

INDEPENDENT AUDITOR'S REPORT
AUD-FM-IB-18-10

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, 2017 and 2016, the related consolidated statements of net cost and changes in net position, 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. 17-03, “Audit Requirements for Federal Financial Statements.” Those standards and OMB Bulletin No. 17-03 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, 2017 and 2016, 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 sections (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 Message from the Chief Financial Officer, 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. 17-03, we have also issued reports, dated November 13, 2017, 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, 2017. 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. 17-03, and should be considered in assessing the results of our audit.



Alexandria, Virginia
November 13, 2017

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, 2017, and have issued our report thereon dated November 13, 2017. 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. 17-03, "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. 17-03. 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant. A significant deficiency is a deficiency, or a 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. 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 the appropriation funding the obligation is canceled. BBG reported more than \$192 million in ULOs as of September 30, 2017.

Of a sample of 118 ULOs tested, we found 38 (32 percent) invalid ULOs. During FY 2017, BBG's Office of the Chief Financial Officer (OCFO) distributed monthly reports to respective allotment holders listing potentially invalid obligations. However, invalid ULOs continued to exist because some allotment holders were not responsive in researching and reviewing obligations and deobligating invalid obligations. We also found that some allotment holders were unaware of their responsibility to deobligate invalid obligations that had been identified. In addition, we found that BBG does not review overseas ULOs for validity because, according to OCFO officials, they have prioritized resolving domestic ULOs because those are the majority of the agency's ULOs. We also found that BBG has updated its draft standard operating procedure for monitoring ULOs, but this document has not been approved and issued by BBG management.

As a result of invalid ULOs identified by our audit, BBG adjusted its financial statements. We have identified weaknesses in controls over ULOs in each audit since our audit of BBG's FY 2013 financial statements.¹

II. 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 FY 2017, the three grantees received \$292 million, approximately one-third of BBG's total funding.

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. To aid in the monitoring process, BBG drafted a Grantee Monitoring Standard Operating Procedure (SOP), which presents information and procedures that BBG will use during the life of a grant. We selected 15 control activities from the draft SOP to test whether BBG had effectively implemented grantee monitoring. We found that 9 of the 15 controls tested

¹ During FY 2017 ULO testing, we found that BBG's efforts resulted in a reduced error rate, warranting a downgrade from a Material Weakness to a Significant Deficiency.

were implemented during FY 2017 but that the remaining 6 control activities were not implemented. For example, BBG had not performed risk assessments to finalize the scope and frequency of grantee site visits, issued site visit reports to communicate findings and needed improvements to its grantees, or obtained Performance Project Reports from its grantees. BBG officials stated that many oversight activities would not be initiated until the draft SOP is fully approved and finalized.

Because BBG lacked effective grantee oversight, the risk of waste, fraud, and abuse of Federal funds is increased. An organized and documented approach to oversight should be implemented to improve accountability and mitigate the risk of waste, fraud, and abuse. We have identified weaknesses in controls over grantee monitoring each year since our audit of BBG's FY 2013 financial statements.

III. Information Technology

BBG's information systems and sensitive information rely on the confidentiality, integrity, and availability of BBG's comprehensive and interconnected infrastructure. Managing information security risk effectively throughout the organization is critical to achieving BBG's mission. 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 that is also responsible for maintaining a number of IT controls. However, Momentum is accessed through BBG's general IT support system, which is a component of BBG's information security program. Therefore, security weaknesses noted in BBG's information security program 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 also responsible for maintaining an adequate information security program.

The Office of Inspector General (OIG) is responsible for the annual audits of BBG and Department information security programs' compliance with IT provisions as required by the Federal Information Security Modernization Act of 2014 (FISMA). In the FY 2017 FISMA report for BBG,² OIG reported security weaknesses that had a significant impact on BBG's information security program. Specifically, OIG reported control weaknesses in all seven key FY 2017 Inspector General FISMA metric domains, which consist of risk management, configuration management, identity and access management, security training, information security continuous monitoring, incident response, and contingency planning.

OIG's FY 2017 FISMA report for the Department³ identified information security program weaknesses that are similar to the weaknesses identified at BBG. OIG reported that the Department did not have an effective organization-wide information security program. As noted, RFMS is hosted on the Department's general support system and is a component of the

² OIG, *Audit of the Broadcasting Board of Governors Information Security Program* (AUD-IT-IB-18-13, October 2017).

³ OIG, *Audit of Department of State Information Security Program* (AUD-IT-18-12, October 2017).

Department’s information security program. Because of the security weaknesses noted with the information security program at the Department, BBG should implement additional controls to ensure that financial information is being processed accurately and completely by the Department.

Without an effective information security program, BBG is vulnerable to IT-centered attacks and threats. Information security program weaknesses 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. Information security program weaknesses increase the risk that BBG will be unable to report financial data accurately. We have reported weaknesses in IT security controls each year since our audit of BBG’s FY 2013 financial statements.

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 2016 financial statements,⁴ we noted several issues that were related to internal control over financial reporting. The status of these issues is summarized in Table 1.

Table 1. Status of Prior Year Findings

| Control Deficiency | FY 2016 Status | FY 2017 Status |
|--|------------------------|------------------------|
| Validity and Accuracy of Unliquidated Obligations | Material Weakness | Significant Deficiency |
| Grantee Monitoring | Significant Deficiency | Significant Deficiency |
| Information Technology | Significant Deficiency | Significant Deficiency |

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.

⁴ OIG, *Independent Auditor’s Report on the Broadcasting Board of Governors 2016 and 2015 Financial Statements* (AUD-FM-IB-17-14, November 2016).

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. 17-03 in considering BBG's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 13, 2017

**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, 2017, and have issued our report thereon dated November 13, 2017. 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. 17-03, "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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 17-03. Each year since our FY 2013 audit of BBG's financial statements, we have identified substantial noncompliance with Federal grant regulations. BBG is responsible for monitoring the use of funds provided to its grantees to ensure that they adhere to relevant laws and regulations. As noted in our Independent Auditor's Report on Internal Control Over Financial Reporting, BBG has not fully implemented many of its designed grantee monitoring controls. 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.

BBG's Response to Findings

BBG management has provided its response to our finding 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. 17-03 in considering BBG's compliance. Accordingly, this report is not suitable for any other purpose.

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

Alexandria, Virginia
November 13, 2017



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

November 14, 2017

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

Dear Mr. Linick:

The BBG is committed to maintaining fiscal responsibility and transparency for the taxpayer funds entrusted by Congress to pursue its global mission to inform, engage, and connect people around the world in support of freedom and democracy. The Performance and Accountability Report (PAR) is a key part of maintaining this commitment, providing a comprehensive account of the BBG's financial activities.

I am pleased to report that the BBG has received an unmodified opinion for this fiscal year's financial audit. Our hard work and efforts have resulted in a down grade of one material weakness to a significant deficiency. We are committed to continue the hard work to resolve the three significant deficiencies that the audit identified and continue to build on the progress achieved in the past year to address them.

In FY 2018, BBG is committed to working towards greater efficiency, effectiveness, and accountability in its financial operations. With programming in 61 languages, thousands of media partners, and on-the-ground reporting capabilities around the world, BBG operations are global and complex. Well-funded state and non-state media outlets inundate audiences with disinformation about global events, and the ability of professional journalism to combat this disinformation and extremist propaganda requires the careful deployment of resources. BBG recognizes that our strength as an organization requires a strong fiscal foundation and effective stewardship over the resources entrusted to us by the American people.

We thank Kearney & Company for their continued efforts and dedication in working through the complex issues associated with the global nature of BBG's financial processes.

Sincerely,

A handwritten signature in blue ink that reads "Grant K. Turner".

Grant K. Turner
Chief Financial Officer