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Office of Inspector General
United States Department of State

AUD-FM-22-21

Office of Audits

February 2022

Audit of the Department of State’s Use of “Not Otherwise Classified” Budget Object Codes

FINANCIAL MANAGEMENT DIVISION

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HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-22-21

What Was Audited

Object classifications (also known as budget object codes [BOC]) are used by Government agencies to identify the purpose of an order for goods or services. The Office of Management and Budget (OMB) prescribes the use of certain codes. The Department of State (Department) uses more detailed classifications than required by OMB. Most BOCs are specific to a type of transaction (e.g., vehicle maintenance or airfare). However, some BOCs are identified as “not otherwise classified” (NOC), which are general codes designed to be used when other, more specific, codes do not apply. In FY 2020, the Department used NOC BOCs to identify \$4.7 billion in expenses.

Acting on behalf of the Office of Inspector General (OIG), Kearney & Company, P.C. (Kearney), conducted this audit to determine whether the Department consistently used NOC BOCs in accordance with requirements for expenses.

What OIG Recommends

OIG made three recommendations that are intended to improve the Department’s recording of expense data. On the basis of management’s response to a draft of this report, OIG considers the three recommendations resolved, pending further action. 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. Comments from the Bureaus of the Comptroller and Global Financial Services (CGFS) and Diplomatic Security are reprinted in their entirety in Appendices C and D, respectively.

February 2022

OFFICE OF AUDITS

FINANCIAL MANAGEMENT DIVISION

Audit of the Department of State’s Use of “Not Otherwise Classified” Budget Object Codes

What Was Found

Overall, Kearney found that selected Department bureaus did not consistently use the NOC BOC designation in accordance with Federal requirements and Department guidance. Specifically, Kearney found that of 180 FY 2020 NOC-designated expenses tested, 35 (19 percent) should have been designated with an available and specific OMB BOC, and 100 (56 percent) should have been designated with an available and specific Department BOC. Kearney also found that bureaus did not consistently use the same BOCs when recording transactions for similar types of items.

According to Department officials, one reason that inaccurate BOCs were used is because accounting officials had difficulty determining the proper BOC to use and, as a result, elected to use a generic NOC BOC code. In other instances, Department officials indicated that available BOCs may not always be the best fit for some transactions. In addition, CGFS has not implemented a process to periodically update the list of BOCs or to obtain feedback from bureaus and offices on changes to BOCs that would be useful. Moreover, bureau officials indicated that the Department does not have sufficient guidance on the use of BOCs, specifically related to the use of the generic NOC BOCs. Furthermore, CGFS does not have a method to identify issues that bureaus may have with the use of NOC BOCs so that authoritative guidance can be provided. For example, officials from one bureau were unsure what BOC to use when a contract included multiple types of services in one contract line item. Finally, bureau officials indicated that periodic reminders on the proper use of BOCs would be useful.

Recording expense data to the appropriate BOC is essential for management officials to have complete and accurate data when assessing spending patterns and determining how funds were used. Until the deficiencies identified in this report are corrected, the Department will not have a full understanding about the specific purpose of its expenses or a method to easily identify how billions of dollars in funds were used.

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1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

Audit of the Department of State's Use of "Not Otherwise Classified" Budget Object Codes

Office of Inspector General
U.S. Department of State
Washington, D.C.

Kearney & Company, P.C. (Kearney), has performed an audit of the Department of State's Use of "Not Otherwise Classified" Budget Object Codes. This performance audit, performed under Contract No. 19AQMM20A0536 (Order No. 19AQMM21F7079), was designed to meet the objectives identified in the report section titles "Objectives" and further defined in Appendix A, "Purpose, Scope and Methodology," of the report.

Kearney conducted this performance audit from January 2021 through September 2021 in accordance with the Government Auditing Standards, 2018 Revision, issued by the Comptroller General of the United States. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. The purpose of this report is to communicate the results of Kearney's performance audit and its related findings.

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

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

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

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OBJECTIVE

Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit to determine whether the Department of State (Department) consistently used “not otherwise classified” (NOC) budget object codes (BOC) in accordance with requirements for expenses.

BACKGROUND

Agencies are required to report object class information as part of the President’s Budget.¹ According to the Foreign Affairs Handbook (FAH), “object classifications² identify the kinds of services, materials, and other resources for which U.S. Government payments are made. They cover all types of obligations, payments, current operating expenses, and capital outlays.”³ Object classifications identify the purpose of an order for an item or a service, award for a contract, or similar transactions that will require payments in the same or a future period. There are five major object classes prescribed by the Office of Management and Budget (OMB), each of which has multiple smaller classes:⁴

- Personnel compensation and benefits
- Contractual services and supplies
- Acquisition of assets
- Grants and fixed charges
- Other

The Department uses more detailed BOCs than prescribed by OMB for classifying obligations and expenses made for services or procured items.⁵ The FAH includes more than 500 BOCs⁶ that expand upon the 47 BOCs listed in OMB Circular A-11.^{7,8} The FAH also prescribes the purpose, scope, applicability, standard title abbreviations, and definitions of the BOCs. In addition to the FAH, the Department provides some guidance related to BOCs in its “Domestic Financial Operating Instructions,” which is updated annually.⁹

¹ 31 United States Code § 1104(b), “Budget and appropriations authority of the President” and Office of Management and Budget (OMB), Circular A-11, “Preparation, Submission, and Execution of the Budget,” § 83.2, “Why must I report object class information?,” August 2021.

² Object classifications are also known as BOCs. Kearney generally uses the term “BOC” in this report.

³ 4 FAH-1 H-611(a), “Purpose.”

⁴ OMB Circular A-11, § 83.1, “What are object classes?,” December 2020.

⁵ 4 FAH-1 H-611(d).

⁶ 4 FAH-1 H-613, “Object and Subobject Class Codes and Standard Title Abbreviations.”

⁷ OMB Circular A-11, § 83.6, “What object class codes and definitions should I use?,” December 2020.

⁸ According to 4 FAH-1 H-611(e), the FAH includes the OMB-prescribed object classifications in parentheses with each of the Department’s BOCs.

⁹ The “FY21 Domestic Financial Operating Instructions” are prepared by the Bureau of the Comptroller and Global Financial Services, the Bureau of Budget and Planning, and the Bureau of Administration.

Most of the BOCs included in the FAH are specific to a type of transaction (e.g., vehicle maintenance or air fare). However, 35 of the Department's BOCs are identified as "not otherwise classified," which are general codes designed to be used when other, more specific, codes do not apply to a transaction. In FY 2020, the Department spent \$4.7 billion using the 35 NOC BOCs, which was approximately 15 percent of its expenses.¹⁰

The Bureau of the Comptroller and Global Financial Services (CGFS) oversees financial management activities related to the program and operations of the Department, monitors the financial execution of the budget in relation to actual expenses, and establishes financial management policies and management controls. The accounting office for each bureau, office, or post is responsible for recording and processing various financial transactions, which would include recording the BOC for the transaction.

AUDIT RESULTS

Finding A: Selected Bureaus Did Not Consistently Use Not Otherwise Classified Budget Object Codes as Required

Overall, Kearney found that selected Department bureaus did not consistently use the NOC BOC designation in accordance with Federal requirements and Department guidance. Specifically, Kearney found that, of 180 FY 2020 NOC-designated expenses tested, 35 (19 percent) should have been designated with an available and specific OMB BOC, and 100 (56 percent) should have been designated with an available and specific Department BOC. Kearney also found that bureaus did not consistently use the same BOCs when recording transactions for similar types of expenses.

According to Department officials, one reason that inaccurate BOCs were used is because accounting officials had difficulty determining the proper BOC to use and, as a result, elected to use a generic NOC BOC code. In other instances, Department officials indicated that available BOCs may not always be the best fit for some transactions. In addition, CGFS has not implemented a process to periodically update the list of BOCs or to obtain feedback from bureaus and offices on changes to BOCs that would be useful. Moreover, bureau officials indicated that the Department does not have sufficient guidance on the use of BOCs, specifically related to the use of the generic NOC BOCs.

Furthermore, CGFS does not have a method to identify issues that bureaus may have with the use of NOC BOCs so that authoritative guidance can be provided. For example, accounting officials from one bureau were unsure what BOC to use when a contract included multiple types of services in one contract line item. Finally, bureau officials indicated that periodic reminders on the proper use of BOCs would be useful. Recording expense data to the

¹⁰ Appendix B provides details of the Department's use of NOC BOCs.

appropriate BOC is essential for management officials to have complete and accurate data when assessing spending patterns and determining how funds were used.

Use of Not Otherwise Classified Budget Object Codes

OMB provides agencies with a list of BOCs that should be used to identify financial transactions.¹¹ The Department uses more detailed BOCs than prescribed by OMB to classify obligations and expenses made for services or procured items.¹² To determine whether selected bureaus used the NOC BOC designations in accordance with the guidance, Kearney selected a sample of NOC-designated expenses to test.¹³ Kearney found that selected bureaus did not always classify expenses using the correct BOC, as shown in Table 1.

Table 1: Results of Not Otherwise Classified-Designated Expenses Testing

Bureau/Office	Items Tested	FAH Exceptions^a	OMB Circular A-11 Exceptions^a
Bureau of Consular Affairs (CA)	45	20	9
Office of the Secretary of State	45	31	6
Bureau of Diplomatic Security (DS)	45	22	8
Bureau of European and Eurasian Affairs (EUR)	45	27	12
Total	180	100^b	35^b

^a The 35 OMB Circular A-11 exceptions were also FAH exceptions (i.e., 35 of 100 FAH exceptions were also recorded using an incorrect OMB Circular A-11 code).

^b The Department did not provide supporting documentation for 3 of 180 items selected for testing. Kearney did not include those items as exceptions.

Source: Generated by Kearney from data provided by the Department and testing performed.

For example, CA incurred costs relating to the operation of one of its passport centers and recorded the costs to Department NOC BOC 2589 (Other Contractual Services) and OMB BOC 25.1 (Advisory and Assistance Services). Based on the supporting documentation, these expenses should have been recorded to Department BOC 2552 (Services for Facility Operation) and OMB BOC 25.4 (Operation and Maintenance of Facilities). Additionally, EUR incurred costs relating to the development and modernization of the application it uses to track inventory and recorded the expenses to Department NOC BOC 2544 (IT Other Contractual Service) and OMB BOC 25.7 (Operation and Maintenance of Equipment).

Based on the supporting documentation, these expenses should have been recorded to Department BOC 2542 (IT Systems Development or Integration) and OMB BOC 25.1 (Advisory and Assistance Services). Furthermore, DS procured the services of a city's police force to provide security for an event and recorded those expenses using Department NOC BOC 2589

¹¹ OMB Circular A-11, § 83.6, "What object class codes and definitions should I use?," December 2020.

¹² 4 FAH-1 H-611(d).

¹³ Appendix A provides details of the sample selection.

(Other Contractual Services). Based on the supporting documentation, these expenses should have been recorded to Department BOC 2554 (Contractual Security Guard Services).

Kearney also analyzed documentation provided for the 180 selected items to determine whether bureaus and offices were using NOC BOCs consistently, both within the bureaus and offices and between the bureaus and offices. Kearney identified inconsistencies in how the NOC BOCs were used to classify transactions within bureaus and offices. For example, CA and the Office of the Secretary used two different NOC BOCs to classify similar basic labor services—2569 (Other Contract Personnel) and 2589 (Other Contractual Services)—while DS used three different NOC BOCs to classify basic labor services—2544 (IT Other Contractual Services), 2569 (Other Contract Personnel), and 2699 (Miscellaneous Supplies and Materials). DS also used two different NOC BOCs for security installation services—2544 (IT Other Contractual Services) and 2569 (Other Contract Personnel). Additionally, EUR classified six IT personnel contracts using NOC BOC 2569 (Other Contract Personnel) and one IT personnel contract using NOC BOC 2544 (IT Other Contractual Services).

In addition to the inconsistencies noted within each bureau or office, Kearney also identified inconsistencies between the bureaus and offices. For example, EUR classified expenditures related to the Global Support Services¹⁴ contract using NOC BOC 2569 (Other Contract Personnel) while CA classified expenditures related to the same contract using NOC BOC 2589 (Other Contractual Services). Similarly, DS classified IT personnel services using NOC BOC 2544 (IT Other Contractual Services); however, EUR classified similar IT personnel services using NOC BOC 2569 (Other Contract Personnel). Additionally, the Office of the Secretary classified other direct costs¹⁵ using NOC BOC 2569 (Other Contract Personnel); however, CA classified similar other direct costs using NOC BOC 2589 (Other Contractual Services).

Additional Guidance and Oversight Needed To Address Deficiencies

According to Department officials, one reason that inaccurate NOC BOCs were used is because accounting officials had difficulty determining the proper BOC to use and, as a result, elected to use a generic NOC BOC code. For example, EUR officials indicated that personnel at posts often use an NOC BOC if they are unsure of which BOC to use. In addition, Department officials indicated that available BOCs may not always be the best fit for some transactions. For example, DS officials stated that many DS obligations are unique and specific to DS. According to DS officials, these unique obligations can be difficult to fit into existing BOCs.

Therefore, the unique obligations are often classified using one of the NOC BOCs, at the discretion of the contract specialist. CGFS does not have a process in place to periodically obtain feedback from bureaus and offices on their needs for certain types of BOCs or to update the list of BOCs to reflect the needs of Department bureaus and posts. DS officials stated that

¹⁴ The Global Support Services contract provides certain support services related to non-immigrant and immigrant visa operations at posts, including public inquiry services, appointment services, fee collection services, biometric enrollment services, document delivery services, and data collection services.

¹⁵ Other direct costs are expenses other than expenses for direct labor hours.

periodic conversations with CGFS to discuss DS needs for BOCs that fit the unique and specific mission of DS would be beneficial.

Furthermore, some bureau officials stated that the Department does not have sufficient guidance on the use of BOCs—particularly NOC BOCs. Kearney reviewed the FAH and noted that definitions for each NOC BOC are limited. For example, BOC 2589 (Other Contractual Services) is defined as “miscellaneous contractual services not otherwise classified.”¹⁶ The FAH does not provide examples as to what types of obligations or expenses may be classified to this BOC. Kearney also reviewed the “FY21 Domestic Financial Operating Instructions” and noted that it contained limited guidance related to the use of BOCs. For example, some guidance was provided on which BOCs to use for purchase card transactions.

CGFS did not have a process in place to identify issues that bureaus or offices may have with the use of NOC BOCs so that useful, authoritative guidance could be provided. Some bureau officials indicated that they were unsure what BOCs to use for contracts that include multiple types of services under one contract line item and accounting line number.¹⁷ Bureau officials indicated that, in these cases, each type of service related to different BOCs. However, because the services were aggregated to one contract line item and accounting line number, the officials chose an NOC BOC classification.

Finally, some bureau officials stated that it would be helpful if CGFS provided periodic reminders on the proper use of BOCs. CGFS officials indicated that CGFS had provided reminders on the proper use of BOCs in the past. Specifically, in 2009, CGFS determined that posts were overusing NOC BOC 2589 (Other Contractual Services). CGFS communicated with posts about the proper BOCs to use for transactions and asked posts to be more diligent about coding transactions properly. However, during the audit, Kearney found that the Department continued to significantly use NOC BOC 2589. For example, as shown in Appendix B, during FY 2020, the Department recorded almost \$2.3 billion in transactions to NOC BOC 2589. Kearney therefore concludes that it would be beneficial for CGFS to periodically provide updates and reminders on the use of BOCs, including NOC BOCs.

Impact of Deficiencies

Recording expense data to the appropriate BOC is essential for management officials to have complete and accurate data when assessing spending patterns and determining how funds were used. Until the deficiencies identified in this report are corrected, the Department will not have a full understanding about the specific purpose of its expenses or a method to easily identify how billions of dollars in funds were used.

¹⁶ 4 FAH-1 H-614, “Object Classifications and Definitions.”

¹⁷ The Federal Acquisition Regulation § 4.1001(a), “Policy,” states that “[l]ine items are established to define deliverables or organize information about deliverables. Each line item describes characteristics for the item purchased”

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a methodology to periodically review and update the budget object codes (BOC) included in the Foreign Affairs Handbook (4 FAH-1 H-613). This methodology should include collaborating with other bureaus to assist in identifying BOCs that are not needed, new BOCs that bureaus believe would be beneficial, or changes to the definitions of existing BOCs.

CGFS Response: CGFS accepted the recommendation, stating that it is committed to continuing to work to address the recommendation and to improve the use of BOCs.

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 documentation demonstrating that CGFS has developed and implemented a methodology to periodically review and update the BOCs included in the FAH.

Recommendation 2: OIG recommends that the Bureau of the Comptroller and Global Financial Services (CGFS) develop and implement guidance on the use of “not otherwise classified” budget object codes. As part of the process to develop guidance, CGFS should obtain information from bureaus on specific topics that the bureaus believe need authoritative guidance.

CGFS Response: CGFS accepted the recommendation, stating that it is committed to continuing to work to address the recommendation and to improve the use of BOCs.

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 documentation demonstrating that CGFS has developed and implemented guidance on the use of NOC BOCs.

Recommendation 3: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a communications strategy to periodically provide updates and reminders on the use of budget object codes, including “not otherwise classified” budget object codes.

CGFS Response: CGFS accepted the recommendation, stating that it is committed to continuing to work to address the recommendation and to improve the use of BOCs.

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 documentation demonstrating that CGFS has developed and implemented a communications strategy to periodically provide updates and reminders on the use of BOCs.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a methodology to periodically review and update the budget object codes (BOC) included in the Foreign Affairs Handbook (4 FAH-1 H-613). This methodology should include collaborating with other bureaus to assist in identifying BOCs that are not needed, new BOCs that bureaus believe would be beneficial, or changes to the definitions of existing BOCs.

Recommendation 2: OIG recommends that the Bureau of the Comptroller and Global Financial Services (CGFS) develop and implement guidance on the use of “not otherwise classified” budget object codes. As part of the process to develop guidance, CGFS should obtain information from bureaus on specific topics that the bureaus believe need authoritative guidance.

Recommendation 3: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a communications strategy to periodically provide updates and reminders on the use of budget object codes, including “not otherwise classified” budget object codes.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

Kearney & Company, P.C. (Kearney), acting on behalf of the Office of Inspector General (OIG), performed this audit to determine whether the Department of State (Department) consistently used “not otherwise classified” (NOC) budget object codes (BOC) in accordance with requirements for expenses.

Kearney conducted this audit from January to September 2021 in the Washington, DC, metropolitan area. The scope of this audit was NOC-designated expenses recorded from October 1, 2019, through September 30, 2020. Kearney performed work at the Bureau of the Comptroller and Global Financial Services (CGFS); Bureaus of Consular Affairs (CA), Diplomatic Security (DS), and European and Eurasian Affairs (EUR); and Office of the Secretary of State. Kearney conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To obtain background information, Kearney reviewed Federal laws, regulations, Office of Management and Budget (OMB) guidance, and Department of State (Department) policy and guidance related to the use of BOCs. Specifically, Kearney reviewed requirements prescribed in the United States Code,¹ OMB Circular A-11,² and the Foreign Affairs Handbook (FAH).³ Kearney also reviewed the Department’s FY 2020 financial statements.

To gain an understanding of the Department’s processes to ensure that transactions were recorded using an accurate BOC, Kearney interviewed CGFS officials who develop financial-related policies. Kearney also analyzed written procedures and other documentation. Furthermore, Kearney performed testing to determine whether selected bureaus classified NOC-designated expenses in accordance with guidance.

Data Reliability

Kearney used computer-processed data from the Department’s Global Financial Management System, which is the Department’s domestic accounting system. Kearney also used data obtained during the audit of the Department’s FY 2020 financial statements.⁴ Specifically, Kearney used FY 2020 expense account data and the September 30, 2020, trial balance, both of which were obtained from CGFS. During the audit of the financial statements, Kearney performed steps to assess the reliability of the data included in the Global Financial

¹ 31 United States Code § 1104(b), “Budget and appropriations authority of the President.”

² OMB Circular A-11, “Preparation, Submission, and Execution of the Budget,” December 2020.

³ 4 FAH-1 H-600, “Object Classification.”

⁴ Kearney performed the audit of the Department’s FY 2020 financial statements on behalf of OIG.

Management System.⁵ In addition to the steps performed during the audit of the financial statements, Kearney tested selected items from the expense account data for reliability during this audit. For example, Kearney reconciled the FY 2020 expense account data to the audited Global Financial Management System trial balances as shown in Table A.1.

Table A.1: Reconciliation of Expense Data

Description	Amount (in dollars)
Audited June 30, 2020, Trial Balance	22,260,176,898
Audited September 30, 2020, Trial Balance	9,807,199,119
Total	32,067,376,017
Expense Account General Ledger Detail	32,067,376,017
Variance	0

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

Kearney did not identify any deficiencies in the data. Overall, Kearney concluded that the data used were sufficiently reliable for purposes of this audit.

Work Related to Internal Control

During the audit, Kearney considered a number of factors, including the subject matter of the project, to determine whether internal control was significant to the audit objective. Based on its consideration, Kearney determined that internal control was not significant for this audit.

Although internal controls were not significant to the audit objective, Kearney performed procedures to gain an understanding of internal controls related to the use of NOC-designated expenses. Specifically, Kearney held several meetings with CGFS officials to gain an understanding of the control environment and specific controls. Kearney also obtained and reviewed the Department’s policies and procedures for assigning BOCs to transactions.

Sampling Methodology

Kearney’s sampling objective was to select a sample of bureaus for testing and select a sample of NOC-designated expenses to determine whether:

- NOC-designated expenses were classified as NOC in accordance with OMB Circular A-11 and the FAH.
- NOC BOCs were applied consistently between and within selected bureaus and offices.

Kearney employed the judgmental sampling method to select both the bureaus and the NOC-designated expenses.

⁵ The Department received an unmodified opinion on its FY 2020 financial statements (OIG, *Independent Auditor’s Report on the U.S. Department of State FY 2020 and FY 2019 Financial Statements*, AUD-FM-21-08, November 2020).

Bureau Selection Methodology

Kearney selected three bureaus and one office (CA, DS, EUR, and the Office of the Secretary) for detailed testing. Initially, Kearney obtained the FY 2020 expense account data from CGFS. Kearney excluded certain information from the data to identify the population of NOC-designated expenses, as shown in Table A.2.

Table A.2: Expense Account Data Exclusions

Description	Amount (in dollars)
Expense Account General Ledger Detail	32,067,376,017
Less: Non-NOC BOCs ^a	27,775,655,573
Less: Exclusions ^b	(377,941,796)
Total After Exclusions	4,669,662,240

^a Kearney excluded BOCs that were not identified as NOC in 4 FAH-1 H-613, "Object and Subobject Class Codes and Standard Title Abbreviations."

^b Kearney excluded records that did not represent true expense activity, such as \$0 records, records that netted to \$0 within the same document number, records representing manual journal voucher adjustments, and records with abnormal balances.

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

Kearney identified the number and amount of NOC BOCs used by bureaus and offices. Kearney judgmentally selected the three bureaus or offices with the highest amount of NOC-designated expenses (CA, DS, and the Office of the Secretary) and the bureau with the highest number of NOC-designated expenses.⁶ Table A.3 provides details of the NOC BOCs for these bureaus and office.

Table A.3: NOC BOC Use During FY 2020 for Selected Bureaus and Offices

Bureau	Overseas Number	Overseas Amount (in dollars)	Domestic Number	Domestic Amount (in dollars)	Total Number	Total Amount (in dollars)
CA	33,391	26,354,245	9,435	711,169,341	42,826	737,523,585
Office of the Secretary	0	0	5,050	674,949,995	5,050	674,949,995
DS	65,284	51,080,778	25,031	388,194,866	90,315	439,275,644
EUR	67,491	62,420,738	1,160	11,701,146	68,651	74,121,885

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

⁶ DS had the highest number of NOC-designated expenses during FY 2020. Because it was already selected, Kearney selected the bureau with the second highest number, EUR.

NOC-Designated Expenses Selection Methodology

Kearney summarized the NOC BOC expense account data for CA, the Office of the Secretary, DS, and EUR. Kearney selected the 45 largest NOC-designated expenses from each bureau or office for testing.

Kearney performed the following tests for each selected item:

- Reviewed funding documentation and obtained an understanding of the purpose of the expense(s).
- Determined if the accurate BOC was used in accordance with Federal regulations and Department guidelines.
- Investigated each exception to identify causes for the inaccuracies.

APPENDIX B: FY 2020 EXPENDITURES RECORDED TO EACH “NOT OTHERWISE CLASSIFIED” BUDGET OBJECT CODE

As shown in Table B.1, Kearney & Company, P.C. (Kearney), determined the number and amount of the Department of State’s (Department) FY 2020 transactions that were recorded using a “not otherwise classified” (NOC) budget object code (BOC).¹

Table B.1: FY 2020 Expenses Recorded Using a “Not Otherwise Classified” Budget Object Code

Budget Object Code	Title of Budget Object Code	Number	Amount (in dollars)
2589	Other Contractual Services	103,917	2,281,397,692
2569	Other Contract Personnel	25,127	1,056,573,355
2544	IT Other Contractual Services	5,684	509,570,374
2152	Travel Outside the United States	22,196	200,395,678
1219	Miscellaneous Other Allowances	69,459	104,271,792
2379	Miscellaneous Rentals	25,553	93,679,270
4190	Other Payments	594	76,980,890
2156	Field Travel	114,336	64,819,069
2699	Miscellaneous Supplies and Materials	52,096	59,569,121
2344	All Other Communications	6,367	57,746,272
3141	Miscellaneous Equipment	8,037	51,449,315
2163	Other Travel	49,557	15,516,758
2329	All Other Telephone Communications	13,426	15,409,137
2339	All Other Telegraph Communications	485	13,607,435
1181	Cash Awards	3,686	10,609,819
2659	Custodial Items	8,417	9,809,206
2120	Domestically Issued TDY [Temporary Duty] Travel	5,266	9,556,379
2299	Miscellaneous Freight and Mail Transportation	17,894	9,470,563
2365	Garbage and Trash Disposal	13,953	6,308,111
1144	Contract Personal Services	1,723	5,321,796
2539	Other Personnel Care	45	4,003,989
1197	Other Allowances	1,020	3,302,342
3143	Capitalized Miscellaneous Equipment	51	3,176,095
3106	Heavy Equipment	49	1,983,446
2450	Miscellaneous Printing	3,484	1,934,515
3114	Sedans	52	1,784,995
2151	Domestic Travel	772	1,041,746
1137	Other Premium Pay	793	298,558
3319	Other Investments	4	47,208
2419	All Other Printed Administrative Supplies	57	20,912

¹ The Department did not record any expenses to NOC BOCs 4230 (Other Claims Not Otherwise Classified) and 4626 (Other Fees Not Otherwise Classified) during FY 2020 and, accordingly, those BOCs are not included in Table B.1.

Budget Object Code	Title of Budget Object Code	Number	Amount (in dollars)
3324	Other Loans	8	6,002
4330	Interest	1	305
2563	Miscellaneous Travel Related Contractual Expenses	1	95
Total		554,110	4,669,662,240

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

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




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

JAN 31 2022

MEMORANDUM

TO: OIG – Diana R. Shaw, Acting

FROM: CGFS – Jeffrey C. Mounts 

SUBJECT: OIG Draft Audit of the Department of State’s Use of “Not Otherwise Classified” Budget Object Codes (AUD-FM-22-XX)

Thank you for the opportunity to comment on the Draft Report for the Audit of the Department of State’s Use of “Not Otherwise Classified” Budget Object Codes recommendations.

Recommendation 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a methodology to periodically review and update the budget object codes (BOC) included in the Foreign Affairs Handbook (4 FAH-1 H-613). This methodology should include collaborating with other bureaus to assist in identifying BOCs that are not needed, new BOCs that bureaus believe would be beneficial, or changes to the definitions of existing BOCs.

Recommendation 2: OIG recommends that the Bureau of the Comptroller and Global Financial Services (CGFS) develop and implement guidance on the use of “not otherwise classified” budget object codes. As part of the process to develop guidance, CGFS should obtain information from bureaus on specific topics that the bureaus believe need authoritative guidance.

Recommendation 3: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a communications strategy to periodically provide updates and reminders on the use of budget object codes, including “not otherwise classified” budget object codes.

Response: The Bureau of the Comptroller and Global Financial Services (CGFS) accepts the recommendations provided in the Draft Report. CGFS is committed to continuing to work, in coordination with key stakeholders throughout the Department, to address these recommendations and to improve the use of Budget Object Codes.

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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.

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APPENDIX D: BUREAU OF DIPLOMATIC SECURITY RESPONSE




United States Department of State

Washington, D.C. 20520

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January 18, 2022

**INFORMATION MEMO TO NORMAN BROWN, ASSISTANT
INSPECTOR GENERAL FOR AUDITS - OIG/AUD**

FROM: DS – Gentry O. Smith 

SUBJECT: Bureau of Diplomatic Security Response to the Office of Inspector General (OIG) Draft Report on *Audit of the Department of State's Use of "Not Otherwise Classified" Budget Object Codes*, January 2022 (AUD-FM-22-XX)

While there were no recommendations addressed to the Bureau of Diplomatic Security (DS), upon review DS offers the following comment on the subject draft report, as well as the report's recommendations for reference.

DS Comment (1/18/2022): DS/EX/CFO concurs with the report and its findings as the wrong BOCs were used. DS/CFO was aware of the errors prior to the audit and had already taken corrective actions within DS to ensure the errors do not recur.

REF:

Recommendation # 1: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a methodology to periodically review and update the budget object codes (BOC) included in the Foreign Affairs Handbook (4 FAH-1 H-613). This methodology should include collaborating with other bureaus to assist in identifying BOCs that are not needed, new BOCs that bureaus believe would be beneficial, or changes to the definitions of existing BOCs.

Recommendation # 2: OIG recommends that the Bureau of the Comptroller and Global Financial Services (CGFS) develop and implement guidance on the use of "not otherwise classified" budget object codes. As part of the process to develop

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guidance, CGFS should obtain information from bureaus on specific topics that the bureaus believe need authoritative guidance.

Recommendation # 3: OIG recommends that the Bureau of the Comptroller and Global Financial Services develop and implement a communications strategy to periodically provide updates and reminders on the use of budget object codes, including “not otherwise classified” budget object codes.

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Approved: DS – Gentry O. Smith []

Analyst: DS/MGT/PPD – Kiril Jakimovski

Cleared: DS/EX – CBoushell (OK)
DS/EX/MGT – RReisman (OK)
DS/MGT/PPD – RReisman (OK)
DS/EX/CFO – RBaldre (OK)

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ABBREVIATIONS

BOC	budget object codes
CA	Bureau of Consular Affairs
CGFS	Bureau of the Comptroller and Global Financial Services
DS	Bureau of Diplomatic Security
EUR	Bureau of European and Eurasian Affairs
FAH	Foreign Affairs Handbook
NOC	not otherwise classified
OIG	Office of Inspector General
OMB	Office of Management and Budget

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