

MANAGEMENT LETTER
AUD-FM-IB-17-15

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

Kearney & Company, P.C. (referred to as “we” hereafter), has audited the consolidated financial statements of the Broadcasting Board of Governors (BBG) as of and for the year ended September 30, 2016, and has issued our report thereon dated November 13, 2016.¹ In planning and performing our audit of BBG’s consolidated financial statements, we considered BBG’s internal control over financial reporting and BBG’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 BBG’s internal control over financial reporting or on BBG’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 material weaknesses or 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 OMB 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 BBG’s FY 2016 financial statements.

Our procedures were designed primarily to enable us to form an opinion on BBG’s consolidated financial statements and therefore may not have identified all internal control weaknesses and instances of noncompliance that may exist. We noted certain other matters not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, which involve internal control and operations. These findings are summarized in Appendix A and are intended to assist BBG in strengthening internal control and improving operating efficiencies.

We appreciate the courteous and professional assistance provided by BBG personnel during our audit. These findings have been discussed with appropriate BBG officials. Comments from BBG management on this report are presented in Appendix B.

¹ OIG, *Independent Auditor’s Report on the Broadcasting Board of Governors 2016 and 2015 Financial Statements* (AUD-FM-IB-17-14, November 2016).



This letter is intended solely for the information and use of BBG management, those charged with governance, and others within BBG 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
January 17, 2017

MANAGEMENT LETTER COMMENTS

MODIFIED REPEAT MANAGEMENT LETTER COMMENTS

During the audit of the Broadcasting Board of Governors (BBG) FY 2015 financial statements, Kearney & Company (referred to as “we” hereafter) identified matters that were reported in a management letter.¹ As described in Table 1, the severity of two issues included in the FY 2015 management letter has decreased, and we consider these items closed. One issue from the FY 2015 management letter remained open, and we have updated this issue with information obtained during the audit of BBG’s FY 2016 financial statements.

Table 1: Current Status of Prior Year Management Letter Findings

FY 2015 Management Letter Findings	FY 2016 Status
Time and Attendance Documentation	Modified Repeat
Untimely Processing of Personnel Actions for Separated Employees	Closed
Inadequate Removal of Separated Users From the Accounting System	Closed

I. Payroll

Time and Attendance Documentation

BBG’s Civil Service and Foreign Service Officers are paid by Defense Finance and Accounting Services (DFAS). These payments are made based upon time and attendance (T&A) information input by BBG Timekeepers into DFAS’s payroll system, Defense Civilian Pay System.

During the FY 2014 financial statement audit, we found that BBG was not compliant with T&A policies and procedures outlined in the Broadcasting Administration Manual. Specifically, BBG was unable to provide evidence that a T&A Supervisor had approved the timesheet for 8 of 45 (18 percent) timesheets tested. Additionally, in 10 of 35 (29 percent) instances in which annual or sick leave was taken, BBG was unable to provide evidence that the employee requested leave or a Supervisor had approved the employee’s leave in accordance with BBG policy. During the FY 2015 financial statement audit, BBG officials stated that BBG had not modified processes to address deficiencies identified in the FY 2014 audit. Based on this information, we did not perform timesheet testing during the FY 2015 financial statement audit. For the first three quarters of FY 2016, BBG continued to use the same process used in FY 2014 and FY 2015 for all employees; therefore, we again did not perform timesheet testing FY 2016, because the condition identified in FY 2014 would continue to occur.

¹ Management Letter Related to the Audit of the Broadcasting Board of Governors 2015 Financial Statements (AUD-FM-IB-16-15, January 2016).

From October 2015 to May 2016, BBG did not have an effective process to ensure that BBG employees and supervisors were following T&A policies, including the requirement to maintain leave records. In June 2016, BBG began to implement a new electronic T&A system (webTA), and as of September 2016, approximately 900 employees (53 percent of BBG employees) were using the new system. The remaining employees (approximately 800) did not use webTA during FY 2016. BBG officials stated that webTA is expected to be fully implemented for all BBG employees by the end of calendar year 2016.

Failure to properly certify timesheets and approve leave increases the risk that employees will be compensated for hours not worked. Additionally, inaccurate leave balances may result in improper payments when employees separate from employment.

NEW MANAGEMENT LETTER COMMENTS

During the audit of BBG's FY 2016 financial statements, an additional matter came to our attention that had not been previously reported in the FY 2015 internal control report or management letter.

II. Property, Plant, and Equipment

Timeliness and Accuracy of Recording Personal Property Acquisitions

BBG owns a significant amount of capitalized property, including equipment, buildings, vehicles, and land. As of September 30, 2016, BBG reported a net total of \$106 million in capitalized property, plant, and equipment (PP&E), which was 29 percent of BBG's total assets. BBG uses a system, the Property Inventory Processing System (PIPS), to track, manage, and record property transactions. PIPS was internally developed by BBG and is used at domestic and overseas facilities. PIPS data are sent to the BBG Financial Support Branch quarterly to manually update PP&E amounts in Momentum, BBG's financial management system.

We performed various procedures to determine whether BBG's property inventory was complete and accurately recorded. Our testing identified several errors related to capitalized personal property assets, such as equipment and vehicles. Specifically,

- We tested a sample of 33 personal property acquisitions recorded in FY 2016 and identified 14 (42 percent) that were recorded inaccurately or untimely. Of the 14 identified errors, 11 were acquisitions (33 percent) that were recorded with acquisition cost errors, such as omitted shipping and installation costs and 3 assets (9 percent) that were acquired during FY 2015 but not recorded until FY 2016.
- Of 67 assets that we physically observed at BBG facilities, 5 assets (7 percent) were not included in BBG's property inventory.

- We analyzed BBG's property inventory listing of 1,290 assets and identified 29 assets (2 percent) that had inaccurate in-service dates.² For example, we identified assets with recorded in-service dates that were prior to their acquisition dates.
- During our analysis of BBG's property inventory listing, we also identified five assets that had inappropriate salvage values.³

BBG's processes to ensure that personal property was recorded in a complete, timely, and accurate manner were ineffective. Specifically, property management officials were not always following BBG's procedures and did not receive training to ensure that procedures were understood and implemented. We also found that data entered into PIPS are not subject to a transaction-specific quality control review, increasing the risk that human error and misinterpretation of accounting requirements will go undetected and uncorrected.

The lack of effective controls results in the loss of accountability for asset custodianship, which could lead to undetected theft or waste. In addition, the untimely and inaccurate processing of property transactions resulted in misstatements to BBG's financial statements, which were corrected by BBG. However, additional errors are likely to occur unless effective property management procedures are implemented.

² An in-service date is the date that an asset is placed into service and depreciation of the asset is initiated. An asset is considered to be placed into service when it begins to be used for its intended purpose.

³ A salvage value is the estimated value of an asset at the end of its useful life. An asset's salvage value will be its net book value upon the end of its estimated useful life.

**BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA**

January 12, 2017

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

Dear Mr. Brown:

The BBG is committed to continued transparency and accountability for the taxpayer funds provided by Congress to pursue its mission to inform, engage, and connect people around the world in support of freedom and democracy.

BBG is in the final phase of implementing an agency-wide employee self-entry time and attendance system, WebTA. WebTA is now the system of record, maintaining all of the employee time and attendance records. WebTA is a fully compliant time and attendance system, requiring recording of time, leave requests, premium pay requests, and any applicable supervisory approvals. In addition to WebTA implementation, BBG is currently developing an interface file to extract data from WebTA and interface directly into DFAS for payroll processing. BBG has also updated the agency Time and Attendance Policy to reflect these changes. The policy is anticipated to be published during FY 2017.

BBG is currently evaluating and implementing changes to capitalization thresholds and useful life categorization. BBG is also working to update policies and procedures during FY 2017 to incorporate any changes necessary to improve internal controls to ensure that property transaction data recorded within the Property Inventory Processing System is accurate, valid, and complete.

Sincerely,

A handwritten signature in cursive script, appearing to read "John Barkhamer".

John Barkhamer
Interim Chief Financial Officer