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Office of Inspector General
United States Department of State

AUD-FM-23-18

Office of Audits

May 2023

Audit of Department of State FY 2022 Compliance With Payment Integrity Requirements

FINANCIAL MANAGEMENT DIVISION

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HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-23-18

What Was Audited

In FY 2022, improper and unknown federal payments government-wide totaled approximately \$247 billion. The Payment Integrity Information Act of 2019 (PIIA) requires Inspectors General to annually determine whether agencies complied with the Act and established requirements for agencies that were deemed noncompliant.

Kearney & Company, P.C. (Kearney), acting on the Office of Inspector General's (OIG) behalf, conducted this audit to determine whether the Department of State (Department) complied with PIIA for FY 2022. As part of this objective, Kearney also evaluated the Department's efforts to prevent and reduce improper and unknown payments.

What OIG Recommends

Because the Department was found to be in compliance with PIIA requirements for FY 2022, OIG is not offering recommendations as a result of this audit. The Bureau of the Comptroller and Global Financial Services' response to a draft of this report is reprinted, in its entirety, in Appendix C.

May 2023

OFFICE OF AUDITS

FINANCIAL MANAGEMENT DIVISION

Audit of Department of State FY 2022 Compliance With Payment Integrity Requirements

What Was Found

For the FY 2022 reporting period, Kearney found that the Department complied with payment integrity requirements, as presented in Table 1.

Table 1: Compliance With PIIA Criteria

Payment Integrity Criteria	Compliance
Published payment integrity information with the annual financial statement and in accompanying materials.	Yes
Posted the annual financial statement and accompanying materials on the agency website.	Yes
Conducted risk assessments.	Yes
Concluded whether each program was likely to make improper and unknown payments above or below the statutory threshold.	Yes
Published improper and unknown payment estimates.*	N/A
Published corrective action plans.*	N/A
Published reduction targets.*	N/A
Demonstrated improvements to payment integrity or reached a tolerable rate.*	N/A
Developed a plan to meet reduction target.*	N/A
Reported estimate of less than 10 percent for each program with a published estimate.*	N/A

*Criteria did not apply because no program was identified as high risk.

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

Specifically, Kearney found that the Department published the FY 2022 financial statements and accompanying material, which included all applicable payment integrity information, on its website. In addition, the Department conducted program-specific risk assessments and made appropriate conclusions related to the risk assessments. Specifically, the Department performed risk assessments for all 36 programs as part of its 3-year risk assessment approach. The programs subject to risk assessments during FY 2022 are listed in Table B.1.

During the evaluation of the Department's efforts to prevent and reduce improper payments, Kearney did not identify any needed improvements involving improper and unknown payments determination, the associated estimation methodology, or actions necessary to improve prevention and reduction.



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Audit of Department of State FY 2022 Compliance With Payment Integrity Requirements

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

Kearney & Company, P.C. (Kearney), has performed an audit of the Department of State FY 2022 compliance with payment integrity requirements. This performance audit, performed under Contract No. 19AQMM20A0536, was designed to meet the objective identified in the report section titled "Objectives" and further defined in Appendix A, "Purpose, Scope and Methodology," of the report.

Kearney conducted this performance audit from December 2022 through April 2023 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
May 2, 2023

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OBJECTIVE

Kearney & Company, P.C (Kearney), acting on the Office of Inspector General’s (OIG) behalf, conducted this audit to determine whether the Department of State (Department) complied with the Payment Integrity Information Act of 2019¹ (PIIA) for FY 2022. As part of this objective, Kearney also evaluated the Department’s efforts to prevent and reduce improper and unknown payments.

BACKGROUND

According to the Department of the Treasury, improper and unknown federal payments government-wide totaled approximately \$247 billion in FY 2022.² Improper payments are payments that were made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term “improper payments” includes:

- Payments to an ineligible recipient.
- Payments for an ineligible good or service.
- Duplicate payments.
- Payments for goods or services not received (except for such payments authorized by law).
- Payments that do not account for credit for applicable discounts.³

If a program cannot discern whether a payment is proper or improper, the payment is considered an unknown payment. If a program is still conducting research or going through the review of a payment at the time that the program must finish its sampling and report its results, the payment will be considered an unknown payment for reporting purposes that year. This is done so that the program will not unintentionally over or under report the payment type results.⁴

The federal government has taken steps to identify and reduce improper payments. For example, on March 2, 2020, Congress enacted PIIA, which sets forth improper payment reporting requirements, including an annual compliance report from OIGs,⁵ that were similar to

¹ PIIA, Public Law 116-117, March 2, 2020, codified at 31 United States Code Chapter 33, Subchapter IV, “Improper Payments.”

² PaymentAccuracy.gov, Resources, Annual Improper Payment Datasets, 2022 Dataset, <https://www.paymentaccuracy.gov/payment-accuracy-the-numbers/>.

³ Office of Management and Budget Circular A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” Appendix C, “Requirements for Payment Integrity Improvement,” page 64 (March 5, 2021).

⁴ Ibid., page 12.

⁵ PIIA, § 3353.

earlier laws.⁶ For example, PIIA requires agencies to publish improper and unknown payments information with the agency's financial statements and in the accompanying materials and to post the information on the agency's website.⁷

On March 5, 2021, the Office of Management and Budget (OMB) updated guidance for agencies to implement improper payment legislation in Appendix C, "Requirements for Payment Integrity Improvement," of OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," in an effort "to transform the payment integrity compliance framework and create a more comprehensive and meaningful set of requirements to allow agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments."⁸

Department of State Payments

The Department is the primary agency through which the U.S. Government conducts its diplomacy. The Department operates more than 270 embassies, consulates, and other posts worldwide. The Department provides policy guidance, program management, administrative support, and in-depth expertise in areas such as law enforcement, economics, the environment, intelligence, arms control, human rights, counternarcotics, counterterrorism, public diplomacy, humanitarian assistance, security, nonproliferation, and consular services.

Because of the nature and the extent of its programs, the Department makes significant payments to third-party vendors, contractors, grantees, and employees. During FY 2022, the Department made payments of approximately \$39.3 billion, of which \$32.7 billion was subject to improper and unknown payment requirements,⁹ including payments to vendors and contractors; payments to employees; and federal financial assistance payments, including grants, assessed contributions,¹⁰ and voluntary contributions.¹¹ Several factors increase the Department's risk for improper payments: the amount and volume of payments made by the Department, the Department's emphasis on expediting certain payments (e.g., payments for

⁶ PIIA repealed earlier improper payments laws, including the Improper Payments Information Act of 2002, Public Law 107-300, November 26, 2002; the Improper Payments Elimination and Recovery Act of 2010, Public Law 111-204, July 22, 2010; and the Improper Payments Elimination and Recovery Improvement Act of 2012, Public Law 112-248, January 10, 2013.

⁷ PIIA, § 3351(2)(A)(i)-(ii).

⁸ OMB Memorandum M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvements," March 5, 2021.

⁹ OMB Circular A-123, Appendix C, page 68, defines "payment" as any transfer of federal funds (including a commitment for future transfer, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-federal person or entity or a federal employee, that is made by a federal agency, a federal contractor, a federal grantee, or a governmental or other organization administering a federal program or activity.

¹⁰ Assessed contributions represent assistance provided to foreign countries, international societies, commissions, or proceedings or to projects that are lump sum, quota of expenses, or fixed by treaty.

¹¹ Voluntary contributions represent discretionary financial assistance provided to foreign countries, international societies, commissions, proceedings, or projects.

necessary foreign financial assistance), and the decentralized nature of the Department's operations.

The Bureau of the Comptroller and Global Financial Services (CGFS) has oversight responsibilities for the Department's financial management program. Financial management program responsibilities include establishing financial policy and procedures, analyzing and reporting financial information, managing financial information systems, and establishing management controls. Management controls, also known as "internal controls," are the processes designed and implemented by an organization to help it accomplish its goals or objectives. Important internal control activities include those aimed at ensuring that only proper payments are made. Within CGFS, the Office of Management Controls (MC) is responsible for overseeing the Department's management control program and other financial management functions, such as administering compliance with improper payment requirements. The Office of Management Analysis within CGFS conducts secondary reviews of most of the Department's eligible transactions and performs payment recapture activities.

AUDIT RESULTS

Finding A: The Department Complied With PIIA Requirements

Kearney found that the Department complied with all applicable PIIA requirements for FY 2022. Specifically, the Department:

- Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement.
- Posted the annual financial statement, including a link to accompanying materials, on the agency website.
- Conducted improper payment risk assessments for required programs.
- Adequately concluded whether each program is likely to make improper and unknown payments above or below statutory thresholds.

The Department was not required to perform additional procedures or make other disclosures because it did not identify any programs at significant risk for improper and unknown payments. Table 1 details whether selected programs were compliant with required criteria.

Table 1: PIIA Compliance Reporting for Selected Programs

Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
American Compensation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Annuity Compensation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Assessed Contributions	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Consular and Border Security Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Consular and Border Security Programs, Consular Information and IT Security	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Consular and Border Security Programs, Western Hemisphere Travel Initiative	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic and Consular Programs (D&CP), Diplomatic Policy and Support	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
D&CP, IT Central Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
D&CP, Other Operations	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
D&CP, Overseas Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
D&CP, Security – Afghanistan, Pakistan	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
D&CP, Terrorism-Related	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
D&CP, Worldwide Security Protection	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Diplomatic and Support Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of Educational and Cultural Affairs, Citizen Exchange Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of Educational and Cultural Affairs,	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
Educational Programs										
Bureau of Educational and Cultural Affairs, Fulbright Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Economic Support Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Foreign Service National/Locally Employed Staff Compensation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of International Narcotics and Law Enforcement Affairs, Aviation, Anticrime, Interdiction and Related Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of International Narcotics and Law Enforcement Affairs, Embassy Operations Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of International Narcotics and Law Enforcement Affairs, Physical Security Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Nonproliferation, Anti-terrorism, Demining, and Related Programs, International Security and Nonproliferation Related Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
National Endowment for Democracy	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of Overseas Buildings Operations (OBO), Capital and Real Property	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Program Name	Criterion 1a^a	Criterion 1b^b	Criterion 2a^c	Criterion 2b^d	Criterion 3^e	Criterion 4^f	Criterion 5a^g	Criterion 5b^h	Criterion 5cⁱ	Criterion 6^j
Acquisitions Program										
OBO, Construction	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
OBO, International Security Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
OBO, Leaseholds and Functional Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
OBO, Project Construction – Major Rehabilitation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Peacekeeping Operations	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Post-Assignment Travel	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Population, Refugees, and Migration Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Temporary Duty Travel	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Voluntary Contributions	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Working Capital Fund, International Cooperative Administrative Support Services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Working Capital Fund Programs	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

^a Published payment integrity information with the annual financial statement and in accompanying materials to the annual financial statement.

^b Posted the annual financial statement and accompanying materials on the agency website.

^c Conducted improper payment risk assessments for each program with annual outlays greater than \$10,000,000 at least once in the last 3 years.

^d Adequately concluded whether the program is likely to make improper and unknown payments above or below the statutory threshold.

^e Published improper and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statements.

^f Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

^g Published an improper and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

^h Demonstrated improvements to payment integrity or reached a tolerable improper and unknown payment rate.

ⁱ Developed a plan to meet the improper and unknown payment reduction target.

^j Reported an improper and unknown payment estimate of less than 10 percent for each program for which an estimate was published in accompanying materials to the annual financial statement.

Source: Generated by Kearney based on criteria obtained from OMB Circular A-123, Appendix C, pages 43-49.

During its evaluation of the Department's efforts to prevent and reduce improper and unknown payments (including the Department's improper and unknown payments determination and estimation methodology, as well as actions to improve prevention and reduction), Kearney did not identify any needed improvements.

The Department Published Annual Financial Statement and Accompanying Materials

PIIA requires agencies to "publish payment integrity information with the annual financial statement" and post the annual financial statement and any accompanying materials on the agency website.¹² OMB Circular A-123, Appendix C, states that agencies should consult OMB Circular A-136 annually to determine which of the Payment Integrity reporting requirements apply to their agency.¹³ At a minimum, all agencies with programs in Phase 1¹⁴ and Phase 2¹⁵ are required to provide a link to www.paymentaccuracy.gov in their Agency Financial Report or Performance and Accountability Report so the reader can access information about agency improper payment risk assessments, recoveries, and other agency-wide reporting requirements.¹⁶

The Department published its FY 2022 financial statements and accompanying materials containing the required improper payments information and posted the financial statement, which included a link to the accompanying material, on its agency website.¹⁷ Specifically, in the financial statement, the Department included detailed information on its risk assessment process and a statement that it had not identified any programs deemed susceptible to significant improper payments. In the financial statements, the Department also included a link to www.paymentaccuracy.gov, which contains additional information related to improper payments, including the amounts of recaptured overpayments and "Do Not Pay" initiative activities.¹⁸ Because the Department did not identify any programs that were deemed susceptible to significant improper payments, additional reporting requirements were not applicable.

¹² PIIA, § 3351(2)(A)(i)-(ii).

¹³ OMB Circular A-123, Appendix C, § VII.A, "Reporting Requirements for All agencies," page 56, and OMB Circular A-136, "Financial Reporting Requirements," § II.4.5, "Payment Integrity Information Act Reporting" (June 3, 2022).

¹⁴ According to OMB Circular A-123, Appendix C, page 69, Phase 1 is the first of two stages in the process of review for improper payments and unknown payments. During this stage, an improper payment risk assessment is conducted at least once every 3 years to determine whether a program is likely to be susceptible to significant improper payments and unknown payments.

¹⁵ According to OMB Circular A-123, Appendix C, page 69, Phase 2 is the second of two stages in the process of review for improper payments and unknown payments. During this stage a program will use a statistically valid sampling and estimation methodology to report an annual improper payment and unknown payment estimate. Phase 2 is not required if the results of Phase 1 indicate that the program is not likely to be susceptible to significant improper payments and unknown payments.

¹⁶ *Ibid.*, page 56.

¹⁷ <https://www.state.gov/plans-performance-budget/agency-financial-reports/>.

¹⁸ "Do Not Pay" is a government initiative that allows agencies to use a secure online interface to check various data sources to verify the eligibility of a vendor, grantee, loan recipient, or beneficiary to receive federal payments.

The Department Performed Program Risk Assessments

PIIA requires agencies to periodically review all programs and identify those with outlays exceeding a certain amount that may be susceptible to significant improper payments.¹⁹ OMB Circular A-123, Appendix C, defines significant improper payments as annual improper and unknown payments in a program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program payments made during the fiscal year or (2) \$100 million.²⁰ Agencies should perform a risk assessment, which can be either quantitative or qualitative.²¹ Quantitative risk assessments focus on measurable and often pre-defined data.²² When conducting a qualitative risk assessment, the agency should ensure that proper consideration is given to relevant factors that would help prove that the program is likely to be above or below the statutory threshold.²³ Risks are scored based on their likelihood of occurring and their potential impact.²⁴

For programs with annual outlays above \$10 million, an agency must conduct an improper payment risk assessment at least once every 3 years unless the program moves to Phase 2 and is reporting improper and unknown payments above the statutory threshold. If a program that is on a 3-year risk assessment cycle experiences a significant change in legislation or significant increases in funding, agencies may need to reassess the program's risk susceptibility during the annual cycle, even if it is fewer than 3 years from the previous risk assessment.²⁵

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

- **Phase I:** Identification of Department programs that require risk assessments.

¹⁹ PIIA, § 3352.a.1.

²⁰ OMB Circular A-123, Appendix C, pages 73–74.

²¹ *Ibid.*, page 14.

²² *Ibid.*, page 71.

²³ *Ibid.*, pages 14–15.

²⁴ *Ibid.*, page 71.

²⁵ *Ibid.*, page 15.

- **Phase II:** MC evaluation of 8 of 11 examples²⁶ of risk factors provided by OMB²⁷ and 2 risk factors developed by the Department²⁸ for each program. MC assigns a numerical rating of 1 (low risk), 3 (moderate risk), or 5 (high risk) for each risk factor. MC averages the ratings to determine the program’s overall risk level.²⁹
 - The assessment is complete for programs that are identified as low risk.
 - The assessment continues for programs that are identified as moderate or high risk.
- **Phase III:** MC evaluation of three additional risk factors developed by the Department, which are combined with Phase II risk scores, for each program.
 - The assessment is complete for programs that are identified as low risk.
 - The assessment continues for programs that are identified as moderate or high risk.
- **Phase IV:** Responsible program officials complete a questionnaire developed by MC, which uses the same scoring techniques as Phases II and III, for nine risk factors. Phase IV scores are combined with Phase III scores.
 - The assessment is complete for programs that are identified as low risk.
 - The assessment continues for programs that are identified as moderate or high risk.
- **Phase V:** MC evaluates a statistical sample of program payments and determines whether the error rate of improper payments exceeds the OMB threshold for programs identified as susceptible to significant improper payments.³⁰

The Department performed a qualitative risk assessment for all programs in FY 2022.³¹ Specifically, in Phase I of the process, MC identified 36 programs for assessment.³² During Phase II, MC assessed the risk of significant improper payments for each of the 36 programs. MC

²⁶ The Department elected not to use three of the OMB risk factors that were not applicable to the Department. Specifically, two of the risk factors related to improper and unknown payment estimates, which are not applicable because the Department does not have a history of programs deemed to be susceptible to significant improper payments. The third risk factor related to the risk of fraud as assessed. However, agencies are not required to evaluate the risk of fraud at the program level, so this risk factor was not applicable.

²⁷ OMB Circular A-123, Appendix C, page 15.

²⁸ One of the additional risk factors used by the Department was required by OMB A-123, Appendix C, before it was revised on June 26, 2018. Specifically, MC has elected to continue considering “results from prior improper payment work,” which MC splits into two factors—number of improper payments and amount of improper payments. Furthermore, MC considers one additional risk factor—percentage of increase in funding. Although OMB includes a risk factor related to major changes in program funding, MC includes this additional factor so that it can consider changes in amounts and changes in a percentage of the program’s funding.

²⁹ MC defines a program’s average overall risk level between 1.0 to 2.2 as low, 2.3 to 3.4 as moderate, and 3.5 or more as high.

³⁰ The Department’s conclusion on a program’s susceptibility to significant improper payments would be based on the thresholds for significant improper payments defined in OMB Circular A-123, Appendix C, pages 73-74.

³¹ The Department also performed qualitative risk assessments of all of its programs in FY 2013, FY 2016, and FY 2019. Because of the timing of the FY 2022 PIIA risk assessments, the programs are grouped according to FY 2021 financial data.

³² See Appendix B for a list of programs subject to MC risk assessments.

obtained information for its risk assessments by reviewing the Department's FY 2022 Congressional Budget Justification, information on internal and external websites, and information contained in internal and external reports. Kearney reviewed risk assessment documentation for 18 selected programs³³ and found that MC's risk assessment processes and conclusions were reasonable.

During Phase II, MC determined that 34 of 36 programs were at low risk for incurring significant improper payments and 2 programs were at moderate risk. Kearney reviewed documentation related to the additional analyses performed for the two programs that were identified as being at moderate risk and found that MC performed its analyses in accordance with its procedures. The Phase III assessment considered whether significant deficiencies in each program's internal control had been previously identified in the annual Federal Managers Financial Integrity Act assurance statement;³⁴ OMB Circular A-123, Appendix A,³⁵ findings; or the independent auditor's report on the Department's financial statements.³⁶ Based on its Phase III analyses, MC determined that the two programs' overall risk decreased from moderate to low and that additional assessment was unnecessary. MC concluded that none of the Department's programs were susceptible to significant improper payments as defined by OMB Circular A-123, Appendix C.³⁷

The Department's Efforts To Prevent and Reduce Improper and Unknown Payments

Kearney assessed the Department's efforts to prevent and reduce improper and unknown payments. Through inquiries with MC staff and review of Department policies and procedures and responses to OMB data calls, Kearney found that the Department was performing procedures to detect and recover improper payments. Specifically, MC's policies and procedures included an established process for the Office of Management Analysis to identify and recapture (collect) erroneous vendor payments and to track erroneous payments that were identified and returned by vendors. Furthermore, the Department will use the Department of the Treasury Offset Program to collect overpayments if the Office of Claims is unsuccessful in its efforts to recapture an improper payment.

In addition, the Department uses resources such as the Department of the Treasury's Do Not Pay Initiative and the General Services Administration's System for Award Management³⁸ to reduce improper payments prior to making a payment or an award. CGFS employees are required to review pre-payment and pre-award procedures and ensure that a thorough review

³³ See Appendix A for details of the sample selected.

³⁴ Federal Managers Financial Integrity Act of 1982, Public Law 97-255, § 2, September 8, 1982.

³⁵ OMB Circular A-123, Appendix A, "Management of Reporting and Data Integrity Risk" (June 6, 2018).

³⁶ OIG, *Independent Auditor's Report on the U.S. Department of State 2021 and 2020 Financial Statements* (AUD-FM-22-10, November 2021).

³⁷ OMB Circular A-123, Appendix C, page 9.

³⁸ The System for Award Management is operated by the General Services Administration. Entities must have an active registration in the system to do business with the federal government (although anyone, including those without active registrations, can view).

of available databases with relevant information on eligibility occurs before the release of any federal funds to the extent permitted by law.

Furthermore, the Department annually conducts its assessment of risk and internal control in accordance with OMB Circular A-123. The Department uses a risk-based approach to evaluate internal controls over reporting on a multi-year rotating basis. The Department has controls in place to address identified risks related to payroll, grants, large procurements, information technology and security, assets, and purchase and travel cards. Additionally, the Department continues to advance its enterprise risk management program by developing risk profiles.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Payment Integrity Information Act of 2019¹ (PIIA) requires the Office of Inspector General (OIG) to provide an annual report of Department of State (Department) compliance with improper payment requirements.² In accordance with the PIIA requirement, an external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of OIG, performed the audit to determine whether the Department complied with PIIA for FY 2022. As a part of this objective, Kearney also evaluated the Department's efforts to prevent and reduce improper and unknown payments.

Kearney conducted this audit from December 2022 to April 2023 in the Washington, DC, metropolitan area. The scope of this audit was the Department's FY 2022 improper payment reporting process. Kearney conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To obtain background information, Kearney researched and reviewed legislative requirements related to improper payments, Office of Management and Budget (OMB) guidance, and prior OIG and Government Accountability Office audit reports. Kearney designed the audit to obtain insight into the Department's processes, procedures, and organizational structure regarding compliance with improper payment requirements. To expedite the audit process, Kearney leveraged the results of its FY 2022 audit of the Department's financial statements and audits of the Department's FY 2011 to 2021 compliance with improper payment requirements to confirm its understanding of the nature and profile of Department operation, regulatory requirements, and supporting information systems and controls.

Kearney conducted virtual process walkthroughs and interviews with Department officials to obtain a sufficient understanding of the steps taken by the Department to assess the risk of improper payments, the Department's process of identifying significant improper payments, and the process of reporting improper payment information. Consistent with the fieldwork standards for performance audits, Kearney established performance criteria and identified sources of audit evidence to complete the testing phase.

During the testing phase, Kearney obtained and reviewed documentation supporting the Department's FY 2022 risk assessments and annual financial statement and accompanying materials. The criteria determined in the planning phase served as a basis for assessing the Department's compliance with improper payment requirements. The testing phase included

¹ PIIA, Public Law 116-117, March 2, 2020, codified at 31 United States Code Chapter 33, Subchapter IV, "Improper Payments."

² *Ibid.*, § 3353.

procedures to assess the Department's reporting process and the financial statements disclosure. Specifically, Kearney performed procedures to ensure the completeness of the Department's listing of programs and activities subject to improper and unknown payment requirements. Kearney also evaluated the Department's risk assessment process for compliance with improper payment requirements as well as reasonableness and objectivity. Finally, Kearney evaluated the Department's FY 2022 annual financial statement and accompanying materials disclosures against improper payment requirements³ to determine whether all required disclosures were made.

Data Reliability

Kearney obtained computer-processed data from the Bureau of the Comptroller and Global Financial Services, Office of Management Controls, to aid in determining whether the Department complied with PIIA. More specifically, the data provided evidence that the Department took steps to comply with PIIA. Kearney did not perform tests to validate the data because such testing was not necessary to accomplish the audit objective. However, Kearney assessed the data provided as sufficiently reliable on the basis of its understanding of the financial information gained during the audit of the Department's FY 2021 financial statements. Kearney's assessment was also based on a comparison of the programs and activities that the Department used as its baseline for performing risk assessments with a universe of FY 2021 expenditure transactions that Kearney obtained from the Global Financial Management System, the Department's core financial system.

Work Related to Internal Control

During the audit, Kearney considered a number of factors, including the subject matter of the project, to determine whether internal control was significant to the audit objective. Kearney determined that internal control was not significant for this audit. Although internal control was not significant to the audit objective, Kearney performed procedures to gain an understanding of internal controls related to the Department's improper payment reporting processes. Specifically, Kearney obtained and reviewed the Department's policies and procedures for making payments, performing risk assessments, and reporting improper payments information.

Sampling Methodology

The Department tracks payments and other transactions related to its programs using various accounting codes in its financial management systems. As listed in Appendix B of this report, the Department identified 36 programs that required improper payment risk assessments in FY 2022.⁴ Of those 36 programs, Kearney selected a non-statistical sample of 18 programs to test the Department's risk assessment process. First, Kearney selected all programs that had more than \$750 million in expenditures (11 programs). Kearney then leveraged its

³ OMB Circular A-136, "Financial Reporting Requirements," § II.4.5, "Payment Integrity Information Act Reporting" (June 3, 2022).

⁴ Because of the timing of the FY 2022 PIIA risk assessments, the programs are grouped on the basis of FY 2021 financial data.

understanding of Department programs obtained during past audits of the Department's financial statements to select the remaining seven programs. Specifically, Kearney considered inherent risk for improper payments due to the nature of the programs. In total, the 18 programs selected for review represented approximately \$25.3 billion (85 percent) of the approximately \$29.8 billion in FY 2021 expenditures subject to the Department's risk assessments. Table A.1 shows the programs that Kearney selected for testing.

Table A.1: Programs Selected for Testing

Program Name	FY 2021 Dollar Value
American Compensation	\$4,828,546,081
Voluntary Contributions	\$4,209,781,679
Assessed Contributions	\$3,490,819,301
Foreign Service National/Locally Employed Staff Compensation	\$2,178,327,105
Working Capital Fund, International Cooperative Administrative Support Services	\$1,845,152,774
Bureau of Overseas Buildings Operations (OBO), Construction	\$1,226,449,884
Diplomatic and Consular Programs (D&CP), Security – Afghanistan, Pakistan	\$1,069,741,265
Bureau of International Narcotics and Law Enforcement Affairs, Embassy Operations Programs	\$839,999,831
Annuity Compensation	\$816,417,265
Working Capital Fund Programs	\$765,636,253
OBO, International Security Programs	\$753,616,321
D&CP, Diplomatic Policy and Support	\$745,610,491
Diplomatic and Support Programs	\$700,009,991
OBO, Leaseholds and Functional Programs	\$558,874,781
Population, Refugees & Migration Programs	\$526,178,004
Consular and Border Security Programs	\$459,719,058
OBO, Project Construction – Major Rehabilitation	\$120,545,745
OBO, Capital and Real Property Acquisitions Program	\$117,773,703
Total	\$25,253,199,532

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

Prior Office of Inspector General Report

In June 2022, OIG reported that the Department complied with improper payment requirements.⁵ Specifically, the Department published on its website the FY 2021 Agency

⁵ OIG, *Audit of Department of State FY 2021 Compliance With Payment Integrity Requirements* (AUD-FM-22-30, June 2022).

Financial Report, which included all applicable payment integrity disclosures, as required by OMB Circular A-136, "Financial Reporting Requirements." In addition, the Department complied with the requirement to perform program-specific risk assessments. Although the Department performed risk assessments in accordance with its documented process and complied with PIIA, the audit found that the Department's risk assessment procedures could be improved if the Department considered significant subsequent events that may occur after an assessment has been completed. As of May 2023, the one recommendation from this report was closed.

APPENDIX B: PROGRAMS SUBJECT TO RISK ASSESSMENT

Table B.1 shows the list of the 36 programs for which the Department of State (Department) assessed risk during FY 2022.

Table B.1: Listing of FY 2022 Programs and Activities

Department Program or Activity
American Compensation
Annuity Compensation
Assessed Contributions
Consular and Border Security Programs
Consular and Border Security Programs, Consular Information and IT Security
Consular and Border Security Programs, Western Hemisphere Travel Initiative
Diplomatic and Consular Programs (D&CP), Diplomatic Policy and Support
D&CP, IT Central Fund
D&CP, Other Operations
D&CP, Overseas Programs
D&CP, Security – Afghanistan, Pakistan
D&CP, Terrorism-Related
D&CP, Worldwide Security Protection
Diplomatic and Support Programs
Bureau of Educational and Cultural Affairs, Citizen Exchange Program
Bureau of Educational and Cultural Affairs, Educational Programs
Bureau of Educational and Cultural Affairs, Fulbright Program
Economic Support Fund
Foreign Service National/Locally Employed Staff Compensation
Bureau of International Narcotics and Law Enforcement Affairs, Aviation, Anticrime, Interdiction and Related Programs
Bureau of International Narcotics and Law Enforcement Affairs, Embassy Operations Programs
Bureau of International Narcotics and Law Enforcement Affairs, Physical Security Programs
Nonproliferation, Anti-terrorism, Demining, and Related Programs, International Security and Nonproliferation Related Programs
National Endowment for Democracy
Bureau of Overseas Buildings Operations (OBO), Capital and Real Property Acquisitions Program
OBO, Construction
OBO, International Security Programs
OBO, Leaseholds and Functional Programs
OBO, Project Construction – Major Rehabilitation
Peace-Keeping Operations, Peacekeeping Operations
Post-Assignment Travel

Department Program or Activity

Population, Refugees, and Migration Programs

Temporary Duty Travel

Voluntary Contributions

Working Capital Fund, International Cooperative Administrative Support Services

Working Capital Fund Programs

Source: Generated by Kearney & Company, P.C., from data provided by the Department.

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

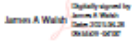


*United States Department of State
Comptroller
Washington, DC 20520*

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MEMORANDUM

April 28, 2023

TO: OIG – Diana R. Shaw, Acting

FROM: CGFS – James A. Walsh  Digitally signed by James A. Walsh Date: 2023.04.28 09:43:01 -04'

SUBJECT: Response to Draft OIG Report – Audit of Department of State FY 2022 Compliance with Payment Integrity Requirements (AUD-FM-23-XX, April 2023)

Thank you for the opportunity to comment on the Office of Inspector General's draft report titled Audit of Department of State FY 2022 Compliance with Improper Payments Requirements (AUD-FM-23-XX, April 2023).

The Department, and the Bureau of the Comptroller of Global Financial Services' Office of Management Controls (CGFS/MC) in particular, has made significant efforts to comply with all requirements and guidance for the Payment Integrity Information Act (PIIA). As reflected in the report, we are pleased that our program is "compliant" with PIIA.

We recognize that the PIIA and related guidance has raised the bar on transparently accounting for and preventing improper payments for all agencies, including the Department. We look forward to working with both the OIG and the independent auditor on further enhancements to our existing programs in the coming year. If you have any questions, please contact Carole Clay, Director of Management Controls at (202) 663-2084.

ABBREVIATIONS

CGFS	Bureau of the Comptroller and Global Financial Services
D&CP	Diplomatic and Consular Programs
MC	Office of Management Controls
OBO	Bureau of Overseas Buildings Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019

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