

**MANAGEMENT LETTER**  
**AUD-FM-22-22**

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, 2021, and has issued our report thereon, dated November 15, 2021.<sup>1</sup> 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. 21-04, “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 2021 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 the draft of this report is presented in its entirety in Appendix B.

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<sup>1</sup> The Office of Inspector General (OIG), *Independent Auditor’s Report on the U.S. Department of State FY 2021 and FY 2020 Financial Statements* (AUD-FM-22-10, November 2021).



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 &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
February 2, 2022

## MANAGEMENT LETTER COMMENTS

### REPEATED MANAGEMENT LETTER COMMENTS

During the audit of the U.S. Department of State’s (Department) FY 2020 financial statements, Kearney & Company, P.C. (referred to as “we” hereafter), identified matters that were reported in a management letter.<sup>1</sup> As detailed in Table 1, the severity of two issues included in the FY 2020 management letter has decreased and we consider the items closed. Six issues remain open, and we have updated these issues with information obtained during the audit of the Department’s FY 2021 financial statements.

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

FY 2020 Management Letter Findings	FY 2021 Status
Insufficient Fund Balance With Treasury Reconciliation Process	Repeat
Inaccurate Personnel Data for Locally Employed Staff	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	Closed
Ineffective Global Employment Management System Configuration Change Management Process	Repeat
Incomplete Integrated Logistics Management System Periodic Access Review	Repeat
Accounting for Other Assets	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. 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.

<sup>1</sup> OIG, *Management Letter Related to the Audit of the U.S. Department of State FY 2020 Financial Statements* (AUD-FM-21-19, March 2021).

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 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 13 variances between Treasury and Department fund balances during a review of the June 30, 2021, Financial Reporting Analysis Cash Reconciliation Report. These variances amount to a net difference of approximately \$907,000 and an absolute difference of approximately \$2.8 million.

We also found that the Department had a net balance of approximately \$2.9 million in four 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 2021.

During FY 2021, the Department continued to take action to resolve variances in its FBWT accounts. Although the Department eliminated 27 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 locally employed (LE) staff. LE staff 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. LE staff are paid using the Global Foreign Affairs Compensation System – Locally Employed (GFACS LE). Civil Service and Foreign Service employees are paid according to standard Federal

Government pay scales, using the Global Foreign Affairs Compensation System – American (GFACS AME).<sup>2</sup>

**Inaccurate Personnel Data for Locally Employed Staff**

Human resources information for LE staff, 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). When a personnel action is initiated for an LE staff, the post enters the information into WebPass or OPS. The LE staff information is then submitted to a Global Financial Services Center, where officials manually enter the information into GFACS LE.

We assessed the completeness of employee information in WebPass or OPS and GFACS LE 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 LE. Table 2 shows the results of our testing for FY 2021 and FY 2020, for comparative purposes.

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

Employees Reviewed	FY 2021 Employees	FY 2020 Employees
Employees in both WebPass or OPS and GFACS LE	25,579	25,621
Employees in WebPass or OPS who were not in GFACS LE	215	302
Employees in GFACS LE who were not in WebPass or OPS	435	233

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 2021 and FY 2020, for comparative purposes.

**Table 3: Data Inconsistencies Between WebPass or OPS and GFACS LE**

Exceptions Identified	FY 2021 Exceptions	FY 2020 Exceptions
Date of birth was not consistent	331	240
Service computation date was not consistent	3,280	3,091
Annual salary was not consistent	3,133	3,521
Employer agency was not consistent	47	32

In both FY 2021 and FY 2020, 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 LE contained more accurate salary and employer agency information. We reperformed the Department’s testing and confirmed its conclusions regarding the most accurate sources of LE staff information.

<sup>2</sup> During FY 2021, the Department replaced the legacy Consolidated American Payroll Processing System with GFACS AME.

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 submitted to the responsible Global Financial Services Center were not updated in GFACS LE to reflect changes made in WebPass or OPS. We also found instances in which approved personnel actions were not accurately entered into GFACS LE 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 LE, 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 LE staff. The reasonableness of the liability estimate related to after-employment benefits relies on accurate underlying employee demographic data. Without accurate and complete LE staff 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 LE 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 LE and WebPass or OPS may result in errors and inconsistencies remaining undetected and uncorrected for long periods of time.

This 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 accurate 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 2021 and FY 2020 data for comparative purposes.

**Table 4: Discrepancies in Personnel Records Identified During Testing**

Discrepancy	FY 2021 Exceptions	FY 2020 Exceptions
Request for Leave or Approved Absence Form (Standard Form [SF] 71) was not provided	11	21
Life Insurance Election Form (SF-2817) was not provided	0	1
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)	0	1
Retirement Plan Civil Service Retirement System or Federal Employees Retirement System election per the SF-50 did not agree with the deductions on the ELS	2	0
Recalculated Thrift Savings Plan (TSP) withholding amount did not agree with the amount on the employee's ELS	1	0
TSP Election Form was not provided	0	2

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 2021 GFACS LE data of 45 payroll disbursements, 39 separated employee personnel actions, and 45 new-hire personnel actions. We also selected samples for FY 2021 from the Consolidated American Payroll Processing System and GFACS AME 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 2020 for comparative purposes.

**Table 5: GFACS LE Testing Discrepancies**

Discrepancy	FY 2021 Exceptions	FY 2020 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action form	10	16
Personnel actions in our separated employee sample were not approved in the pay period following the effective date on the personnel action form	8	3
Personnel actions in our new-hire employee sample were not approved in the pay period following the effective date on the personnel action form	3	0

**Table 6: Consolidated American Payroll Processing System/GFACS AME Testing Discrepancies**

Discrepancy	FY 2021 Exceptions	FY 2020 Exceptions
Personnel actions in our payroll disbursement sample were not approved in the pay period following the effective date on the personnel action form	7	15
Personnel actions in our separated employee sample were not approved in the pay period following the effective date on the personnel action form	15	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	0	1
Employees in our separated employee sample were paid incorrectly following the SF-50 effective date	2	1

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 consistently 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 in a timely manner. 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, increasing the risk of human error and decreasing efficiency.

This issue was initially reported 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.

The Department requires overseas post officials to submit an ACBM change request in FAC Apps 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. Based on the request, OBO may then update the post’s data or perform independent ACBM inspections to confirm the requested changes.

We made inquiries of officials at five posts during virtual site visits<sup>3</sup> to determine whether the FAC Apps data related to ACBMs at those posts were accurate and complete as of June 30, 2021. Specifically, we assessed FAC Apps data for the 41 ACBMs recorded at the five posts selected for testing and identified five discrepancies as shown in Table 7.

**Table 7. Post Accuracy and Completeness Testing Exceptions**

<b>Post</b>	<b>Number of ACBMs Reported in FAC Apps</b>	<b>Number of Discrepancies Identified</b>	<b>Summary of Discrepancies</b>
Amman	0	0	Not Applicable
Lima	6	0	Not Applicable
Maputo	4	4	Four ACBMs remediated
Monrovia	26	0	Not Applicable
Ottawa	5	1	One ACBM remediated
<b>Total</b>	<b>41</b>	<b>5</b>	

For the exceptions identified, we reviewed a list of ACBM change requests submitted to OBO by the five selected posts from October 1, 2020, through June 30, 2021. We found that the posts had

<sup>3</sup> 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.

not communicated the five changes that were identified as exceptions to OBO through the change request process.

In addition to obtaining data from five posts, we reviewed 41 asbestos-related exceptions that we had identified during the FY 2018 and FY 2019 financial statement audits<sup>4</sup> to determine whether OBO had corrected the FAC Apps data, as needed. As shown in Table 8, we found that OBO had not corrected 2 of 41 asbestos-related exceptions as of June 30, 2021.

**Table 8. Analysis of FY 2018 and FY 2019 Exceptions That Were Outstanding as of September 30, 2020**

Fiscal Year of Post Visit	Post	Number of Exceptions Outstanding as of September 30, 2020	Number of Exceptions Outstanding as of June 30, 2021
2018	Johannesburg	3*	0
2019	Johannesburg	1*	1
2019	Seoul	34	1
2019	Tokyo	3	0
<b>Total</b>		<b>41</b>	<b>2</b>

\* Kearney identified three asbestos-related exceptions during a FY 2018 post visit to Johannesburg, South Africa. Kearney performed limited asbestos procedures for Johannesburg during a virtual site visit in FY 2019 that was related to the financial statement audit. During the FY 2019 audit, Kearney identified an additional exception.

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 does not regularly perform facility surveys at posts. Therefore, the most recent survey results do not always reflect the current conditions of post facilities. Although the Department developed a process for posts to notify OBO of necessary updates to FAC Apps data, we found that posts did not always use this process. In addition, the two 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.

<sup>4</sup> Kearney did not identify any asbestos-related exceptions during the FY 2020 financial statement audit.

## IV. Information Security

### Ineffective Global Employment Management System 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 tools<sup>5</sup> to control the configuration change management process for the Global Employment Management System (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. The tools also track the dates each change was requested, approved to be put into production,<sup>6</sup> and implemented. The process of creating, querying, and compiling configuration changes for GEMS involves personnel in multiple offices within the Bureau of Global Talent Management.

We requested a list of GEMS configuration changes implemented from October 1, 2020, through May 19, 2021, to determine whether the Department followed its internal policies and procedures. We found that the list of 62 GEMS configuration changes provided by the Department was not accurate. Specifically, we tested 33 GEMS configuration changes that the Department identified as implemented during the scope period. We found 15 (45 percent) configuration changes that the Department did not implement into the GEMS production environment (7 of the 15 configuration changes did not pertain to GEMS).

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 different types of configuration changes. 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 accurately. These types include changes that the Department implemented, failed to implement, cancelled, determined were no longer required, or did not pertain exclusively to the GEMS application. Additionally, there was not adequate coordination between the responsible offices within the Department to accurately query and compile the list of changes.

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

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<sup>5</sup> Tracking tools refers 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.

<sup>6</sup> 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.

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.

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

### **Incomplete Integrated Logistics Management System 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 found that Department personnel reviewed ILMS user privileges for approximately 46 percent of ILMS accounts; however, the remaining 54 percent of ILMS accounts were not reviewed. The Department developed a corrective action plan to improve its oversight of ILMS user accounts. The Department planned to complete the improvements included in the corrective action plan during FY 2021. However, as of September 2021, the Department had not completed implementing its planned improvements. Department officials stated that they will update milestones within the corrective action plans to reflect new targeted completion dates.

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 that 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.



**United States Department of State**  
*Comptroller*  
*Washington, DC 20520*

January 20, 2022

UNCLASSIFIED

**MEMORANDUM**

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

FROM:        CGFS – Jeffrey C. Moun<sup>WSD for</sup>ts

SUBJECT:    Draft Report - Management Letter Related to the Audit of the U.S.  
                  Department of State FY 2021 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 2021  
Financial Statements.

The Bureau of the Comptroller and Global Financial Services (CGFS) does not  
have any substantive comments on the Draft Report. 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 knowledge sharing, professionalism, and the excellent working relationships  
that you and Kearney have maintained throughout the past annual audits of the  
financial statements. Thank you.

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