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INDEPENDENT AUDITOR'S REPORT
AUD-FM-23-07

To the Secretary of the U.S. Department of State and the Senior Official Performing the Duties of the Inspector General

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the U.S. Department of State (Department), which comprise the consolidated balance sheets as of September 30, 2022 and 2021; the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended; and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2022 and 2021, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements." Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the

Department's ability to continue as a going concern for 12 months beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Combining Statement of Budgetary Resources, Deferred Maintenance and Repairs, and Land (hereinafter referred to as "required supplementary information") be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by

OMB Circular A-136, "Financial Reporting Requirements," and the Federal Accounting Standards Advisory Board, which consider the information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of making inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the Introduction, Message from the Secretary, Message from the Comptroller, Section III: Other Information, and Appendices as listed in the Table of Contents of the Department's Agency Financial Report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01, we have also issued reports, dated November 15, 2022, on our consideration of the Department's internal control over financial reporting and on our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements for the year ended September 30, 2022. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2022

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Secretary of the U.S. Department of State and the Senior Official Performing the Duties of the Inspector General

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," the financial statements and the related notes to the financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2022, and we have issued our report thereon dated November 15, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 22-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982,[1] such as those controls relevant to ensuring efficient operations.

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

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

[1] Federal Managers' Financial Integrity Act of 1982, Public Law No. 97-255, 96 STAT 814 (September 8, 1982).

Significant Deficiencies

I. Property and Equipment

The Department reported more than $28 billion in net property and equipment on its FY 2022 consolidated balance sheet. Real and leased property consisted primarily of residential and functional facilities and capital improvements to these facilities. Personal property consisted of several asset categories, including aircraft, vehicles, security equipment, communication equipment, and software. Weaknesses in property and equipment were initially reported during the audit of the Department's FY 2005 financial statements. In FY 2022, the Department's internal control structure continued to exhibit several deficiencies that negatively affected the Department's ability to account for real and personal property in a complete, accurate, and timely manner. We concluded that the combination of property-related control deficiencies was a significant deficiency. The individual deficiencies we identified are summarized as follows:

- <u>Overseas Real Property</u> – The Department operates at more than 270 embassies, consulates, and other posts in more than 180 countries and is primarily responsible for acquiring and managing real property in foreign countries on behalf of civilian U.S. Government agencies. We identified real property acquisitions and disposals overseas that were not recorded by the Department in a timely manner or for which the Department did not provide adequate supporting documentation. Although the Department performs certain controls, such as a quarterly data call, to identify acquisitions and disposals related to overseas real property, the controls did not ensure that all real property transactions were recorded in the proper fiscal year. The untimely processing of property acquisitions and disposals resulted in misstatements in the Department's asset balances.

- <u>Domestic Construction Projects</u> – In most cases, the Department pays for the renovation or improvement of facilities that are occupied by the Department but are managed[2] by the General Services Administration (GSA). The Department's policies require the capitalization of major real property renovations or leasehold improvements of $1 million or more. For construction projects in buildings that were occupied by the Department but were managed by other federal agencies, such as GSA, we found that the Department recorded construction costs as operating expenses rather than construction in progress (an asset account), even when the costs exceeded $1 million (the capitalization threshold). The Department does not have sufficient policy and procedures specific to the accounting treatment for improvements to domestic real property managed by other federal agencies.

  To determine the correct accounting treatment of these transactions, the Department, the Department of the Treasury, and GSA jointly submitted a technical inquiry to the Federal Accounting Standards Advisory Board (FASAB)[3] for guidance. FASAB has not responded to the technical inquiry. Without guidance from FASAB that would allow the

[2] GSA-managed properties include those that are owned or leased by GSA.
[3] FASAB issues federal financial accounting standards and provides guidance on those standards.

Department to resolve the issue, the Department may not appropriately and consistently account for domestic real property transactions; thus, understating assets and overstating expenses in the Department's financial statements.

- Leases – The Department manages 16,895 overseas real property leases. The majority of the Department's leases are short-term operating leases. The Department must disclose the future minimum lease payments related to the Department's operating lease obligations in the notes related to the financial statements. We found numerous recorded lease terms that did not agree with supporting documentation. The Department's processes to record lease information were not always effective. The errors resulted in misstatements in the Department's notes related to the financial statements.

- Personal Property – The Department uses several nonintegrated systems to track, manage, and record personal property transactions. Information in the property systems is periodically merged or reconciled with the financial management system to centrally account for the acquisition, disposal, and transfer of personal property. We identified a significant number of personal property transactions that were not recorded in the correct fiscal year. In addition, we found that the acquisition value or the acquisition date recorded for numerous selected items could not be supported or was incorrect. Furthermore, we found that the gain or loss recorded for some personal property disposals was not recorded properly. The Department's internal control structure did not ensure that personal property acquisitions and disposals were recorded in a complete, timely, and accurate manner. In addition, the Department's monitoring activities were not effective to ensure proper financial reporting for personal property. The errors resulted in misstatements to the Department's financial statements. The lack of effective control may result in the loss of accountability for asset custodianship, which could lead to undetected theft or waste.

- Software – Federal agencies use various types of software applications, called internal use software, to conduct business. Applications in the development phase are considered software in development (SID). Agencies are required to report software as property in their financial statements. We identified instances in which the data recorded for SID were unsupported or inaccurate. We also identified some instances in which completed projects were not transferred from SID to the internal use software account in a timely manner. One reason this occurred was that the Department did not complete its quarterly data call process during the first two quarters of FY 2022, which limited the Department's ability to collect current and accurate information from project managers. In addition, the data call process, when performed, was not sufficient because it relied on the responsiveness and understanding of individual project managers, not all of whom understood the accounting requirements for reporting SID. Furthermore, the Department did not have an effective process to confirm that information provided by project managers was complete or accurate. The errors resulted in misstatements to the Department's financial statements.

II. Validity and Accuracy of Unliquidated Obligations

Unliquidated obligations (ULO) 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 payment has not yet been made. The Department's policies and procedures provide guidance that requires allotment holders to perform at least monthly reviews of ULOs. Weaknesses in controls over ULOs were initially reported during the audit of the Department's FY 1997 financial statements. We continued to identify a significant number and amount of invalid ULOs based on expired periods of performance, inactivity, lack of supporting documentation, and the inability to support bona fide need.

Although the Department takes steps to remediate long-standing ULO validity issues through its annual ULO review, the scope of the review does not include all ULOs. Overseas ULOs and domestic ULOs that do not meet the annual domestic review categories established by the Department continue to be a risk for invalidity. Furthermore, not all allotment holders were performing periodic reviews of ULO balances as required. As a result of the invalid ULOs that were identified by our audit, the Department adjusted its FY 2022 financial statements. In addition, funds that could have been used for other purposes may have remained open as invalid ULOs, and the risk of duplicate or fraudulent payments increased.

III. Financial Reporting

Weaknesses in controls over financial reporting were initially reported during the audit of the Department's FY 2019 financial statements. During FY 2022, the audit continued to identify control limitations, and we concluded that financial reporting remained a significant deficiency.

In some cases, appropriated funds are required to be transferred to another agency for programmatic execution (referred to as "child funds"). Despite transferring these funds to another agency, the Department is required to report on the use and status of child funds in its financial statements. During FY 2022, the Department made significant child fund transfers to three agencies. To obtain audit coverage of the Department's most significant child funds, we requested that the financial statements auditors of two of the three agencies perform certain audit steps. One of those auditors identified numerous invalid ULOs. In addition, during our FY 2021 financial statement audit, we requested that the Department obtain detailed financial information from the third agency, which received a less significant amount of child funds from the Department. However, we found that the data provided by this agency were not complete or accurate and did not reconcile to its trial balance data. During our FY 2022 financial statement audit, Department officials indicated that they had not implemented new controls to ensure that complete and accurate child fund data were available. One reason for the issues identified was that the Department did not have an effective, routine process to ensure that amounts reported by agencies receiving child funds were accurate. For example, the Department did not communicate effectively with child fund agencies to ensure that the validity of ULOs was reviewed periodically. In addition, the Department did not have a routine process to ensure that transaction-level details were readily available from the other agencies and were auditable. Without an effective process to accurately monitor child funds, there is a risk of errors in the Department's future financial statements.

IV. Information Technology

The Department's information systems and electronic data depend on the confidentiality, integrity, and availability of the Department's comprehensive and interconnected IT infrastructure using various technologies around the globe. Therefore, it is critical that the Department manage information security risks effectively throughout the organization. The Department uses several financial management systems to compile information for financial reporting purposes. The Department's general support system, a component of its information security program, is the gateway for all the Department's systems, including its financial management systems. Generally, control deficiencies noted in the information security program are inherited by the systems that reside in it.

On behalf of the Office of Inspector General, we performed an audit of the Department's FY 2022 information security program, in accordance with the Federal Information Security Modernization Act of 2014 (FISMA).[4] During that audit,[5] we concluded that the Department did not have an effective organization-wide information security program. Specifically, we determined that eight of nine domains included in the "FY 2022 Core IG FISMA Metrics Evaluation Guide" were operating below an effective level. Some of the deficiencies identified that we determined had an impact on internal controls related to financial reporting were the lack of an effective process to timely authorize and reauthorize the Department's information systems to operate[6] as well as inconsistent and ineffective scanning processes to identify and remediate vulnerabilities.

Without an effective information security program, the Department remains vulnerable to IT-centered attacks and threats to its critical mission-related functions. Information security program weaknesses can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered, either accidentally or intentionally. Information security program weaknesses and deficiencies increase the risk that the Department will be unable to report financial data accurately.

We considered the weaknesses and deficiencies identified during the FISMA audit to be a significant deficiency within the scope of the FY 2022 financial statements audit. We have reported weaknesses and deficiencies in IT security controls as a significant deficiency annually since our audit of the Department's FY 2009 financial statements.

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[4] Public Law 113-283, 128 STAT. 3079-3080 (December 18, 2014).
[5] Office of Inspector General, *Audit of the Department of State FY 2022 Information Security Program* (AUD-IT-22-43, September 2022).
[6] According to the National Institute of Standards and Technology, Special Publication 800-37, rev. 2, "Risk Management Framework for Information Systems and Organizations," December 2018, page 91, an authorization to operate is "the official management decision given by a senior Federal official or officials to authorize operation of an information system and to explicitly accept the risk to agency operations (including mission, functions, image, or reputation), agency assets, individuals, other organizations, and the Nation based on the implementation of an agreed-upon set of security and privacy controls."

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

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting that was included in the audit report on the Department's FY 2021 financial statements,[7] we noted several issues that were related to internal control over financial reporting. The status of the FY 2021 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2021 Status	FY 2022 Status
Property and Equipment	Significant Deficiency	Significant Deficiency
Budgetary Accounting	Significant Deficiency	Management Letter
Validity and Accuracy of Unliquidated Obligations	Significant Deficiency	Significant Deficiency
Financial Reporting	Significant Deficiency	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

Department's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of the Department's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2022

[7] Office of Inspector General, *Independent Auditor's Report on the U.S. Department of State FY 2021 and FY 2020 Financial Statements* (AUD-FM-22-10, November 2021).

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

To the Secretary of the U.S. Department of State and the Senior Official Performing the Duties of the Inspector General

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," the financial statements and the related notes to the financial statements, of the U.S. Department of State (Department) as of and for the year ended September 30, 2022, and we have issued our report thereon dated November 15, 2022.

Report on Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts and disclosures, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA).[1] We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion.

The results of our tests, exclusive of those related to FFMIA, disclosed instances of noncompliance or potential noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No.22-01 and which are summarized as follows:

- *Antideficiency Act*.[2] This act prohibits the Department from (1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; (2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; or (3) making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations. Our audit procedures identified Department of the Treasury account fund symbols with negative balances that were potentially in violation of the Antideficiency Act. Conditions impacting the Department's

[1] Federal Financial Management Improvement Act of 1996, Public Law No. 104-208, 110 STAT. 3009 (September 30, 1996).
[2] Antideficiency Act, Public Law No. 97-258, 96 STAT. 923 (September 13, 1982).

compliance with the Antideficiency Act have been reported annually since our FY 2009 audit.

- *Prompt Payment Act*.[3] This Act requires federal agencies to make payments in a timely manner, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. We found that the Department did not consistently calculate or pay interest penalties for overdue payments to overseas vendors or international organizations. The Department was unable to provide legal justification exempting the Department from paying interest penalties for payments to these types of entities. Conditions impacting the Department's compliance with the Prompt Payment Act have been reported annually since our FY 2009 audit.

The results of our tests of compliance with FFMIA disclosed no instances in which the Department's financial management systems did not comply substantially with Section 803(a) requirements related to federal financial management system requirements, applicable federal accounting standards, or application of the United States Standard General Ledger at the transactional level.

During the audit, we noted certain additional matters involving compliance that we will report to Department management in a separate letter.

Department's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance with laws, regulations, contracts, and grant agreements and the results of that testing and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2022

[3] 31 United States Code § 39, "Prompt Payment."

Appendix A

United States Department of State

Comptroller

Washington, DC 20520

November 14, 2022

UNCLASSIFIED
MEMORANDUM

TO: OIG – Diana Shaw, Senior Official Performing the Duties of the Inspector General

FROM: CGFS – James A. Walsh, Comptroller

SUBJECT: Draft Report on the Department of State's Fiscal Year 2022 Financial Statements

This memo is in response to your request for comments on the Draft Report of the Independent Auditor's Report on Internal Control Over Financial Reporting, and Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements.

As you are aware, the scale and complexity of Department activities and corresponding financial management operations and requirements are immense. The Department does business in more than 270 locations. The more than 180 countries in which we operate include some extraordinarily challenging environments. These factors are a backdrop as we work diligently to maintain and operate an efficient and transparent financial management platform in support of the Department's and U.S. Government's essential foreign affairs mission.

We value accountability in all we do, and the discipline of the annual external audit process and the issuance of the Department's audited financial statements represents our commitment to this accountability to the American people. This is my first Agency Financial Report (AFR) in the Comptroller's seat. I'm sure that few outside the financial management community fully realize the time and effort that go into producing the audit and the AFR. The collaboration, issues resolution, and pursuit to strengthen our financial management across all parties is outstanding. We may not agree on every aspect of the process and findings; however, we extend our sincere thanks for the commitment by all parties, including the OIG and Kearney & Company, to work together constructively and within a concentrated timeframe to complete the comprehensive audit process. We know there always will be new challenges and concerns given our global operating environment and scope of compliance requirements. The overall results of the audit reflect the continuous improvement and strong performance we strive to achieve in the Bureau of the Comptroller and Global Financial Services (CGFS) and across the Department's financial management community.

We are pleased to learn the Independent Auditor's Report concludes the Department has received an unmodified ("clean") audit opinion on its FY 2022 and FY 2021 principal financial statements. Moreover, the audit reflects no material weaknesses. The report reflects progress made, including the elimination of a Significant Deficiency in Budgetary Accounting.

We remain committed to strong corporate governance and internal controls as demonstrated by our robust system of internal controls. This framework is overseen by our Senior Assessment Team (SAT) and Management Control Steering Committee (MCSC), with senior leadership providing validation. We appreciate the OIG's participation in both the SAT and MCSC discussions. For FY 2022, no material management control issues or material weaknesses in internal controls over financial reporting were identified by senior leadership. As a result, the Secretary was able to provide an unmodified Statement of Assurance for the Department's overall internal controls and internal controls over financial reporting in accordance with the Federal Managers' Financial Integrity Act.

We recognize there is more to be done, and the items identified in the Draft Report will demand additional action to achieve further improvement. We look forward to working with you, Kearney & Company, and other stakeholders addressing these issues in the coming year.