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MANAGEMENT LETTER
AUD-FM-17-11

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

Kearney & Company, P.C. (referred to as "we" hereafter), has audited the consolidated financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2016, and has issued our report thereon dated November 15, 2016.[1] In planning and performing our audit of the Department's consolidated financial statements, we considered the Department's internal control over financial reporting and the Department's 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 consolidated financial statements and not to provide assurances on internal control or compliance. 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.

During our audit, we noted certain matters related to internal control over financial reporting that we considered to be significant deficiencies 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. 15-02, "Audit Requirements for Federal Financial Statements." These items are not repeated in this letter, as they are explained in detail in our report on the Department's FY 2016 financial statements.

Our procedures were designed primarily to enable us to form an opinion on the Department's consolidated 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 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 have been discussed with appropriate Department officials. Comments from Department management on this report are presented in Appendix B.

[1] OIG, *Independent Auditor's Report on the U. S. Department of State 2016 and 2015 Financial Statements* (AUD-FM-17-09, November 2016).

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

Kearney & Company

Alexandria, Virginia
February 9, 2017

MANAGEMENT LETTER COMMENTS

REPEATED MANAGEMENT LETTER COMMENTS

During the audit of the U.S. Department of State's (Department) FY 2015 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 one issue included in the FY 2015 management letter has decreased, and we consider the item closed. Three issues remained open, and we have updated these issues with information obtained during the audit of the Department's FY 2016 financial statements

Table 1: Current Status of Prior Year Management Letter Findings

FY 2015 Management Letter Findings	FY 2016 Status
Insufficient Fund Balance with Treasury Reconciliation Process	Repeat
Inaccurate Personnel Data for Foreign Service National Employees	Repeat
Inadequate Control Over Personnel Records and Actions	Repeat
Inaccurate Accounting for Capital Leases	Closed

I. Fund Balance With Treasury

Insufficient Fund Balance With Treasury Reconciliation Process

Fund Balance with Treasury (FBWT) reflects the available funds in an agency's accounts with the Department of the Treasury (Treasury) for which the agency is authorized to make expenditures and pay liabilities. Each agency appropriation, receipt, or other fund account is assigned a Treasury Account Fund Symbol. Agencies must promptly reconcile their FBWT accounts on a regular and recurring basis to ensure the integrity and accuracy of their internal and Government-wide financial data.

The Department maintains two cash reconciliation reports: the Global Financial Services – Charleston Cash Reconciliation Report and the Financial Reporting Analysis Cash Reconciliation Report. These reports document final balances for each Treasury Account Fund Symbol for the applicable accounting period. Because of the disaggregated nature of the Department's operations, the FBWT reconciliation process involves the reconciliation of disbursements and collections processed both domestically and overseas, as well as through third parties.

The Department records unreconciled differences identified during the FBWT reconciliation process in a suspense account until the discrepancies are resolved. A suspense account is a

[1] *Management Letter Related to the Audit of the U.S. Department of State FY 2015 Financial Statements* (AUD/FM-16-11, February 2016).

temporary account used by agencies to record transactions with discrepancies until a determination is made on the proper disposition of the transaction. Treasury allows entities with a justifiable business need to submit a request to use suspense accounts, which are only to be used as a temporary holding place for transactions that must be cleared within 60 days.

We obtained and reviewed the Financial Reporting Analysis Cash Reconciliation Report as of June 30, 2016, and identified 117 instances in which a variance existed between Treasury and the Department fund balances. These variances amount to a net difference of approximately $25,000. However, when the absolute value of all variances is considered, the variances totaled approximately $75 million.

We also found that the Department had balances in several suspense accounts that had not been resolved within 60 days, as required. Specifically, we identified five suspense accounts in which the balance remained unchanged during the first three quarters of FY 2016.

We found the Department's FBWT reconciliation procedures needed to be strengthened. Specifically, the Department's ongoing process to reconcile its FBWT information with that of Treasury was not effective in investigating and resolving all variances. The Department reconciled disbursements and collections at the transaction level monthly; however, the Department did not investigate and resolve all variances. In addition, the Department did not have effective monitoring controls in place to identify, research, and resolve suspense activity approaching or exceeding 60 days, which further contributed to FBWT variances.

For older reconciling items, the Department did not have a complete history of transactions that it could compare with Treasury information, as data from previous financial systems was not available to the staff performing the reconciliations. The absence of historical data continued to prevent the Department from fully reconciling the FBWT account. The Department also had not developed alternative methods to address aged reconciling items that lingered because of a lack of historical data, such as working with the Treasury toward resolution.

Failure to implement timely and effective reconciliation processes could do the following:

- Increase the risk of fraud, waste, and mismanagement of funds.
- Affect the Department's ability to effectively monitor budget execution.
- Affect the Department's ability to accurately measure the full cost of its programs.
- Result in erroneous financial statements.

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

II. Payroll and Related Liabilities

Inadequate Control Over Personnel Records and Actions

The Department's workforce includes Civil Service, Foreign Service, and Foreign Service National (FSN) staff. Civil Service and Foreign Service employees are paid according to standard Federal Government pay scales using the Consolidated American Payroll Processing

System (CAPPS). FSN employees are generally paid in local currency, and their salaries and benefits are based on local prevailing practice, which are documented in each post's Local Compensation Plan. During the first 3 quarters of FY 2016, FSN staff were paid using the FSN Payroll system and the Global Foreign Affairs Compensation System (GFACS). As of June 30, 2016, the Department was only using GFACS for FSN payroll. Ensuring the sufficiency of controls over personnel-related activities is a key responsibility of managers. We identified control deficiencies related to maintaining personnel data, processing personnel actions and calculating benefits, and processing employee separations.

Inaccurate Personnel Data for Foreign Service National Employees

Human resource information for FSNs, such as date hired, transfers, grade increases, and date of separation, is maintained in the Department's WebPass application. When a personnel action is initiated for an FSN, the post enters the information into WebPass. The FSN personnel information is then submitted to a Global Financial Service Center (GFSC), where officials manually enter the information into GFACS.

We assessed the completeness of employee information in WebPass and GFACS 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 with the names of individuals in WebPass and GFACS. Table 2 shows the results of our testing for FY 2016, as well as the results of our testing from FY 2015 for comparative purposes.

Table 2: Total Number of Individuals in GFACS and WebPass

Individuals Reviewed	FY 2016 Individuals	FY 2015 Individuals
Individuals in both WebPass and GFACS	25,421	24,204
Individuals in WebPass who were not in GFACS	299	427
Individuals in GFACS that were not in WebPass	216	385

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 3 shows the results of our testing for FY 2016, as well as the results of our testing from FY 2015 for comparative purposes.

Table 3: Data Inconsistencies Between GFACS and WebPass

Inconsistency Identified	FY 2016 Discrepancies	FY 2015 Discrepancies
Employee's date of birth was not consistent	845	849
Employee's service computation date was not consistent	2,919	2,787
Employee's annual salary was not consistent	4,085	3,579
Employee's employer agency was not consistent	24	Not applicable

The Department tested a judgmental sample of the discrepancies we noted and reported that WebPass contained more accurate information on the employees' date of birth and service computation date and that GFACS contained more accurate salary information. We re-performed the Department's testing and confirmed its conclusions regarding the most accurate sources of FSN employee information.

We found that posts were processing personnel actions inconsistently. In certain instances, posts were not notifying the responsible GFSC in a timely manner about personnel actions that had been processed. Additionally, we noted instances in which data submitted to the responsible GFSC was not updated in GFACS to reflect changes made in WebPass. We also found instances in which approved personnel actions were not accurately entered into GFACS once the information was provided to the GFSC because of data entry error. The Department did not have a control in place to ensure that all post-approved personnel actions included in WebPass were also entered into GFACS, such as a process to regularly reconcile the data between the applications.

The Department estimates a liability to include in its annual financial statements for after-employment benefits offered to some FSNs. The reasonableness of the liability estimate related to after-employment benefits relies on accurate underlying employee demographic data. Without accurate and complete FSN personnel data, the Department may not be able to efficiently or accurately calculate its annual liability for after-employment benefits. The Department was able to adjust its liability estimation methodology to address the discrepancies identified during our testing through manual manipulation of data in GFACS and WebPass. These manual calculations required additional time and effort and were more prone to inaccuracies.

In addition, the risk of improper payments exists if payroll and benefit payments are calculated on the basis of inaccurate data. The lack of reconciliation between GFACS and WebPass may result in errors and inconsistencies remaining undetected and uncorrected for long periods of time.

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

Insufficient, Inconsistent, or Incorrect Personnel Record Documentation

The Office of Personnel Management requires agencies, including the Department, to maintain up-to-date, complete, and correct personnel records for each employee. These personnel folders should include all benefit election forms, as well as any elections resulting in deductions to an employee's pay. In addition, the Department is required to review time and attendance submissions for accuracy. Maintaining up-to-date personnel folders and reviewing time and attendance submissions for accuracy helps ensure that employees are compensated only for actual hours worked and benefits earned.

To verify the accuracy of Civil Service and Foreign Service employee salaries and benefits, we assessed the completeness of personnel records for a sample of 78 employees. Table 4 shows the results of our testing for FY 2016, as well as the results of our testing from FY 2014 and FY 2015 for comparative purposes.

Table 4: Discrepancies in Personnel Records

Discrepancy	FY 2016 Exceptions	FY 2015 Exceptions	FY 2014 Exceptions
Employee timesheets were not provided	34	31	16
Employee timesheet provided was not properly approved	0	6	8
Request for Leave or Approved Absence Forms (Standard Form [SF]-71) were not provided.	17	13	12
Annual leave hours reported on the SF-71 were not the same as the employees' annual leave hours on their Earning and Leave Statement (ELS).	0	0	1
Sick leave hours reported on the SF-71 were not the same as the employees' sick leave hours on their ELS.	0	0	2
Overtime and other premium pay hours were not compensated at the appropriate rates.	0	0	5
Life Insurance Election Form (SF-2817) was not provided.	2	0	8
Federal Employees' Group Life Insurance (FEGLI) election selected on the SF-2817 was not the same as the election on the employee's Notification of Personnel Action (SF-50).	8	3	10
Health Benefit Election Form (SF-2809) was not provided.	0	2	3
Health benefits election selected on the SF-2809 did not match the election on the employee's ELS.	0	0	9
Thrift Savings Plan (TSP) election form was not provided.	2	0	6
TSP election selected on the TSP election form did not match the election on the employee's ELS.	0	0	33

Discrepancy	FY 2016 Exceptions	FY 2015 Exceptions	FY 2014 Exceptions
TSP withholding amount on the employee's ELS did not recalculate on the basis of the employee's TSP election percentage selected on the TSP election form and documented on the ELS.	5	0	7

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

Poor administrative control over the payroll cycle and lack of sufficient and updated supporting documentation in the Official Personnel File 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.

Improper and 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 or the Joint Form (JF) 62A (Personal Services Contracting Action).

We selected a sample from FY 2016 of 100 payroll disbursements, 41 separated employee personnel actions, and 50 new hire personnel actions from FSN Payroll and GFACS and 78 payroll disbursements, 45 separated employee personnel actions, and 45 new hire employee personnel actions from CAPPS. For each of the sample items selected, we reviewed the SF-50 or JF-62A for proper and timely approvals. Table 5 shows the results of our testing for GFACS and FSN for FY 2016, as well as the results of our testing from FY 2014 and FY 2015 for comparative purposes.

Table 5: Exceptions Noted in GFACS and FSN Payroll Testing

GFACS and FSN Payroll Testing Results	FY 2016 Exceptions	FY 2015 Exceptions	FY 2014 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action	17	26	15
Personnel actions in our separated employee sample were not approved in the pay period following the effective date on the personnel action	5	0	0
Employees in our separated employee sample were paid incorrectly following the SF-50 separation effective date	1	0	2

Table 6 shows the results of our testing for CAPPS for FY 2016, as well as the results of our testing from FY 2014 and FY 2015 for comparative purposes.

Table 6: Exceptions Noted in CAPPS Payroll Testing

CAPPS Testing Results	FY 2016 Exceptions	FY 2015 Exceptions	FY 2014 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action	7	5	9
Personnel actions in our separated employees sample were not approved in the pay period following the effective date on the personnel action	6	9	10
Personnel actions in our separated employees sample were not provided	0	0	1
Employees in our separated employees sample were not deactivated in the personnel system in the pay period following the SF-50 separation effective date	0	0	2
Personnel actions in our new hire employees sample were not approved in the pay period following the effective date on the personnel action	1	1	5
Personnel actions in our new hire employees sample were not provided	0	0	1

Each bureau and post had been delegated the authority to approve personnel actions and enter the information into the personnel systems. We found that bureaus and posts were processing personnel actions inconsistently. 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 payment exists if personnel actions were not processed properly or timely. 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 increasing the risk of human error and decreasing efficiency.

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

NEW MANAGEMENT LETTER COMMENTS

During the audit of the Department's FY 2016 financial statements, additional matters came to our attention that were not previously reported in the FY 2015 Report on Internal Control or management letter.

I. Environmental Liability Associated With Asbestos Cleanup

Inaccurate Supporting Data for the Asbestos Remediation Estimate

Asbestos is a mineral-based material that was widely used worldwide in construction during the 19^{th} and early 20^{th} century 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 have asbestos-containing building materials (ACBM). Upon completion of this analysis, the results for each post are recorded in OBO's Facilities Environmental Tracing System (FACETS). 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 FACETS is used as the starting point for the Department's asbestos remediation cost model.

In FY 2015, the Department implemented a new process for overseas post officials to alert OBO of necessary updates to the post's asbestos data. For example, overseas posts can notify OBO that ACBMs have been remediated during facility renovations. The notifications are executed by submitting an ACBM change request in FACETS. On the basis of the request, OBO may then update the posts' data or perform independent ACBM inspections to confirm the requested changes.

We reviewed the data in FACETS as of October 1, 2015, by selecting a sample of 12 overseas buildings at which we performed a physical confirmation. FACETS listed 32 specific ACBMs that existed across the 12 sampled facilities. We were unable to confirm the physical existence of ACBMs at several of the facilities. Table 7 provides information on the exceptions identified during site visits.

Table 7. Post Asbestos Existence Testing Exceptions

Post	Number of ABCMs Reported in FACETS	Number ABCMs Remediated or Removed
Budapest, Hungary	4	1
Buenos Aires, Argentina	7	1
Manila, the Philippines	11	6
Rome, Italy	10	4
Total	**32**	**12**

The Department does not have an effective process to ensure that its asbestos remediation liability estimate is based on the most current conditions at overseas posts. At each overseas post included in our audit, facility surveys were performed several years prior to our testing. Although the Department developed a process for posts to notify OBO of necessary updates of FACETS data, we found that three of the four posts visited during our audit did not use this process to communicate the remediated ACBMs to OBO. Additionally, although one of the four posts visited properly communicated the remediated ACBMs to OBO, the Department did not update FACETS to reflect the information communicated by the post. OBO officials indicated that FACETS would not be updated until the post's facilities were subject to an official OBO asbestos survey and the remediation of ACBMs was confirmed.

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, estimated asbestos remediation liability estimates will be overstated.

II. Grant Accrual Estimates

Inaccurate Data Used To Estimate Grants Accrual

The Department awards educational, cultural exchange, refugee assistance, and other types of grants to various individuals, universities, and not-for-profit organizations. Grant funds are disbursed in two ways: grantees draw funds commensurate with their immediate cash needs using the Department of Health and Human Services Payments Management System (PMS) or grantees spend funds and submit invoices for payment. In both cases, an expense should be recorded in the Department's financial system upon disbursement. Grant payments made by the Department during FY 2016 exceeded $1.5 billion.

When grantees draw funds before spending the funds, the Department is required to record those amounts as advances, which is an asset account on the balance sheet. When grantees expend funds that the grantees have received or for which they will be requesting reimbursement and the Department has not yet disbursed funds to the grantee to cover the expenses, the Department is required to record those amounts as an accounts payable, which is a liability account on the balance sheet. The Department does not record a separate transaction for each grant advance or grant accounts payable. Instead, the Department estimates and records what is called an "accrual" annually to ensure that amounts related to grants are reasonably reported as an advance or an accounts payable.

The Department's grant accrual is calculated using a database that the Department created using data received from PMS. The Grants Accrual Database was initially created in FY 2012 and included activity from 2007 through 2012. Since FY 2012, the Grants Accrual Database has been updated annually to include each year's PMS activity. For each record in the database, the Department performs a calculation to determine the amount of the advance or payable amount. The Department then nets the balances calculated for each item and records either an advance or an accounts payable for the total population of grants.

The PMS files required for the annual update to the database are not available until after year end. Therefore, the Department estimates the year-end accrual amount on the basis of the trend in prior-year accrual amounts. The Department then will validate the accrual estimate during the following fiscal year. For FY 2015, the Department recorded a liability of $56 million. During FY 2016, the Department calculated the actual accrual amount for FY 2015 of $54 million.

We performed an analysis of the Grants Accrual Database and found 247 records, with a net accrued advance value of $33.9 million, which had not changed since FY 2014. From these 247 records, we selected 8—the items with the highest value as of September 30, 2015—for additional testing. After reviewing supporting documentation provided by the Department, we concluded that the grants for six of the eight sampled records, with a net accrued advance amount of $31.1 million, were no longer active, meaning that an accounts payable or advance should not have been calculated for the six records.

The Department developed procedures to identify and adjust for certain PMS data quality issues, such as procedures to identify potential duplicate records in PMS, when it designed the Grants Accrual Database. However, the Department's procedures were not sufficient to ensure that information in the Grants Accrual Database was accurate and current. Specifically, the Department was unaware that the PMS reports used to develop and update the Grants Accrual Database did not include transactions that closed grants. Because the Department was unaware of the limitation of the PMS reports, it did not perform procedures to remove grants that were closed or that had funds deobligated from the Grants Accrual Database.

Inaccurate or outdated underlying grants data may limit the Department's ability to produce a reasonable grant accrual estimate. Specifically, when the Department's Grant Accrual Database is not updated to consider completed or closed grant agreements, its corresponding estimates for liabilities or advances are misstated.

III. Voluntary Contribution Accrual Estimates

Insufficient Controls for Reporting Voluntary Contributions

The Department provides discretionary financial assistance to foreign countries, public international organizations, international societies, commissions, and other international organizations. This financial assistance is called voluntary contributions. The Bureau of

Population, Refugees, and Migration (PRM) is responsible for the majority of voluntary contributions within the Department. Specifically, of the approximately $3.4 billion in voluntary contributions paid in FY 2015, PRM was responsible for approximately $2.8 billion (82 percent). PRM makes voluntary contributions to approximately 10 organizations, including the United Nations Children's Rights & Relief Organizations and the United Nations Relief & Works Agency (UNRWA). These contributions were made in accordance with Federal assistance award agreements that PRM established with the recipient organizations.

Federal agencies should record a liability for all amounts owed as of the financial statement date, including amounts related to voluntary contributions. In addition, Federal agencies should record an asset, specifically an advance, for all funds provided for voluntary contributions that have not been expended by the recipient. To identify and record liabilities and advances related to PRM's voluntary contributions, PRM contacts each organization that has an established Federal assistance award agreement. PRM provides each organization with a spreadsheet listing the amounts pledged in the Federal assistance award agreement and the amounts paid as of September 30 each year. PRM provides the organizations with an estimate of the amounts that should be considered a liability or an advance at year end based on PRM's understanding of the organization and its agreement. PRM requests that the organization assess the accuracy of PRM's estimates and make any necessary adjustments. The Department uses these responses to prepare the voluntary contributions advance and liability accrual. If PRM does not obtain a response from an organization prior to the preparation of the accrual, the Department will record the accrual using its estimates. If PRM receives a response from an international organization after the Department recorded the accruals, the estimated amount will be adjusted on the basis of the organization's response. As of September 30, 2015, the Department recorded a voluntary contributions liability of $73 million and an advance of $18 million.

We tested all the payments related to Federal assistance award agreements for which the Department had accrued a liability to assess the reasonableness of the Department's accrual estimates as of September 30, 2015. We identified one instance in which the Department's accrued amount did not reflect the most current information communicated by the international organization. Specifically, the Department estimated a $56-million liability for UNRWA. UNRWA did not respond to the Department's initial data call but later provided a response to the Department that indicated that a $5-million advance should be recorded, rather than a liability. On the basis of this response, the Department recorded an adjustment. However, because of human error, when manually recording the adjustment, a $51-million liability was recorded for UNRWA, rather than an advance of $5 million.

Although the Department has a process in place to estimate and record liabilities and advances related to voluntary contributions, the process is manual in nature and susceptible to human error. The Department's quality control reviews of the manual adjustment did not identify the error found during our audit. Insufficient controls and validations may limit the Department's ability to produce an accurate voluntary contributions accrual estimate.

IV. Expenses

Insufficient Vendor Invoice Approvals

Agencies, including the Department, obtain goods and services from vendors and other Federal agencies as part of normal business operations. The approval of invoices for goods or services from vendors is a critical point in the acquisition and payment cycle. An agency should identify employees who are authorized to accept the receipt of goods or services or administratively approve invoices for which the receipt of goods and services does not apply (for example, utility bills). Within the Department, the individual approving an invoice is referred to as the "certifying officer" or the "designated billing official" (DBO). The Department maintains an Invoice Approval Form to facilitate and document the acceptance of goods and services or administrative approval of invoices.

The instructions for completing the Invoice Approval Form state, "Enter the name of the DBO/[Contracting Officer's Representative (COR)] or the designated representative to approve this invoice." CORs are individuals who are responsible for technical monitoring and evaluation of the contractor's performance and who have been officially appointed by the contracting officer in writing. Government technical monitors (GTM) are designated by the contracting officer to assist the CORs. Accordingly, these individuals are responsible for overseeing contracts and have detailed knowledge of the work being performed. Additionally, CORs and GTMs are required to attend contract oversight training and obtain the Office of Management and Budget, Office of Federal Procurement Policy Federal Acquisition Certification for Contracting Officer's Representatives (FAC-COR). The Department maintains a database of all personnel who hold an active FAC-COR certification.

We tested a sample of 45 domestic vendor payments to test internal controls for invoice approval. We identified 9 (20 percent) of 45 invoices that were approved by individuals other than the contract's designated COR. The Department was unable to provide additional support to demonstrate the appropriateness of the individuals who approved the nine invoices, such as evidence that they were an approved certifying officer, DBO, or GTM. In addition, we accessed the FAC-COR database and found that only three of the nine invoices were approved by individuals with active FAC-COR certifications. Table 8 shows additional details on these contracts and the invoices tested by Kearney.

Table 8: FAC-COR Invoice Approval Exceptions

Contract/Obligation Number	Vendor Invoice Number	Total Invoice Amount	Description	Invoice Approver with Active FAC-COR Certification
SAQMMA13L2472	AFS00470795	$612,406	Security services	No
SAQMMA15L0479	AFS00388377	$271,793	Security services	No
SAQMMA15C0246	SI011591	$12,174,382	Goods – servers, software licenses	No

Contract/Obligation Number	Vendor Invoice Number	Total Invoice Amount	Description	Invoice Approver with Active FAC-COR Certification
SAQMMA13F2905	114059	$1,109,858	Information Technology (IT) services	No
SAQMMA14F4671	INV-0000351532	$6,398,269	IT services	No
1087600141	O-2016-001278-AUE-002	$5,060	Language services	No
SAQMMA15F2545	INL-E3-IRAQ-04B	$2,654,629	Aviation support services	Yes
SAQMMA16F0048	INL-E3-0048-04A	$2,374,193	Main base operations	Yes
SAQMMA15C0019	AFBLMS01-023C	$201,952	Various defense services	Yes

We found that the Department's guidance and its Invoice Approval Form were not always consistent and that Department officials had varying interpretations of the Department's policies pertaining to requirements for invoice approval. Specifically, policies in the Foreign Affairs Manual[2] (FAM) and the Foreign Affairs Handbook[3] (FAH) explain that it is the responsibility of the certifying officer to review and approve invoices, but Section 3 of the Invoice Approval Form is titled "DBO/COR," and it states, "Enter the name of the DBO/COR." Section 3 of the Invoice Approval Form also states "or the designated representative to approve this invoice" but does not use the term "certifying officer."

Further, the roles and responsibilities of the certifying officer, DBO, COR, and GTM are not clear in the Department's guidance. For example, the only reference to a "DBO" in the FAM and the FAH are in reference specifically to invoices related to the purchase card program. Moreover, the FAH stresses the significance of the COR and the GTM in the invoice review process, but it does not add into context the relationship to a certifying officer. Finally, the Department lacked oversight procedures to ensure that appropriate approvals were obtained prior to the processing of vendor payments.

Invoice approvals by untrained and uncertified officials increase the likelihood that improper payments could be made or that waste, fraud, and abuse could occur and go undetected. Ineffective vendor oversight practices could create circumstances in which payment is made for goods or services that were not received.

[2] 4 FAM 414, "Definitions."
[3] 4 FAH-3 H-065.2, "Designation of Authorized Certifying Officer."

V. Information Technology

Security Weaknesses in the Windows Time and Attendance System

The Windows Time and Attendance System (Win T&A) is a significant component of the Department's overall payroll and disbursement process. Win T&A is a system used by the Department's overseas posts that provides employee time and attendance reporting for payroll generation and leave accounting. Depending on personnel staffing at post, Win T&A users may include American employees as well as FSN employees.

All IT systems require a strong information security program. IT security is especially important for payroll systems, which account for large disbursements throughout the year and maintain a significant amount of personally identifiable information. One category of IT security is access control, which limits and ensures appropriate authorization to the IT system. To maintain effective access controls, an organization should monitor account activity and access privileges for continued validity and necessity, restrict or limit access to the extent required to execute a function or complete assigned responsibilities, and restrict the sharing of accounts.

To assess the effectiveness of the Department's Win T&A security program, we tested access controls over Win T&A user accounts at five overseas posts and found the following:

- Out of a sample of 100 Win T&A user accounts, 21 remained active after the users of the accounts had separated from the post.
- Nine employees had excessive access to Win T&A through multiple user accounts, without a documented business need.
- Four employees shared access to one System Administrator account.[4]

The Department did not have a centralized oversight control to ensure that posts had implemented access controls for the Win T&A system. The posts we visited did not have a process to periodically review ongoing access to the Win T&A system. A periodic review of user access would have prevented user accounts from separated employees from remaining active in the Win T&A system. The posts also did not have a standardized process to formally submit and review user authorization requests prior to granting users access to the Win T&A system. A standardized user authorization process may have prevented users from having multiple accounts and shared accounts.

Without effective access controls over Win T&A, the increased risk for erroneous time and attendance processing can potentially result in improper payments and inaccurate employee leave balances. In addition, unauthorized or excessive access privileges could compromise employment personnel data without the Department's knowledge. Further, individuals with multiple accounts could circumvent information system security controls. Ineffective access controls also increase the risk of fraud.

[4] The System Administrator provides users with access to information systems.

Department of State Response

United States Department of State
Comptroller
Washington, DC 20520

February 8, 2017

UNCLASSIFIED

MEMORANDUM

TO: OIG – Steve A. Linick

Chris H Flaggs

FROM: CGFS – Christopher H. Flaggs

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 2016 Financial Statements.

The Bureau of the Comptroller and Global Financial Services (CGFS) does not have any substantive comments on the Draft Report and associated recommendations. 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 look forward to working collaboratively and constructively with your office and Kearney to build on the progress made over the last year.

cc: M – Greg Stanford
OIG/AUD –Norman P. Brown
Kearney & Company, P.C. –Kelly E. Gorrell
CGFS – Alan Evans
CGFS – William Davisson
CGFS/EX – Joseph A. Kenney