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MANAGEMENT LETTER
AUD-FM-IB-24-11

To the U.S. Agency for Global Media Chief Executive Officer and the Acting Inspector General:

Kearney & Company, P.C. (referred to as "we" hereafter), audited the financial statements of the U.S. Agency for Global Media (USAGM) 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 USAGM's financial statements, we considered USAGM'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 USAGM's internal control over financial reporting or on USAGM's compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Our audit report on USAGM's FY 2023 financial statements[2] did not include any material weaknesses related to internal control over financial reporting or any reportable instances of noncompliance. Although not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, we noted certain matters involving internal control over financial reporting, noncompliance, and operational matters. These findings are summarized in Appendix A and are intended to assist USAGM in strengthening internal controls and compliance and improving operating efficiencies.

We appreciate the courteous and professional assistance provided by USAGM personnel during our audit. These findings were discussed in detail with appropriate USAGM 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. Agency for Global Media FY 2023 and FY 2022 Financial Statements* (AUD-FM-IB-24-08, November 2023).
[2] Ibid.

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

Kearney & Company

Alexandria, Virginia
February 7, 2024

MANAGEMENT LETTER COMMENTS

ISSUES REPEATED FROM PRIOR YEAR

During the audit of the U.S. Agency for Global Media (USAGM) FY 2022 financial statements, Kearney & Company, P.C. (referred to as "we" hereafter), identified matters that were reported in both an internal control report,[1] compliance report,[2] and a management letter.[3] The severity of an issue related to grantee monitoring, which was reported in both the FY 2022 internal control report and compliance report, has decreased and is now included in the management letter. One issue reported in the FY 2022 management letter related to budgetary resources remains open, and we have updated this issue with information obtained during the audit of USAGM's FY 2023 financial statements.

I. Budgetary Resources

Obligation Validity and Accuracy

USAGM records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to obtain goods or services.[4] Once recorded, obligations remain open until they are fully reduced by a disbursement, are deobligated, or the appropriation funding the obligations has been canceled. As payments are made, obligations are liquidated by the amount of the payments. 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 or services have been received but payment has not yet been made. USAGM has two processes for monitoring ULOs to ensure that they continue to be valid. As of June 30, 2023, USAGM reported approximately $221 million in ULOs.

As of June 30, 2023, USAGM had 1,722 ULOs from prior years with an inactive period of performance totaling $5.4 million. We evaluated the validity of a statistical sample of 35 domestic and overseas ULOs and found 13 invalid ULOs (37 percent). USAGM was unable to provide documentation supporting a bona fide need for the obligations; therefore, we determined that these ULOs were invalid.

Although USAGM took steps to monitor ULOs, certain allotment holders and Contracting Officer's Representatives did not consistently perform reviews of obligations for validity and bona fide need in accordance with USAGM policies and procedures. Additionally, one process used by USAGM to monitor ULOs is performed during the first quarter of each fiscal year,

[1] OIG, *Independent Auditor's Report on the U.S. Agency for Global Media FY 2022 and FY 2021 Financial Statements* (AUD-FM-IB-23-08, November 2022).
[2] Ibid.
[3] OIG, *Management Letter Related to the Audit of the U.S. Agency for Global Media FY 2022 Financial Statements* (AUD-FM-IB-23-11, February 2023).
[4] In certain instances, the Department of State records obligations on behalf of USAGM. These obligations are recorded in the Department of State's financial system, which interfaces with USAGM's financial system.

which means that the process will not identify invalid ULOs for the remaining three quarters of the year that impact the annual financial statements.

Invalid ULOs affect USAGM's ability to manage funds effectively. Specifically, funds that could have been used to support USAGM's mission remained in unneeded obligations. Furthermore, the existence of invalid obligations makes monitoring ULOs more difficult and increases the risk of duplicate or fraudulent payments.

II. Grantee Monitoring Control Weaknesses

USAGM has four significant 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. USAGM's four grantees collectively received more than $380 million from USAGM in federal grant awards during FY 2023, which represents approximately one-third of USAGM's annual funding.

USAGM's Office of the Chief Financial Officer, Budget Division, has been designated to be the primary office responsible for grantee monitoring. To address a significant deficiency identified during prior financial statement audits, USAGM approved and issued standard operating procedures[5] for grantee monitoring in February 2019. However, the financial statement audits continued to identify a significant deficiency related to grantee monitoring. Therefore, USAGM obtained the services of a contractor to develop and implement a comprehensive grant monitoring program, including the development of new policies developed during FY 2022 (as of September 2023, USAGM had not formalized these policies.) During FY 2023, the contractor assessed the effectiveness of certain controls related to USAGM's grantees.

We selected 15 control activities identified in USAGM's standard operating procedures to test whether USAGM had effectively implemented grantee monitoring procedures. For Radio Free Europe/Radio Liberty, Radio Free Asia, and the Open Technology Fund, we found that 14 of 15 controls tested were operating effectively. For the Middle East Broadcasting Networks, we found that 13 of 15 controls tested were operating effectively. The remaining control activities for the four grantees were not implemented by USAGM during FY 2023. Specifically, USAGM had not performed grant closeouts for any of the four grantees. Furthermore, USAGM did not receive a required FY 2022 financial audit report from the Middle East Broadcasting Networks.[6]

During FY 2023, USAGM made progress in strengthening its grants monitoring program by engaging contractor support to implement monitoring activities as documented within desk guides and oversight tools. However, USAGM's new grants monitoring program had not been fully implemented as of September 30, 2023.

Because USAGM continued to lack effective grantee oversight related to grant closeout requirements and financial audit requirements, there was an increased risk of waste, fraud, and

[5] USAGM, "Standard Operating Procedures for Monitoring Grants," February 2019.
[6] 2 Code of Federal Regulations § 200.501, "Audit requirements," requires non-federal entities that expend $750,000 or more of federal awards funding during the entities' fiscal year to obtain an audit annually.

abuse of federal funds. USAGM is the primary funding source for the four grantees; therefore, an organized and documented approach to oversight is needed to demonstrate accountability and mitigate the risk of waste, fraud, and abuse.

NEW MANAGEMENT LETTER COMMENTS

During the audit of USAGM's FY 2023 financial statements, one matter came to our attention that was not previously reported.

III. Accounting for Property, Plant, and Equipment

USAGM acquires property, plant, and equipment (PP&E) to execute its mission. PP&E consists of land, buildings, equipment, and vehicles. USAGM capitalizes PP&E with a useful life of 2 years or more that meet capitalization thresholds. As of March 31, 2023, USAGM reported approximately $33.4 million in PP&E.

The Office of Technology Services and Innovation (TSI) is responsible for tracking capitalized PP&E. When PP&E is acquired, TSI should record the equipment in eQuip,[7] the PP&E system of record. When PP&E is removed from service, but not yet disposed of, the PP&E should be reclassified to general ledger account (GLAC) 1995.[8] Once the PP&E is disposed of, responsible offices should provide information on the disposal to TSI and TSI will record information regarding the disposal in eQuip. At that point, the PP&E record is moved from the active PP&E database to the archived PP&E database and removed from the financial records.

We tested 83[9] capitalized PP&E assets recorded in eQuip as of March 31, 2023, and identified 1 (1 percent) asset that was no longer owned by USAGM. The item was a transmitter located in Lithuania that was disposed of in FY 2016. Additionally, during a review of USAGM's GLACs related to property, we found that 23 assets were reclassified from PP&E to GLAC 1995 at their acquisition cost rather than their net book value.

Although USAGM signed a property donation agreement on July 21, 2016, for the Lithuania transmitter, the responsible office did not provide the agreement to TSI for processing. Additionally, we found that when USAGM reclassifies assets from a PP&E account to GLAC 1995, the system removes both the acquisition cost and accumulated depreciation amount from the respective PP&E accounts. USAGM performs an analysis to determine the amount to record for GLAC 1995. However, USAGM did not identify that assets were being inaccurately reported in GLAC 1995 at the acquisition cost rather than the net book value as required. Without internal control enhancements, unrecorded or inaccurate PP&E transactions may impact USAGM's financial statements.

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[7] eQuip replaced the Property Inventory Processing System during FY 2022.

[8] According to the United States Standard General Ledger, GLAC 1995 (General Property, Plant, and Equipment Permanently Removed but Not Yet Disposed) is used to record the net realizable value of general PP&E that is permanently removed from service but not yet disposed.

[9] The 83 assets consisted of 28 items in Washington, DC, 54 in Kuwait, and 1 in Lithuania. In addition to selecting USAGM stations on a rotational basis for PP&E testing, we select other large dollar value PP&E items that are not associated with a station. During FY 2023, we judgmentally selected one asset in Lithuania for review.

U.S. AGENCY FOR GLOBAL MEDIA

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

February 5, 2024

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 2023 Financial Statements*.

First and foremost, we were pleased to once again receive an unqualified opinion (i.e. a "clean audit") and that the auditors did not identify any deficiencies in internal control that were considered to be material weaknesses or significant deficiencies. Despite the challenging arena and the dangerous countries in which we operate, the U.S. Agency for Global Media (USAGM) remains committed to maintaining the responsible stewardship of taxpayer funds entrusted to us by Congress to provide our audiences with accurate, objective and professional news and information.

Regarding the matters raised in your letter, we consider your identification an opportunity 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 the quarterly reviews, and will continue to refine them, as well as provide enhanced unliquidated obligations (ULO) monitoring and review training to allotment holders and contracting officer's representatives. USAGM believes that USAGM management worked diligently during FY 2023 to systematically address outstanding issues related to ULOs, which was evidenced by the exception dollar reduction to 2% ($31,881 of $1,586,573 sampled) in FY 2023, and will continue forward progress in FY 2024.

Regarding the area of Grantee Monitoring, the USAGM Grants monitoring team has initiated grant closeout procedures within the grants monitoring program. During this next fiscal year, we expect to implement grant closeout procedures for all grantees. In addition, USAGM management has been working closely with grantees to enforce the timely submission of audit reports in accordance with Single Audit Act requirements.

In the area of Accounting for Property, Plant, and Equipment, controls have been updated to establish systematic communications between agency components to include donations of capitalized assets. USAGM will continue to provide training for property management officials to ensure donated property disposal procedures are timely and accurately implemented. Additionally, USAGM has strengthened internal controls to ensure all transactions related to capitalized PP&E assets are recorded accurately and timely.

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

Sincerely,

Amanda Bennett

Amanda Bennett
Chief Executive Officer

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