

MANAGEMENT LETTER
AUD-FM-IB-21-17

To the U.S. Agency for Global Media Chief Executive Officer and the Senior Official Performing the Duties of the Inspector General of the U.S. Department of State:

Kearney & Company, P.C. (referred to as “we” hereafter), has audited the financial statements of the U.S. Agency for Global Media (USAGM) as of and for the year ended September 30, 2020, and has issued our report thereon, dated November 16, 2020.¹ In planning and performing our audit of USAGM’s financial statements, we considered USAGM’s internal control over financial reporting and USAGM’s compliance with certain provisions of applicable 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 assurances on internal control or compliance. Accordingly, we do not express an opinion on the effectiveness of USAGM’s internal control over financial reporting or on USAGM’s compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements.

During our audit, we noted one matter related to internal control over financial reporting that we considered to be a significant deficiency and certain matters relating to compliance that we considered to be reportable under 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 Bulletin No. 19-03, “Audit Requirements for Federal Financial Statements.” These items are not repeated in this letter because they are explained in detail in our report on USAGM’s FY 2020 financial statements.

Our procedures were designed primarily to enable us to form an opinion on USAGM’s financial statements and therefore may not have identified all internal control weaknesses and instances of noncompliance that may exist. Although not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, we noted certain other matters involving internal control, operations, and noncompliance. These findings are summarized in Appendix A and are intended to assist USAGM in strengthening internal controls and improving operating efficiencies. Comments from USAGM management on this report are presented in Appendix B.

We appreciate the courteous and professional assistance provided by USAGM personnel during our audit. These findings were discussed in detail with appropriate USAGM officials.

¹ OIG, *Independent Auditor’s Report on the U. S. Agency for Global Media FY 2020 Financial Statements* (AUD-FM-IB-21-10, November 2020).



This letter is intended solely for the information and use of USAGM management, those charged with governance, and others within USAGM and the Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

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

Alexandria, Virginia
February 23, 2021

MANAGEMENT LETTER COMMENTS

REPEATED MANAGEMENT LETTER COMMENTS

During an audit of the U.S. Agency for Global Media’s (USAGM) FY 2019 financial statements, a predecessor auditor identified matters that were reported in a management letter.¹ As shown in Table 1, one issue included in the FY 2019 management letter was resolved in FY 2020, and Kearney & Company, P.C. (referred to as “we” hereafter) considers the item closed. One issue remains open, and we have updated this issue with information obtained during the audit of USAGM’s FY 2020 financial statements.

Table 1: Current Status of Prior-Year Management Letter Findings

FY 2019 Management Letter Findings	FY 2020 Status
Unliquidated Obligations (reported under Budgetary Resources in Section 1)	Repeat
Information System Policy Reviews and Updates	Closed

I. Budgetary Resources

Obligation Validity and Accuracy

USAGM records obligations in Momentum, its financial management system, when it enters into an agreement, such as a contract or purchase order, to obtain goods or services. In certain instances, the Department of State records obligations to purchase goods or services overseas on USAGM’s behalf. The Department of State records obligations in its financial system, which interfaces with Momentum. Obligations remain open until they are fully reduced by a disbursement, they are de-obligated, or the appropriation is cancelled. Unliquidated obligations (ULO) represent the cumulative amount of orders, contracts, and other binding agreements for which the goods and services ordered have not been received, or the goods and services have been received but payment has not yet been made. USAGM reported approximately \$144 million in ULOs, as of June 30, 2020.

As of June 30, 2020, USAGM had 7,588 ULOs from prior years, totaling \$44 million. We tested a statistical sample of 217, totaling \$13.3 million, and found 35 invalid ULOs (16 percent), totaling \$167,177. We determined that these ULOs were invalid based on expired periods of performance, inactivity, or USAGM’s inability to support a bona fide need. Details of our testing for FY 2018 and FY 2020² are shown in Table 2.

¹ OIG, *Management Letter Related to the Audit of the U.S. Agency for Global Media FY 2019 Financial Statements* (AUD-FM-IB-20-16, January 2020).

² We did not conduct the FY 2019 financial statement audit; therefore, FY 2019 ULO testing results are not presented.

Table 2: Exceptions Identified During ULO Testing

Location	Total Sample		Exceptions		Exception Percentage	
	Number	Amount	Number	Amount	Number	Amount
FY 2018 Results						
Domestic	137	\$15,277,358	27	\$388,512	20%	3%
Overseas	53	\$2,783,130	10	\$17,354	19%	1%
Total	190	\$18,060,488	37	\$405,866	19%	2%
FY 2020 Results						
Domestic	172	\$11,092,623	33	\$160,578	19%	1%
Overseas	45	\$2,254,737	2	\$6,599	4%	0%
Total	217	\$13,347,360	35	\$167,177	16%	1%

Although USAGM implemented a quarterly analysis to identify potentially invalid ULOs, USAGM only reviewed ULOs over \$40,000 during FY 2020. According to USAGM officials, it was difficult to review all obligations quarterly because of a lack of resources, so USAGM elected to focus on the larger dollar value obligations. However, USAGM has a significant number of obligations under \$40,000, which means that the dollar amount and number of ULOs that were not reviewed quarterly was significant. Specifically, as of June 30, 2020, USAGM had 7,403 ULOs under \$40,000, totaling \$24,359,430. Because USAGM did not consider ULOs under \$40,000 during its quarterly review, many small dollar invalid ULOs went undetected.

Additionally, invalid obligations continued to exist because not all Contracting Officer’s Representatives and program officials were aware of their responsibility to research and review obligations for validity and bona fide need, and to submit deobligation requests to the Office of Management Services, Contracts Division, for those identified as no longer necessary. We also found that deobligation requests were not always deobligated by the Contracts Division in a timely manner.

When extrapolated over the universe, the 35 invalid ULOs resulted in an estimated obligations overstatement of \$4.9 million, as of June 30, 2020. However, this amount was partially offset by USAGM’s quarterly analysis. Specifically, the quarterly analysis identified \$3.2 million in invalid ULOs for which an adjusting entry was made, reducing the estimated overstatement to \$1.7 million for financial reporting purposes.

Regardless of the reduced financial reporting impact, invalid ULOs affect USAGM’s management of funds. Specifically, funds that could have been used in support of the USAGM mission remained in unneeded obligations. Further, the large number of invalid obligations makes monitoring ULOs more difficult and increases the risk of duplicate or fraudulent payments.

This issue was initially reported in our FY 2018 management letter.³

³ The severity of this issue decreased from a significant deficiency to a management letter item in FY 2018 as reported in OIG, *Management Letter Related to the Audit of the U.S. Agency for Global Media 2018 Financial Statements* (AUD-FM-IB-19-17, March 2019).

NEW MANAGEMENT LETTER COMMENT

During the audit of USAGM's FY 2020 financial statements, a matter came to our attention that was not reported in the FY 2019 management letter.

I. Grant Expenses and Related Advances**Grant Advance Calculation**

USAGM has four grantees that it funds through annual grant agreements: Radio Free Europe/Radio Liberty, Radio Free Asia, Middle East Broadcasting Networks, and the Open Technology Fund (OTF).⁴ USAGM's four grantees collectively received over \$290 million from USAGM in Federal grant awards during FY 2020, which represents approximately one-third of USAGM's annual funding. USAGM is the main source of funding for each of the four grantees.

USAGM reports a grant advance in its annual financial statements, which represents the amount of funds that USAGM disbursed, but for which goods and services have not yet been delivered or performed by the grantee. Grant funds are issued periodically throughout the year and expensed within USAGM's accounting system. To calculate the current year grant advance, USAGM obtains each grantee's accounting records for the fiscal year and identifies the variance between funds disbursed to each grantee and their expenses incurred.⁵

We found that USAGM did not record a grant advance amount for OTF in its draft FY 2020 financial statements. To assess whether OTF had unspent grant funds at the end of the fiscal year, we reviewed OTF's Standard Form (SF)-425, "Federal Financial Report," as of September 30, 2020. The SF-425 included \$6 million in "Cash on Hand" and \$4.4 million in "Federal Share of Unliquidated Obligations." The amounts reported by OTF indicated that a grant advance should be calculated and reported by USAGM.

OCFO officials indicated that their ability to properly monitor OTF was impaired by active litigation between OTF and USAGM. According to OCFO officials, the ongoing litigation precluded them from obtaining the necessary understanding of OTF accounting processes and records. Furthermore, USAGM officials stated that they assumed that OTF had a small amount of unspent funds due to funding cuts.

After we identified the "Cash on Hand" and "Federal Share of Unliquidated Obligations" balances in OTF's SF-425, USAGM performed an analysis of historical expense activity at its other grantees to estimate the amount of funds reported by OTF that were likely to represent a USAGM advance. This analysis resulted in a grant advance estimate of \$2.5 million for OTF, which USAGM adjusted in its year-end financial statements. Without an effective methodology to obtain an adequate understanding of accounting processes and accounting records for all grantees, USAGM is unable to produce financial statements in accordance with Federal accounting standards.

⁴ OTF was established in FY 2019.

⁵ USAGM also considers deferred revenue that is reported in each grantee's prior year financial statements (if available), which are required by 2 Code of Federal Regulations 200, Subpart F, "Audit Requirements."



U.S. AGENCY FOR
GLOBAL MEDIA

330 Independence Avenue SW | Washington, DC 20237 | usagm.gov

February 19, 2021

Mr. Norman P. Brown
Assistant Inspector General for Audits
Office of the Inspector General
U.S. Department of State

Dear Mr. Brown:

Thank you for the opportunity to comment on the draft *Management Letter Related to the Audit of the U.S. Agency for Global Media FY 2020 Financial Statements*. Despite the challenges of the pandemic and operating in difficult environments, the U.S. Agency for Global Media (USAGM) remains committed to maintaining responsible stewardship of taxpayer funds entrusted to us by Congress to provide audiences with accurate, objective, and professional news and information.

Regarding the two areas raised in your letter, we appreciate you identifying them as opportunities to improve our operational efficiency and effectiveness. In the area of unliquidated obligations, as the auditors noted, we have improved our business processes, such as in the quarterly reviews. The agency will continue to refine those processes and enhance employee training.

In the area of calculating grant advances for financial statements (i.e., funding that USAGM has disbursed, but has not yet received goods or services), USAGM has implemented alternative processes to calculate grant advances when supporting documentation is unavailable. In addition, the agency will continue to make improvements, taking into account the unique challenges that each grantee faces.

We thank Kearney & Company for their professionalism and dedication in reviewing the agency's complex financial information and look forward to making improvements.

Sincerely,

A handwritten signature in black ink, appearing to read 'Keluo Chao', written in a cursive style.

Kelu Chao
Acting Chief Executive Officer



PUBLIC SERVICE MEDIA