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Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation

FINANCIAL MANAGEMENT DIVISION

HIGHLIGHTS
Office of Inspector General
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What Was Audited

Appropriations are classified as no-year, multi-year, and single-year. Multi-year and single-year appropriations are available for a defined period and "expire" at the end of the fiscal year for which they were appropriated, although both types have an additional 5-year period during which the funds remain available for certain transactions. At the end of the 5-year period, the appropriation is "canceled," and the remaining funds are returned to the Department of the Treasury (Treasury).

Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), conducted this audit to determine whether selected bureaus used appropriated funds within the deadlines of the appropriations and whether obligations using expired funds were made in accordance with Federal requirements.

What OIG Recommends

OIG made eight recommendations to improve the Department's fund management, including to review $34.7 million in obligations that may be put to better use. On the basis of management's response to a draft of this report, OIG considers one recommendation closed, five recommendations resolved, pending further action, and two recommendations unresolved. A synopsis of management's response to the recommendations offered and OIG's reply follow each recommendation in the Audit Results section of this report. Bureau-specific responses are reprinted in their entirety in Appendices C through F. OIG's reply to general comments provided by the Bureau of Budget and Planning is presented in Appendix G.

What Was Found

Overall, Kearney found that the Department used the majority of its appropriated funds that canceled in FY 2019 within the period of availability. Specifically, the Department returned approximately $356 million (i.e., unused canceled funds), which was only 2.3 percent of its budget authority, to Treasury. Although the Department used the majority of the funds, it did not have an established process to quantify and analyze funds that were scheduled to be canceled. In addition, due to the automated process used by the Department to systematically deobligate canceling funds, individuals responsible for fund management cannot retroactively review and analyze obligations linked to canceled funds. Furthermore, inadequate oversight of obligations, which is a longstanding issue reported by OIG,[1] negatively impacted the Department's fund management efforts. The Department lost the use of some funds because of the deficiencies identified. In addition, Kearney identified 29 potentially invalid obligations, totaling $34.7 million, that have funds that might be able to be put to better use if the funds were deobligated.

In addition, Kearney found that the three selected bureaus used funds that had already expired to make adjustments to obligations in accordance with Federal requirements. Specifically, Kearney tested 68 instances of adjustments to obligations after an appropriation expired, totaling $405 million, and found that all the items were compliant with Federal requirements relating to expired funds.

[1] OIG, *Audit of the U.S. Department of State FY 2020 and FY 2019 Financial Statements* (AUD-FM-21-08, November 2020).

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OBJECTIVE

Kearney & Company, P.C. (Kearney), acting on the behalf of the Office of Inspector General (OIG), conducted this audit to determine whether selected bureaus used appropriated funds within the deadlines of the appropriations and whether obligations using expired funds were made in accordance with Federal requirements.[1]

BACKGROUND

The Department of State (Department) must spend the funds that it receives from appropriations in accordance with Federal law. Budget authority allows an agency to enter financial obligations[2] that result in immediate or future outlays of Government funds. Most budget authority is in the form of appropriations. Appropriations are classified as no-year, multi-year, and single-year. No-year appropriations are available for obligating and expending without a fiscal year limitation. Multi-year appropriations are available for obligating for a defined period that exceeds 1 year, while single-year appropriations are available for obligating only during the fiscal years for which they were made. Funds, or appropriations, are said to "expire" for the purpose of obligating at the end of the fiscal year for which they were appropriated. Both multi-year and single-year appropriations have an additional 5-year period, beyond the original obligating period, during which the "expired" funds remain available for certain types of adjustments to obligations. At the end of the 5-year period, the appropriation is closed and any remaining balance, whether obligated or unobligated, is "canceled"[3] and the remaining funds are taken by the Department of the Treasury (Treasury).

Fund Management Responsibilities

The Department has three bureaus whose responsibilities specifically include fund management—the Bureau of the Comptroller and Global Financial Services (CGFS), the Bureau of Budget and Planning (BP), and the Office of Foreign Assistance. CGFS oversees all financial management activities related to the programs and operations of the Department, monitors the financial execution of the budget in relation to actual expenditures, and establishes financial management policies and management controls.

BP manages the Diplomatic Engagement[4] portion of the budget and assists Department bureaus when they develop their budget requests. Once the Department receives funding, BP

[1] This audit was required by the Consolidated Appropriations Act, 2019 (Pub. L. No. 116-6, § 7006(c)(4), which included requirements of H.R. 115-829, §7006).

[2] 4 Foreign Affairs Manual (FAM) 052.1, "Applicability," states that "Obligations incurred are defined as amounts of orders placed, contracts awarded, services rendered, and similar transactions during a given period requiring the expenditure of funds."

[3] 31 United States Code § 1552, "Procedure for appropriation accounts available for definite periods."

[4] One portion of the Department's appropriated funds is Diplomatic Engagement funding. These funds primarily support the Department's diplomatic and security activities and would include funds to support information technology, human capital, and security.

provides funds to the bureaus based on each bureau's financial plan. Throughout the year, BP analysts monitor each bureau's use of funds in comparison to the bureau's financial plan and adjust funding, as necessary. BP also exercises funds control by providing funds that have not expired but have been deobligated for bureaus to use for other Department priorities, rather than allowing the funds to expire. The Office of Foreign Assistance manages Foreign Assistance[5] funds that fall under the International Affairs Budget.

In addition to the bureaus and offices that have general fund management responsibilities, all bureaus, offices, and posts have responsibility for the funds that have been allotted to them. Specifically, budget offices within each organization are responsible for ensuring that the funds are used for the purposes stated in each organization's financial plan and that there is adequate funding available prior to obligation. The budget offices are also responsible for monitoring funds and ensuring the necessity of obligations.

AUDIT RESULTS

Finding A: Majority of Funds Used but Additional Actions Would Improve Fund Management

Overall, Kearney found that the Department used the majority of its appropriated funds that canceled in FY 2019 within the period of availability. Specifically, the Department returned approximately $356 million (i.e., unused canceled funds), which was only 2.3 percent of its budget authority, to Treasury.[6] Although the Department used the majority of the funds, it did not have an established process to quantify and analyze funds that were scheduled to be canceled. In addition, due to the automated process used by the Department to systematically deobligate canceling funds, individuals responsible for fund management cannot retroactively review and analyze obligations linked to canceled funds. Furthermore, inadequate oversight of obligations, which is a longstanding issue reported by OIG,[7] negatively impacted the Department's fund management efforts. The Department lost the use of some funds because of the deficiencies identified. In addition, Kearney identified 29 potentially invalid obligations, totaling $34.7 million, that might be able to be put to better use if the funds were deobligated.

[5] The other portion of the Department's appropriated funds is Foreign Assistance. Foreign Assistance is a significant component of the international affairs budget and is considered an essential instrument of foreign policy. These funds are used for various objectives, including improving governance, countering terrorism, and curbing illicit drug production and trafficking.

[6] In 2014, OIG issued a report that assessed Department funds that canceled in FY 2012 (*Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation*, AUD-FM-14-21, May 2014). During that audit, OIG stated that the Department returned 1.3 percent of its FY 2007 appropriations to Treasury when the funds canceled in FY 2012.

[7] OIG, *Audit of the U.S. Department of State FY 2020 and FY 2019 Financial Statements* (AUD-FM-21-08, November 2020). Deficiencies related to monitoring ULOs were initially reported in the audit of the Department's FY 1997 financial statements.

Department Generally Used Appropriated Funds Within Deadlines

According to Federal policy,[8] management must ensure that Federal resources assigned to them are used efficiently and effectively to achieve the desired objectives of the programs that they manage. Fund management is especially important for single-year and multi-year funds because of the limited time of fund availability.

Kearney found that the Department used[9] the majority of its appropriated funds that expired at the end of FY 2014 (i.e., that would have canceled in FY 2019) within the period of availability for the related appropriations. Specifically, of the $15.7 billion in single-year and multi-year appropriations that expired at the end of FY 2014, the Department returned $356 million (2.3 percent) in canceled funds from 26 Treasury Account Symbols[10] to Treasury, as detailed in Table 1.[11]

Table 1: Budget Authority and Funds Returned to Treasury

Account Symbol	Account Title	Appropriated Budget Authority[a] (in thousands)	Amount Canceled (in thousands)	Percent Canceled
19-13/14-0113	Diplomatic and Consular Programs - State	$6,182,552	$209,890	3.4
11-13/14-1022	International Narcotics Control and Law Enforcement, International Security Assistance, State	1,638,886	44,370	2.7
11-13/14-1075	Nonproliferation, Anti-Terrorism, Demining and Related Programs, International	617,579	32,539	5.3

[8] Office of Management and Budget Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 2016, 16.

[9] Kearney defines "used" as expended available funds.

[10] A Treasury Account Symbol is an identification code assigned by the Department of the Treasury, in collaboration with the Office of Management and Budget and the owner agency, to an individual appropriation, receipt, or other fund account.

[11] An additional 17 Treasury Account Symbols, totaling approximately $2.5 billion, canceled in FY 2019 but did not return money to the Treasury because the Department fully used, transferred, or reprogrammed the appropriated budget authority. One additional Treasury Account Symbol, totaling $28 million, returned $2 to the Department of the Treasury. Kearney did not include that Treasury Account Symbol in its analysis due to the small amount of funds that were canceled.

Account Symbol	Account Title	Appropriated Budget Authority[a] (in thousands)	Amount Canceled (in thousands)	Percent Canceled
	Security Assistance, State			
19-14-0113	Diplomatic and Consular Programs - State	4,120,740	21,778	0.5
19-14-1126	Contributions to International Organizations - State	1,340,162	16,645	1.2
19-13/14-0209	Educational and Cultural Exchange Programs - State	67,959	12,933	19.0
11-09/14-1022	International Narcotics Control and Law Enforcement, International Security Assistance, State	130,022	4,449	3.4
11-10/14-1032	Peacekeeping Operations, Funds Appropriated to the President	42,091	4,257	1.0
11-14-1032	Peacekeeping Operations, Funds Appropriated to the President	214,118	1,593	0.7
19-13/14-1121	Democracy Fund - State	63,659	1,369	2.2
19-13/14-1031	Global Health Programs - State	1,222	1,222	100[b]
19-13/14-0529	Office of the Inspector General - State	56,944	1,100	1.9
19-13/14-1143	Migration and Refugee Assistance - State	759,278	1,095	0.1

Account Symbol	Account Title	Appropriated Budget Authority[a] (in thousands)	Amount Canceled (in thousands)	Percent Canceled
11-13/14-1032	Peacekeeping Operations, Funds Appropriated to the President	268,398	495	0.2
11-08/14-1022	International Narcotics Control and Law Enforcement, International Security Assistance, State	33,087	461	1.4
19-09/14-1154	Andean Counterdrug Programs - State	6,346	414	6.5
19-14-1082	American Sections-International Commissions - State	12,869	342	2.7
11-10/14-1075	Nonproliferation, Anti-Terrorism, Demining and Related Programs, International Security Assistance, State	2,373	316	13.3
19-14-0545	Representation Allowances - State	8,030	293	3.6
19-14-0523	Payment to the American Institute in Taiwan - State	31,221	151	0.5
11-09/14-1032	Nonproliferation, Anti-Terrorism, Demining and Related Programs, International Security Assistance, State	18,162	141	0.8

Account Symbol	Account Title	Appropriated Budget Authority[a] (in thousands)	Amount Canceled (in thousands)	Percent Canceled
19-12/14-0209	Educational and Cultural Exchange Programs - State	6,000	113	1.9
19-14-1087	International Fisheries Commissions - State	35,980	69	0.2
11-09/14-1075	Nonproliferation, Anti-Terrorism, Demining and Related Programs, International Security Assistance, State	181	45	24.9
19-08/14-1121	Democracy Fund - State	1,686	9	0.5
Total		**$15,659,545**	**$356,089**	**2.3**

[a] Appropriated budget authority is the total of direct annual appropriations, transfers-in, and transfers-out.
[b] The appropriation was reduced by allocation transfers to other funds that reduced the net appropriated budget authority. The amount included in the table reflects the remaining balance for the appropriation.
Source: Prepared by Kearney based on appropriated budget authority information and the September 30, 2019, trial balance.

Fund Management Could Be Improved

Although the Department used the majority of its available funds that expired in FY 2014 within the period of availability, OIG identified opportunities for improvements to fund management. In addition to performing work in BP and CGFS, the bureaus that have general oversight responsibilities for budgeting and financial transactions, Kearney performed work at three bureaus[12]—African Affairs (AF), Political-Military Affairs (PM), and International Narcotics and Law Enforcement Affairs (INL). As detailed in Table 2,[13] these three bureaus had unobligated balances[14] related to canceled funds totaling $90.6 million as of September 30, 2019.

[12] See Appendix A: Purpose, Scope, and Methodology for details on the selection of the bureaus.

[13] The Department was able to reprogram some of these funds after the date of cancellation but before the funds were provided to Treasury. Table 2 reflects the amounts that technically canceled.

[14] After the last expired year of fund availability, the account is closed, and the ability to disburse is canceled. The Department liquidates open obligations by automatically moving the balances to an unobligated status.

Table 2: FY 2019 Unobligated Balances for Canceled Funds at Selected Bureaus

Bureau	Unobligated Balances for Canceled Funds	Percent of Total Unobligated Balances Canceled in FY 2019*
AF	$27,334,996	8
PM	$15,640,292	4
INL	$47,578,361	13
Total	**$90,553,649**	**25**

*As identified in Table 1, the total amount of unobligated balances canceled in FY 2019 was $356,089,000.

Source: Prepared by Kearney based on information in the September 30, 2019, trial balance.

As a result of its work, Kearney identified several issues that had a negative impact on fund management[15]—insufficient guidance and communication, limited data availability, and inadequate oversight of unliquidated obligations (ULO).[16]

Controls To Monitor Expired and Canceled Funds Have Not Been Put in Place

BP, in coordination with CGFS, established and implemented Department-wide policies and procedures related to fund management, which includes guidance on the distribution of funds and withdrawing and issuing expired funds,[17] reviewing unobligated balances,[18] and executing apportionments.[19] Furthermore, BP and CGFS provide bureaus with other pertinent fund management information such as fiscal year-end timelines,[20] which includes key dates for funds control. However, BP and CGFS have not implemented controls or formalized guidance for bureaus to use to monitor expired and canceled funds. For example, the Department does not require bureaus to regularly analyze funds that are at risk of expiring to ensure sufficient fund management. In addition, BP and CGFS do not require bureaus to confirm the amount of canceled funds or provide explanations as to the reason that funds were not used. Without defined procedures for cancelling funds, bureaus are less likely to be aware of which funds will cancel at the end of the fiscal year and specifically which obligations were made with those funds. Furthermore, requiring bureaus to confirm the amount of canceled funds would increase

[15] In OIG's prior report on canceled funds, *Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation* (AUD-FM-14-21, April 2014), 9, OIG reported that some Department officials cited delays in the contract closeout process as having a negative effect on their ability to manage funds. During this audit, officials in the selected bureaus did not cite close out as a potential cause of poor funds management.

[16] ULOs represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services that were ordered have not been received or the goods and services have been received but for which payment has not yet been made.

[17] BP, "Distribution of Funds, Appropriation Transfers, Withdrawing/Issuing Expired Funds Quick Reference Card," August 2018.

[18] The guidance includes a "Quarterly Unobligated Balances Report," action memorandum, and transmittal letter.

[19] BP, "Process Map 9 – Execute Apportionment and Distribute Funds."

[20] BP, "Annual Year-End Technical Guidance."

oversight of cancelling funds, thereby, improving fund management. In addition, mandatory reviews of cancelling funds at the bureau level would provide useful information that could assist bureaus to establish better obligations in the future.

Based on its audit work, Kearney found that AF, PM, and INL did not consistently monitor cancelling funds. For example, AF maintains a “Status of Funds” spreadsheet. However, the spreadsheet was not sufficient to identify cancelling funds. An AF official stated that canceled funds were not the bureau’s responsibility and AF did not analyze the $27.3 million in canceled funds for the period ending FY 2019. PM officials used a monthly reconciliation and internal tracking spreadsheets to maintain some awareness of the $15.6 million in funds that were cancelling. In fact, PM reclassified $14.7 million in funds that were going to cancel after September 30, 2019, and only returned $1.3 million to Treasury. Kearney found that INL developed an internal tracking mechanism to monitor its cancelling funds so that INL could reprogram funds before cancellation. However, even with the tracking mechanism, INL officials confirmed that INL funds were canceled at the end of FY 2019.

Because the Department does not request positive confirmation from the bureaus or follow-up on expired and canceled funds during year-end budgetary procedures, the bureaus were left to assume that the actions they took were sufficient. Improved guidance on how bureaus should monitor cancelling funds could reduce the amount of canceled funds and improve the percentage of appropriations used in support of the Department’s mission.

Recommendation 1: OIG recommends that the Bureau of Budget and Planning develop guidance requiring that bureaus and offices analyze and quantify funds that have expired and are at risk of being returned to the Department of the Treasury to include in its Annual Year-End Technical Guidance that is distributed to all bureaus.

BP Response: BP generally concurred with the recommendation. However, BP stated that implementing the recommendation would not “address several of the challenges outlined in the report.” For example, “not all accounts have special authorities to reallocate funding after expiration, thereby greatly limiting the legal options to redirect expired balances.” BP stated that “providing further guidance duplicates what is currently provided and does not address expiring funding that cannot be reclassified.”

OIG Reply: The purpose of this recommendation is to increase bureaus’ visibility over the status of appropriated funds and improve funds management. As discussed in this finding, Kearney found that some bureaus were not appropriately reviewing and analyzing the status of funds. Requiring bureaus and offices to increase visibility over expiring funds could assist officials in improving future funding decisions and develop better spending plans based on “burn rates” (i.e., the rate at which bureaus spent their budget).

On the basis of BP’s concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that BP developed guidance requiring that bureaus and offices analyze and quantify funds that have expired and are at risk of being returned to the Department of the Treasury to include in its Annual Year-End Technical Guidance that is distributed to all bureaus.

Recommendation 2: OIG recommends that the Bureau of Budget and Planning develop, issue, and implement fund management monitoring procedures to require bureaus and offices to confirm the amount of cancelling funds.

BP Response: BP stated that "prior to the end of the fiscal year, BP engages with the Department-wide bureaus to remind them of their duties regarding the proper management and execution of funds. BP will continue to use these practices, encouraging bureaus to utilize the tools and procedures that are already in place to enable the oversight of cancelling funds." BP stated that the audit report "did not establish that bureaus' failure to use these tools effectively was in any way attributable to insufficient guidance from BP."

OIG Reply: In this audit report, Kearney acknowledged that the Department generally managed its funds sufficiently. However, Kearney identified some fund management improvements that could be implemented. As noted in the report, BP is responsible for establishing and implementing Department-wide policies related to funds management. Although BP may "engage" with bureaus to remind them of their duties prior to the end of the fiscal year, Kearney reported that the bureaus included in this audit did not consistently monitor cancelling funds. Improved guidance on how bureaus should monitor cancelling funds could reduce the amount of canceled funds and improve the percentage of appropriations used in support of the Department's mission.

On the basis of BP's response, OIG considers this recommendation unresolved. The recommendation will be considered resolved when BP concurs with the recommendation and provides a plan of action for addressing this recommendation or provides an acceptable alternative that meets the intent of the recommendation. The recommendation will be closed when OIG receives and accepts documentation demonstrating that BP developed, issued, and implemented fund management monitoring procedures to require bureaus and offices to confirm the amount of cancelling funds.

Automated Accounting Procedures Limit Data Availability

Kearney found that CGFS was unable to provide a list of funds that were unused and returned to the Treasury as of September 30, 2019. CGFS officials stated that details related to canceled funds were not available due to limitations with the Global Financial Management System (GFMS).[21] To meet Federal requirements to return canceled funds to Treasury, CGFS developed and implemented automated controls within GFMS to automatically deobligate any ULO

[21] GFMS is the Department's domestic financial accounting system and primary source used for financial management, and it supports budgetary funds control processes.

funded by an appropriation that is cancelling at the end of the fiscal year. This control changes the status of the funds from obligated to an unobligated status so they can be transferred to Treasury. CGFS did not notify bureaus before the funds were automatically deobligated. Once the status is changed, bureaus can no longer see the ULOs that canceled because the funds are reported at the Department level and are no longer associated with a specific bureau. As a result, the Department could not produce a list of ULOs that canceled or provide information on the amount of funds that canceled by bureau. Bureau officials indicated that it would be beneficial to have information on the funds that are cancelling so that they could determine why the funds went unused.

Recommendation 3: OIG recommends that the Bureau of Comptroller and Global Financial Services develop and implement a process to formally notify bureaus and offices of the annual deadlines for automatic deobligations of cancelling funds.

CGFS Response: CGFS concurred with the recommendation, stating that it "currently provides reports from the Global Financial Management System that [identify] obligations flagged for automatic de-obligation before cancellation. The report is generated and distributed to bureaus through an automated process with the use of a SharePoint application."

OIG Reply: During the audit, Kearney was aware of the CGFS-generated report that documents obligations flagged for deobligation before cancellation. According to CGFS officials, CGFS generates the report and posts it on a shared intranet site. However, CGFS does not inform bureaus that the report is available, nor does it formally notify bureaus about which obligations were deobligated.

On the basis of CGFS concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that CGFS developed and implemented a process to formally notify bureaus and offices of the annual deadlines for automatic deobligations of cancelling funds.

Recommendation 4: OIG recommends that the Bureau of Comptroller and Global Financial Services develop and implement a process to maintain a list of all obligations that were automatically deobligated due to cancelling funds by bureau or office and provide that information to bureau and office representatives to improve fund management.

CGFS Response: CGFS concurred with the recommendation.

OIG Reply: On the basis of CGFS concurrence with the recommendation, OIG considers the recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that CGFS developed and implemented a process to maintain a list of all obligations that were automatically deobligated due to cancelling funds by bureau or office and provide that information to bureau and office representatives to improve fund management.

Insufficient Oversight of Obligations

Effectively managing ULOs is key to adequate fund management. Although Kearney found that the Department implemented some controls to improve the oversight of obligations, the controls were insufficient to ensure that bureaus and offices adequately managed ULOs. BP and CGFS require all bureaus to perform a quarterly review of ULOs.[22] To assist with the quarterly review, CGFS provides ULO reports from GFMS (for domestic ULOs) and the Regional Financial Management System[23] (for overseas ULOs). These reports contain useful information, such as the obligation number, line number, available ULO amount, obligation creation date, and last date of obligation disbursement activity. Bureaus are supposed to use the reports to identify unneeded ULOs. However, even with these controls in place, during its audit of the Department's FY 2020 financial statements,[24] Kearney continued[25] to identify a significant number and amount of invalid ULOs and determined the issue to be a significant deficiency.[26]

For this audit, Kearney tested a sample[27] of obligations from the three selected bureaus for validity. Potentially invalid ULOs are at high risk of being returned to Treasury, as they are not properly monitored and could cancel in the future without being fully expended or deobligated and reprogrammed. The results of Kearney's testing of obligations[28] at each bureau are shown in Table 3.

[22] According to 4 FAM 225(d), "Accounting Controls and Obligation Management," "all financial management staff must review ULOs with large available balances and ensure that items designated as valid have proper documentary support."

[23] The Regional Financial Management System is the global accounting and payment system that has been implemented for posts around the world.

[24] OIG, *Audit of the U.S. Department of State FY 2020 and FY 2019 Financial Statements* (AUD-FM-21-08, November 2020).

[25] Inadequate ULO monitoring is a longstanding weakness. Deficiencies related to monitoring ULOs were initially reported in the audit of the Department's FY 1997 financial statements.

[26] 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.

[27] Appendix A: Purpose, Scope, and Methodology provide information on the sample selected.

[28] Kearney determined that obligations were potentially invalid based on expired periods of performances; lack of recent activity, funds availability, or supporting documentation; inability to support bona fide need; or the respective bureau's internal assessment.

Table 3: Results of Obligation Testing by Bureau

Bureau	Obligations Tested - Number (Amount)	Potentially Invalid Obligations – Number (Amount)	Potentially Invalid Obligations Canceled in FY 2020 – Number (Amount)	Potentially Invalid Obligations Available in FY 2021 – Number (Amount)
AF	60 ($85,378,114)	33 ($34,313,975)	10 ($225,175)	23 ($34,088,800)
INL	60 ($505,222,450)	6 ($14,666,984)	2 ($14,379,566)	4 ($287,418)
PM	60 ($181,856,754)	11 ($328,305)	9 ($11,355)	2 ($316,950)
Totals	**180 ($772,457,318)**	**50 ($49,309,264)**	**21 ($14,616,096)**	**29 ($34,693,168)**

Recommendation 5: OIG recommends that the Bureau of the Comptroller and Global Financial Services enhance the current processes for monitoring unliquidated obligations that are included in the Foreign Affairs Manual (4 FAM 225) to verify that allotment holders are performing periodic reviews of obligations.

CGFS Response: CGFS concurred with the recommendation.

OIG Reply: On the basis of CGFS concurrence with the recommendation, OIG considers the recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that CGFS enhanced the current processes for monitoring unliquidated obligations that are included in 4 FAM 225 to verify that allotment holders are performing periodic reviews of obligations.

Funds Could Have Been Put to Better Use

Although the Department used the vast majority of its funding that canceled in FY 2019 within the approved time periods, the Department lost the use of some funds as a result of limitations with fund management. As reported, the Department returned over $360 million to the Treasury at the end of FY 2019. Although this is a small percentage of its overall budget (2.3 percent), it represents funds that could have been used by the Department for unfunded needs. Based on the deficiencies identified related to ULO oversight, at least some of the canceled funds could have been managed better and used during the periods of availability.

As shown in Table 3, of the 50 potentially invalid ULOs that Kearney identified at the three selected bureaus, the funds related to 21 obligations canceled at the end of FY 2019. If the bureaus deobligate the remaining 29 potentially invalid items,[29] totaling $34.7 million, the funds could be used for other allowable purposes before they expire (i.e., the funds remain available for use in FY 2021).

[29] Details of the 29 potentially invalid obligations are included in Appendix B.

Recommendation 6: OIG recommends that the Bureau of African Affairs review the 23 potentially invalid obligations detailed in Appendix B of this report, totaling $34,088,800, and either deobligate the obligations, so that the funds can be put to better use, or provide documentation to OIG to justify the validity of the 23 obligations.

AF Response: AF accepted the recommendation, stating that it "will work with its program offices to review the 23 obligations identified and, where the obligations involve programs managed by the Bureau."

OIG Reply: On the basis of AF's concurrence with the recommendation, OIG considers the recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that AF reviewed the 23 potentially invalid obligations detailed in Appendix B of this report and either deobligated the obligations or provided documentation to justify the validity of the 23 obligations.

Recommendation 7: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs review the four potentially invalid obligations detailed in Appendix B of this report, totaling $287,418, and either deobligate the obligations, so that the funds can be put to better use, or provide documentation to OIG to justify the validity of the four obligations.

INL Response: INL did not provide a response to a draft of this report.

OIG Reply: Because INL did not provide a response to a draft of this report, OIG considers this recommendation unresolved. The recommendation will be considered resolved when INL concurs with the recommendation and provides a plan of action for addressing this recommendation or provides an acceptable alternative that meets the intent of the recommendation. The recommendation will be closed when OIG receives and approves documentation demonstrating that the four potentially invalid obligations were either deobligated or their validity was justified.

Recommendation 8: OIG recommends that the Bureau of Political-Military Affairs review the two potentially invalid obligations detailed in Appendix B of this report, totaling $316,950, and either deobligate the obligations, so that the funds can be put to better use, or provide documentation to OIG to justify the validity of the two obligations.

PM Response: PM concurred with the recommendation and provided documentation showing that it deobligated one of the obligations, totaling $250,000. For the other obligation, PM provided documentation showing that it had expended $55,986 of the amount and had deobligated the remaining $10,964.

OIG Reply: On the basis of PM's concurrence and actions taken, OIG considers this recommendation closed. The external auditor reviewed the documentation that PM provided and determined that PM deobligated funds totaling $260,964 and put those funds to better use. This meets the intent of the recommendation.

Finding B: Selected Bureaus Complied With Requirements Related to the Use of Expired Funds

Federal requirements[30] permit agencies to incur new obligations against an appropriation before the appropriation expires but limit how agencies can use funds once an appropriation expires. Specifically, expired funds remain available for 5 years after the period of availability "to make certain adjustments to obligations that were incurred before the budget authority expired." However, agencies cannot obligate funds for newly determined needs after the periods of fund availability have ended.

Kearney found that AF, PM, and INL made adjustments to obligations using expired funds in accordance with Federal requirements. Specifically, Kearney tested 68 instances of adjustments to obligations after an appropriation expired, totaling $405 million,[31] that were recorded by AF, PM, and INL, and found that all of the items were compliant with Federal requirements relating to expired funds, as shown in Table 4.

Table 4: Results of Testing Adjustments to Obligations

Allowable Category	AF	PM	INL	Total Number	Amount
Increase to existing obligations	0	4	3	7	$63,652,806
Creation of a sub-obligation	0	0	16	16	$17,696,773
Reestablishing obligations liquidated for unique circumstances	0	0	6	6	$126,227,112
Refund to obligations with $0 balances	1	0	1	2	$3
Reclassification of fund availability	12	12	0	24	$155,628,493
Valid obligation with untimely posting	0	0	1	1	$10
Deobligation of funds	1	2	9	12	$42,174,704
Total	**14**	**18**	**36**	**68**	**$405,379,901**

Source: Prepared by Kearney based on information in the September 30, 2019, ULO Database and Kearney's sampling plan.

Of the 68 instances of adjustments to obligations, 7 were allowable adjustments to existing obligations, which increased the amount of the original obligations during the expired period. For example, one INL obligation was established in FY 2018 (using an FY 2017/2018

[30] Office of Management and Budget Circular A-11, "Preparation, Submission, and Execution of the Budget," Section 20, "Terms and Concepts."

[31] Appendix A: Purpose, Scope, and Methodology provides details of the items selected for testing.

appropriation) to fund the Corrections Sector Support Program. Additional funds were added to the obligation during the expired period; however, the additional funds were subject to the same terms and conditions set forth by the original agreement.

Kearney identified 16 adjustments related to INL sub-obligations. INL commonly records "bulk" obligations related to country-specific strategies. As specific strategies are deployed, INL records sub-obligations for a specific purpose. These sub-obligations reduce the amount of the bulk obligation, effectively resulting in a zero-cost amendment to the obligated balance.

Kearney identified six adjustments related to administrative changes or the correction of processing errors, such as typographical errors. To record these corrections or administrative changes, bureaus had to liquidate[32] and recreate the obligations. For example, upon the implementation of one INL program in FY 2017, INL canceled a bulk obligation to convert it to the appropriate document type in the Department's accounting system.

Kearney identified two adjustments related to refunds recorded to obligations that had a $0 balance. For example, INL recorded a bulk obligation in FY 2016 for $900,000, within the original fund availability. The obligation was fully liquidated. Later, INL received a refund (credit) of $.27. Since fully liquidated obligations are not presented in the ULO Database, the credit was recorded as a new obligation that was created during the expired period.

Kearney found 24 adjustments related to valid reclassifications of fund availability. These reclassifications were executed in accordance with the annual appropriation.[33] Specifically, the law states that funding remains available for certain fund groups for an additional 4 years from the date on which the availability of such funds would otherwise have expired, if such funds are initially obligated before the expiration of their respective periods of availability.

Kearney found one obligation that was not recorded into the accounting system in a timely manner. Specifically, the Department entered into a valid, binding agreement during the final year of fund availability. However, the transaction was not recorded in the accounting system until the subsequent fiscal year due to an administrative delay.

Kearney found 12 valid downward adjustments, or deobligations, to obligations during the expired period.[34] Agencies record downward adjustments to reduce the overall obligated balance when obligated funds are no longer needed.

[32] Kearney confirmed that the original obligations were recorded within the appropriation's fund availability.

[33] Pub. L. No. 116-6, § 7011, "Availability of Funds," February 2019.

[34] Kearney confirmed that the original obligations were recorded within the appropriation's fund availability.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Budget and Planning develop guidance requiring that bureaus and offices analyze and quantify funds that have expired and are at risk of being returned to the Department of the Treasury to include in its Annual Year-End Technical Guidance that is distributed to all bureaus.

Recommendation 2: OIG recommends that the Bureau of Budget and Planning develop, issue, and implement fund management monitoring procedures to require bureaus and offices to confirm the amount of cancelling funds.

Recommendation 3: OIG recommends that the Bureau of Comptroller and Global Financial Services develop and implement a process to formally notify bureaus and offices of the annual deadlines for automatic deobligations of cancelling funds.

Recommendation 4: OIG recommends that the Bureau of Comptroller and Global Financial Services develop and implement a process to maintain a list of all obligations that were automatically deobligated due to cancelling funds by bureau or office and provide that information to bureau and office representatives to improve fund management.

Recommendation 5: OIG recommends that the Bureau of the Comptroller and Global Financial Services enhance the current processes for monitoring unliquidated obligations that are included in the Foreign Affairs Manual (4 FAM 225) to verify that allotment holders are performing periodic reviews of obligations.

Recommendation 6: OIG recommends that the Bureau of African Affairs review the 23 potentially invalid obligations detailed in Appendix B of this report, totaling $34,088,800, and either deobligate the obligations, so that the funds can be put to better use, or provide documentation to OIG to justify the validity of the 23 obligations.

Recommendation 7: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs review the four potentially invalid obligations detailed in Appendix B of this report, totaling $287,418, and either deobligate the obligations, so that the funds can be put to better use, or provide documentation to OIG to justify the validity of the four obligations.

Recommendation 8: OIG recommends that the Bureau of Political-Military Affairs review the two potentially invalid obligations detailed in Appendix B of this report, totaling $316,950, and either deobligate the obligations, so that the funds can be put to better use, or provide documentation to OIG to justify the validity of the two obligations.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

This audit was required by the Consolidated Appropriations Act, 2019.[1] An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), conducted this audit to determine whether selected bureaus used appropriated funds within the deadlines of the appropriations and whether obligations using expired funds were made in accordance with Federal requirements.

Kearney conducted this audit from March to October 2020 in the Washington, D.C., metropolitan area. Kearney faced delays in completing this work because of the COVID-19 pandemic and resulting operational challenges. These challenges included the inability to conduct in-person meetings and accessing certain information. Department personnel also experienced related difficulties that caused delays in providing Kearney with adequate supporting documentation. Kearney performed fieldwork at the Bureaus of Budget and Planning (BP), the Comptroller and Global Financial Services (CGFS), African Affairs (AF), Political-Military Affairs (PM), and International Narcotics and Law Enforcement Affairs (INL). 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 objectives. 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 reviewed Federal laws, regulations, Government Accountability Office (GAO) guidance, and Department of State (Department) policy and guidance related to appropriations. Specifically, Kearney reviewed requirements prescribed in the United States Code, GAO's *Principles of Federal Appropriations Law*,[2] and the Department's Foreign Affairs Manual and Foreign Affairs Handbook. Kearney also obtained and reviewed financial system reports, bureau guidance, and budget documents from the Department. Furthermore, Kearney reviewed the Department's FY 2019 financial statements.

To gain an understanding of the Department's processes to ensure that appropriated funds were used within their periods of availability and how those processes were monitored, Kearney interviewed officials in BP, CGFS, AF, PM, and INL who were involved in formulating budgets, obligating and monitoring appropriated funds, and closing out contracts and Federal assistance. Kearney also analyzed written procedures and other documentation.

Kearney performed steps to determine whether selected bureaus had used appropriated funds within the deadlines of the appropriations. The scope of audit work was appropriations with an ending budget fiscal year (EBFY) of 2014, as these funds canceled at the end of FY 2019, and

[1] Pub. L. No. 116-6, § 7006(c)(4), which includes requirements of H.R. 115-829, §7006.

[2] GAO, Principles of Federal Appropriations Law, Fourth Edition (GAO-16-463SP).

unliquidated obligations (ULO)[3] as of September 30, 2019, from appropriations that had expired. To determine the list of appropriations, Kearney analyzed the Department's "Bureau-Level Trial Balance for FY 2019" and extracted the single-year and multi-year appropriations.

To select a sample of ULOs to test to determine whether the selected bureaus had complied with Federal requirements when obligating funds from expired appropriations, Kearney analyzed the Department's ULO database as of September 30, 2019. Furthermore, Kearney analyzed information from the Department's General Ledger[4] for FY 2017 through FY 2019 to identify upward and downward adjustments (i.e., increases or decreases to ULOs).

Data Reliability

Kearney used computer-processed data from the Department's Global Financial Management System (GFMS), which is the Department's domestic accounting system, and the Regional Financial Management System, which is the Department's overseas accounting system, during this audit. Kearney also used data from the ULO Database and the General Ledger Detail report during the FY 2019 audit of the Department's financial statements.[5] During the audit of the financial statements, Kearney performed steps to assess the reliability of the data included in GFMS, the Regional Financial Management System, the ULO Database, and the General Ledger Detail report.[6] In addition to the steps performed during the audit of the financial statements, Kearney tested selected items from the ULO Database for reliability during this audit. Kearney also used data from the Bureau-Level Trial Balance report, which it reconciled to the Department's overall Trial Balance, noting no variances. Details of any deficiencies with the data are included in the Audit Results section of this report. Overall, Kearney concluded that the data was sufficiently reliable for the purposes of this audit.

Work Related to Internal Control

During the audit, Kearney considered several factors, including the subject matter of the project, to determine whether internal control was significant to the audit objectives. Based on its consideration, Kearney determined that internal control was significant for this audit. Kearney then considered the components of internal control and the underlying principles included in the *Standards for Internal Control in the Federal Government*[7] to identify internal controls that were significant to the audit objective. Considering internal control in the context

[3] ULOs represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services that were ordered have not been received or the goods and services have been received but for which payment has not yet been made.

[4] The general ledger is a repository for recording and storing accounting transaction data.

[5] Kearney performed the audit of the Department's FY 2019 financial statements on behalf of OIG.

[6] The Department received an unmodified opinion on its FY 2019 financial statements (OIG, *Independent Auditor's Report on the U.S. Department of State FY 2019 Financial Statements*, AUD-FM-20-18, January 2020).

[7] Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

of a comprehensive internal control framework can help auditors to determine whether underlying internal control deficiencies exist.

For this audit, Kearney concluded that four of five internal control components from the *Standards for Internal Control in the Federal Government*—Control Environment, Risk Assessment, Control Activities, and Monitoring—were significant to the audit objective. The Control Environment component is the foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives. The Risk Assessment component assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. The Control Activities component includes the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. The Monitoring component relates to activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Kearney also concluded that five principles related to the selected components were significant to the audit objective as described in Table A.1.

Table A.1: Internal Control Components and Principles Identified as Significant

Components	Principles
Control Environment	Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Risk Assessment	Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	Management should design the entity's information system and related control activities to achieve objectives and response to risks.
Control Activities	Management should implement control activities through policies.
Monitoring	Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Source: Kearney prepared during audit planning process.

Kearney then interviewed Department officials, reviewed documents, and performed walkthroughs of processes to obtain an understanding of the internal controls related to the components and principles identified as significant for this audit. Kearney performed procedures to assess the design, implementation, and operating effectiveness of key internal controls. Specifically, Kearney

- Observed system controls for GFMS and confirmed that GFMS rejected transactions against domestic allotments[8] that exceeded funds that were available.

[8] According to the Office of Management and Budget's Circular A-11, "Preparation, Submission, and Execution of the Budget," Appendix H, "Checklist for Funds Control Regulations," allotments are subdivisions of apportionments that are made by the heads of agencies, 2.

- Observed system controls for the Regional Financial Management System and confirmed that the Regional Financial Management System prohibited users from obligations in excess of allotted funds for overseas allotments.
- Reviewed the Department's analysis of obligations that were created in excess of the available allotment.
- Reviewed the Department's annual analysis of potentially invalid ULOs.
- Assessed the Department's control used to identify and review potential transactions using expired or canceled funds.
- Ensured that INL sub-obligations reduced the applicable bulk obligation.[9]

Internal control deficiencies identified during the audit are described in the Audit Results section of this report.

Sampling Methodology

Kearney's sampling objectives were to select a sample of bureaus for testing and to select a sample of obligations to determine whether the selected bureaus had valid ULOs and whether the selected bureaus complied with Federal requirements when obligating expired funds.

Selection of Bureaus

Kearney selected three bureaus for testing (AF, PM, and INL) using a judgmental sampling methodology. Primarily, Kearney used two criteria to select the bureaus:

- The amount of bureau funds that expired on September 30, 2019.
- The amount of bureau funds that canceled as of September 30, 2019 (i.e., EBFY 2014).

Kearney used information from the Department to identify bureaus that were ranked in the top five for each criterion, as shown in Table A.2.

[9] INL commonly records "bulk" obligations related to country-specific strategies. As specific strategies are deployed, INL records sub-obligations for a specific purpose. These sub-obligations reduce the amount of the bulk obligation, effectively resulting in a zero-cost amendment to the obligated balance.

Table A.2: Bureau Rankings

Bureau	Expired Funds in ULOs[a] (Domestic)	Ranking (Expired Funds)	Canceled Funds in Unobligated Balances[b]	Ranking (Canceled Funds)
AF	$116.1 million	5	$27.3 million	3
PM	$210.8 million	1	$15.6 million	5
INL	$191.6 million	2	$47.6 million	1
Bureau of Diplomatic Security	$135.5 million	4	$18.5 million	4

[a] The bureau that ranked 3 for domestic expired funds in ULOs (Bureau of Counterterrorism) was not included because it ranked 11 on the canceled fund ranking.
[b] The bureau that ranked 2 for canceled funds in unobligated balances (Bureau of South and Central Asian Affairs) was not included because it ranked 18 on the domestic expired ULO ranking.
Source: Prepared by Kearney based on information in the September 30, 2019, ULO Database; September 30, 2019, Trial Balance; and Kearney's sampling plan.

Kearney selected AF, PM, and INL for testing based on the amount of domestic expired ULOs and unobligated balances in canceled funds.

Selection of Obligations for Testing

During the audit, Kearney selected two different samples of obligations from the three selected bureaus—one was a sample of 135 items using specific, risk-based strata and the other was a sample of 45 obligations against expired appropriations with adjustments. In total, Kearney selected 180 obligations for testing (60 for each of the three bureaus) as detailed in Table A.3.

Table A.3: Number and Amount of Obligations Selected for Testing

	Obligations Selected	
Bureau	**Number**	**Amount**
AF	60	$85,378,114
INL	60	$505,222,450
PM	60	$181,856,754
Totals	**180**	**$772,457,318**

Source: Prepared by Kearney based on information in the September 30, 2019, ULO Database and Kearney's sampling plan.

Kearney performed testing on the 180 selected obligations to assess whether the bureaus managed their funds effectively. For each selected item, Kearney confirmed the status of the obligation in the Department's accounting system as of the date that the documentation was provided for the original obligation and any modifications.

Kearney considered a selected obligation to be potentially invalid if it met any of these conditions:

- The period of performance of the obligation was expired.
- The obligation lacked recent invoice activity, funds availability, or supporting documentation and the bureau did not provide a reasonable explanation.
- The bureau was unable to support a bona fide need for the obligation.

Based on its review of the documentation, Kearney made preliminary determinations of validity, provided a list of potentially invalid obligations to each bureau, and asked the bureaus to review the items and provide additional information to support the questioned obligations. Kearney considered any additional information provided when making a final determination of validity. The results of Kearney's testing to determine the validity of obligations are included in the Audit Results section of this report.

Kearney also analyzed the 180 obligations to identify instances of upward or downward adjustments against expired appropriations. As shown in Table A.4, from the 180 obligations, Kearney identified 68 instances where expired funds were used to adjust an obligation.

Table A.4: Number and Amount of Selected Obligations With Adjustments During Expired Period

Bureau	Obligations Selected	Amount of Obligations Selected	Number of Upward or Downward Adjustments
AF	60	$85,378,114	14
PM	60	$181,856,754	18
INL	60	$505,222,450	36
Total	**180**	**$772,457,318**	**68**

Source: Prepared by Kearney based the results of its analysis of the 180 obligations selected.

For the 68 instances, Kearney performed tests to determine whether the obligations were made in accordance with Federal requirements. Specifically, for each selected item, Kearney reviewed financial and contractual information obtained from the Department and discussed the obligations with bureau officials to determine the reason that obligations had been established during the period in which the funds had expired. The results of Kearney's testing of upward and downward adjustments are included in the Audit Results section of this report.

Selection of Obligations Based on Strata

Kearney selected a statistical sample of obligations for AF, PM, and INL using specific, risk-based strata. Sampling sizes were driven by GAO's *Financial Audit Manual*,[10] Figure 450.1, "Sample

[10] GAO, *Financial Audit Manual* (GAO-18-601G, April 2020), Figure 450.1, "Sample Sizes and Acceptable Number of Deviations."

Sizes and Acceptable Number of Deviations." Kearney elected to use a 90 percent confidence level[11] and a 5 percent tolerable rate.[12] On the basis of those parameters, Kearney determined a sample size of 45 items at each bureau was appropriate (i.e., a total of 135 items).

To select the specific items for testing, Kearney obtained the Department's ULO Database as of September 30, 2019, and extracted obligations, both domestic and overseas, that had a positive balance and were made using single-year or multi-year appropriations for the selected bureaus. Kearney then selected the obligations for testing using stratified[13] judgmental sampling.[14] Kearney grouped the obligations into four strata using risk-based criteria: obligations with an EBFY of 2015 (cancelling at the end of FY 2020) with no liquidation activity, obligations established during the final 3 days of the expiring EBFY, obligations established with a low dollar (less than $10), and the remaining obligations within the population. When selecting the 45 obligations for each bureau, Kearney focused on large dollar transactions. Table A.5 provides details of the population and sample selection.

Table A.5: Details of Population and Selected Obligations Using Strata

Bureau	EBFY 2015, $0 Spent	Created During Final 3 Days of EBFY	Low Value Obligation	Remaining Obligation	Total
AF					
Population Number (Amount)	24 ($247,629)	396 ($6,971,393)	36 ($189)	4,401 ($94,453,186)	4,857 ($101,672,397)
Sampled Number (Amount)	10 ($225,175)	10 ($4,067,009)	10 ($43)	15 ($55,744,148)	45 ($60,036,375)
PM					
Population Number (Amount)	10 ($35,955)	86 ($7,179,218)	0 ($0)	458 ($80,426,617)	554 ($87,641,790)
Sampled Number (Amount)	10 ($35,955)	10 ($3,643,333)	0 ($0)	25 ($56,225,587)	45 ($59,904,875)
INL					

[11] Ibid., Section 450.08, "Perform Sampling Control Tests," defines confidence level as "the probability that the true misstatement is within the confidence interval."

[12] Ibid., Section 420.07, "Design the Nature, Extent, and Timing of Further Audit Procedures," defines tolerable rate as "the maximum rate of deviations from the prescribed control that the auditor is willing to accept without altering the preliminary control risk."

[13] The Clarified Statements on Auditing Standards, AU-C 530.05, "Audit Sampling," defines stratification as "the process of dividing a population into subpopulations, each of which is a group of sampling units that have similar characteristics."

[14] Judgmental sampling is a non-statistical sampling technique that is based on sound reasoning and seasoned professional judgement.

Bureau	EBFY 2015, $0 Spent	Created During Final 3 Days of EBFY	Low Value Obligation	Remaining Obligation	Total
Population Number (Amount)	887 ($55,575,146)	185 ($182,547,768)	28 ($87)	9,781 ($1,945,514,610)	10,881 ($2,183,637,611)
Sampled Number (Amount)	10 ($19,755,211)	10 ($137,608,714)	10 ($34)	15 ($347,030,819)	45 ($504,394,778)

Source: Prepared by Kearney based on information in the September 30, 2019, ULO Database and Kearney's sampling plan.

Selection of Obligations Made Against Expired Funds

Kearney also selected a statistical sample of upward and downward adjustments made by selected bureaus to obligations against expired funds. Sampling sizes were driven by GAO's *Financial Audit Manual*,[15] Figure 450.1, "Sample Sizes and Acceptable Number of Deviations." Kearney elected to use a 90 percent confidence level and a 5 percent tolerable rate. Based on those parameters, Kearney determined a sample size of 45 total items (i.e., 15 items at each of the three bureaus) was appropriate.

To select the specific items for testing, Kearney obtained the Department's General Ledger Details report for FYs 2017, 2018, and 2019, and extracted all upward and downward adjustments made to single-year or multi-year appropriations for the selected bureaus. Kearney then removed any obligations selected for validity testing to avoid duplication. Kearney used judgmental sampling to select the obligations for testing. Specifically, Kearney determined the absolute value of each upward and downward adjustment and selected the largest 15 adjustments for each bureau. Table A.6 provides details of the population and the sample selection.

Table A.6: Details of Population and Selected Obligations for Testing Upward and Downward Adjustments

Bureau	Population Number	Sampled Number	Population Amount	Sampled Amount
AF	167	15	$31,451,651	$25,341,738
PM	38	15	$123,161,933	$121,951,880
INL	77	15	$3,160,537	$827,672
Total	282	45	$157,774,121	$148,121,290

Source: Prepared by Kearney based on information in the September 30, 2019, ULO Database and Kearney's sampling plan.

[15] GAO-18-601G, Figure 450.1, April 2020.

Prior Office of Inspector General Reports

In April 2014, OIG issued a report[16] on the Department's use of expired and canceled funds. In that audit, OIG found that the Department used most of its appropriated funds within the periods of availability for the related appropriations. OIG also found that the Department had to return $153 million, or 1.3 percent, of its FY 2007 appropriations to Treasury when the funds were canceled in FY 2012. Although the Department had generally used the majority of its available funds within the periods of availability, OIG found that there were opportunities to improve fund management, including insufficient oversight of ULOs and delays in the contract closeout process. In addition, OIG found that all 98 domestic obligations made using expired funds that OIG tested were allowable. OIG made four recommendations related to improving fund management, all of which are closed.

[16] OIG, *Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation* (AUD-FM-14-21, April 2014).

APPENDIX B: POTENTIALLY INVALID OBLIGATIONS IDENTIFIED DURING AUDIT TESTING

During the audit, Kearney & Company, P.C. (Kearney) tested a sample[1] of 180 obligations at the Bureaus of African Affairs (AF), Political-Military Affairs (PM), and International Narcotics and Law Enforcement Affairs (INL) for validity.[2] Of the 180 obligations tested, Kearney identified 29 potentially invalid obligations that had not been canceled. Tables B.1, B.2, and B.3 provide details of these potentially invalid obligations.

Table B.1: AF's Potentially Invalid Obligations

Fund	Line Number	Transaction Number	Obligated Amount	Remaining Balance
1911671032004C	1	1015715356	$18,475,000	$8,500,000
1911671032002C	1	1015715207	$8,229,871	$6,908,139
1911561032002C	1	1015515260	$11,300,000	$5,815,647
1911781032002C	1	19AQMM18F3738	$3,760,033	$3,760,033
1911781032002C	2	SAQMMA15F1435	$5,133,844	$2,289,654
1911_810320004	1	1015815272	$5,500,000	$2,050,000
19__2610310000	1	452033CR60	$2,767,263	$1,379,467
19___801130002	1	10158M5313	$1,375,000	$1,375,000
1911781032002C	2	SAQMMA16F3409	$1,140,462	$1,016,312
1911_710320010	2	SAQMMA16F1759	$1,730,295	$425,381
191167103200AC	1	SAQMMA17F4862	$208,484	$202,031
19__7801130007	1	SAO50018GR0011	$215,000	$172,281
1911781032002C	3	19AQMM18F3738	$166,942	$166,942
1911_610320002	3	SAQMMA15F1435	$5,725,616	$27,874
19___701130002	2	SSF75017L0704	$8	$8
19___801130002	2	19SF7518P0024	$7	$7
19___701130002	2	SSF75017L0907	$5	$5
19___801130002	1	19Z11518S0778	$5	$5
19___801130002	2	19SF3018K0095	$4	$4
1911_810320010	2	SAQMMA13F2803	$4	$4
19___701130002	6	SSF75017L1160	$2	$2
19___701130002	1	SSF30017V0071	$2	$2
19___801130007	6	19M16018P0820	$9	<$0
TOTAL			**$65,727,856**	**$34,088,798**

[1] Appendix A: Purpose, Scope, and Methodology provides details of the sample selected.

[2] Kearney determined that obligations were potentially invalid based on expired periods of performances; lack of recent activity, funds availability, or supporting documentation; inability to support bona fide need; or the respective bureau's internal assessment.

Table B.2: INL's Potentially Invalid Obligations

Fund	Line Number	Transaction Number	Obligated Amount	Remaining Balance
1911561022000C	2	SAQMMA15C0257	$287,403	$287,403
1911061022000J	1	01265NC037	$10	$10
19116710220001	2	SMY30017M0860	$4	$4
19117810220001	4	191D3218P1928	$4	$1
TOTAL			**$287,421**	**$287,418**

Table B.3: PM's Potentially Invalid Obligations

Fund	Line Number	Transaction Number	Obligated Amount	Remaining Balance
19115610750016	1	10396W5181	$250,000	$250,000
19116710750016	3	SAQMMA12F1101	$148,549	$66,950
TOTAL			**$398,549**	**$316,950**

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

United States Department of State
Comptroller
Washington D.C. 20520

MAR 2 5 2021

UNCLASSIFIED

MEMORANDUM

TO: OIG – Diana R. Shaw

FROM: CGFS – Jeffrey C. Mounts

SUBJECT: Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation Draft, March 2021

The Bureau of the Comptroller and Global Financial Services (CGFS) appreciates the opportunity to respond to the Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation Draft recommendations 3, 4 and 5.

Recommendation 3: OIG recommends that the Bureau of Comptroller and Global Financial Services develop and implement a process to formally notify bureaus and offices of the annual deadlines for automatic deobligations of cancelling funds.

Response: CGFS concurs with the recommendation. CGFS currently provides reports from the Global Financial Management System that identifies obligations flagged for automatic de-obligation before cancellation. The report is generated and distributed to bureaus through an automated process with the use of a SharePoint application.

Recommendation 4: OIG recommends that the Bureau of Comptroller and Global Financial Services develop and implement a process to maintain a list of all obligations that were automatically deobligated due to cancelling funds by bureau or office and provide that information to bureau and office representatives to improve fund management.

Response: CGFS concurs with the recommendation.

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Recommendation 5: OIG recommends that the Bureau of the Comptroller and Global Financial Services enhance the current processes for monitoring unliquidated obligations that are included in the Foreign Affairs Manual (4 FAM 225) to verify that allotment holders are performing periodic reviews of obligations.

Response: CGFS concurs with the recommendation.

The operational point of contact is Paul McVicker. He may be reached by email at mcvickerpj@state.gov or by phone at (843) 202-3858.

APPENDIX D: BUREAU OF BUDGET AND PLANNING RESPONSE

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March 19, 2021

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MEMORANDUM

TO: OIG – Amy Conigliaro

FROM: BP – Douglas Pitkin

SUBJECT: Response to the "Audit of Department of State Use of Appropriated Funds Prior to "Expiration and Cancellation" Draft, March 2021

The Bureau of Budgeting and Planning (BP) thanks the Office of Inspector General (OIG) and Kearney & Company, P.C. (Kearney) for the opportunity to review and comment on its draft report, the Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation. We appreciate the report's recommendations on quantifying and analyzing funds that are scheduled to be cancelled. Yet BP also recommends addressing and amending a few assumptions and findings in the report.

Of note, the March 4 exit conference was OIG's first direct /engagement with BP on this matter since May of 2020. Over the intervening nine months, we have no record of Kearney requesting further information on BP practices and procedures. Such engagement would have provided the opportunity to offer factual corrections or our perspective on input provided by other bureaus. These as highlighted below including requested updates to the two recommendations specific to BP.

We are gratified that the audit highlighted the Department's spending nearly 98 percent of its time-limited funding within the period of availability and prior to cancellation. This demonstrates that most bureaus were on top of maximizing utilization of their resources. We'd also note that because the audit focused on three bureaus at large rather than Department-wide, OIG may take note that a wider scope would yield even more representative results in the execution of funds.

Below includes some recommended edits and clarifications for consideration.

1. On page 10, Kearney cites, "For example, the Department does not require bureaus to regularly analyze funds that are at risk of expiring to ensure sufficient fund management."
    - This is inaccurate. BP frequently advises bureaus to review the status of expiring funds and unliquidated obligations. This occurs through ongoing engagement with individual bureaus, particularly in the 4th Quarter. Most recently, BP held nearly 70 such reviews in FY 2020. We recommend rephrasing to read, "…the Department meets with bureaus during the year to ensure current available balances are being spent prior to expiration. Also, and in consultation with the Office of Foreign Assistance, BP transmits an email in the last quarter advising

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bureaus to spend their available balances while advising bureaus to return any unused funding for potential reclassification or realignment."

2. On page 10 Kearney recommends, "In addition, mandatory reviews of cancelling funds would provide useful information that could assist bureaus to establish better obligations in the future."
   - While BP accepts and values our oversight and reporting role, we are concerned this recommendation may be perceived as relieving bureaus of their own oversight and monitoring responsibilities. Bureaus are responsible for planning their obligations and spending, consistent with its legal and programmatic purposes. Further, there can be a wide array of exogenous factors constraining obligations prior to cancellation, which may range from 6 to 9 years depending on the period of availability. So, while reviewing cancelled and cancelling balances can inform obligations, it may not be sufficient to overcome inherent limitations on the use of expired balances. BP recommends rephrasing this excerpt to read, "BP, in coordination with the bureau budget officers, will continue to assist in reviewing bureaus' spending as part of its core financial management processes and evaluate expiring/cancelling funds."

3. On page 10, Kearney states, "Based on its audit work, Kearney found that AF, PM, and INL did not consistently monitor canceled funds."
   - This statement should be reframed. Cancelled funds would be returned to Treasury and therefore past the point of any meaningful monitoring. It would be more useful to focus on expired or *cancelling* funds, inclusive of those that may not have been obligated, were deobligated and/or could not be reclassified and extended under the Department's available authorities and were obligated but haven't been liquidated. Again, external factors can and do influence the spending, e.g., obligations for services that haven't been delivered, or that haven't been invoiced by contractors in a timely manner. BP recommends editing as follows, "Based on its audit work, Kearney found that AF, PM, and INL's processes were inconsistent in monitoring expired or *cancelling* funds."

4. On page 11, Kearney notes, "Because the Department does not request positive confirmation or follow-up on expired and cancelled funds during year-end budgetary procedures, the bureaus were left to assume that the actions they took were sufficient."
   - BP does not agree with this finding, as it is potentially misleading and absolves bureaus of responsibilities clearly outlined in the FAH as inherent to the oversight of Federal funding. Specifically, 4 FAH-3 H-133, *Management Responsibility for Funds Control*, states that the bureau budget officer for domestic allotments (the FMO for post allotments) is the responsible official for obligation and expenditure execution and oversight. Based on this, budget and financial management personnel at all levels of the Department must understand their responsibilities for financial execution and the oversight of resources. The Department's financial systems provide bureaus with the tools and capabilities necessary to monitor their resources, whether current, expiring or cancelling. We accept that BP can and should play a vital role in highlighting such data. Yet, bureaus should not have an expectation that failure to pursue their own due diligence can later be attributed

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to not being directed to provide positive confirmation of their funds' status. We would ask OIG to consider editing to read, "Bureaus should continue working to provide sufficient oversight of their spending to include monitoring expiring and cancelling funds, in coordination with the Bureau of Budget of Planning."

Lastly, BP would suggest the following for OIG's recommendations:

Recommendation 1: OIG recommends that the Bureau of Budget and Planning develop guidance requiring that bureaus and offices analyze and quantify funds that *have expired and are at risk of being* returned to the Department of the Treasury to include in its Annual Year-End Technical Guidance that is distributed to all bureaus.

Response: BP will accept this recommendation but would caveat that implementation of this change does not address several of the challenges outlined in this report. Specifically, not all accounts have special authorities to reallocate funding after expiration, thereby greatly limiting the legal options to redirect expired balances. In FY 2020, BP's Annual Year-End Technical Guidance was disseminated on 6/9/2020 advising bureaus on the reclassification process, which is the vehicle by which bureaus would utilize to recapture expired funding at risk of being returned. Providing further guidance duplicates what is currently provided and does not address expiring funding that cannot be reclassified.

Recommendation 2: OIG recommends that the Bureau of Budget and Planning develop, issue, and implement fund management monitoring procedures to require bureaus and offices to confirm the amount of cancelling funds.

Response: Prior to the end of the fiscal year, BP engages with the Department-wide bureaus to remind them of their duties regarding the proper management and execution of funds. BP will continue to use these practices, encouraging bureaus to utilize the tools and procedures that are already in place to enable the oversight of cancelling funds. The report's findings did not establish that selected bureaus' failure to use these tools effectively was in any way attributable to insufficient guidance from BP. BP requests revising recommendation to read, "OIG recommends bureaus should continue implementing fund management monitoring procedures to include monitoring expiring and cancelling funds, in coordination with the Bureau of Budget of Planning."

My operational point of contact is Rajesh Rajadhyaksha. He may be reached by email at rajadhyakshar@state.gov or by telephone at 202-746-2863.

APPENDIX E: BUREAU OF AFRICAN AFFAIRS RESPONSE

United States Department of State

Washington, D.C. 20520

March 18, 2021

UNCLASSIFIED

TO: OIG/AUD – Gayle Voshell

FROM: AF – Elizabeth Fitzsimmons, Senior Bureau Official

SUBJECT: Draft Report on Audit of the Department of State Use of Appropriated Funds Prior to Expiration and Cancellation

The Bureau of African Affairs welcomes the opportunity to respond to this audit. The Bureau accepts Recommendation 6 described in this report and is committed to continuing improvement in the management of our programs so that unliquidated and expiring obligations are identified and utilized before cancellation, if possible.

The Africa Bureau in 2020 established a standard operating procedure to identify and analyze unliquidated and expiring Economic Support Funds (ESF) that are managed and programed by the Bureau and develop proposals to reprogram those funds, if possible. Similarly, the Africa Bureau has an established standard operating procedure with the Bureau of Political-Military Affairs to track and reprogram unliquidated and expiring Peacekeeping Operations (PKO) funds for programs managed by the Africa Bureau.

With respect to Table B.1 of Appendix B, we note that at the time of the audit, a number of the "potentially invalid obligations" listed still had over a year remaining before expiry. Deobligation requests for many of these obligations had already been submitted by the Bureau and had been waiting for processing by the Office of Acquisitions Management, which can take multiple months to complete. The Bureau was well aware of the need to close out the obligations before expiry and has, in fact, done so. We also note that the Africa Bureau is only able to provide information for obligations for programs managed by the Africa Bureau.

Recommendation 6: OIG recommends that the Bureau of African Affairs review the 23 potentially invalid obligations detailed in Appendix B of this report, totaling $34,088,800 and either deobligate the obligations, so that the funds can be put to better use, or provide documentation to OIG to justify the validity of the 23 obligations.

> **Management Response**: The Bureau of African Affairs accepts the recommendation. The Bureau will work with its program offices to review the 23 obligations identified and, where the obligations involve programs managed by the Bureau, will provide documentation to OIG as to their disposition.

APPENDIX F: BUREAU OF POLITICAL-MILITARY AFFAIRS RESPONSE

United States Department of State

Bureau of Political-Military Affairs

Washington, DC 20520-6817

UNCLASSIFIED

March 23, 2021

MEMORANDUM

TO: OIG – Gayle Voshell

FROM: PM – Timothy A. Betts, Acting

SUBJECT: Response to the Office of Inspector General (OIG) on the Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation

The Bureau of Political Military Affairs (PM) has reviewed the OIG report, which recommended that PM review two potentially invalid obligations totaling $316,950, and either deobligate the obligations or provide documentation to OIG to justify the validity of the two obligations. PM is hereby providing documentation to justify that the funds were deobligated, reprogrammed, and/or expended.

1. **Obligation #19115610750016 line 1, Transaction Number 10396W581, Obligated Amount $250,000:** The original funds obligated for Cyprus were unable to be programmed so they were de-obligated. PM followed the proper grant closeout procedures and de-obligated the amount of $250,000 for transaction number 1039W581. The amendment to de-obligate the award was submitted in Ariba on 2/20/2020 (Tab 2) and the grant award was closed in SAMS Domestic on 3/4/2020 (Tab 3). PM then reclassified the funds and subsequently reprogrammed, re-notified, and re-obligated the funds for Bosnia and Herzegovina. The Congressional Notification (CN) transmittal sheet notifying the funds change from Cyprus to Bosnia is attached (Tab 1).

2. **Obligation #19115610750016 line 3, Transaction Number SAQMMA12F1101, Obligated Amount $148,549, Remaining Balance $66,950:** PM de-obligated $10,964.17, but was unable to re-classify the funds within the window of availability due to ongoing tax-related

negotiations with the Government of Afghanistan. This amount was ultimately cancelled (Tab 4). The remaining balance of $55,985.83 was fully expended and PM worked with Charleston financial services and AQM to re-align funds between Contract Line Item Numbers or CLINs to fully expend the available balance.

Attachments:

Tab 1 – CN for the $250,000
Tab 2 – Amendment to De-obligate $250,000
Tab 3 – SAMS Closeout screenshot for $250,000
Tab 4 – Amendment to De-obligate $10,964.17

APPENDIX G: OIG'S REPLY TO THE BUREAU OF BUDGET AND PLANNING'S GENERAL COMMENTS

In addition to responding to the recommendations offered in a draft of this audit report, the Bureau of Budget and Planning (BP) provided general comments regarding the audit findings (see Appendix D). Below is a summary of BP's comments and the Office of Inspector General's (OIG) reply.

BP Comment

BP stated that the sentence "For example, the Department does not require bureaus to regularly analyze funds that are at risk of expiring to ensure sufficient fund management" was not accurate. According to BP, it "frequently advises bureaus to review the status of expiring funds and unliquidated obligations" during "ongoing engagement with individual bureaus, particularly in the [fourth] quarter." Specifically, BP stated that it held nearly 70 reviews in FY 2020. Furthermore, BP stated that it "sends an email in the last quarter advising bureaus to spend their available balances while advising bureaus to return any unused funding for potential reclassification or realignment."

OIG Reply

Although BP meets with bureaus and provides email guidance at the end of the year, as stated in the Audit Results section of this report, BP has not provided formal guidance to bureaus for monitoring both expired and canceled funds. During the audit, the external auditor found that bureaus monitored their funding inconsistently. Although having periodic meetings and informal end-of-year guidance is useful, it is essential to have formalized, readily available guidance on monitoring expiring and cancelling funds to improve funds management. OIG made no changes to the report on the basis of BP's comment.

BP Comment

BP stated that the sentence "In addition, mandatory reviews of cancelling funds would provide useful information that could assist bureaus to establish better obligations" may be "perceived as relieving bureaus of their own oversight and monitoring responsibilities." In addition, BP stated that there are many factors constraining obligations prior to cancellation. Therefore, according to BP, the recommendation may not be "sufficient to overcome inherent limitations on the use of expired balances."

OIG Reply

To clarify the intent of the sentence cited by BP, the external auditors modified the sentence to read "In addition, mandatory reviews of cancelling funds at the bureau level would provide useful information that could assist bureaus to establish better obligations."

BP Comment

BP requested that the sentence “Based on its audit work, Kearney found that [three bureaus] did not consistently monitor canceled funds” be modified to use the term “cancelling” instead of “canceled.”

OIG Reply

As requested, the external auditor modified the sentence to read “Based on its audit work, Kearney found that [three bureaus] did not consistently monitor cancelling funds.”

BP Comment

BP stated that the sentence “Because the Department does not request positive confirmation or follow-up on expired and cancelled funds during year-end budgetary procedures, the bureaus were left to assume that the actions they took were sufficient” is potentially misleading and absolves bureaus of responsibilities clearly outlined in the Foreign Affairs Handbook as inherent to the oversight of Federal funding.

OIG Reply

To clarify the intent of the sentence cited by BP, the external auditors modified the sentence to read “Because the Department does not request positive confirmation from the bureaus or follow-up on expired and canceled funds during year-end budgetary procedures, the bureaus were left to assume that the actions they took were sufficient.”

ABBREVIATIONS

AF	Bureau of African Affairs
BP	Bureau of Budget and Planning
CGFS	Bureau of the Comptroller and Global Financial Services
EBFY	ending budget fiscal year
FAM	Foreign Affairs Manual
GAO	Government Accountability Office
GFMS	Global Financial Management System
INL	Bureau of International Narcotics and Law Enforcement Affairs
OIG	Office of Inspector General
PM	Bureau of Political-Military Affairs
ULO	unliquidated obligations

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