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MANAGEMENT LETTER
AUD-FM-24-12

To the Chief Financial Officer and the Acting Inspector General of the U.S. Department of State:

Kearney & Company, P.C. (referred to as "we" hereafter), audited the financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2023, and issued our report thereon, dated November 15, 2023,[1] in accordance with auditing standards generally accepted in the United States of America; 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 Bulletin 24-01, *Audit Requirements for Federal Financial Statements*. In planning and performing our audit of the Department's financial statements, we considered the Department's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements. Our auditing procedures were designed for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control over financial reporting or compliance with certain provisions of laws, regulations, contracts, and grant agreements. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting or on the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Our audit report on the Department's FY 2023 financial statements[2] did not include any material weaknesses related to internal control over financial reporting but included four significant deficiencies related to internal control over financial reporting and one reportable instance of noncompliance. These items are not repeated in this letter because they are explained in our report on the Department's FY 2023 financial statements. Although not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, we noted certain matters involving internal control over financial reporting and operational matters. These findings are summarized in Appendix A and are intended to assist the Department in strengthening internal controls and improving operating efficiencies.

We appreciate the courteous and professional assistance provided by Department personnel during our audit. These findings were discussed in detail with appropriate Department officials, and management's response to the draft of this report is presented in its entirety in Appendix B.

[1] OIG, *Independent Auditor's Report on the U.S. Department of State FY 2023 and FY 2022 Financial Statements* (AUD-FM-24-07, November 2023).
[2] Ibid.

The purpose of this letter is to communicate the findings identified during the audit, as summarized in Appendix A, to Department management, to those charged with governance, and to others within the Department and the Office of Inspector General. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
February 7, 2024

Appendix A

MANAGEMENT LETTER COMMENTS

ISSUES REPEATED FROM PRIOR YEAR

During the audit of the U.S. Department of State's (Department) FY 2022 financial statements, Kearney & Company, P.C. (referred to as "we" hereafter), identified matters that were reported in a management letter.[1] As described in Table 1, the severity of three issues included in the FY 2022 management letter has decreased, and we consider these items closed. Five issues that were reported in the FY 2022 management letter remain open, and we have updated these issues with information obtained during the audit of the Department's FY 2023 financial statements.

Table 1: Status of Prior-Year Management Letter Findings

FY 2022 Management Letter Findings	FY 2023 Status
Unrecorded Capital Lease Obligations	Closed
Untimely Obligations	Repeat
Insufficient Fund Balance With Treasury Reconciliation Process	Closed
Inaccurate Personnel Data for Locally Employed Staff	Repeat
Inadequate Control Over Personnel Records and Actions	Repeat
Inaccurate Supporting Data for the Asbestos Remediation Estimate	Repeat
Incomplete Integrated Logistics Management System Periodic Access Review	Repeat
Insufficient Documentation of User Authorization for the Global Foreign Affairs Compensation System – American	Closed

I. Budgetary Accounting

Untimely Obligations

Obligations are definite commitments that will result in outlays immediately or in the future. The Department should record an obligation in its financial management system when it enters into an agreement, such as a contract or purchase order, to purchase goods and services. Agencies should record legitimate obligations, which would include a reasonable estimate of the Government's potential liability. Agencies should maintain policies, procedures, and information systems to ensure that obligations represent required federal outlays, comply with laws and regulations, and are appropriately approved.

We tested 115 obligations created during FY 2023 to ensure that the obligations were executed and recorded in a timely manner. During our testing, we identified 22 instances in which obligations were not created in a timely manner or were recorded in advance of an executed obligating document. Table 2 shows the results of our testing.

[1] OIG, *Management Letter Related to the Audit of the U.S. Department of State FY 2022 Financial Statements* (AUD-FM-23-12, February 2023).

Table 2. Exceptions Identified Related to Untimely Obligations

Description of Exception	Number of Exceptions
Goods and services were received or periods of performance began prior to the execution of a proper obligating document.	5
Obligations were recorded in the financial management system prior to the execution of the obligating document.	11
Obligations were not recorded in the financial management system within 15 days of the execution of the obligating document.	6

The Department did not have an adequate process in place to ensure that its employees were complying with policies and procedures related to the creation, approval, and timely recording of obligations. Additionally, the Department did not have a process in place to monitor and address instances of noncompliance with policies.

Obligations that are not recorded in a timely manner increase the risk of the following:

- That the Anti-Deficiency Act could be violated. If obligations are not recorded prior to the acquisition of goods and/or services, the agency could obligate more funds than it was appropriated.[2]
- That payments may not be made in a timely manner in compliance with the Prompt Payment Act.[3] Interest payments would then need to be made to commercial vendors.

This issue was initially reported in our FY 2010 Report on Internal Controls Over Financial Reporting.

II. Payroll and Related Liabilities

The Department's workforce includes Civil Service, Foreign Service, and Locally Employed (LE) staff. LE staff are generally paid in local currency, and their salaries and benefits are based on local prevailing practice, which is documented in each post's local compensation plan. LE staff are paid using the Global Foreign Affairs Compensation System – Locally Employed (GFACS LE). Civil Service and Foreign Service employees are paid according to standard federal government pay scales using the Global Foreign Affairs Compensation System – American (GFACS AME).

Inaccurate Personnel Data for Locally Employed Staff

Human resource information for LE staff, such as date hired, transfers, grade increases, and dates of separation, is maintained in a Department information system deployed at overseas posts – the Overseas Personnel System (OPS). When a personnel action is initiated for an LE staff member, the post enters the information into OPS. The LE staff member information is

[2] 31 United States Code § 1341, "Limitations on expending and obligating amounts."
[3] 31 United States Code Chapter 39, "Prompt Payment."

then submitted to a Global Financial Service Center, where officials manually enter the information into GFACS LE.

We assessed the completeness of employee information in OPS and GFACS LE for all overseas posts that provide voluntary severance or supplemental lump sum after-employment benefits. We used automated audit techniques to compare the total number of employees and the names of employees in OPS and GFACS LE. Table 3 shows the results of our testing for FY 2023 and FY 2022 for comparative purposes.

Table 3: Total Number of Employees in GFACS LE and OPS

Employees Reviewed	FY 2023 Employees	FY 2022 Employees
Employees in both OPS and GFACS LE	25,870	25,589
Employees in OPS who were not in GFACS LE	274	1,164
Employees in GFACS LE who were not in OPS	162	882

For the employees included in both systems, we performed additional testing to identify data inconsistencies related to the date of birth, service computation date, and annual salary fields. Table 4 shows the results of our testing for FY 2023 and FY 2022 for comparative purposes.

Table 4: Data Inconsistencies Between GFACS LE and OPS

Inconsistency Identified	FY 2023 Discrepancies	FY 2022 Discrepancies
Date of birth was not consistent	274	1,083
Service computation date was not consistent	3,049	4,021
Annual salary was not consistent	3,187	2,560
Employer agency was not consistent	52	45

In both FY 2023 and FY 2022, the Department tested a judgmental sample of the exceptions and reported that OPS contained more accurate information on each employee’s date of birth and service computation date and that GFACS LE contained more accurate salary and employer agency information. We re-performed the Department’s testing and confirmed its conclusions regarding the most accurate sources of LE staff information.

We found that posts were processing personnel actions inconsistently. In certain instances, posts were not notifying the responsible Global Financial Service Center in a timely manner about personnel actions that had been processed. Additionally, we noted instances in which data submitted to the responsible Global Financial Service Center were not updated in GFACS LE to reflect changes made in OPS. We also found instances in which approved personnel actions were not accurately entered into GFACS LE once the information was provided to a Global Financial Service Center because of data entry errors. Furthermore, we noted instances in which Global Financial Service Center officials identified data entry errors in OPS and corrected the errors when entering the data into GFACS LE, but the information in OPS was not corrected. In some instances, this error occurred because Global Financial Service Center officials did not notify the responsible post about the error. In other instances, Global Financial Service Center officials notified the responsible post about the error but did not have controls in place to ensure that the post corrected the identified error. Additionally, the Department lacked effective processes and internal controls to ensure the accuracy of LE staff personnel data. Although the Department centrally performs annual reconciliations and comparisons to identify data inconsistencies between GFACS LE and OPS, it did not take steps to identify and address the root causes of inconsistent and inaccurate LE staff personnel data.

The Department estimates a liability to include in its annual financial statements for after-employment benefits offered to some LE staff. The reasonableness of the liability estimate related to after-employment benefits relies on accurate underlying employee demographic data. Without accurate and complete LE staff data, the Department may not be able to efficiently or accurately calculate its annual liability for after-employment benefits. The Department adjusted its liability estimation methodology to address the discrepancies identified during our testing through manual manipulation of data in GFACS LE and OPS. In addition, the risk of improper payments exists if payroll and benefit payments are calculated on the basis of inaccurate data.

This issue was initially reported in our FY 2012 Report on Internal Control.

Inadequate Control Over Personnel Records and Actions

Insufficient, Inconsistent, or Incorrect Personnel Record Documentation

The Office of Personnel Management (OPM) requires agencies, including the Department, to maintain up-to-date, complete, and accurate personnel records for each employee. These personnel records should include all benefit election forms and any elections resulting in deductions to an employee's pay. In addition, the Department is required to review time and attendance (T&A) submissions for accuracy. Maintaining up-to-date personnel records and reviewing T&A submissions for accuracy help ensure that employees are compensated only for actual hours worked and benefits earned.

To verify the accuracy of salaries and benefits for Civil Service and Foreign Service employees, we reviewed personnel records for 45 employees who received GFACS AME payroll disbursements and 45 employees who separated from the Department during FY 2023. To verify the accuracy of salaries and benefits for LE staff, we reviewed personnel records for 45 employees hired during FY 2023. Table 5 shows the discrepancies identified during our FY 2023 and FY 2022 testing for comparative purposes.

Table 5: Discrepancies in Personnel Records Identified During Testing

Discrepancy	FY 2023 Number of Exceptions	FY 2022 Number of Exceptions
The recalculated Thrift Savings Plan withholding amount did not agree with the amount on the employee's Earnings and Leave Statement (ELS).	1	8
Life insurance election reported on Standard Form (SF) 50 did not agree with the deductions on the ELS.	2	0
Grade and step information reported on SF 50 did not agree with GFACS AME.	3	0
Federal Employees' Group Life Insurance election selected on SF 2817 was not the same as the election on the employee's ELS.	0	1
Civil Service Retirement System or Federal Employees Retirement System election reported on SF 50 did not agree with the deductions on the ELS.	0	1
Pay rates reported on a separated employee's final ELS did not agree with GFACS AME.	5	1
LE staff information (i.e., employee identification number, post, grade, step, or salary) and start date from Joint Form (JF)-62A did not agree with GFACS LE.	2	0

In addition, the Department did not provide sufficient documentation to verify benefit elections, regular pay, T&A, overtime, leave, or the accuracy of payroll records for 31 selected employees.

Each bureau and post has been delegated authority to approve personnel actions and T&A data, enter information into the personnel system, and submit information to the payroll service centers in either Charleston, SC, or Bangkok, Thailand. However, we found that bureaus and posts were processing personnel actions and T&A data inconsistently. Additionally, bureaus and posts did not always submit information to the payroll service centers in a timely manner or at all. Furthermore, the Department did not sufficiently oversee and review the documentation maintained in personnel files and T&A reports.

Poor administrative control over the payroll cycle and lack of sufficient and updated supporting documentation in Official Personnel Files may lead to errors in employee pay, improper benefit elections, or increased benefit costs. Incomplete personnel records prevent the timely receipt of sufficient and accurate documentation when requested and hinder the prompt identification and remediation of errors.

This issue was initially reported in our FY 2009 management letter.

Untimely Processing of Personnel Actions

The Department processes personnel actions when an employee is hired or an existing employee has a change in personnel status, such as resignation, retirement, or promotion. These personnel actions are documented either on the SF 50 (Notification of Personnel Action) or the JF-62A (Personal Services Agreement Action).

We selected samples from FY 2023 GFACS LE data of 53 payroll disbursements, 32 separated employee personnel actions, and 45 new hire personnel actions. We also selected samples for FY 2023 from GFACS AME of 45 payroll disbursements, 45 separated employee personnel actions, and 45 new hire employee personnel actions. For each of the items selected, we reviewed either the SF 50 or the JF-62A for proper and timely approvals. Tables 6 and 7 show the discrepancies identified during our FY 2023 testing as well as the results of our testing in FY 2022 for comparative purposes.

Table 6: GFACS LE Testing Discrepancies

Discrepancy	FY 2023 Exceptions	FY 2022 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action form.	4	4
Personnel actions in our separated employee sample were not approved in the pay period following the effective date on the personnel action form.	17	0
Personnel actions in our new-hire employee sample were not approved in the pay period following the effective date on the personnel action form.	1	0

Table 7: GFACS AME Testing Discrepancies

Discrepancy	FY 2023 Exceptions	FY 2022 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action form.	1	5
Personnel actions in our separated employee sample were not approved in the pay period following the effective date on the personnel action form.	9	7
Personnel actions in our new hire employee sample were not approved in the pay period following the effective date on the personnel action form.	3	3

In addition, we found that the Department did not provide the correct personnel action forms for four items selected for testing.

Each bureau and post is delegated authority to approve personnel actions and enter the information into the personnel systems. However, we found that bureaus and posts were processing personnel actions inconsistently. Also, the Department did not have a centralized process to ensure that bureaus and posts were approving employee actions and entering the information into the personnel system in a timely manner.

The potential for improper payments exists if personnel actions are not processed properly or in a timely manner. In addition, the lack of proper oversight of personnel actions may result in errors remaining undetected and uncorrected for long periods of time. Untimely personnel actions are often processed retroactively, leading to supplemental payments being processed manually and therefore increasing the risk of human error and decreasing efficiency.

This issue of improper payments was initially reported in our FY 2009 management letter.

III. Environmental Liability Associated With Asbestos Clean-Up

Inaccurate Supporting Data for the Overseas Asbestos Remediation Estimate

Asbestos is a mineral-based material that was widely used in construction during the 19th and early 20th centuries because of its affordability and resistance to fire, heat, and electrical damage. The Department owns buildings constructed when the use of asbestos in various building materials was common. Because of health concerns, many countries prohibited the use of asbestos in building materials in the 1980s and 1990s. The Department's Bureau of Overseas Buildings Operations (OBO) periodically assesses posts to identify buildings that contain asbestos-containing building materials (ACBM). Upon completion of this analysis, the results for each post are recorded in OBO's asbestos management database, FAC Apps. Because of the significance of its property inventory and the lack of property-specific estimates, the Department uses a cost-modeling technique to estimate asbestos-abatement costs. The data in FAC Apps are used as the starting point for the Department's asbestos remediation cost model.

The Department requires overseas post officials to alert OBO of necessary updates to a post's asbestos data in FAC Apps. For example, overseas posts can notify OBO that ACBMs have been remediated during facility renovations. Based on the request, OBO may then update the post's data or perform independent ACBM inspections to confirm the requested changes.

We identified 58 ACBMs reported in FAC Apps for six selected posts as of October 1, 2022. We performed steps to determine whether the FAC Apps data related to 33 (57 percent) of 58 ACBMs at selected posts were accurate and complete as of June 30, 2023. We noted discrepancies related to FAC Apps data at three of the posts, as detailed in Table 8.

Table 8: Post Asbestos Existence Testing Exceptions

Post	Number of ACBMs Reported in FAC Apps	Number of ACBMs Reviewed	Number of Discrepancies Identified	Summary of Discrepancies
Bern	1	1	0	Not Applicable
Geneva	2	2	1	1 ACBM remediated
Mexico City	24	13	0	Not Applicable
New Delhi	16	10	1	1 ACBM remediated
Mumbai	1	1	0	Not Applicable
Dublin	14	6	2	2 ACBMs remediated
Total	**58**	**33**	**4**	

For the exceptions identified, we reviewed a listing of ACBM change requests submitted to OBO by overseas posts from October 1, 2022, through June 30, 2023. We found that the three posts where we identified discrepancies had not communicated the four changes that were identified as exceptions to OBO through the change request process.

In addition to performing procedures at 6 selected posts, we reviewed 10 asbestos-related exceptions that we identified during the FY 2019 and FY 2022 financial statement audits[4] to determine whether OBO had corrected the FAC Apps data as needed. As shown in Table 9, we found that OBO had addressed 9 of 10 asbestos-related exceptions identified as of June 30, 2023.

Table 9: Analysis of FY 2019 and FY 2022 Exceptions That Were Outstanding as of September 30, 2022

Fiscal Year of Post Visit	Post	Number of Exceptions Outstanding as of September 30, 2022	Number of Exceptions Outstanding as of June 30, 2023
2019	Seoul	1	0
2022	Tegucigalpa	1	1
2022	Bangkok	8	0
Total		**10**	**1**

The Department did not have an effective process to ensure that its asbestos remediation liability estimate was based on the most current conditions at overseas posts. For example, the Department did not regularly perform facility surveys at posts. Therefore, the most recent survey results did not always reflect the current conditions of post facilities. Although the Department developed a process for posts to notify OBO of necessary updates of FAC Apps data, we found that posts did not always use this process. In addition, the one testing exception identified during a prior year audit remained uncorrected because the remediation of ACBMs had neither been reported by post to OBO through the designed process nor updated by OBO in FAC Apps.

[4] We did not identify any asbestos-related exceptions during the FY 2020 financial statement audit. Additionally, all FY 2021 exceptions have been resolved.

Inaccurate or outdated underlying data regarding the presence of asbestos in its facilities may limit the Department's ability to produce a reasonable asbestos remediation estimate. Specifically, when facility records do not accurately reflect the removal of ACBMs, asbestos remediation liability estimates will be overstated.

This asbestos issue was initially reported in our FY 2013 management letter.

IV. Information Security

Incomplete Integrated Logistics Management System Periodic Access Review

The Integrated Logistics Management System (ILMS) provides end-to-end logistics and supply chain services for Department employees both domestically and at overseas posts. Employees with access privileges use ILMS for procurement, requisitioning, contract management, and asset management functions. ILMS directly interfaces with several other Department information systems, including the Department's primary accounting system.

We found that Department personnel reviewed ILMS user privileges for approximately 33 percent of ILMS user accounts during FY 2023; however, Department personnel had not reviewed the remaining 67 percent of ILMS accounts. In 2020, the Department developed a corrective action plan to improve its oversight of ILMS user accounts. The Department initially planned to complete the improvements included in the corrective action plan during FY 2021. However, as of September 2023, the Department had not implemented its planned improvements and solutions. Department officials stated that additional funding was required to fully implement its corrective actions. Department officials also stated that they planned to complete their improvements to the existing access request and audit process and implement a solution to enable timely and comprehensive annual account reviews of all ILMS accounts during FY 2024.

Periodically reviewing user accounts is an important security control to ensure that only users with valid needs have proper, approved access privileges in ILMS. Users may leave the organization, change positions, or acquire new access privileges; therefore, it is important to periodically review system access listings to verify that users have only the access and privileges needed to perform their job responsibilities. Unnecessary user access and privileges increase the risk to the confidentiality, integrity, and availability of the system and its data. Furthermore, inappropriately assigned or excessive access privileges increase the risk that erroneous transactions could be processed.

This review issue was initially reported in our FY 2019 management letter.

United States Department of State
Comptroller
Washington, DC 20520

February 7, 2024

UNCLASSIFIED

MEMORANDUM

TO: OIG – Diana R. Shaw, Acting Inspector General

FROM: CGFS – James A. Walsh James A Walsh Digitally signed by James A Walsh Date: 2024.02.05 10:43:13 -05'00'

SUBJECT: Draft Report - Management Letter Related to the Audit of the U.S. Department of State Fiscal Year 2023 Financial Statements

Thank you for the opportunity to review and comment on the Draft Report – Management Letter Related to the Audit of the U.S. Department of State FY 2023 Financial Statements.

The Bureau of the Comptroller and Global Financial Services (CGFS) does not have any substantive comments on the Draft Report. We appreciate the efforts of the Office of Inspector General Audit Division (OIG/AUD) and the independent auditor Kearney & Company (Kearney) throughout the financial audit process. We will continue to strive for improvements in the areas noted in the Draft Report and appreciate your valuable input. The Department has benefitted significantly from the past ten plus years of Kearney's knowledge sharing and professionalism, and the excellent working relationships that you and Kearney maintained throughout the past annual audits of the financial statements.

Approved: James A. Walsh, Comptroller [JAW]

Drafted: CGFS/FPRA: Jorelys Burgos, ext. 771-204-[redacted]

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