



HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-FM-22-21

What Was Audited

Object classifications (also known as budget object codes [BOC]) are used by Government agencies to identify the purpose of an order for goods or services. The Office of Management and Budget (OMB) prescribes the use of certain codes. The Department of State (Department) uses more detailed classifications than required by OMB. Most BOCs are specific to a type of transaction (e.g., vehicle maintenance or airfare). However, some BOCs are identified as “not otherwise classified” (NOC), which are general codes designed to be used when other, more specific, codes do not apply. In FY 2020, the Department used NOC BOCs to identify \$4.7 billion in expenses.

Acting on behalf of the Office of Inspector General (OIG), Kearney & Company, P.C. (Kearney), conducted this audit to determine whether the Department consistently used NOC BOCs in accordance with requirements for expenses.

What OIG Recommends

OIG made three recommendations that are intended to improve the Department’s recording of expense data. On the basis of management’s response to a draft of this report, OIG considers the three recommendations resolved, pending further action. A synopsis of management’s response to the recommendations offered and OIG’s reply follow each recommendation in the Audit Results section of this report. Comments from the Bureaus of the Comptroller and Global Financial Services (CGFS) and Diplomatic Security are reprinted in their entirety in Appendices C and D, respectively.

February 2022

OFFICE OF AUDITS

FINANCIAL MANAGEMENT DIVISION

Audit of the Department of State’s Use of “Not Otherwise Classified” Budget Object Codes

What Was Found

Overall, Kearney found that selected Department bureaus did not consistently use the NOC BOC designation in accordance with Federal requirements and Department guidance. Specifically, Kearney found that of 180 FY 2020 NOC-designated expenses tested, 35 (19 percent) should have been designated with an available and specific OMB BOC, and 100 (56 percent) should have been designated with an available and specific Department BOC. Kearney also found that bureaus did not consistently use the same BOCs when recording transactions for similar types of items.

According to Department officials, one reason that inaccurate BOCs were used is because accounting officials had difficulty determining the proper BOC to use and, as a result, elected to use a generic NOC BOC code. In other instances, Department officials indicated that available BOCs may not always be the best fit for some transactions. In addition, CGFS has not implemented a process to periodically update the list of BOCs or to obtain feedback from bureaus and offices on changes to BOCs that would be useful. Moreover, bureau officials indicated that the Department does not have sufficient guidance on the use of BOCs, specifically related to the use of the generic NOC BOCs. Furthermore, CGFS does not have a method to identify issues that bureaus may have with the use of NOC BOCs so that authoritative guidance can be provided. For example, officials from one bureau were unsure what BOC to use when a contract included multiple types of services in one contract line item. Finally, bureau officials indicated that periodic reminders on the proper use of BOCs would be useful.

Recording expense data to the appropriate BOC is essential for management officials to have complete and accurate data when assessing spending patterns and determining how funds were used. Until the deficiencies identified in this report are corrected, the Department will not have a full understanding about the specific purpose of its expenses or a method to easily identify how billions of dollars in funds were used.