

INDEPENDENT AUDITOR'S REPORT
AUD-FM-IB-16-14

To the Board of Governors and the Inspector General of the Broadcasting Board of Governors

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Broadcasting Board of Governors (BBG), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BBG as of September 30, 2015 and 2014, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Deferred Maintenance (hereinafter referred to as "required supplementary information") be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, "Financial Reporting Requirements," and the Federal Accounting Standards Advisory Board, which consider the information to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Message from the BBG Chairman and CEO, the Introduction, the Performance Information, and the Other Information sections, as listed in the Table of Contents of BBG's Performance and Accountability Report, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 16, 2015, on our consideration of BBG's internal control over financial reporting and on our tests of BBG's compliance with provisions of applicable laws,



regulations, contracts, and grant agreements for the year ended September 30, 2015. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02, and should be considered in assessing the results of our audit.

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

Alexandria, Virginia
November 16, 2015

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Governors and the Inspector General of the Broadcasting Board of Governors

We have audited the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of and for the year ended September 30, 2015, and have issued our report thereon dated November 16, 2015. We conducted our audit in accordance with 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 (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements."

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered BBG's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate under the circumstances for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of BBG's internal control. Accordingly, we do not express an opinion on the effectiveness of BBG's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following sections, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in BBG's internal control to be a material weakness.

Material Weakness

I. Validity and Accuracy of Unliquidated Obligations

Unliquidated obligations (ULOs) 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. BBG should record an obligation in its financial management system when it enters into an agreement, such as a contract or a purchase order, to purchase goods and services. Once recorded, the obligation remains open until it is fully reduced by disbursements, is deobligated, or until the appropriation funding the obligation is cancelled. BBG reported more than \$145 million in ULOs as of September 30, 2015.

Of a sample of 106 ULOs tested, we found 42 (40 percent) invalid ULOs. During 2015, BBG's Office of Chief Financial Officer (OCFO) developed the Unliquidated Obligations Review Standard Operating Procedures (SOP). The SOP outlines roles and responsibilities relating to ULOs and provides specific guidance for allotment holders to determine the validity of ULOs. The SOP was distributed to OCFO staff, but was not distributed agency-wide to allotment holders who are responsible for monitoring obligations. In addition, the SOP did not contain processes for OCFO staff to confirm the receipt of responses from all allotment holders or to confirm that invalid ULOs identified by allotment holders were deobligated. In addition, the SOP did not contain guidance on reviewing overseas ULOs. As a result of invalid ULOs, BBG misstated its financial statements. Further, these funds could have been used for other purposes but remained in unnecessary obligations. Weaknesses in controls over ULOs were initially reported by us in the audit of BBG's FY 2013 financial statements.¹

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiencies in BBG's internal control to be significant deficiencies.

Significant Deficiencies

I. Grantee Monitoring

BBG has three grantees that it funds through annual grant agreements: Radio Free Europe/Radio Liberty, Radio Free Asia, and the Middle East Broadcasting Networks. The grantees are responsible for developing broadcast content (radio and television news programs), which is distributed by BBG. In 2015 the three grantees received \$257 million, approximately one-third

¹ During our FY 2013 and FY 2014 audits, we identified additional issues related to budgetary accounting that were combined with the deficiency related to ULOs into a material weakness on Budgetary Accounting and Funds Control. In FY 2015, we found that BBG had taken sufficient action to close the other budgetary accounting deficiencies reported in our prior audits. Specifically, BBG improved procedures to ensure that obligations were recorded in a timely manner and developed a process to accurately report its apportioned authority. Despite these improvements, we consider the control deficiencies related to invalid ULOs to be a material weakness.

of BBG's total funding. We have identified weaknesses in controls over grantee monitoring since our audit of BBG's FY 2013 financial statements.²

BBG is responsible for monitoring grantee use of BBG funds to ensure grantees adhere to applicable laws and regulations as well as all terms and conditions specified in the grant agreements. During the FY 2013 financial statement audit, we found that BBG did not sufficiently monitor its three grantees. In FY 2014, BBG management stated that there had been no significant changes to the grantee monitoring process. During FY 2015, BBG management made improvements in the grants monitoring process. For example, BBG hired a grants management specialist, updated sections of its Grantee Handbook, and designed and implemented several new control activities. Despite these efforts, the improvements were not in place until late in the fiscal year, so they were not sufficiently mature to test during the audit. Further, not all planned improvements to the grantee monitoring process had been implemented. BBG officials stated that delays in hiring the grants management specialist and competing priorities of existing personnel impacted their ability to implement corrective actions in a timely manner. BBG officials anticipated that BBG would fully implement its planned grantee monitoring process during FY 2016.

Because BBG lacked effective grantee oversight, there is an increased risk of waste, fraud, and abuse of Federal funds and non-compliance with Federal grant oversight regulations. Also, BBG is the sole source of funding for the grantees, so an organized and documented approach to oversight is needed to demonstrate accountability and mitigate the risk of noncompliance.

II. Information Technology

BBG uses several financial management systems to compile information for financial reporting purposes. BBG's main domestic financial management and accounting system is Momentum, which is provided by an external service provider. The external service provider is responsible for maintaining a number of IT controls. However, Momentum is accessed through BBG's general IT support system. Therefore, IT deficiencies noted in the general support system could potentially impact Momentum as well. For overseas accounting and budget execution, BBG uses the Regional Financial Management System (RFMS) provided by the Department of State (Department). The Department is responsible for maintaining an adequate general and application control environment over this system. Weaknesses in IT controls have been reported as a financial statement significant deficiency since our audit of BBG's FY 2013 financial statements.

The Office of Inspector General (OIG) annually performs an evaluation of BBG and Department information security program compliance with IT provisions as required by the Federal Information Security Modernization Act of 2014 (FISMA). In the FY 2015 FISMA report for

² During our FY 2013 and FY 2014 audits, we identified control deficiencies relating to grantee monitoring and grant advances that were combined into one material weakness. In FY 2015, we found that BBG had taken sufficient action to close the grant advances deficiency. Specifically, BBG refined its methodology for reporting grant advances, performed procedures to validate its grant advance methodology, and implemented quality control procedures. Grantee monitoring remains a significant deficiency.

BBG,³ OIG reported weaknesses in configuration management, identity and access management, incident response and reporting, security training, plans of action and milestones, contingency planning, and contractor systems. Collectively, OIG reported that the control deficiencies represented a significant deficiency to organization-wide IT security. In general, OIG found that BBG had not implemented effective standards, policies, processes, and procedures over its information security program.

OIG's FY 2015 FISMA report for the Department⁴ identified deficiencies with the general support system at the Department similar to the deficiencies identified at BBG. OIG concluded that the issues identified were a significant deficiency to IT organization-wide security. RFMS is hosted on the Department's general support system. Because of the deficiencies noted with the IT security program at the Department, BBG needs to implement additional controls to ensure that financial information is being processed accurately and completely by the Department.

Weak controls over IT security can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that BBG will be unable to report financial data accurately.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to BBG management in a separate letter.

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on BBG's FY 2014 financial statements,⁵ we noted several issues that were related to internal control over financial reporting. The status of these issues is summarized in Table 1.

³ OIG, *Audit of the Broadcasting Board of Governors Information Security Program* (AUD-IT-IB-16-17, Nov. 2015).

⁴ OIG, *Audit of Department of State Information Security Program* (AUD-IT-16-16, Nov. 2015).

⁵ OIG, *Independent Auditor's Report on the Broadcasting Board of Governors 2014 Financial Statements* (AUD-FM-IB-15-10, Nov. 2014).

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2014 Status	FY 2015 Status
Grantee Monitoring and Accounting for Grant Advances	Material Weakness	Significant Deficiency ^a
Property, Plant, and Equipment	Material Weakness	Closed
Budgetary Accounting and Funds Control	Material Weakness	Material Weakness ^b
Information Technology	Significant Deficiency	Significant Deficiency

^a Reported in FY 2015 as “Grantee Monitoring” due to BBG’s remediation of FY 2014 deficiency pertaining to grant advances.

^b Reported in FY 2015 as “Validity and Accuracy of Unliquidated Obligations” due to BBG’s remediation of FY 2014 deficiencies pertaining to untimely obligations and the reporting of apportioned authority.

BBG’s Response to Findings

BBG management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management’s response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of BBG’s internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02, in considering BBG’s internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 16, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS**

To the Board of Governors and the Inspector General of the Broadcasting Board of Governors

We have audited the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of and for the year ended September 30, 2015, and have issued our report thereon dated November 16, 2015. We conducted our audit in accordance with 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 (OMB) Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements."

Compliance

As part of obtaining reasonable assurance about whether BBG's consolidated financial statements are free from material misstatement, we performed tests of BBG's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material impact on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to BBG. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02 and which are summarized as follows:

- *Federal Grant Regulations.* BBG is responsible for monitoring the use of funds provided to its grantees to ensure the grantees adhere to relevant laws and regulations. Since our FY 2013 audit of BBG's financial statements, we have identified substantial noncompliance with Federal grant regulations. As noted in our Independent Auditor's Report on Internal Control Over Financial Reporting, BBG implemented several corrective actions to bring its grantee monitoring into compliance with Federal regulations during FY 2015. Despite these efforts, several improvements were not in place until late in the fiscal year, so they were not sufficiently mature to test during the audit. Further, not all planned improvements to the grantee monitoring process had been implemented. As a result, BBG continued to be in substantial noncompliance with the Code of Federal Regulations, Title 2, Subtitle A, Chapter II, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, which provides guidance to agencies for grant oversight.

- *Prompt Payment Act.* This act requires Federal agencies to make payments in a timely manner and to pay interest penalties when payments are late. We found that BBG did not consistently pay interest penalties for overseas payments in accordance with the Prompt Payment Act. Noncompliance with the Prompt Payment Act was initially noted in our audit of BBG's FY 2013 financial statements.
- *Federal Managers' Financial Integrity Act.* The Federal Managers' Financial Integrity Act requires executive branch agencies to establish and maintain effective internal control. The heads of agencies must annually evaluate and report on the effectiveness of the internal control and financial management systems that protect the integrity of Federal programs. We found that BBG did not complete its annual evaluation in FY 2015. Noncompliance with the Federal Managers' Financial Integrity Act was initially noted in our audit of BBG's FY 2013 financial statements.

During the audit, we noted certain additional matters involving compliance that we will report to BBG management in a separate letter.

BBG's Response to Findings

BBG management has provided its response to our findings in a separate letter included in this report as Appendix A. We did not audit management's response, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of BBG's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02, in considering BBG's compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 16, 2015



BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA

November 16, 2015

The Honorable Steve A. Linick
Deputy Inspector General
U.S. Department of State

Dear Mr. Linick:

The Performance and Accountability Report (PAR) is our principal report to the President, Congress and the American taxpayers shedding light on our stewardship of the public funds with which we have been entrusted. It is a key vehicle for sharing the BBG's financial status in full transparency and establishing the concomitant levels of accountability.

The PAR provides a comprehensive account of the BBG's financial activities in the context of our global mission to fulfill the charter of this organization as a key part of the United States public diplomacy framework.

I am pleased to report that the BBG has received an unmodified opinion for this fiscal year's financial audit. While we recognize that the audit identified one material weakness and two significant deficiencies that will require further efforts going forward, we remain committed to expanding the significant progress achieved this past year. Our focus on regulatory compliance, finance management, and sound internal controls will be a key portion of our management's performance measures as we address the identified issues.

Our goal is to achieve maximum compliance, transparency and accountability as we oversee complex operations in some of the most challenging environments in the world. While confronting the rapid transformation of international media markets, we continue to excel in our mission to inform, engage, and connect people around the world in support of freedom and democracy. We are confident that the BBG will continue to improve our operational effectiveness as we increase our global media impact.

We would be remiss if we did not thank Kearney & Company for their sustained efforts and professionalism in working through the complex issues associated with the global nature of BBG's financial processes.

Sincerely,

A handwritten signature in black ink that reads "Connie L. Stephens". The signature is written in a cursive style with a large, stylized "S" at the end.

Connie L. Stephens
Acting Chief Financial Officer