



Office of Inspector General
United States Department of State

AUD-FM-20-31

Office of Audits

May 2020

Audit of Department of State FY 2019 Compliance With Improper Payments Requirements

FINANCIAL MANAGEMENT DIVISION



HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-20-31

What Was Audited

In FY 2019, improper Federal payments Government-wide totaled approximately \$175 billion. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires Inspectors General to annually determine whether agencies complied with improper payment requirements and established additional requirements for agencies that were deemed noncompliant with improper payments requirements.

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 IPERA.

What OIG Recommends

OIG made one recommendation to improve the Department's quality control procedures 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 recommendation resolved, pending further action. A synopsis of the CGFS response and OIG's reply follow the recommendation in the Other Matters section of this report. The CGFS response to a draft of this report is reprinted in its entirety in Appendix C.

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OFFICE OF AUDITS

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What Was Found

For the FY 2019 reporting period, Kearney found that the Department complied with improper payments requirements, as presented in Table 1.

Table 1: Compliance with Improper Payment Criteria

Improper Payment Criteria	Compliance
Published Agency Financial Report	Yes
Conducted Risk Assessment	Yes
Published Improper Payment Estimate*	N/A
Published Corrective Action Plans*	N/A
Published and Met Reduction Targets*	N/A
Reported an Improper Payment Rate Less Than 10 Percent*	N/A

* Criteria did not apply because no program was identified in FY 2019 as being at risk for significant improper payments.

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

Kearney found that the Department published on its website the FY 2019 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. Specifically, the Department performed risk assessments for all 38 programs as part of its 3-year risk assessment approach. The programs subject to risk assessments are listed in Appendix B.

In addition, Kearney found that the quality control procedures governing the risk assessment process need improvement. Specifically, Kearney found that the Department misapplied its scoring methodology for one risk factor and did not evaluate all OIG reports during its risk assessment process. Although these lapses did not rise to a level that impacted the Department's compliance with IPERA for the FY 2019 reporting period, Kearney concludes that improving quality control procedures when performing future risk assessments would enhance the Department's ability to identify improper payments.



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Audit of the Department of State FY 2019 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 2019 compliance with improper payments requirements. This performance audit, performed under Contract No. 19AQMM19F2808, 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 January 2020 through May 2020 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 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 stylized and cursive.

Kearney & Company, P.C.
Alexandria, Virginia
May 13, 2020

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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 Improper Payments Elimination and Recovery Act of 2010¹ (IPERA).

BACKGROUND

According to the Department of the Treasury, improper Federal payments Government-wide totaled approximately \$175 billion in FY 2019.² Improper payments are payments that should not have been made or that were made in an incorrect amount. Improper payments include overpayments and underpayments that are made to eligible recipients, duplicative 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 a lack of supporting documentation.³

The Federal Government has taken steps to identify and reduce improper payments. In 2002, Congress enacted the Improper Payments Information Act of 2002,⁴ which required Federal agencies to annually review programs and activities⁵ to identify those that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and report the actions taken to reduce improper payments.

In July 2010, IPERA⁶ clarified the programs to be reviewed and expanded improper payments recapture activities. IPERA also required Inspectors General to annually determine whether agencies complied with improper payments requirements and established additional requirements for agencies that were deemed noncompliant.⁷

In January 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012⁸ was enacted. The Improper Payments Elimination and Recovery Improvement Act of 2012 further amended the Improper Payments Information Act by requiring, among other things,

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

² PaymentAccuracy.gov, Resources, Annual Improper Payment Datasets, Payment Accuracy 2019 Dataset, <http://www.paymentaccuracy.gov/resources/#data>.

³ OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," Appendix C, "Requirements for Payment Integrity Improvement," 8 (June 26, 2018).

⁴ Improper Payments Information Act of 2002, Pub. L. 107-300, November 26, 2002.

⁵ The term "program and activity" is referred to in this report as "program."

⁶ Pub. L. 111-204, §§ 2 and 3.

⁷ Ibid., § 3(b).

⁸ Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. 112-248, §§ 1 through 5, January 10, 2013.

that the Office of Management and Budget (OMB) identify high-priority Federal programs for greater levels of oversight and review, provide guidance to agencies for improving estimates of improper payments, and establish a working system for pre-payment and pre-award review. This Act also amended the definition of “payment” to include payments made to employees.⁹

On June 26, 2018, OMB released updated guidance for agencies to implement improper payments 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 improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements.”

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 2019, the Department made payments of approximately \$36.4 billion, of which \$29.9 billion was subject to IPERA requirements.¹⁰ The payments subject to IPERA included payments to vendors and contractors; payments to employees; and Federal financial assistance payments, including grants, assessed contributions,¹¹ and voluntary contributions.¹² 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 controls. Management controls, also known as “internal controls,” are the

⁹ Pub. L. 112-248, § 3(b)(2)(E).

¹⁰ 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 \$36.4 billion in Department payments were intra-governmental and intra-departmental payments.

¹¹ 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.

¹² Voluntary contributions represent discretionary financial assistance provided to foreign countries, international societies, commissions, proceedings, or projects.

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

Finding A: The Department Complied With Improper Payments Requirements

Kearney found that the Department complied with all applicable improper payments requirements for FY 2019. Specifically, the Department reported the required improper payments information in its FY 2019 Agency Financial Report (AFR), published the AFR on its public website, and conducted program-specific risk assessments. The Department was not required to perform additional procedures or make other AFR disclosures because it did not identify any programs at significant risk for improper payments.¹³

Agency Financial Report Was Published and Included Required Disclosures

IPERA 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.¹⁴ OMB Circular A-123, Appendix C, states that most improper payment reporting requirements are met though annual data requests from OMB and an agency's AFR, which is required to be presented in the format provided in OMB Circular A-136, as revised, "Financial Reporting Requirements."¹⁵

The Department published an FY 2019 AFR containing the required improper payments information and posted it on its public website. Specifically, 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 addition, the Department included its procedures for recapturing improper payments, programs and amounts in which overpayments were recaptured, and "Do Not Pay" initiative activities. The Department also

¹³ OMB Circular A-123, Appendix C, at 49, identifies six criteria or requirements that agencies must meet to be compliant with improper payments 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. The Department does not have a program susceptible to significant improper payments.

¹⁴ Pub. L. 111-204, § 3(a)(3)(A).

¹⁵ OMB Circular A-123, Appendix C, at 6, "Annual Reporting." OMB Circular A-136, "Financial Reporting Requirements," § II.4.5, "Payment Integrity" (June 28, 2019).

included a link to www.paymentaccuracy.gov, which contains additional improper payment information, as required by OMB Circular A-136, as revised.¹⁶ Because the Department did not have any programs that were deemed susceptible to significant improper payments, additional reporting requirements were not applicable.

Program Risk Assessments Were Performed

The Improper Payments Information Act requires agencies to periodically review all programs and identify those that may be susceptible to significant improper payments.¹⁷ OMB Circular A-123, Appendix C, defines significant improper payments as gross annual improper payments in a 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 should institute a systematic method of performing the risk assessments by conducting either a quantitative or qualitative risk assessment. Quantitative risk assessments should be based on sampling (statistical or nonstatistical) analysis. Qualitative risk assessments may be conducted in another form, such as a questionnaire, designed to accurately determine whether the program is susceptible to significant improper payments.¹⁸

For programs that an agency initially determines are not susceptible to significant improper payments, OMB requires the agency to implement a systematic method to conduct risk assessments of all programs at least once every 3 years thereafter. However, agencies are required to consider annually whether significant changes to either legislation or funding would affect each program's risk susceptibility.¹⁹

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

- **Phase I:** Identification of Department programs that require risk assessment.
- **Phase II:** MC evaluation of seven risk factors specified by OMB²⁰ and four risk factors developed by the Department 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.²¹
 - Assessment is complete for programs that are identified as low risk.
 - Assessment continues 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.

¹⁶ Ibid., at 106.

¹⁷ Pub. L. 107-300, § 2(a).

¹⁸ OMB Circular A-123, Appendix C, at 10–13.

¹⁹ Ibid., at 11.

²⁰ Ibid., at 11-12.

²¹ MC defines a program's 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.

- Assessment is complete for programs that are identified as low risk.
 - Assessment continues 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.
 - Assessment is complete for programs that are identified as low risk.
 - Assessment continues 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.²²

Qualitative Risk Assessments Were Performed

The Department performed the required qualitative risk assessments for all programs in FY 2019.²³ Kearney selected a non-statistical sample of 11 programs to evaluate MC's risk assessment process.²⁴ Kearney reviewed risk assessment documentation for sampled programs and found that MC's risk assessment processes and conclusions were reasonable.²⁵ Specifically, in Phase I of the risk assessment process, MC identified 38 programs for assessment.²⁶ During Phase II, MC assessed the risk of significant improper payments for each of the 38 programs. MC obtained information for its risk assessments by reviewing the Department's FY 2020 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. On the basis of information obtained, following Phase II of the risk assessment, the overall risk scores showed that 35 of the 38 programs were at low risk for incurring significant improper payments and that 3 programs were at moderate risk.

Kearney reviewed documentation for the three programs that were identified to be at moderate risk following Phase II of the risk assessment and found that MC performed additional analyses, in accordance with its procedures. The Phase III assessment considered whether significant deficiencies in each program's internal control had been previously identified in the annual Federal Managers Financial Integrity Act²⁷ assurance statement; OMB Circular A-123, Appendix A,²⁸ findings; or the independent auditor's report on the Department's

²² 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, at 10.

²³ The Department also performed qualitative risk assessments of all its programs in FY 2013 and FY 2016. Because of the timing of FY 2019 IPERA risk assessments, the programs are grouped according to FY 2018 financial data.

²⁴ See "Sampling Methodology," in Appendix A, "Purpose, Scope, and Methodology," in this report for additional details.

²⁵ As described in the Other Matters section of this report, Kearney identified concerns with MC quality control processes over risk assessments. However, Kearney concluded that the identified weaknesses did not significantly impact the improper payment information reported by the Department in the AFR.

²⁶ See Appendix B of this report for a list of programs subject to MC risk assessments.

²⁷ Federal Managers Financial Integrity Act of 1982, Pub. L. 97-255, § 2, September 8, 1982.

²⁸ OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk" (June 6, 2018).

financial statements.²⁹ The results of Phase III steps indicated that the three programs' overall risk decreased from moderate to low and that additional assessment was, therefore, not necessary. MC concluded that none of the Department's programs was susceptible to significant improper payments, as defined by OMB Circular A-123, Appendix C.³⁰

OTHER MATTERS

Quality Control Procedures Governing the Risk Assessment Process Need Improvement

During the audit, Kearney found that the quality control procedures governing the risk assessment process need improvement. Specifically, Kearney found that the Department misapplied its scoring methodology for one Phase II risk factor and did not evaluate all OIG reports during its risk assessment process. Although these lapses did not rise to a level that impacted the Department's compliance with IPERA for the FY 2019 reporting period, Kearney concludes that improving quality control procedures when performing future risk assessments would enhance the Department's ability to identify improper payments.³¹

Scoring Methodology for One Risk Factor Was Misapplied

OMB Circular A-123, Appendix C, requires "significant deficiencies in the audit reports of the agency," including OIG reports, be considered during improper payment risk assessments.³² As part of Phase II of its risk assessment, one of the risk-scoring methodologies that MC developed is based on the number of recommendations in OIG reports that potentially relate to improper payments.³³ MC's scoring methodology for this risk factor designates each program's risk for improper payments as follows:

- "Low" for three or fewer audit recommendations.
- "Moderate" for four to seven audit recommendations.
- "High" for eight or more audit recommendations.

Kearney reviewed MC's supporting documentation for a non-statistical sample of 11 programs and found that the Department misapplied scoring for the risk factor for all sampled programs. Specifically, MC erroneously counted the number of audit reports, rather than the number of

²⁹ OIG, *Independent Auditor's Report on the U.S. Department of State 2018 and 2017 Financial Statements* (AUD-FM-19-03, November 2018).

³⁰ OMB Circular A-123, Appendix C, at 10.

³¹ Kearney concluded that the identified weaknesses did not significantly impact the improper payment information reported by the Department in the AFR.

³² *Ibid.*, at 12.

³³ OIG recommendations that address potential improper payments made by the Department typically include a quantitative dollar amount of unallowable, questioned, or unsupported costs. According to OMB Circular A-123, Appendix C, at 8, questioned costs do not represent improper payments until the payment has been completely reviewed and is confirmed to be improper.

recommendations related to improper payments that were included in each of the audit reports for each program. Because of this error, Kearney reviewed the scoring of this risk factor for all 38 programs and found that the misapplication of scoring affected 14 (37 percent) of the programs. Kearney recalculated the overall risk scores for the 14 affected programs, using the correct methodology for the OIG audit report risk factor. Kearney found that 2 of 14 affected programs' overall risk scores should have been "moderate" rather than "low." Therefore, these two programs should have been subject to supplemental risk assessments, in accordance with MC's phased risk assessment procedures.³⁴

On the basis of Kearney's experience as the Department's financial statement auditor and its evaluation of OIG audit report recommendations for the two programs in question, Kearney concluded that the misapplication of the scoring methodology did not have a significant impact on the Department's overall conclusions resulting from risk assessments or the AFR disclosures in FY 2019. Specifically, Kearney believes that the two programs would be considered low risk once Phase III and Phase IV of the Department's risk assessment procedures were performed. However, improving quality control procedures when performing future risk assessments would enhance the Department's ability to identify improper payments.

Only Publicly Available OIG Audit Reports Were Included in Risk Assessments

Kearney found that, although MC considered most OIG reports during its FY 2019 risk assessments, it did not consider OIG audit reports that were not publicly available on the OIG website. To assess the completeness of MC's review of OIG audit reports, Kearney compared the reports listed in OIG's semiannual reports to Congress³⁵ to MC's supporting documentation. Kearney found that, during Phase II of its risk assessment, MC did not consider one OIG audit report that identified approximately \$4.6 million in questioned costs for one program. Kearney reviewed the excluded OIG audit report and determined that the recommendations would not have impacted MC's determination of risk levels during FY 2019. Although the risk assessments were not affected in FY 2019, all potential improper payments identified in OIG audit reports should be considered during MC's risk assessments.

MC officials stated that sensitive reports are intentionally excluded from the risk assessment process because MC staff do not have access to the unredacted audit reports. OMB Circular A-50 requires that "Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations."³⁶ Moreover, OMB requirements do not provide agencies with the ability to exclude sensitive audit reports from risk assessments.³⁷

³⁴ As described in the Audit Results section of this report, the Department applied a phased risk assessment approach, which includes qualitative and quantitative assessments.

³⁵ OIG, *Semiannual Report to the Congress October 1, 2018, to March 31, 2019* and *Semiannual Report to the Congress April 1, 2019, to September 30, 2019*.

³⁶ OMB Circular A-50, "Audit Followup," § 5 (September 29, 1982).

³⁷ OMB Circular A-123, Appendix C, at 11–12.

An audit recommendation system compliant with OMB Circular A-50 would enable MC to have full awareness of all audit-related recommendations that involve potential improper payments. However, without an appropriate system or other compensating procedures to obtain and review all pertinent OIG audit reports, MC may be unaware of data that could affect its risk assessments.

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services revise and implement quality control review procedures over its Phase II qualitative risk assessment for the OIG audit report risk factor process. At a minimum, the revised procedures should include documented independent reviews of staff risk assessment documentation that confirm scoring methodologies were based on the number of OIG recommendations rather than the number of reports and that all OIG reports, not only publicly available reports, were evaluated for potential improper payment.

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 concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that CGFS revised and implemented quality control review procedures over its Phase II qualitative risk assessment for the OIG audit report risk factor process.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services revise and implement quality control review procedures over its Phase II qualitative risk assessment for the OIG audit report risk factor process. At a minimum, the revised procedures should include documented independent reviews of staff risk assessment documentation that confirm scoring methodologies were based on the number of OIG recommendations rather than the number of reports and that all OIG reports, not only publicly available reports, were evaluated for potential improper payment.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Improper Payments Elimination and Recovery Act of 2010¹ (IPERA) requires the Office of Inspector General (OIG) to conduct an annual audit of Department of State (Department) compliance with improper payments requirements. In accordance with the IPERA requirement, an external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of OIG, conducted this audit to determine whether the Department complied with IPERA.

Kearney conducted this audit from January to April 2020 in the Washington, DC, metropolitan area. The scope of this audit was the Department's FY 2019 improper payment reporting processes. 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 current processes, procedures, and organizational structure regarding compliance with IPERA requirements. To expedite the audit process, Kearney leveraged the results of its FY 2019 audit of the Department's financial statements and audits of the Department's FYs 2011–2018 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 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 2019 risk assessments and Agency Financial Report (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 basis 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

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

reasonableness and objectivity. Finally, Kearney evaluated the Department's FY 2019 AFR disclosure against OMB Circular A-136² requirements to determine whether all required disclosures were made.

During the reporting phase, Kearney formally communicated to the Department the conclusions reached and recommendations for the actions it should take to improve its risk assessment processes.

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 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 2019 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 2018 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 factors, including the subject matter under audit, to determine whether internal control was significant to the audit objective, which was to determine whether the Department complied with improper payment requirements for FY 2019. On the basis of its consideration, 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. As listed in Appendix B of this report, the Department identified 38 programs that required improper payment risk assessments in FY

² OMB Circular A-136, "Financial Reporting Requirements," June 28, 2019, at 106–109.

2019.³ Of those 38 programs, Kearney selected a non-statistical sample of 11 programs to test the Department's risk assessment process. Kearney selected all programs that had more than \$1 billion in expenditures (five programs). Kearney then leveraged its understanding of Department programs obtained during past audits of the Department's financial statements to select the remaining six programs. Specifically, Kearney considered inherent risk for improper payments due to the nature of the programs. In total, the 11 programs selected for review represented approximately \$16.5 billion (65 percent) of the approximately \$25.3 billion in FY 2018 expenditures subject to the Department's risk assessments. Table A.1 shows the programs Kearney selected for testing.

Table A.1: Programs Selected for Testing

Program Name	FY 2018 Dollar Value
American Compensation	\$4,391,919,058
Voluntary Contributions	\$2,751,591,741
Assessed Contributions	\$2,424,723,055
Working Capital Fund, International Cooperative Agreement Support Services	\$1,902,343,846
Foreign Service National/Locally Employed Staff Compensation	\$1,892,942,303
Overseas Buildings Operations (OBO), Construction	\$970,382,446
Diplomatic & Consular Program, Worldwide Security Protection	\$704,510,323
International Security & Nonproliferation Related Programs	\$482,822,105
Temporary Duty Travel	\$421,273,307
Embassy Operations Programs	\$365,929,980
OBO, Project Construction - Major Rehabilitation	\$152,432,814
Total	\$16,460,870,978

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

Prior Office of Inspector General Reports

In May 2019, OIG reported that the Department complied with IPERA requirements.⁴ Specifically, the Department performed required risk assessments. In addition, the Department published its AFR for FY 2018 with the disclosures required by OMB, as well as additional optional disclosures, and posted the AFR on its website. However, the Department did not consider all pertinent OIG reports during its risk assessment process. Additionally, one error was identified in the Department's risk assessment documentation for one program. However, these items did not impact the overall risk assessment conclusions. As of the date of this report, two recommendations from a prior OIG audit report on IPERA have been resolved.⁵ No other recommendations from prior OIG audit reports on IPERA remain open.

³ Because of the timing of FY 2019 IPERA risk assessments, the programs are grouped on the basis of FY 2018 financial data.

⁴ OIG, *Audit of Department of State FY 2018 Compliance With Improper Payments Requirements* (AUD-FM-19-29, May 2019).

⁵ OIG, *Audit of Department of State FY 2016 Compliance With Improper Payments Requirements* (AUD-FM-17-42, May 2017).

APPENDIX B: PROGRAMS SUBJECT TO RISK ASSESSMENT

Table B.1 is the list of the 38 programs for which the Department of State (Department) assessed risk during FY 2019.

Table B.1: Listing of FY 2019 Programs and Activities

Department Program or Activity
American Compensation
Annuity Compensation
Assessed Contributions
Aviation, Anticrime, Interdiction & Related Programs
Citizen Exchange Program
Diplomatic and Support Programs
Diplomatic & Consular Program (D&CP), Consular IT and Security (Machine Readable Visas)
D&CP, Diplomatic Policy and Support
D&CP, IT Central Fund
D&CP, Other Operations
D&CP, Overseas Programs
D&CP, Passport Generation and Related (Passport Surcharge)
D&CP, Security – Afghanistan, Pakistan
D&CP, Terrorism-Related
D&CP, Western Hemisphere Travel Surcharge
D&CP, Worldwide Security Protection
Domestic Purchase Card Payments
Economic Support Fund
Educational Programs
Embassy Operations Programs
Foreign Service National/Locally Employed Staff Compensation
Fulbright Program
International Security & Nonproliferation Related Programs
National Endowment for Democracy
Bureau of Overseas Buildings Operations (OBO), Capital and Real Property Acquisitions Program
OBO, Construction
OBO, International Security Programs
OBO, Leaseholds and Functional Programs
OBO, Project Construction – Major Rehabilitation
Peace-Keeping Operations Programs
Physical Security Programs
Population, Refugees & Migration Programs
Post-Assignment Travel
Promote the Rule of Law
Temporary Duty Travel
Voluntary Contributions
Working Capital Fund, International Cooperative Administrative Support Services
Working Capital Fund Programs

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

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



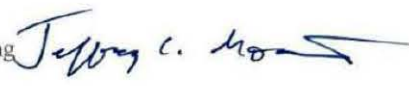
United States Department of State
Comptroller
Washington, DC 20520

May 4, 2020

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MEMORANDUM

TO: OIG – Steve A. Linick

FROM: CGFS – Jeffrey C. Mounts, Acting 

SUBJECT: Report on Audit of Department of State FY 2019 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 2019 Compliance with the Improper Payments Requirements (AUD-FM-20-XX, April 2020).

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 in a manner that leverages good stewardship of government funds and ensures our initiatives are cost effective.

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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Approved: Jeff Mounts *ok*

Drafter: CGFS/MC: Carole Clay, 202-663-2084, 5/1/20

Insert file path: 5-1-20 CGFS to OIG Compliance w-IPIA FY 2019 AUD-FM May 2020.docx

Clearance: CGFS/OMA: BDavisson (*ok*)

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ABBREVIATIONS

AFR	Agency Financial Report
CGFS	Bureau of the Comptroller and Global Financial Services
D&CP	Diplomatic & Consular Program
IPERA	Improper Payments Elimination and Recovery Act of 2010
MC	Office of Management Controls
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget

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