

MANAGEMENT LETTER
AUD-FM-21-19

To the Chief Financial Officer and the Senior Official Performing the Duties of the Inspector General of the U.S. Department of State:

Kearney & Company, P.C. (referred to as “we” hereafter), has audited the financial statements of the U.S. Department of State (Department) as of and for the year ended September 30, 2020, and has issued our report thereon, dated November 16, 2020.¹ In planning and performing our audit of the Department’s financial statements, we considered the Department’s internal control over financial reporting and the Department’s compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements. Our auditing procedures were designed for the purpose of expressing an opinion on the financial statements and not to provide assurances on internal control or compliance. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control over financial reporting or on the Department’s compliance with certain provisions of applicable 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. 19-03, “Audit Requirements for Federal Financial Statements.” These items are not repeated in this letter because they are explained in detail in our report on the Department’s FY 2020 financial statements.

Our procedures were designed primarily to enable us to form an opinion on the Department’s financial statements and therefore may not have identified all internal control weaknesses and instances of noncompliance that may exist. Although not considered to be material weaknesses, significant deficiencies, or reportable instances of noncompliance, we noted certain other matters involving internal control, operations, and noncompliance. These findings are summarized in Appendix A and are intended to assist 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 were discussed in detail with appropriate Department officials, and management’s response to a draft of this report is presented in its entirety in Appendix B.

¹ OIG, *Independent Auditor’s Report on the U. S. Department of State FY 2020 and FY 2019 Financial Statements* (AUD-FM-21-08, November 2020).



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.

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

Alexandria, Virginia
March 8, 2021

MANAGEMENT LETTER COMMENTS

REPEATED MANAGEMENT LETTER COMMENTS

During the audit of the U.S. Department of State’s (Department) FY 2019 financial statements, Kearney & Company, P.C. (referred to as “we” hereafter), identified matters that were reported in a management letter.¹ As detailed in Table 1, seven issues included in the FY 2019 management letter remain open, and we have updated these issues with information obtained during the audit of the Department’s FY 2020 financial statements.

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

FY 2019 Management Letter Findings	FY 2020 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 Supporting Data for the Asbestos Remediation Estimate	Repeat
Ineffective Compensating Controls for the Global Employment Management System Segregation of Duties	Repeat
Ineffective Global Employment Management System Configuration Change Management Process	Repeat
Incomplete Integrated Logistics Management System Periodic Access Review	Repeat

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. Historical Treasury Account Fund Symbol balances dating back to 1990 have been included within the reconciliation reports. 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 OIG, *Management Letter Related to the Audit of the Department of State FY 2019 Consolidated Financial Statements* (AUD-FM-20-27, April 2020).

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 identified 18 variances between Treasury and Department fund balances during a review of the June 30, 2020, Financial Reporting Analysis Cash Reconciliation Report. These variances amount to a net difference of approximately \$918,000 and an absolute difference of approximately \$3 million.

We also found that the Department had a net balance of approximately \$2.7 million in three suspense accounts that had not been resolved within 60 days, as required. We determined that the balances for these accounts remained unchanged during the first three quarters of FY 2020.

During FY 2020, the Department continued to take action to resolve variances in its FBWT accounts. Although the Department eliminated 10 percent of its unreconciled fund balances, additional refinements to its reconciliation procedures are needed. For example, the Department's reconciliation process was not resolving all variances. In addition, for older variances, the Department did not have a complete history of transactions that it could compare with Treasury information because data from previous financial systems were not available to the staff performing the reconciliations. Finally, the Department did not have effective monitoring controls in place to identify, research, and resolve suspense activity approaching or exceeding 60 days old, which also contributes to FBWT variances.

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

The Department's workforce includes Civil Service, Foreign Service, and Foreign Service National (FSN) staff. FSN employees are generally paid in local currency, and their salaries and benefits are based on local prevailing practice, which is documented in each post's Local Compensation Plan. FSN employees are paid using the Global Foreign Affairs Compensation System (GFACS). Civil Service and Foreign Service employees are paid according to standard Federal Government pay scales, using the Consolidated American Payroll Processing System.

Inaccurate Personnel Data for Foreign Service National Employees

Human resources information for FSNs, such as date hired, transfers, grade increases, and date of separation, is maintained in one of two Department information systems deployed at overseas posts: WebPass or the Overseas Personnel System (OPS).² When a personnel action is initiated for an FSN, the post enters the information into WebPass or OPS. The FSN personnel information is then submitted to a Global Financial Services Center, where officials manually enter the information into GFACS.

We assessed the completeness of employee information in WebPass or OPS 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 and the names of employees in WebPass or OPS and GFACS. Table 2 shows the results of our testing for FY 2020 as well as the results of our testing from FY 2019 for comparative purposes.

Table 2: Total Number of Employees in WebPass or OPS and GFACS

Employees Reviewed	FY 2020 Employees	FY 2019 Employees
Employees in both WebPass or OPS and GFACS	25,621	25,759
Employees in WebPass or OPS who were not in GFACS	302	770
Employees in GFACS who were not in WebPass or OPS	233	187

For the employees included in WebPass or OPS and GFACS, 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 2020 as well as the results of our testing from FY 2019 for comparative purposes.

Table 3: Data Inconsistencies Between WebPass or OPS and GFACS

Exceptions Identified	FY 2020 Exceptions	FY 2019 Exceptions
Date of birth was not consistent	240	534
Service computation date was not consistent	3,091	3,079
Annual salary was not consistent	3,521	2,324
Employer agency was not consistent	32	28

In both FY 2020 and FY 2019, the Department tested a judgmental sample of the exceptions and reported that WebPass or OPS contained more accurate information on each employee’s date of birth and service computation date and GFACS contained more accurate salary and employer agency information. We reperformed 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 Global Financial Services Center in a timely manner about personnel actions that had been processed. Additionally, we noted instances where data

² In FY 2018, the Department began the implementation of OPS, a new human resources system that will supersede WebPass. As of July 20, 2020, OPS had been implemented at 277 posts and consulates worldwide.

submitted to the responsible Global Financial Services Center were not updated in GFACS to reflect changes made in WebPass or OPS. We also found instances in which approved personnel actions were not accurately entered into GFACS, once the information was provided to the Global Financial Services Center, because of data entry errors. The Department did not have a control in place to ensure that all post-approved personnel actions included in WebPass or OPS 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 employee data, the Department may not be able to calculate its annual liability efficiently or accurately 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 or OPS.

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 or OPS 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.

Inadequate Control Over Personnel Records and Actions

Inufficient, 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 records 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 records 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 employees' salaries and benefits, we reviewed personnel records for a sample of 45 employees. Table 4 shows the discrepancies identified during our testing of FY 2020 and FY 2019 data for comparative purposes.

Table 4: Discrepancies in Personnel Records

Discrepancy	FY 2020 Exceptions	FY 2019 Exceptions
Request for Leave or Approved Absence Form (Standard Form [SF] 71) was not provided	21	21
Life Insurance Election Form (SF-2817) was not provided	1	3
Federal Employees' Group Life Insurance election selected on the SF-2817 was not the same as the election on the employee's Earnings and Leave Statement (ELS)	1	Not Applicable*
Health Benefits Election Form (SF-2809) was not provided	0	4
Thrift Savings Plan (TSP) withholding amount on the employee's ELS did not match the calculated amount using the withholding percentage from the TSP Election Form	0	12
TSP Election Form was not provided	2	0

* In FY 2019, we tested this attribute using the employee's SF-50, Notification of Personnel Action, rather than the ELS. That test resulted in no exceptions.

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 the 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. Moreover, 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 (Notification of Personnel Action) or the Joint Form (JF) 62A (Personal Services Agreement Action).

We selected samples from FY 2020 GFACS data of 48 payroll disbursements, 34 separated employee personnel actions, and 50 new-hire personnel actions. We also selected samples from the FY 2020 Consolidated American Payroll Processing System data of 45 payroll disbursements, 45 separated employee personnel actions, and 45 new-hire employee personnel

actions. For each of the items selected, we reviewed the SF-50 or the JF-62A for proper and timely approvals. Tables 5 and 6 show the discrepancies identified during our testing as well as the results of our testing in FY 2019 for comparative purposes.

Table 5: GFACS Testing Discrepancies

Discrepancy	FY 2020 Exceptions*	FY 2019 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action	16	0
Personnel actions in our separated employee sample were not approved in the pay period following the effective date on the personnel action form	3	0
Personnel actions in our new-hire employee sample were not approved in the pay period following the effective date on the personnel action form	0	1

* Due to COVID-19 pandemic travel restrictions, we conducted site visits virtually at five posts and tested personnel actions through reviews of supporting documentation provided by post officials. During the FY 2019 financial statements audit, we conducted GFACS testing at one post, Embassy Bogota, Colombia. This is one potential reason for more exceptions being identified during the FY 2020 financial statements audit.

Table 6: Consolidated American Payroll Processing System Testing Discrepancies

Discrepancy	FY 2020 Exceptions	FY 2019 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action form	15	5
Personnel actions in our separated employee sample were not approved in the pay period following the effective date on the personnel action form	13	13
Personnel actions in our new-hire employee sample were not approved in the pay period following the effective date on the personnel action form	6	6
Employees in our separated employee sample were not deactivated in the personnel system in the pay period following the SF-50 separation effective date	1	3
Employees in our separated employee sample were paid incorrectly following the SF-50 effective date	1	3

Each bureau and post is 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 are 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.

III. Environmental Liability Associated With Asbestos Clean-Up

Inaccurate Supporting Data for the Asbestos Remediation Estimate

Asbestos is a mineral-based material that was widely used in construction during the 19th and early 20th centuries 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 asbestos management database, FAC Apps. 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 FAC Apps are 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 a 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 FAC Apps. Based on the request, OBO may then update the post's data or perform independent ACBM inspections to confirm the requested changes.

We reviewed 41 exceptions related to FAC Apps that we identified during the audits of the FY 2018 and FY 2019 financial statements to determine whether OBO had corrected the FAC Apps data, as appropriate. As shown in Table 7, as of September 30, 2020, we found that OBO had not corrected data for any of the 41 ACBM exceptions reviewed. We did not identify any new exceptions during FY 2020 virtual testing.³

³ Due to travel restrictions related to the COVID-19 pandemic, we conducted site visits virtually at five posts and tested FAC Apps data through questionnaires and interviews with post officials.

Table 7. Analysis of FY 2018 and FY 2019 Exceptions That Were Outstanding as of September 30, 2019

Fiscal Year of Post Visit	Post	Number of Exceptions Remaining as of September 30, 2019	Number of Exceptions Remaining as of September 30, 2020
2018	Johannesburg	3	3
2019	Johannesburg	1	1
2019	Seoul	34	34
2019	Tokyo	3	3
Total		41	41

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. The Department developed a process for posts to use to notify OBO of necessary updates of FAC Apps data that is described to post officials during training and other outreach. However, we found that posts did not always use this process. The 41 prior year audit testing exceptions remained uncorrected because the remediation of ACBMs had neither been reported by post to OBO through the designed process nor updated by OBO in FAC Apps.

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, asbestos remediation liability estimates will be overstated.

This issue was initially reported in our FY 2013 management letter.

IV. Information Security

Ineffective Compensating Controls for GEMS Segregation of Duties

The Global Employment Management System (GEMS) is the Department’s corporate human resources management information system, which provides comprehensive employment data for Civil and Foreign Service employees. Personnel actions are executed by the Department using the SF-52 (Request for Personnel Action) and SF-50 (Notification of Personnel Action) when an employee is hired or an existing employee has a change of status, such as resignation, retirement, or promotion. The SF-52 is used to initiate the personnel action and the SF-50 is used to finalize the personnel action. The entire process is completed in GEMS to ensure proper documentation and process workflow.

Internal controls are important for personnel information systems, which maintain a significant amount of personally identifiable information and are susceptible to fraud. One key component of internal control is segregation of duties (SoD), which ensures responsibilities are assigned to different individuals to segregate incompatible functions. SoD includes segregating the responsibilities for initiating, authorizing, processing, recording, and reviewing transactions, system configurations, and security administration activities. A user’s access to an information system should allow for functional capabilities that are consistent with the employee’s position

and responsibilities. If an organization is unable to properly segregate functions that are typically considered incompatible, the organization should design, document, and implement alternative, compensating controls to address or mitigate the associated risk.

The Department established a user role within GEMS that allows a user to initiate (SF-52) and process (SF-50) personnel actions without any additional review or approval. To mitigate the lack of SoD related to this user role, the Department developed a compensating control that requires bureau Executive Directors, Human Resource Service Providers, or their designees to review monthly reports detailing personnel actions processed by members of their staff with this user role for appropriateness. In response to a prior-year audit finding, the Department implemented additional documentation requirements during FY 2020 to support the completion of the monthly reviews performed as part the compensating control. As of May 2020, approximately 37 percent of GEMS users were assigned this user role.

We selected a random sample of 45 Civil and Foreign Service employees newly hired as of March 31, 2020. We reviewed the most recent personnel actions for each employee selected to determine the existence of an appropriate SoD between the officials who initiated and processed the transactions. We found that all 45 of the personnel actions tested were executed entirely by the same person (that included initiating and processing the transaction) using the aforementioned user role.

We then performed steps to determine whether the Department effectively executed its compensating control. We found that the Department consistently distributed monthly reports of personnel actions involving the use of the user role to designated personnel for review. However, the Department could not provide evidence that the designated officials reviewed the monthly reports and confirmed that the personnel actions processed from October 2019 through March 2020, including the 45 we tested, were appropriate. The Department provided evidence that designated officials reviewed personnel actions processed in April and May 2020.

We also found that the design of the compensating control was inadequate because it did not incorporate sufficient SoD. Specifically, we found that several officials that reviewed the user role transactions in April and May were also assigned the user role. These individuals reviewed and approved the transactions that they had performed in GEMS using the established role and, thereby, mitigated the effectiveness of the control.

Although the Department updated its compensating control in May 2020 to require responses from designated officials performing the reviews, implementation of the control did not consider activity from the first 6 months of the fiscal year (i.e., October 2019 through March 2020). Further, the updated control was not designed to prevent designated bureau officials from performing the monthly reviews of their own activity if they were assigned the aforementioned user role.

Improper SoD controls related to user roles without effective compensating controls may lead to fraud or unauthorized transactions to financial and personnel records. Within personnel information systems, inadequate SoD increases the risk that inappropriate personnel actions may be approved without being identified. Specifically, an employee with a certain GEMS user role

could initiate and process a personnel action (e.g., promotion) without any additional review or approval from another individual.

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

Ineffective GEMS Configuration Change Management Process

Information system configuration change management involves the systematic proposal, justification, development, testing, approval, and implementation of configuration changes, including upgrades and modifications. The Department uses several tracking tools⁴ to control the configuration change management process for GEMS. For example, the Department uses one tracking tool to manage the development and testing of configuration change requests and a second tool to manage the implementation of approved requests. The tracking tools include unique fields that can be used to document and monitor the status of each configuration change. For example, the tracking tools include fields to describe the purpose and type of each configuration change request as well as fields to track the status of each change, and the date each change was requested, approved to be put into production,⁵ and implemented.

We requested a list of GEMS configuration changes implemented from October 1, 2019, through May 20, 2020, to determine whether the Department followed its internal policies and procedures. We found that the list of GEMS configuration changes provided by the Department was not accurate. Specifically, we tested all GEMS configuration changes that the Department identified as implemented during the scope period and found that 19 percent of the items pertained to configuration changes that the Department did not implement into the GEMS production environment (e.g., some of the configuration changes did not pertain to GEMS). For the remaining 81 percent of items, we requested documentation to determine whether the Department complied with its internal configuration change management policies related to testing and obtaining approval prior to implementation. The Department was unable to provide supporting documentation for 29 percent of the configuration changes that the Department implemented into the GEMS production environment during the scope period.

Although the Department established unique fields within its GEMS tracking tools to document and monitor the status of configuration change requests, officials responsible for populating the data in the tracking tools did not consistently use these fields during the scope period. The Department did not have an effective internal quality control mechanism to ensure users entered sufficient and accurate data in the GEMS tracking tools to differentiate among configuration changes that the Department implemented, failed to implement, cancelled, determined were no longer required, or did not pertain exclusively to the GEMS application.

⁴ Tracking tools refer to dedicated applications or software packages designed to control or manage the lifecycle of a configuration change request for one or more information systems. Organizations often customize tracking tools to fit their specific needs. Common aspects of tracking tools include access-based roles and responsibilities, standardized process flows, status tracking, and records management.

⁵ Production refers to the environment where configuration changes are put into operation to be used by the intended end users or for the intended business purposes.

Additionally, although the Department improved its controls related to document retention for the GEMS configuration change management process during FY 2020 (including the development of a standard operating procedure for GEMS configuration change requests), we found that officials did not always comply with these procedures. The Department did not implement an effective internal quality control mechanism to ensure users consistently maintained the required documentation within the GEMS tracking tools, as required by the documented policies and procedures.

Controlling the proposal, justification, development, testing, approval, and implementation of configuration changes ensures that modifications to information systems do not adversely affect system security. In addition, effective configuration change management ensures that implemented configuration changes do not adversely affect the confidentiality, integrity, or availability of data processed in the information system. By failing to maintain information related to GEMS configuration changes, the Department may not be fully aware of all changes made to GEMS (i.e., the Department's configuration change management data may be incomplete) or of the potential impact of implemented changes to GEMS. Furthermore, the failure to consistently maintain documentation for implemented configuration changes may hinder the Department's ability to plan or evaluate new configuration change requests because the Department may not have all the details of work performed during prior changes.

This issue was initially reported in our FY 2019 management letter.

Incomplete ILMS Periodic Access Review

The Integrated Logistics Management System (ILMS) provides end-to-end logistics and supply chain services for Department employees both domestically and at overseas posts. Employees with access privileges use ILMS for procurement, requisitioning, contract management, and asset management functions. ILMS directly interfaces with several other Department information systems, including the Department's primary accounting system.

We performed steps to determine whether Department personnel reviewed ILMS user privileges during FY 2020. We found that Department personnel reviewed ILMS user privileges for approximately 47 percent of ILMS accounts; however, the remaining 53 percent of ILMS accounts were not reviewed. During FY 2021, Department officials developed corrective action plans to address the issue, with target completion dates in FY 2021. During FY 2020, the Department's ILMS supervisory review process was limited to users who received new access privileges within a specific date range (i.e., the preceding 12 months). However, the Department's corrective action plan includes steps to improve its ability to identify and track all ILMS users' direct supervisors to enable an annual review of all ILMS accounts.

Periodically reviewing user accounts is an important security control to ensure only users with valid needs have proper, approved access privileges in ILMS. Users may leave the organization, change positions, or acquire new access privileges; therefore, it is important to periodically review system access listings to verify users have only the access and privileges needed to perform their job responsibilities. Unnecessary user access and privileges increases the risk to the confidentiality, integrity, and availability of the system and its data. Furthermore,

inappropriately assigned or excessive access privileges increase the risk that erroneous transactions could be processed.

This issue was initially reported in our FY 2019 management letter.

NEW MANAGEMENT LETTER COMMENTS

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

V. Accounting for Other Assets

When payments are made for services before those services are provided (i.e., an advance payment or a prepayment), Federal accounting standards require agencies to record the transaction as an asset. The Department sometimes makes prepayments to commercial vendors when it enters into contractual agreements. The contract's terms and conditions document the specific services that the vendor will perform, the amount that the Department will pay for these services, and the timing of the payments. Contracts may require payment in advance of receiving goods and services. The Department reports prepaid expenses related to contracts in the "Other Assets" line item on its annual financial statements.

We tested 132 domestic payments made by the Department from October 1, 2019, through June 30, 2020, to determine whether expenses were accurately recorded in the proper period. We identified two prepayments related to contracts, one for software licenses and one for maintenance agreements, that were not properly classified as Other Assets. Although the Department has a process to identify and record certain types of prepayments, such as leases and transactions with other Federal agencies, the process was not sufficient to identify the types of prepayments that we identified. Specifically, the Department does not perform an analysis to identify contract types that could result in prepayments, such as contracts for software licenses and maintenance agreements.

Insufficient processes limit the Department's ability to accurately report assets and expenses in its financial statements. Specifically, we found that Other Assets were understated, and expenses were overstated by approximately \$24 million for FY 2020. Although the Department corrected these accounts on the basis of our testing, unidentified prepayments in commercial contracts may not be properly accounted for unless process improvements are made.



United States Department of State
Comptroller
Washington, DC 20520

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UNCLASSIFIED
MEMORANDUM

TO: OIG – Diana R. Shaw, Deputy Inspector General, performing duties of
 the Inspector General

FROM: CGFS – Jeffrey C. Mounts *Jeffrey C. Mounts*

SUBJECT: Draft Report - Management Letter Related to the Audit of the U.S.
 Department of State FY 2020 Financial Statements

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 2020
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 appreciate your valuable
input. The Department has benefitted significantly from the past ten plus years of
Kearney’s knowledge sharing and professionalism, and the excellent working
relationships that you and Kearney maintained throughout the past annual audits of
the financial statements.

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Approved: Jeffrey C. Mounts *JCM*
Drafted: CGFS/FPRA: KNeal
02/01/21 X31267
Cleared: CGFS/ OMA/FCR: PMcVicker (ok)
CGFS/C: BDavisson (ok)
cc: OIG/AUD – Norman P. Brown
Kearney & Company, P.C. – Mr. Kelly E. Gorrell
GFS – Mr. William Davisson
CGFS/EX – Mr. Joseph Kenny

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