

INDEPENDENT AUDITOR'S REPORT
AUD-FM-IB-21-10

To the U.S. Agency for Global Media Chief Executive Officer and the Acting Inspector General

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Agency for Global Media (USAGM), which comprise the consolidated balance sheet as of September 30, 2020; the related consolidated statements of net cost and changes in net position and the combined statement of budgetary resources for the year then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USAGM as of September 30, 2020, and its net cost of operations, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Financial Statements

USAGM's financial statements as of and for the year ended September 30, 2019, were audited by other auditors whose Independent Auditor's Report dated November 19, 2019, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Deferred Maintenance sections (hereinafter referred to as "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB Circular A-136, "Financial Reporting Requirements," and the Federal Accounting Standards Advisory Board, which consider the information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information in the Message from the United States Agency for Global Media [Chief Executive Officer], the Introduction, the Performance Information, the Message from the Chief Financial Officer, and the Other Information sections of USAGM's Performance and Accountability Report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated November 16, 2020, on our consideration of USAGM's internal control over financial reporting and on our tests of USAGM's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2020. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 and should be considered in assessing the results of our audit.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 16, 2020

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the U.S. Agency for Global Media Chief Executive Officer and the Acting Inspector General

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, “Audit Requirements for Federal Financial Statements,” the financial statements and the related notes to the financial statements of the U.S. Agency for Global Media (USAGM) as of and for the year ended September 30, 2020, and have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered USAGM’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USAGM’s internal control. Accordingly, we do not express an opinion on the effectiveness of USAGM’s internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982,¹ such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described below, as an item that we consider to be a significant deficiency.

¹ Federal Managers’ Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 STAT 814 (September 8, 1982).

Significant Deficiency

Grantee Monitoring

USAGM has four grantees that it funds through annual grant agreements: Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia (RFA), the Middle East Broadcasting Networks (MBN), and the Open Technology Fund (OTF).² In FY 2020, the four grantees collectively received over \$290 million from USAGM in Federal grant awards, which represents approximately one-third of USAGM's total funding.

USAGM is responsible for monitoring the use of those funds to ensure that grantees adhere to applicable laws and regulations as well as to terms and conditions specified in the grant agreements. To aid in the grants monitoring process, USAGM approved and issued standard operating procedures (SOP)³ for grantee monitoring in February 2019, which present information and procedures that USAGM is supposed to use to monitor all stages of a grant's lifecycle.

We selected 15 control activities identified in the SOP to test whether USAGM had effectively implemented grantee monitoring. For RFE/RL, RFA, and MBN, we found that 8 of 15 controls tested were operating effectively. The remaining 7 control activities were not implemented by USAGM for RFE/RL, RFA, and MBN in FY 2020. For example, USAGM had not reviewed the allowability of grantee costs, performed grant close-outs, conducted formal documented site visits, or monitored equipment purchased by grantees. Furthermore, we found that 4 of 14⁴ control activities were operating effectively for OTF. In addition to the 7 controls that were not implemented for RFE/RL, RFA, and MBN, USAGM had not reviewed OTF's statements of obligations and disbursements, obtained an understanding of OTF's accounting processes for purposes of calculating an advance, or assessed OTF performance to prepare a required Performance Project Report.

USAGM officials stated that they have not fully implemented several of the key monitoring activities included in USAGM's SOP due to personnel and resource limitations. In FY 2020, to address these limitations, USAGM planned to engage contractor support to perform grantee monitoring activities, but a contract was not issued because of funding constraints. Office of the Chief Financial Officer (OCFO) officials stated that they will review available funding during the first quarter of FY 2021. Additionally, OCFO officials indicated that their ability to properly monitor OTF was impaired by active litigation between OTF and USAGM.

² OTF was established in FY 2019.

³ USAGM OCFO, "Standard Operating Procedures for Monitoring Grants," February 2019.

⁴ One of the 15 control activities selected for testing—approval of prior year carryforward funds—was not applicable because OTF did not have carryforward funds at the beginning of FY 2020.

Because USAGM continued to lack effective grantee oversight, there is an increased risk of waste, fraud, and abuse of Federal funds. Because USAGM is the primary funding source for the grantees, an organized and documented approach to oversight is needed to demonstrate accountability and mitigate risk. Weaknesses in controls over grantee monitoring have been reported each year since the audit of USAGM’s FY 2013 financial statements.

During the audit, we noted additional matters involving internal control over financial reporting that we will report to USAGM management in a separate letter.

Status of Prior Year Findings

In the Independent Auditor’s Report on Internal Control Over Financial Reporting, included in the audit report on USAGM’s FY 2019 financial statements,⁵ USAGM’s prior auditor reported an issue related to internal control over financial reporting. The status of this issue is summarized in Table 1.

Table 1. Status of Prior Year Finding

Control Deficiency	FY 2019 Status	FY 2020 Status
Grantee Monitoring	Significant Deficiency	Significant Deficiency

USAGM’s Response to Findings

USAGM management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management’s response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of USAGM’s internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity’s internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 16, 2020

⁵ OIG, *Independent Auditor’s Report on the U.S. Agency for Global Media FY 2019 Financial Statements* (AUD-FM-IB-20-06, November 2019).

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS**

To the U.S. Agency for Global Media Chief Executive Officer and the Acting Inspector General

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," the financial statements, and the related notes to the financial statements, of the United States Agency for Global Media (USAGM) as of and for the year ended September 30, 2020, and have issued our report thereon dated November 16, 2020.

Compliance

As part of obtaining reasonable assurance about whether USAGM's financial statements are free from material misstatement, we performed tests of USAGM's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to USAGM. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03 and which are summarized as follows:

- *Federal Grants Regulations.* In each year since USAGM's FY 2013 financial statement audit, independent auditors have identified substantial noncompliance with Federal grant regulations. USAGM is responsible for monitoring the use of funds provided to its grantees to ensure that they adhere to relevant laws and regulations. As noted in our Independent Auditor's Report on Internal Control Over Financial Reporting, USAGM has not fully implemented many of its designed grantee monitoring controls. As a result, USAGM continued to be in substantial noncompliance with the Code of Federal Regulations, Title 2, Subtitle A, Chapter II, Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," which provides guidance to agencies for grant oversight.

- *Federal Requirements Related to Internal Controls.* The Federal Managers’ Financial Integrity Act¹ (FMFIA) and OMB regulations² require executive branch agencies to establish and maintain effective internal control. Heads of agencies must annually evaluate and report on the effectiveness of the internal control and financial management systems that protect the integrity of Federal programs. We found that USAGM did not have a fully implemented program to assess the effectiveness of its internal controls over operations, reporting, and compliance. USAGM engaged a contractor during FY 2020 to strengthen its internal control program. However, as of September 30, 2020, the contractor had not begun to implement the newly designed program.

USAGM’s Response to Findings

USAGM management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management’s response, and accordingly, we express no opinion on it.

Purpose of This Report

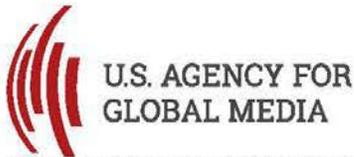
The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity’s compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity’s compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 16, 2020

¹ Federal Managers’ Financial Integrity Act, Pub. L. No. 97-255 (September 8, 1982).

² OMB Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” July 15, 2016, and OMB Circular A-123, Appendix A, “Management of Reporting and Data Integrity Risk,” June 6, 2018.



330 Independence Avenue SW | Washington, DC 20237 | usagm.gov

November 16, 2020

The Honorable Ambassador Matthew S. Klimow
Acting Inspector General
U.S. Department of State

Dear Mr. Klimow:

The U.S. Agency for Global Media (USAGM) is committed to maintaining fiscal responsibility and transparency for the taxpayer funds entrusted by Congress to pursue its global mission to inform, engage, and connect people around the world in support of freedom and democracy. The Performance and Accountability Report (PAR) is a key part of maintaining this commitment, providing a comprehensive account of the USAGM's financial activities.

I am pleased to report that USAGM continues to receive an unmodified opinion for this fiscal year's financial statement audit. USAGM is committed to working towards greater efficiency effectiveness, and accountability in financial operations. With programming in 62 languages, thousands of media partners, and on-the-ground reporting capabilities around the world, USAGM operations are global and complex. USAGM recognizes that our strength as an organization requires a strong fiscal foundation and effective stewardship over the resources entrusted to us by the American people. With continued investments in grantee oversight, I am confident we will improve compliance in this area during FY 2021.

We thank Kearney & Company for their continued efforts and dedication to working through the complex issues associated with the global nature of USAGM's financial processes.

Sincerely,

Thomas Layou Digitally signed by Thomas
Layou
Date: 2020.11.16 14:41:34 -05'00'
Thomas Layou
Acting Chief Financial Officer