clay, Director of Management Controls (CGFS/MC), at (202) 663-2084.

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ABBREVIATIONS

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

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